



Audit Committee

Date Monday 29 June 2020
Time 9.30 am
Venue Remote Meeting - This meeting is being held remotely via Microsoft Teams

Business

Part A

Items which are open to the Public and Press

1. Apologies for absence
2. Minutes of the meeting held on 27 February 2020 (Pages 5 - 10)
3. Declarations of interest, if any
4. COVID-19 Risk Register - Report of the Corporate Director of Resources (Pages 11 - 20)
5. Quarter 4 2019/20 Health, Safety and Wellbeing Performance Report - Report of the Corporate Director of Resources (Pages 21 - 32)
6. Internal Audit Progress Report Period Ended 31 March 2020 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 33 - 52)
7. Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2019 - Report of the Corporate Director of Resources (Pages 53 - 64)
8. Annual Review of the Effectiveness of Internal Audit 2019/2020 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 65 - 76)
9. Protecting the Public Purse Annual Report 2019/2020 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 77 - 128)
10. Annual Internal Audit Opinion and Internal Audit Report 2018/2019 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 129 - 156)

11. Compliance with International Auditing Standards - Report of the Chair of the Audit Committee (Pages 157 - 168)
12. Draft Annual Governance Statement 2019/2020 - Report of the Corporate Director of Resources (Pages 169 - 202)
13. Statement of Accounts for the year ended 31 March 2020 - Report of the Corporate Director of Resources (Pages 203 - 438)
14. Internal Audit Charter, Strategy 2020/2021 and the Six-Month Internal Audit Plan up to 30 September 2020 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 439 - 482)
15. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
16. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

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

17. Internal Audit Progress Report Period Ended 31 March 2020 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 483 - 502)
18. Protecting the Public Purse - Annual Report 2018/19 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 503 - 520)
19. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration

Helen Lynch

Head of Legal and Democratic Services

County Hall
Durham
19 June 2020

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

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

Councillors C Carr, J Clark, B Kellett, J Nicholson, J Robinson,
J Shuttleworth and O Temple

Co-opted Members:

Mr C Robinson and Mr I Rudd

Contact: Jackie Graham

Tel: 03000269704

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in **Committee Room 1A , County Hall, Durham** on **Thursday 27 February 2020 at 10.00 am**

Present:

Councillor E Bell (Chair)

Members of the Committee:

Councillors J Rowlandson (Vice-Chair), J Clark, B Kellett, J Nicholson, J Robinson, J Shuttleworth and O Temple

Co-opted Members:

Mr I Rudd

1 Apologies for absence

Apologies for absence were received from Councillor C Carr and co-opted member C Robinson.

2 Minutes

The Minutes of the meeting held on 28 November 2019 were agreed as a correct record and were signed by the Chair.

3 Declarations of interest

There were no declarations of interest.

4 Quarter 3 2019/20 Health, Safety and Wellbeing Performance Report

The Committee received a report from the Resources Health, Safety and Wellbeing Strategic Group which provided an update on health, safety and wellbeing performance for quarter 3 of 2019/2020 (for copy see file of Minutes).

The Occupational Health and Safety Manager highlighted the key areas of the report including:

- Quarter 2 incidents in numbers
- Fire Safety Audits
- Fire Incidents
- Occupational Health Service
- Training and Awareness Activity
- Open Water Safety
- Employee Mental Health and Wellbeing
- Violence and Aggression
- Corporate Risks
- Statistical Information

Mr Rudd referred to activities in respect of open water safety and noted that the number of homeless people in the City and around the riverside had increased. He asked if their safety was included in the work being carried out. The Occupational Health and Safety Manager confirmed that this was the case and the safety of homeless people was included in multi-agency work being undertaken in the City to tackle homelessness and anti-social behaviour.

Resolved:

That the report be noted.

5 Agreement of Accounting Policies for Application in the 2019/20 Financial Statements

The Committee considered an update from the Principal Accountant on the County Council's accounting policies to be applied in the preparation of the 2019/20 Statement of Accounts and to seek confirmation that appropriate policies were being applied (for copy see file of Minutes).

Resolved:

That the recommendations contained within the report be agreed.

6 Final Accounts Timetable for the year ended 31 March 2020

The Committee received a report from the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2019/20 detailing the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines (for copy see file of Minutes).

Resolved:

That the report be noted.

7 External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2020

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

Mr Collins, Mazars advised of the significant risks, value for money, the fees charged and the approach taken to materiality setting.

Councillor Robinson noted that judgements in respect of fair value measurements of unquoted equity investments had been assessed as being enhanced risks. The Member was informed that in accordance with the Chartered Institute of Public Finance and Accountancy Code of Practice the Council was required to value assets based on current use. When assets were marketed, this was reflected in the financial statements. Councillor Robinson asked for information on the tender process for the sale of assets, in particular in relation to arrangements in respect of tenders received below market value. The Member was informed that this would be referred to Corporate Property and Land for response. Following a question from Councillor Temple, Mr Kirkham stated that the basis of property valuation was critically reviewed by external auditors because of the potential for financial mis-reporting. Mazars did not look at ethical risks, although it was noted by the Corporate Director of Resources that financial and moral risks were linked, and that the Council's control procedures and framework within which assets were valued were key to mitigating risks.

Resolved:

That the external auditor's strategy for the year ended 31 March 2020, be noted.

8 External Audit Progress Report - February 2020

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

Mr Collins, Mazars provided an update on the housing benefits subsidy assurance, which was ongoing and the detailed findings would be presented at the next meeting.

Resolved:

That the report be noted.

9 Corporate Governance Review 2019/20 - Key Dates

The Committee received a report from the Corporate Director of Resources that informed of the key dates for the corporate governance review for the 2019/20 financial year (for copy see file of Minutes).

Resolved:

That the report be noted.

10 Strategic Risk Management Progress Report for 2019/20 - Review 3 - 1 October - 31 December 2019

The Committee received a report from the Corporate Director of Resources which highlighted the strategic risks facing the Council and gave an insight into the work carried out by the Corporate Risk Management Group between October and December 2019 (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed Members that one risk relating to property and land maintenance had been added and two risks had been removed, relating to highways damage and data breaches.

Councillor Robinson considered that data breach should be retained on the Register as a high risk. Members were informed that this had been merged with the GDPR risk, and cyber security was included as a separate risk. More details in relation to the Council's cyber security controls would be reported to a future meeting.

Following a question from Councillor Shuttleworth regarding the new headquarters, the Member was informed that a risk assessment found that the net risk of flooding was not high because of the proposed flood mitigation measures included in the conditions of the planning permission. It had therefore not been included on the Register but would be monitored.

Resolved:

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

11 Revised Risk Management Policy and Strategy

The Committee received a report from the Corporate Director of Resources which sought approval of the revised Risk Management Policy and Strategy (for copy see file of Minutes).

Following questions regarding the risks associated with coronavirus, Members were assured that this was being carefully assessed, closely following advice from Public Health.

Resolved:

That the revised Risk Management Policy and Strategy be approved.

12 CIPFA Statement - The Role of the Head of Internal Audit in Public Sector Organisations

The Committee received a report from the Corporate Director of Resources which advised of the updated statement produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the role of the Head of Internal Audit in public sector organisations (for copy see file of Minutes).

Resolved:

That

- a) the new CIPFA statement on the role of the head of internal audit in public sector organisations be endorsed;
- b) the result of the assessment of compliance against the framework be confirmed.

13 Emergent Internal Audit Plan 2020/21

The Committee received a report from the Chief Internal Auditor and Corporate Fraud Manager which provided details of the emergent Internal Audit Plan for 2020/21 and updated and engaged Members in the development of the 2020/21 Internal Audit Plan (for copy see file of Minutes).

At the request of Mr Rudd, the Chief Internal Auditor and Corporate Fraud Manager advised that the approach to the development of the Plan for 2020/21 was largely unchanged from the previous year, and areas for audit coverage had been considered on a risk basis and in consultation with Corporate Directorate Management Teams.

Resolved:

That the proposed direction and process for the development of the emergent Internal Audit Plan be noted for formal approval on 29 May 2020.

14 Internal Audit Progress Report Period Ended 31 December 2019

The Committee received a report from the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work carried out

by Internal Audit during the period 1 April 2019 to 31 December 2019 as part of the 2019/2020 Internal Audit Plan (for copy see file of Minutes).

The Audit and Fraud Manager highlighted progress against the Plan for each Service Grouping, and informed Members of the amendments to the Plan and the unplanned audit reviews in the quarter. The report also provided a summary of the survey response rate, progress on actions due, implemented and overdue, and the finalised audits that had been issued with a limited assurance opinion.

Resolved:

That the following be noted:

- a) the amendments made to the 2019/2020 Annual Internal Audit Plan;
- b) the work undertaken by Internal Audit during the period ending 31 December 2019;
- c) the performance of the Internal Audit Service during the period;
- d) the progress made by service managers in responding to the work of Internal Audit.

15 Exclusion of the Public

Resolved:

That the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

16 Internal Audit Progress Report Period Ended 31 December 2019

The Committee received a report from the Chief Internal Auditor and Fraud Manager which presented the appendices referenced in the Internal Audit progress report in Part A of the Agenda (for copy see file of Minutes).

The Committee received assurances from Officers from SEND, and the Head of Finance and Transactional Service in respect of the outstanding actions in the Children and Young People's Service (CYPS).

Following questions and discussion, Members requested an update on progress in 6 months.

Resolved:

That Appendices 6 and 7 be noted, and an update on progress in respect of outstanding actions in CYPS be presented to the Committee in 6 months.

Audit Committee

29 June 2020

COViD-19 Risk Register



Report of Corporate Risk Management Group

John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Risk

Purpose of the Report

- 1 The purpose of this report is to provide members of the committee with an update on the management of risk by the council in response to the COViD-19 pandemic.

Executive summary

- 2 As part of the council's response to the COViD-19 pandemic, a task and finish group was established to develop a risk assessment of COViD-19. Although the initial task of establishing the COViD-19 risks has been completed, the group has continued to meet weekly to progress risk management issues related to COViD-19 and provide support to the COViD-19 task and finish groups and the overall COViD-19 Planning Group. This will continue as the council moves into considering its recovery arrangements.
- 3 Heads of Service are required to identify and assess the significant risks to the council and the wider community as a result of the pandemic with the support of the Risk Management Team. Each risk is assigned a risk owner, and where appropriate, aligned to the relevant COViD-19 Task and Finish Group.
- 4 Over recent weeks the group has worked with Heads of Service and other COViD-19 Task and Finish Groups across the council in developing an initial COViD-19 specific risk register. Due to the pace of change and the speed at which the response to COViD-19 has developed, the register is a live document and will be continually updated during and after the crisis, whilst also feeding into the council's overall Strategic Risk Register.

- 5 Highlighted in appendix 2 of this report are the top 27 key risks. These risks are where the assessment is above the risk appetite, incorporating an at-a-glance heat map of those risks. Mitigating actions are considered by individual managers and corporately to manage the risks that are set out.
- 6 It should be noted that because of the pace of the response to COVID-19, risks and risk scores could have changed since this report was drafted and the report therefore sets out information at the time it was written.
- 7 The following are cross-cutting risks that affect a variety of service areas, although they may impact each service differently and may be considered differently, the approach to managing them needs corporate oversight in order to ensure a coordinated approach.
 - Staff shortages;
 - Failure in the supply chain;
 - Loss of income;
 - Breach of statutory duties.

Recommendation(s)

- 8 Members are recommended to:
 - (a) note the top 27 risks as illustrated in appendices 2 and 3;

Background

- 9 This report supports the council's Risk Management Strategy and particularly, the council's governance arrangements for its response to the COVID-19 pandemic.

Non-Key Risks

- 10 Information on those risks which are not considered to be 'Key Risks':
- 69 current risks which have been assessed as low scoring and within the risk appetite;
 - There are three risks which have now been closed as either the actions are complete or the risk owner no longer considers them as significant.

Local Resilience Forum

- 11 The Local Resilience Forum (LRF) also maintains a Daily Threat Assessment, which lists the key risks and emerging threats and gives a RAG rating to each of the key themes, these being:
- Collective capacity and capability;
 - Protection from the virus;
 - Caring for patients;
 - Deaths management system;
 - Planning for the future.
- 12 In addition, there is a current risk assessment document which describes the risk areas and impact/likelihood and a detailed narrative in terms of current actions.
- 13 As part of the formulation of the council's risk register it has been important to use the LRF Daily Threat Assessment to ensure there are no gaps in reporting.

Next Steps

- 14 The next stage of the management of COVID-19 related risks will be to identify and assess those longer-term risks associated with the post COVID-19 situation. This will include recovery of service delivery back to business as usual, dealing with the impact on future local government funding from central government, and the economic impact on County Durham.

- 15 The Risk Register will be kept as a live document to ensure all relevant risks are captured, managed or mitigated.

Author(s)

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Appendix 1: Implications

Legal Implications

There are no direct implications, but effective risk management helps to ensure compliance with legal and regulatory obligations.

Under the Civil Contingencies Act 2004, local authorities have a duty to collaborate with others to protect the public, which includes assessing risks and promoting business continuity and resilience. The council is designated as a category one responder under the Act and as such collaborates with other agencies through the County Durham and Darlington Local Resilience Forum.

Finance

There are no direct financial implications, but effective risk management helps to avoid or minimise financial loss.

Consultation

All relevant Strategic Managers, Heads of Service and Corporate Directors have been consulted in producing the COVID-19 specific risk register.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no direct climate change implications, but effective risk management helps to avoid or minimise adverse impacts.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

All staffing implications are documented within the risk register.

Accommodation

There are no direct accommodation implications as a result of this report.

Risk

This report supports the delivery objectives of the council's risk management strategy.

Procurement

There are no direct procurement implications as a result of this report.

Heat Map and Risk Assessment Criteria

Net Impact					
<p>5 CRITICAL > £15m Inability to meet statutory duties Key services not deliverable Significant legal action / challenge Regulatory intervention Strike action, Council-wide or critical service long-term Health and wellbeing: loss of life, long-term disability Perception Council 'not fit to deal with'</p>			<p>4 Social Care/Public Health Providers 5 Adult Service User Death (SC&C) 6 Child Abuse/Harm/Death 7 Council Tax Reliefs 8 Business Rates Reliefs 9 Drug & Alcohol Recovery Service 10 Equipment Inspections</p>	<p>1 PPE Shortage (LRF)</p>	
<p>4 MAJOR £5m - £15m Major disruption, statutory services Cabinet intervention Strike action, Council-wide or critical service short-term Health & wellbeing: major impact Serious reputational damage: regional/national Damaged relationships: Government, partners</p>			<p>13 Business' Needs (Comms) 14 Staff Claims (SC&C) 15 Health & Safety Equipment (SC&C) 16 Financial Impacts 17 Staff Infections (HR) 18 Cyber Attack (ICT) 19 Strategic Suppliers 20 Re-opening Schools 21 Consumer Confidence 22 Health & Wellbeing Inequality (HW&C) 23 Capacity and Resources (HW&C) 24 PPE Shortage (DCC & schools) (BE&I)</p>	<p>2 Child Safeguarding Demand 3 Community Redundancies (B&ER)</p>	
<p>3 MODERATE £1m - £5m Moderate disruption, statutory services CMT intervention Limited strike action Health & wellbeing: moderate impact Quality of life: impact on large section of community Negative regional/national press Relationships: criticism from Government, partners</p>				<p>25 Homeworking (Finance) 26 Household Waste Recycling Centres 27 Commercial Leases</p>	<p>11 Social Media Misinformation 12 Increased Demand for Children Looked After</p>
<p>2 MINOR</p>					
<p>1 INSIGNIFICANT</p>					
<p>Net Likelihood</p>	<p>1 Remote (less than 11%)</p>	<p>2 Unlikely (11-30%)</p>	<p>3 Possible (31-60%)</p>	<p>4 Probable (61-80%)</p>	<p>5 Highly Probable (>80%)</p>

Key Risks Ranked by Net Score

Rank	Risk	Net Impact (1 - 5)	Net Likelihood (1 - 5)
1	Shortage of PPE, potentially leading to a further escalation and serious, widespread harm to individuals.	Critical	Probable
2	Increase in demand for children's safeguarding services post coronavirus period.	Major	Probable
3	Redundancies in recovery phase of the COVID-19 pandemic and impact on unemployment particularly in tourism, retail and suppliers in the automotive sector.	Major	Probable
4	Social care/public health/independent providers are unable to operate, and care offerings are no longer available- thus quality of care reduces, and vulnerable clients are at greater risk of harm.	Critical	Possible
5	Death or significant harm to an adult service user as consequence of council action/inaction	Critical	Possible
6	Increased risk of abuse/harm/death to a child/young person.	Critical	Possible
7	Uncertainty around targeting, eligibility, accuracy, implementation and processing of council tax relief and support for residents.	Critical	Possible
8	Uncertainty around targeting, eligibility, accuracy, implementation and processing of business rates grants and reliefs.	Critical	Possible
9	Drug and Alcohol Recovery Service (DARS): Potential overdose by high-risk, vulnerable clients receiving the frequent (1-3 days) supervised consumption service, as a result of service withdrawal by pharmacy chains.	Critical	Possible
10	If inspections of lifting and pressure equipment are suspended for a considerable period, then this increases the risk of an avoidable accident occurring	Critical	Possible
11	Potential malicious misinformation through social media platforms.	Moderate	Highly Probable
12	Risk that children remain in the CLA system for longer, impacting on outcomes, available resources and finances.	Moderate	Highly Probable
13	Potential failure to respond to the needs of businesses	Major	Possible
14	Staff bring claim against council	Major	Possible
15	Staff cannot safely operate due to lack of health and safety equipment	Major	Possible
16	Financial impacts of COVID-19 may not be covered by government support in respect of additional expenditure and loss of income.	Major	Possible
17	Potential adverse impacts of COVID on employee health and wellbeing (contracting the disease).	Major	Possible
18	Increased risk of cyber-attack and other IT security breaches.	Major	Possible

Key Risks Ranked by Net Score

Rank	Risk	Net Impact (1 - 5)	Net Likelihood (1 - 5)
19	Strategically important supply base such as Home to School Transport may not survive current COVID-19 pandemic despite supplier relief being available	Major	Possible
20	Lack of coherent joined up strategy around return to normality in schools.	Major	Possible
21	Potential lack of consumer/ employee confidence to resume normal activities, resulting in delayed economic recovery (B&ER).	Major	Possible
22	Inequalities increase during this phase of the pandemic and HWC group is not responsive enough	Major	Possible
23	Recommendations from health, wellbeing and communities impact assessments cannot be delivered due to capacity and resources	Major	Possible
24	Shortage of PPE for key DCC services and schools.	Major	Possible
25	If the lockdown period is extended significantly, temporary, improvised homeworking arrangements for some staff will have adverse impacts on productivity and service standards.	Moderate	Probable
26	Potential disruption, due to high demand, at newly reopened Household Waste Recycling Centres.	Moderate	Probable
27	Inability to retain or find tenants for Council-owned commercial units, leading to medium to long term losses in revenue.	Moderate	Probable

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Audit Committee

29 June 2020

**Quarter 4 2019/20 Health, Safety
and Wellbeing Performance
Report**

**Report of Resources Health, Safety and Wellbeing Strategic Group
(HSWSG)**

Report of Kevin Lough, Occupational Health and Safety Manager, Resources.

Electoral division(s) affected:

1. Countywide.

Purpose of the Report

2. To provide an update to CMT on the council's Health, Safety and Wellbeing (HSW) performance for Quarter four of 2019/20.

Executive summary

3. Work regarding supporting employee mental health and wellbeing continued with pace throughout the quarter however this has been redirected to focus on the new challenges presented by COVID 19 pandemic. Focus will now be placed on new employee working arrangements particularly regarding homeworking, social isolation and mental health.
4. Another high volume of fire safety audits were completed during this quarter with 31 undertaken in a range of priority council premises. There were four fire related incidents across a number of council premises during this quarter.
5. HSE inspectors audited the Council asbestos management standards within schools again during this quarter, with another positive outcome and compliance achieved.
6. Statistical data for the year indicates a positive outlook in terms a minimal increase in overall accidents, a reduction in RIDDOR over 7 day absence reportable accidents and only five RIDDOR specified reportable injuries.
7. Approximately 230 investigations, proactive and reactive H&S audit related activities have been undertaken during the quarter. Internal and external enforcement fire safety auditing has again demonstrated good levels of compliance across a range of premise and service provision types.

Recommendation(s)

8. That CMT note and agree the contents of this report.

379

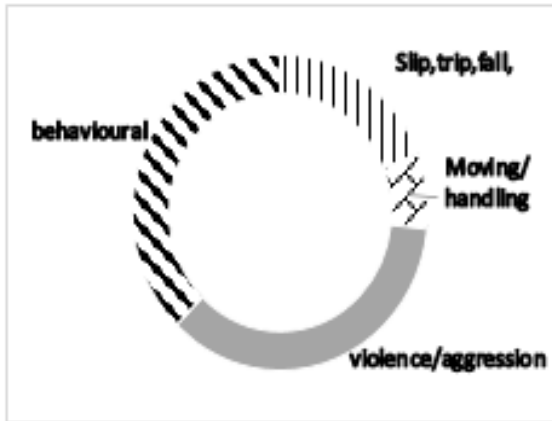
Accidents, incidents and near misses reported
(361 in Q1 2019/20
335 in Q2 2019/20
385 in Q3 2019/20)



95%

Of all reported accidents are either no injury or near miss

Main Accident/Incident Causes



0 RIDDOR 'specified' injuries, and 13 over 7 days absence RIDDOR injuries

236 H&S audits, inspections and accident investigations



• Better Health at Work Continuing Excellence Award status commenced



32 psychological work related incidents in Q4 2019/20
(compared to 59 in Q3 2019/20, 33 in Q2 2019/20, 39 in Q1 2019/20)

4 fire related incidents



31 internal fire safety audits of council premises

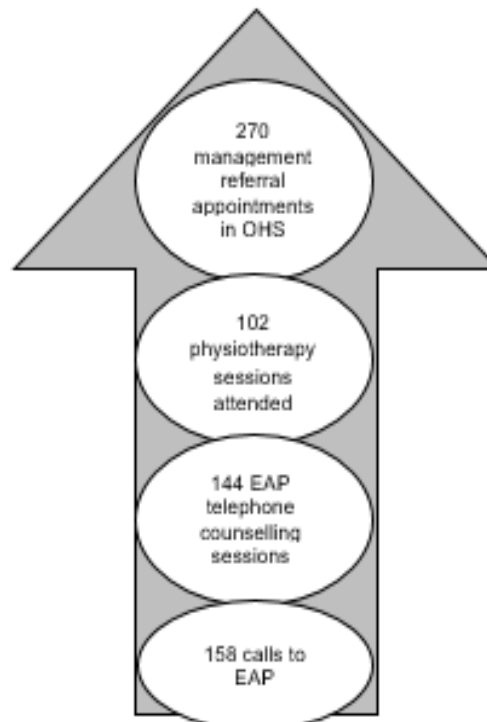
3 CDDFRS inspections of council premises with compliance outcome



6 Joint H&S/TU Safety Rep inspections

0

Enforcement related actions or advice from HSE/CDDFRS following inspections and audit activity



Background

9. The HSWSG has been established to ensure that suitable priority is given to the management of HS&W within the council. The group monitors the development, implementation and review of the Corporate H&S Policy to ensure that it is consistently applied throughout the council and that performance standards are achieved. Key reporting topics are detailed below.

Consultation/Communication

10. Trade Union H&S representatives continue to actively participate in the corporate and service specific H&S meetings. Each service grouping has an established H&S forum that has met since the last HSWSG meeting in January 2020. The H&S team continue to undertake a range of joint audit and inspection programmes in conjunction with trade union H&S representatives, particularly within Regeneration and Local services (REAL).
11. During Quarter four, one joint inspection was undertaken with a trade union employee safety representative within REAL. One inspection undertaken within refuse and recycling. Remedial actions were identified, implemented and monitored and discussed at the direct and technical services health and safety forums.
12. During the quarter there were five audits carried out with TUs. Three in extra care schemes with the GMB employee safety representative, one at Abbey Day Centre with David Clegg and one at Park House with Unison employee safety representative.
13. A monthly consultative management and trade union representative meeting, supported by H&S and HR officers, has been established at Aycliffe Secure Centre. This follows some concerns being raised by employees at the centre and enables a collaborative approach to reviews and improvements to working practices. Two meetings have taken place to date.
14. An additional consultative forum has been established since the interdiction of CPAL and this will reflect the revised service provisions within this area of REAL. Further consideration will be given to the requirement for additional consultative forums when the regeneration and economic growth and neighbourhoods and climate change service groupings are formed.

Fire Safety - Fire Audits (Internal)

15. There have been 31 internal fire safety audits completed during Quarter four. These were at a range of council premises such as schools' settings, Locality buildings, Leisure centres, Aykley Heads Registry office and Sevenhills. Resource Centre.

Fire Incidents

16. There were four fire related incidents at Council premises or staffed premises or onboard DCC vehicles during Quarter four. These were at Bluebell Meadows Primary School, Maple Court Extra Care Scheme Consett, A167 Rushyford, and Chester le Street Riverside Sports Complex.

Fire Inspections – County Durham and Darlington Fire and Rescue Service

17. There have been three Fire and Rescue Service inspections of Council premises during Quarter four. These were at Blackhall Colliery Primary School and Ox Close Nursery School and Units 14-16 at Stella Gill Industrial Estate.

Enforcement Body Interventions & Significant Incidents

18. Following a RIDDOR report in relation to a pool hoist failure at Consett Leisure Centre, HSE have contacted asking for further information such as copies of LOLER certificates, confirmation of SWL of hoist, how DCC ensure the hoist is not overloaded and what inspections are undertaken. All information has been provided and there were no injuries involved with the pool hoist failure.
19. There have been no prosecutions, prohibition or improvement notices and fees for intervention served within CYPS by the enforcement agencies during quarter four in relation to H&S or Fire Safety.
20. On 4 February 2020 the HSE visited West Pelton Primary School as part of a campaign to seek reassurance about the management of asbestos. The H&S Team Leader, Head Teacher and DCC Asbestos Officer met with the HSE inspector and shared with him all requested information. The inspector was very complimentary about the manner in which asbestos was being managed within the school and other schools in the county.

Health and Safety Team Audit, Inspection and Training statistics

21. During quarter four, the H&S team have undertaken a wide range of proactive and reactive activities across the Council as detailed in the table below.

Accident Investigations	Proactive/planned Audits	Reactive Audits/Advice
30	102	104

Occupational Health Service

22. During Quarter 4, 270 employees participated in clinical consultations with the OHS, following management referral in relation to Long Term Sickness Absence (LTSA), Short Term Sickness Absence (STSA), Management Concerns (Man Con) Reviews, and Re referral appointments, Long Term Sickness Absence/Short Term Sickness Absence (LTSA/STSA)
23. Routine physiotherapy clinics run one day per week in the OHS at County Hall under contract with the OHS. At the time of preparing this report (15/04/2020) the waiting time for an initial assessment is 4 working days. The OHS will continue to monitor this waiting time and report to this group.
24. During Quarter 4, a total of 118 employees attended OHS appointments for routine statutory health surveillance, 104 with an Occupational Health Nurse and 14 with the Senior Occupational Health Physician. During Quarter 4, 10% (n=11) employees failed to attend their appointment with the OHS in relation to statutory health surveillance.

Additional Support services accessed via the OHS	A&H S	CYPS	ReaL	Re s	TAP	Service not detailed	Q4, 19/20 Total	Q3, 19/20 Total	Q2, 19/20 Total	Q1, 19/20 Total	Q4, 18/19 Total
Number of routine physiotherapy referrals	1	6	17	1	3	-	28	34	29	31	26
Number of routine physiotherapy sessions	6	11	65	6	14	-	102	117	149	105	100
Number of 'face to face' counselling referrals	2	4	10	2	2	-	20	14	3	9	11
Number of 'face to face' counselling sessions	10	7	11	13	2	-	43	28	33	22	25
Total number of calls to the EAP	14	24	8	30	2	13	91	111	98	92	101
Telephone EAP structured counselling cases	1	2	0	4	0	2	9	50	14	11	8
Telephone EAP structured counselling sessions	19	17	3	18	0	13	70	63	62	58	54
Online hits	-	-	-	-	-	-	Not available	Not available	Not available	Not available	276

Health and Safety Training & Awareness

25. Various H&S training and awareness activities, some of which provided direct by the H&S team, have taken place across service groupings in Quarter four. These have included:
- Accident reporting, accident investigation and PVPR reporting.
 - Enact training.
 - Risk assessment and control of contractors
 - Passport to work sessions covering construction dust, skin protection, work-related musculoskeletal disorders and prevention and accident reporting.
 - School governor H&S training.
 - Risk register training.
 - Lone working/personal safety training to CPAL staff.
 - Fire marshal/fire extinguisher training.

Open Water Safety

26. The City Safety Group (CSG) and county wide Open Water Safety Group convened during Quarter four.
27. It was positive to note that there were no reported water related incidents within the city centre in the quarter four reporting period. The CSG is focusing on putting arrangements in place for the retraining of licensed premises staff to enable them to effectively manage and assist during high footfall events during the year. The training is aimed at improving knowledge and awareness of vulnerable people who may have become detached from their social group and require signposting to safe routes/options home.
28. In relation to antisocial behaviour within the city centre, a multi-agency approach continues to progress solutions in relation to anti-social behaviour. There has been a positive response and improved confidence from local business in relation to the additional neighbourhood warden resources and local policing interventions.
29. From a County wide perspective, there was one reported fatal incident involving open water. A thirteen year old male was recovered from the River Wear near Toronto bridge in Bishop Auckland on 24 February 2020. Police reported that there were no suspicious circumstances and the case would be referred to the coroner.
30. Work has commenced on the review of coastal risk assessments which were previously undertaken by the RNLI. Information has been shared with RNLI counterparts and an agreement has been made that county durham coastal locations and associated beaches will be re-assessed in 2020.

31. Work had also commenced on preparing for the annual cold water shock awareness campaign which was due to be delivered in county durham schools throughout June and July 2020. This work has been ceased at the end of March 2020 due to the COVID 19 pandemic.

Employee Mental Health and Wellbeing

32. The council has been progressing with the better health at work award continuing excellence award submission following achievement of gold award status.
33. There has been progress in relation to the production of a comprehensive strategy and action plan, which sets out workforce health and wellbeing as being a strategic priority for the council.
34. Work commenced on a follow up working well HSE stress management survey following an initial organisational survey in 2017. The employee health and wellbeing group commenced work on the survey content and a report was due to be submitted regarding this proposal in April 2020. This has now been postponed due to the COVID 19 pandemic. Despite this work will continue to look to deliver five health and wellbeing campaigns comprised of multiple activities and with some good cross-topic links. These campaigns are now going to focus on mental health, wellbeing and physical activity given that at the end of quarter four the majority of employees were working remotely from home due to COVID 19.
35. Following a procurement process, the council also renewed the contract with the existing employee assistance programme provider Health Assured. This enables the council to continue to provide professional quality assured external support to employees across a range of areas and in particular those challenges associated with COVID 19 pandemic. Ongoing communications will be issued throughout quarter one to promote the EAP service and how and who can access it.
36. Following the change in working practices at the end of quarter four due to COVID19 the H&S team produced working from home support guides to employees and this also included mental health and wellbeing support options via the EAP. Work was undertaken with ICT, facilities and premise management to ensure that employees had access to the equipment they needed whilst working remotely at home. A drive in facility was established at Meadowfield depot for employees to obtain additional equipment.

Violence and Aggression – Potentially Violent Persons Register (PVPR)

37. At the close of Quarter four 2019/20, there were 91 live entries on the PVPR register. The 12 month rolling figures for PVPR live entries are as follows:

Year	Quarter	PVPR live entries
2019/20	1	89

2019/20	2	86
2019/20	3	83
2019/20	4	91

Number of Live Records	91
Number of Additions	19
Number of Removals	12
Number of Warning Letters Sent	2
Number of PVPR Appeals	0

Corporate risks that may have an impact on Health and Safety as at 22/04/2020

38. This is the current list, with a new addition since the last period.

Ref	Service	Risk	Treatment
1	CYPS	Failure to protect a child from death or serious harm (where service failure is a factor or issue)	Treat
2	REAL	Serious injury or loss of life due to Safeguarding failure (Transport Service)	Existing controls considered adequate
3	AHS	Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).	Treat
4	T&P	Breach of duty under Civil Contingencies Act by failing to prepare for, respond to and recover from a major incident, leading to a civil emergency.	Existing controls considered adequate
5	RES	Serious breach of Health and Safety Legislation	Existing controls considered adequate
6	REAL	Potential serious injury or loss of life due to the Council failing to meet its statutory, regulatory and best practice responsibilities for property and land.	Treat
7	RES	Potential violence and aggression towards members and employees from members of the public	Existing controls considered adequate

Statistical Information

39. The H&S team in conjunction with service H&S providers continue to record, monitor and review work related accidents, incidents and ill health. This data is captured through internal reporting procedures and the Corporate H&S Accident Recording Database (HASARD). It is important to note that when setting future performance targets this data should be utilised.

Main implications

Legal

40. Compliance with statutory legislative requirements reduce risks of enforcement action and/or prosecution against the council or individuals. It will also assist in defending civil claims against the council from employees and members of the public, including service users.

Finance

41. Compliance with legislative requirements will reduce increased service delivery costs, financial penalties associated with H&S sentencing guidelines 2016 and successful civil claims against the council. Financial costs may be insured to some degree and uninsured in some cases, with poor outcomes possibly leading to increased insurance premiums. Financial implications also include staff absence associated with physical and mental ill health, staff training, retention, recruitment and productivity.

Staffing

42. In relation to impact on staffing due to employee absence from injury or ill health, attendance management, employee complaints and grievances, recruitment, selection and retention of employees.

Conclusions

43. Work regarding supporting employee mental health and wellbeing changed route significantly at the end of quarter four based on the COVID 19 pandemic. Focus will now be placed on new working arrangements and emerging challenges regarding homeworking and social isolation during the latter part of quarter four and first quarter of 2020/21. This will incorporate emphasis on mental health and wellbeing at home, staying active and ensuring employees have support in terms of working safely for those undertaking key workers roles. Additional support mechanisms have also been put in place to address employee sickness and family bereavement.
44. Another high number of fire safety audits were completed during this quarter. A number of fire related incidents occurred in quarter four and unlike quarter three there are no recurring arson related themes. It is

noteworthy that there has been a further refuse vehicle related fire incident, this has been one of several throughout 2019/20. The H&S team, service managers and trade union safety reps continue to work together to minimise risks regarding refuse vehicle fires and monitor control measures which have been implemented to deal with a fire in such circumstances.

45. There was another positive outcome from an HSE audit of the councils asbestos management standards and legislative compliance. This has followed previous activities by the HSE and evidences compliance win this area.
46. The Health and Safety team are proactively supporting revised service groupings to ensure that risks are assessed, controlled and managed accordingly. Training and awareness for managers and core employees is also being provided where required.
47. Statistical data for the year indicates a positive outlook in terms a minimal increase in overall accidents, a reduction in RIDDOR over 7 day absence reportable accidents and only five RIDDOR specified reportable injuries reported during 2019/20.

Other useful documents

48. Occupational Health quarter four 2019/20 Report
49. Health, Safety and Wellbeing statistical quarter four 2019/20 report

Appendix 1: Implications

Legal Implications - Failure to comply with statutory legislative requirements may result in enforcement action and/or prosecution against the council or individuals. There are risks from civil claims against the council from employees and members of the public, including service users.

Finance – Failure to comply with statutory legislative requirements may result in enforcement action, including prosecution against the council or individuals. These enforcement actions may result in increased service delivery costs, financial penalties associated with H&S sentencing guidelines 2016 and successful civil claims against the council. Financial costs may be insured to some degree and uninsured in some cases, with poor outcomes possibly leading to increased insurance premiums.

Consultation - Service Grouping strategic managers and operational management staff have been consulted in the preparation of this report.

Equality and Diversity / Public Sector Equality Duty - Equality Act compliance ensures consistency in what the council and its employees need to do to make their workplaces a fair environment and workplace reasonable adjustments are required.

Climate change- None

Human Rights - The right to a safe work environment, enshrined in Article 7 of the International Covenant on Economic, Social and Cultural Rights, links with numerous human rights, including the right to physical and mental health and well-being and the right to life.

Crime and Disorder – None.

Staffing – Potential impact on staffing levels due to injury and ill health related absence, staff retention and replacement staff.

Accommodation – The report references H&S related risks associated with workplaces some of which may have impact on accommodation design and provision of safety systems and features.

Risk – This report considers physical and psychological risks to employees, service users and members of the public. Risks also relate to the failure to comply with statutory legislative requirements, which may result in civil action being brought against the council and enforcement action, including prosecution against the council or individuals. These enforcement actions may result in financial penalties, loss of reputation and reduction in business continuity.

Procurement – None

Audit Committee

29 June 2020

**Internal Audit Progress Report Period
Ended 31 March 2020**



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

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2019 to 31 March 2020 as part of the 2019/2020 Internal Audit Plan.

Executive Summary

- 2 The report provides Members with the progress that has been made in achieving the Internal Audit Plan for 2019/2020 up to 31 March 2020 and aims to:
 - (a) Provide a high level of assurance, or otherwise, on internal controls operating across the Council that have been subject to an Internal Audit of systems and processes;
 - (b) Advise of issues where controls need to be improved in order to effectively manage risks;
 - (c) Advise of other types of audit work carried out such as grant certification or consultancy reviews where an assurance opinion on the control environment may not be applicable;
 - (d) Advise of amendments to the Internal Audit Plan;
 - (e) Track the progress of responses to Internal Audit reports and the implementation of agreed audit recommendations;
 - (f) Advise of any changes to the audit process;
 - (g) Provide an update on the performance indicators comparing actual performance against planned

- 3 The appendices attached to this report are summarised below. Those marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).
- (a) Appendix 2 – Progress against the Internal Audit Plan;
 - (b) Appendix 3 – Final reports issued in the quarter ended 30 June 2019;
 - (c) Appendix 4 – The number of high and medium priority actions raised and implemented;
 - (d) Appendix 5 – Internal Audit performance indicators;
 - (e) Appendix 6* – Overdue Actions;

Recommendations

- 4 Members are asked to note:
- (a) The amendments made to the 2019/20 Annual Internal Audit Plan;
 - (b) The work undertaken by Internal Audit during the period ending 31 March 2020;
 - (c) The performance of the Internal Audit Service during the period;
 - (d) The progress made by service managers in responding to the work of Internal Audit.

Background

- 5 As an independent consultancy service, the Council's Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Council.
- 6 The Internal Audit Strategy and Annual Internal Audit Plan, covering the period 1 April 2019 to 31 March 2020, was approved by the Audit Committee on 31 May 2019.

Progress against the Internal Audit Plan

- 7 A summary of the approved Internal Audit Plan for each Service Grouping, updated to include work in progress and any audits brought forward from last year's plan, is attached at Appendix 2. The appendix illustrates the status of each audit as at 31 March 2020 and, where applicable, also gives the resultant assurance opinion.
- 8 A summary of the status of audits in 2019/20 is illustrated in the table below:

Service Grouping	Not Started	Planning and Preparation	In Progress	Draft Report	Final Report / Complete
Adult and Health Services (AHS)	0	3	3	0	15
Children and Young People's Services (CYPS) *Excluding Schools	0	1	5	0	22
Regeneration and Local Services (ReaL)	6	5	5	1	45
Resources (RES)	0	17	18	1	60
Schools	0	0	0	8	50
TOTAL	6	26	31	10	192

- 9 A summary of the final internal audit reports issued in this quarter is presented in Appendix 3.
- 10 The total number of productive Internal Audit days required to deliver the plan is 4,631. As at 31 March 2020, the service had delivered 4,522 productive days, representing 98% of the total plan. The target at the end of the quarter was for 90% to be delivered, therefore performance has exceeded the target.

Internal Audit activity in the quarter

Amendments to the Approved 2019/2020 Internal Audit Plan

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

Service Grouping	Audit	Audit Type	Reason
Adult and Health Services (AHS)	Continuing Health Care	Assurance	Service request to defer review in this area.
Children and Young People's Services (CYPS)	Home to School Transport Arrangements	Assurance	Review cancelled in light of corporate review of this activity to be undertaken.
Children and Young People's Services (CYPS)	School Attendance Enforcement	Assurance	Activity deferred to 20/20/21.
Children and Young People's Services (CYPS)	Liquidlogic: Phase 2 Implementation - SEND	Advice & Consultancy	Activity cancelled as Internal Audit represented on Support Packages Working Group established to consider a range of current support arrangements and alternatives.
Regeneration and Local Services (ReaL)	Atlantic Geoparks	Grant	Agreed with Service to defer two of the grant reviews to 2020/21 as not yet required.
Resources (RES)	Data Quality	Assurance	Review deferred to 2020/21.
Resources (RES)	Digital Durham	Grant	Certification deferred to 2020/21

- 12 Sixteen unplanned reviews were added to the Internal Audit Plan in the quarter. These reviews, which are detailed below, were sourced from the service contingency provision within the Internal Audit Plan.

Service Grouping	Audit	Audit Type	Reason
Adult and Health Services (AHS)	Care Academy	Advice & Consultancy	Support requested in relation to operation of Incentive Voucher Scheme.
Adult and Health Services (AHS)	Integrated Payments Project Team	Advice and Consultancy	Internal Audit request to join working group.
Adult and Health Services (AHS)	Continuing Health Care Validation Panel Decision Making Process	Assurance	Service request to provide assurance over arrangements in operation. Activity start has been deferred due to COVID-19.

Service Grouping	Audit	Audit Type	Reason
Children and Young People's Services (CYPS)	Home to School Transport Review	Advice & Consultancy	Service request for Internal Audit to attend Executive Board / Working Group meetings.
Children and Young People's Services (CYPS)	SFVS Training for Headteachers, School Business Managers & Governors	Advice & Consultancy	Provision of training to two groups containing Headteachers, School Business Managers & Governors to provide a detailed update on changes to the content of the Schools Financial Value Standard for 2019/20.
Regeneration and Local Services (Real)	InnovateUK	Grant	Request for certification to be carried out.
Resources (RES)	Enforcement Programme Board	Advice & Consultancy	Request by service to attend the Programme Board.
Resources (RES)	Cash Management – Bishop Auckland Registrars	Assurance	Service request to add assurance review.
Resources (RES)	Debtors – Extended Testing (Credit Notes)	Assurance	Realigning resources as a result of COVID-19.
Resources (RES)	Debtors – Extended Testing (Write Offs)	Assurance	Realigning resources as a result of COVID-19.
Resources (RES)	Debtors – Extended Testing (VAT Analysis)	Assurance	Realigning resources as a result of COVID-19.
Resources (RES)	Debtors – Extended Testing (Outstanding Balances)	Assurance	Realigning resources as a result of COVID-19.
Resources (RES)	Creditors – Extended Testing (Exceptions)	Assurance	Realigning resources as a result of COVID-19.
Resources (RES)	Creditors – Extended Testing (Manually scanned invoices paid late)	Assurance	Realigning resources as a result of COVID-19.

Service Grouping	Audit	Audit Type	Reason
Resources (RES)	Creditors – Extended Testing (Holds cleared but invoice not paid)	Assurance	Realigning resources as a result of COVID-19.
Resources (RES)	Creditors – Extended Testing (Unpaid invoices more than 30 days old)	Assurance	Realigning resources as a result of COVID-19.

Outstanding Management Responses to Draft Internal Audit Reports

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

Survey Response Rate

- 14 The table below sets out the response rate and average score, by Service Grouping, for the customer satisfaction surveys issued during the period up to 31 March 2020.

Service Grouping	Surveys issued	Surveys returned	% returned	Av. score
Adult and Health Services (AHS)	4	2	50	4.4
Children and Young People's Services (CYPS) *Excluding Schools	6	5	83	4.3
Regeneration and Local Services (ReaL)	19	17	89	4.8
Resources (RES)	36	36	100	4.6
Schools	43	25	58	4.7
TOTAL	108	85	79	4.6

Responses to Internal Audit Findings and Recommendations

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

- 16 A summary of progress on the actions due, implemented and overdue, as at 31 March 2020, is given in the table below.

Service Grouping	No. of Actions Due	No. of Actions Implemented	No. Overdue by Original Target Date	No. with Revised Target Date	No. Overdue by Revised Target Date
Adult and Health Services (AHS)	67	64	3 (4%)	3	0
Children and Young People's Services (CYPS) [Excluding Schools]	176	173	3 (2%)	3	0
Regeneration and Local Services (ReaL)	181	165	16 (9%)	10	6
Resources (RES)	302	277	25 (8%)	25	0
TOTAL	726	679*	47 (6%)	41	6

* Includes six high priority actions to be confirmed as implemented at follow up.

- 17 It is encouraging to note that, of the 726 actions due to be implemented, 679 (94%) have been implemented.
- 18 Details of the actions that are overdue, following their agreed original target dates, are included at Appendix 6.
- 19 Usually, there would be no actions to report as overdue by revised target date, as we would 'chase' action owners to ensure a response was provided. However, due to the current situation with COVID-19, the decision was taken that we would not do this and any non-responses were left as such. Details of the six actions overdue by their original target date are shown in red in Appendix 6.

Limited Assurance Audit Opinions

- 20 There have been no audits, finalised in this quarter, that have been issued with a 'limited assurance' opinion.

Performance Indicators

21 A summary of actual performance, as at the end of March 2020, compared with our agreed targets, is detailed in Appendix 5.

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	Paul Monaghan	Tel: 03000 269662

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors and Heads of Service.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no direct implications on climate change as a result of this report, however the Internal Audit Service ensures that it considers climate change and sustainability in the recommendations that are made.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

There are no staffing implications as a result of this report.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit Committee. Where progress has not been made, further action is agreed and overseen by the Audit Committee to ensure action is taken.

Procurement

There are no procurement implications as a result of this report.

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
2018 / 2019 Internal Audit Plan - Audits Brought Forward					
Adult and Health Services	Commissioning	Section 117	Assurance	Defer to 2020/21	
Adult and Health Services	Commissioning	CHC	Assurance	Defer to 2020/21	
Adult and Health Services	Adult Care	Social Care Direct	Advice & Consultancy	Cancelled	
Adult and Health Services	Commissioning	Supplier Masterfile Commissioning - SSID Independent Sector Suppliers (Follow Up)	Follow Up	Final	N/A
Adult and Health Services	Commissioning	Direct Payments Cards	Advice & Consultancy	Complete	N/A
Adult and Health Services	Commissioning	Development of a Direct Payment Audit Risk Tool	Advice & Consultancy	Complete	N/A
Adult and Health Services	Public Health	Pharmoutcomes - Data Matching	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education	High Needs Budget	Assurance	Final	Limited
Children and Young People's Services	Locality and Operational Support	Petty Cash Arrangements across CYPs Locality Offices (Follow Up)	Follow Up	Defer to 2020/21	N/A
Children and Young People's Services	Education	Adult Learning Services - Apprentices	Advice & Consultancy	Final	N/A
Children and Young People's Services	Locality and Operational Support	Caldicott	Assurance	Final	Moderate
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 04	Grant	Final	N/A
Children and Young People's Services	Locality and Operational Support	Section 17 Follow Up	Assurance	Final	N/A
Children and Young People's Services	Schools	Safe Recruitment & Selection	Assurance	Cancelled	N/A
Children and Young People's Services	Schools	Award of Additional Pay in Schools	Assurance	In Progress	
Regeneration and Local Services (Real)	Corporate Property and Land	Asset Valuation	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Corporate Property and Land	Accommodation - Contract Management	Assurance	Planning and Preparation	
Regeneration and Local Services (Real)	Corporate Property and Land	Facilities Repairs and Maintenance	Advice and Consultancy	Final	N/A
Regeneration and Local Services (Real)	Corporate Property and Land	Single Use Plastics	Advice and Consultancy	Final	N/A
Regeneration and Local Services (Real)	Development and Housing	Safety at Sports Grounds	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Development and Housing	Financial Assistance Policy and Private Sector Housing	Assurance	Planning and Preparation	
Regeneration and Local Services (Real)	Business Durham	Business Durham	Advice and Consultancy	Final	N/A
Regeneration and Local Services (Real)	Transport & Contract Services	Safer Roads Fund (Road Safety Capital Grant)	Grant	Final	N/A
Regeneration and Local Services (Real)	Transport & Contract Services	LGF Forest Park	Grant	Final	N/A
Regeneration and Local Services (Real)	Transport & Contract Services	LGF Bishop Auckland Market Place	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	Atlantic Geoparks 1	Grant	In Progress	
Regeneration and Local Services (Real)	Environment	Atlantic Geoparks 2	Grant	Defer to 2020/21	
Regeneration and Local Services (Real)	Environment	Allotments Follow Up	Follow Up	Final	N/A
Regeneration and Local Services (Real)	Environment	Durham Crematorium	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Environment	Mountsett Crematorium	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Leisure Centre Timesheets	Assurance	Final	Limited
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Events Management	Assurance	Planning and Preparation	
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Louisa Centre	Assurance	Final	Moderate
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Consett Leisure Centre	Assurance	Final	Moderate
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Stanley Bowls	Advice and Consultancy	Final	N/A
Resources	Legal & Democratic Services	Coroner	Assurance	Planning and Preparation	
Resources	Legal & Democratic Services	Gifts and Hospitality	Advice and Consultancy	Final	N/A
Resources	People and Talent Management	Apprentices	Assurance	Final	Moderate
Resources	People and Talent Management	Attendance Management Framework	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	VAT	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	Review of Commercial Services	Assurance	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	Contract Management	Assurance	In Progress	
Resources	Corporate Finance and Commercial Services	Variations	Assurance	Final	Substantial
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Contract Procedure Rules	Assurance	Final	Moderate
Resources	Corporate Finance and Commercial Services	Procurement Cards (Further Follow Up)	Follow Up	Final	N/A
Resources	Finance and Transactional Services	Budgetary Control and Financial Reporting	Key System	In Progress	
Resources	Finance and Transactional Services	Agency System	Assurance	In Progress	
Resources	Finance and Transactional Services	Council Tax	Key System	Final	Substantial
Resources	Finance and Transactional Services	Council Tax: Valuation - Empty Homes Review	Key System	Final	Substantial
Resources	Finance and Transactional Services	Council Tax: Recovery	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates - Valuation	Key System	Final	Substantial
Resources	Finance and Transactional Services	Business Rates - Recovery	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction	Key System	Final	Substantial
Resources	Finance and Transactional Services	Housing Benefits: Overpayment Recovery	Key System	Final	Substantial
Resources	Finance and Transactional Services	Welfare Rights	Assurance	Final	Limited
Resources	Finance and Transactional Services	Creditor Payments	Key System	Final	Moderate
Resources	Finance and Transactional Services	Creditors - Supplier Masterfile	Key System	Final	Moderate
Resources	Finance and Transactional Services	Creditors - System access	Key System	Final	Moderate
Resources	Finance and Transactional Services	Creditors - Oracle Requisition Approver Hierarchy	Advice and Consultancy	Final	N/A
Resources	Finance and Transactional Services	Transparency Agenda - Interest on Late payments	Advice and Consultancy	Final	N/A
Resources	Finance and Transactional Services	Payroll : Taxation (PAYE)	Key System	Final	Moderate
Resources	Finance and Transactional Services	Payroll - Processing	Key System	Final	Substantial
Resources	Finance and Transactional Services	Payroll - Mileage Expenses	Key System	Draft	
Resources	Finance and Transactional Services	Debtors - Customer Masterfile	Key System	Final	Moderate
Resources	Finance and Transactional Services	Debtors - Standing Charges	Key System	Final	Moderate
Resources	Finance and Transactional Services	FST Debit Card Cash Accounts and Shared Lives (Follow Up)	Follow Up	Final	N/A

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	Financial Deputies (Compliance with OPG Standards)	Assurance	Final	Substantial
Resources	Finance and Transactional Services	Financial Assessments	Advice and Consultancy	Final	N/A
Resources	Finance and Transactional Services	Section 256 agreements	Advice and Consultancy	Final	N/A
Resources	Finance and Transactional Services	Caspar System	Advice and Consultancy	Final	N/A
Resources	Digital and Customer Services	Vulnerability Management	Assurance	In Progress	
Resources	Digital and Customer Services	Unix - Linux Security	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Oracle Licences	Assurance	Final	Moderate
2019 / 2020 Internal Audit Plan					
Adult and Health Services	Adult & Health Services	Integration of Health and Care Plan for County Durham	Advice & Consultancy	Complete	N/A
Adult and Health Services	Adult Care	SSID Replacement - Design Authority / Project Board	Advice & Consultancy	Complete	N/A
Adult and Health Services	Adult Care	SSID Replacement - Workstream / Process Mapping/Functional Testing	Advice & Consultancy	Complete	N/A
Adult and Health Services	Commissioning	Personalisation - Delivery of Services via virtual budgets and through traditionally	Assurance	Defer to 2020/21	
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services	Assurance	In Progress	
Adult and Health Services	Commissioning	Commissioning of Learning Disability Services - Advice	Advice & Consultancy	Complete	N/A
Adult and Health Services	Commissioning	Post Contract Arrangements	Assurance	Defer to 2020/21	
Adult and Health Services	Commissioning	Commissioning of Mental Health Services	Assurance	Planning and Preparation	
Adult and Health Services	Commissioning	Commissioning of Domiciliary Care	Assurance	Planning and Preparation	
Adult and Health Services	Commissioning	Commissioning of Residential Care	Assurance	Defer to 2020/21	
Adult and Health Services	Public Health	Support to the DPH - Health Protection	Advice & Consultancy	Cancelled	
Adult and Health Services	Public Health	Stop Smoking Service	Advice & Consultancy	Final	N/A
Adult and Health Services	Public Health	Pharmoutcomes - Data Matching	Advice & Consultancy	Complete	N/A
Adult and Health Services	Public Health	Suicide Early Alert	Advice & Consultancy	Defer to 2020/21	
Adult and Health Services	Partnerships Community Engagement	Community Grants Sample	Assurance	In Progress	
Adult and Health Services	Partnerships Community Engagement	Community Grants - Monitoring Arrangements	Advice and Consultancy	Final	N/A
Adult and Health Services	Adult Care	Adult Mental Health Social Work Service	Advice & Consultancy	Complete	N/A
Adult and Health Services	Adult Care	Caldicot Compliance (Social Care Direct)	Assurance	In Progress	
Adult and Health Services	Adult Care	Integrated Payments Project Team	Advice & Consultancy	Complete	N/A
Adult and Health Services	Adult Care	Continuing Health Care Validation Panel Decision Making Process	Advice & Consultancy	Planning and Preparation	
Adult and Health Services	Commissioning	Alliance Contracting Steering Group	Advice & Consultancy	Complete	N/A
Adult and Health Services	Commissioning	Care Academy	Advice & Consultancy	Complete	N/A
Children and Young People's Services	CYPS	MTFP Arrangements	Assurance	Cancelled	N/A
Children and Young People's Services	CYPS	Liquidlogic - Board Meetings	Advice & Consultancy	Complete	N/A
Children and Young People's Services	CYPS	Liquidlogic: Phase 1 Implementation - Looked After Process Workflow	Advice & Consultancy	Cancelled	N/A
Children and Young People's Services	CYPS	Liquidlogic: Phase 2 Implementation - SEND	Advice & Consultancy	Cancelled	N/A
Children and Young People's Services	Children's Social Care	Contract Monitoring Arrangements - External Foster Carer Payments	Assurance	In Progress	
Children and Young People's Services	Children's Social Care	Children's Homes	Assurance	Defer to 2020/21	N/A
Children and Young People's Services	Children's Social Care	Supervised Spend - Leaving Care Service	Advice & Consultancy	Cancelled	N/A
Children and Young People's Services	Children's Social Care	First Contact Service - Data Protection Issues	Assurance	Final	Moderate
Children and Young People's Services	Children's Social Care	Home to School Transport Arrangements	Assurance	Cancelled	N/A
Children and Young People's Services	Children's Social Care	Special Guardianships and Child Arrangement Orders	Assurance	Defer to 2020/21	N/A
Children and Young People's Services	Children's Social Care	Family Centres and One Point Hubs	Assurance	Defer to 2020/21	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 01 (July 2019)	Grant Certification	Final	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 02 (September 2019)	Grant Certification	Final	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 03 (October 2019)	Grant Certification	Final	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 04 (December 2019)	Grant Certification	Final	N/A
Children and Young People's Services	Early Help, Inclusion and Vulnerable Children	Troubled Families Programme - Claim 05 (March 2020)	Grant Certification	In Progress	
Children and Young People's Services	Education	School Attendance Enforcement	Assurance	Defer to 2020/21	N/A
Children and Young People's Services	Education	Adult Learning Services	Assurance	Defer to 2020/21	N/A
Children and Young People's Services	Education	DurhamWorks	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education - Schools	SFVS	Assurance	In Progress	N/A
Children and Young People's Services	Education - Schools	Governor Training • Internal Audit Role in Supporting Schools • Schools Financial Value Standard – The Governors Role	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Education - Schools	SBM Training	Advice & Consultancy	Cancelled	N/A
Children and Young People's Services	Education - Schools	Head Teacher Induction to Finance and Budgeting	Advice & Consultancy	Cancelled	N/A
Children and Young People's Services	Education - Schools	School User Provider Group	Advice & Consultancy	Cancelled	N/A
Children and Young People's Services	Education - Schools	Developing Financial Management Standards in Durham Schools	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Locality and Operational Support	Caldicot Compliance (Social Care Direct - Report to Adult & Health Services)	Assurance	In Progress	
Children and Young People's Services	Locality and Operational Support	Caldicot Group	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Schools	School Programme (governance and financial management)	Assurance	13 Substantial 26 Moderate 4 Limited 7 N/A	
Children and Young People's Services	Schools	School Follow Up of previous Limited Assurance Opinion Reports			
Children and Young People's Services	Schools	Audit of School Voluntary Funds	Fund Certification	57 Complete	N/A
Children and Young People's Services	Schools	DfE Collaborative Fund Grant - Wingate Infants	Grant Certification	Final	N/A
Children and Young People's Services	Schools	DfE Collaborative Fund Grant - Durham Teaching School Alliance	Grant Certification	Final	N/A
Children and Young People's Services	Schools	DfE Tailored Support Programme Grant	Grant Certification	Cancelled	N/A
Children and Young People's Services	Schools	DfE English Hubs Programme - St Michael's C of E Primary School	Grant Certification	Final	N/A
Children and Young People's Services	Children's Social Care	Support Packages Working Group	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Commissioning	Home to School Transport Review	Advice & Consultancy	Planning and Preparation	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Children and Young People's Services	Education	DurhamWorks Learning Working Grant Review	Assurance	Final	Moderate
Children and Young People's Services	Education	SFVS Training for Headteachers, School Business Managers & Governors	Advice & Consultancy	Complete	N/A
Children and Young People's Services	Operational Support	Anonymisation and Pseudonymisation	Advice & Consultancy	Final	N/A
Regeneration and Local Services (Real)	Development and Housing / Corporate Land and Procurement	Capital Programme Management	Assurance	Cancelled	
Regeneration and Local Services (Real)	Development and Housing	Housing Solutions	Assurance	Planning and Preparation	
Regeneration and Local Services (Real)	Development and Housing	Disabled Facilities Grant	Grant	Final	N/A
Regeneration and Local Services (Real)	Development and Housing	Bishop Auckland Heritage Action Zone	Grant	Final	N/A
Regeneration and Local Services (Real)	Business Durham	Stephanie 5	Grant	Final	N/A
Regeneration and Local Services (Real)	Business Durham	Stephanie 6	Grant	Final	N/A
Regeneration and Local Services (Real)	Community Protection Services	Online Licence Applications	Assurance	Defer to 2020/21	
Regeneration and Local Services (Real)	Community Protection Services	Fair Trading - Consumer Complaints	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Community Protection Services	Fees and Charges	Advice and Consultancy	Not yet started	
Regeneration and Local Services (Real)	Transport and Contract Services	Local Transport Capital Block Funding	Grant	Final	N/A
Regeneration and Local Services (Real)	Transport and Contract Services	Bus Subsidy Ring Fenced Grant	Grant	Final	N/A
Regeneration and Local Services (Real)	Transport and Contract Services	Road Safety Capital Grant	Grant	Cancelled	
Regeneration and Local Services (Real)	Transport and Contract Services	Park and Ride	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Transport and Contract Services	Concessionary Fares	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Environment	Carbon Reduction Commitment	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	Utility Bills - Contract Management	Assurance	Defer to 2020/21	
Regeneration and Local Services (Real)	Environment	LoCarbo 6	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	Rebus 6	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	Atlantic Geoparks 3	Grant	Defer to 2020/21	
Regeneration and Local Services (Real)	Environment	Carbon Connects 2	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	Carbon Connects 3	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	SMEPower	Grant	Final	N/A
Regeneration and Local Services (Real)	Environment	Public Health Funerals	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Environment	Durham Crematorium	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Environment	Mountsett Crematorium	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Environment	Neighbourhood Wardens - Enforcement and Education	Assurance	Not yet started	
Regeneration and Local Services (Real)	Environment	Driver Checks	Assurance	Final	Moderate
Regeneration and Local Services (Real)	Environment	Fuel Stocks and Stores	Assurance	In Progress	
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Rolling Programme of Leisure Centres - Abbey	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Rolling Programme of Leisure Centres - Meadowfield	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Rolling Programme of Leisure Centres - Riverside	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Compliance with new Leisure Centre procedures on holidays and TOIL	Assurance	Defer to 2020/21	
Regeneration and Local Services (Real)	Culture, Sport and Tourism	New system for 'Learn to Swim'	Advice and Consultancy	Not yet started	
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Competition Line UK Income Share Agreement	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Stanley Bowls	Advice and Consultancy	Final	N/A
Regeneration and Local Services (Real)	Technical Services	CDM Compliance - Review of Self Assessment	Assurance	Not yet started	
Regeneration and Local Services (Real)	Technical Services	Charging Arrangements	Advice and Consultancy	Not yet started	
Regeneration and Local Services (Real)	Technical Services	Local Highways Maintenance Funding - Incentive Element	Grant	Final	N/A
Regeneration and Local Services (Real)	Technical Services	Local Transport Capital Block Funding for NECA	Grant	Final	N/A
Regeneration and Local Services (Real)	Technical Services	Stores Management	Assurance	Cancelled	
Regeneration and Local Services (Real)	Technical Services	Highways Capital Maintenance Programme	Advice and Consultancy	Draft	
Regeneration and Local Services (Real)	Partnerships Community Engagement	Community Grants Sample	Assurance	In Progress	
Regeneration and Local Services (Real)	Partnerships Community Engagement	Community Grants - Monitoring Arrangements	Advice and Consultancy	Final	N/A
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Leisure Centre Timesheets	Follow Up	Not yet started	
Regeneration and Local Services (Real)	Corporate Property and Land	Asset Valuation	Assurance	Final	Substantial
Regeneration and Local Services (Real)	Transport and Contract Services	Local Growth Fund - Station Cycle Links	Grant	Final	N/A
Regeneration and Local Services (Real)	Business Durham	Local Growth Fund - NETPark Phase 3 infrastructure	Grant	Final	N/A
Regeneration and Local Services (Real)	Culture, Sport and Tourism	Management of Gym Memberships	Advice and Consultancy	In Progress	
Regeneration and Local Services (Real)	Corporate Property and Land	Assets of Community Value	Advice and Consultancy	In Progress	
Regeneration and Local Services (Real)	Environment	InnovateUK	Grant	Planning and Preparation	
Resources	Legal & Democratic Services	Members Expenses	Assurance	Final	Substantial
Resources	Legal & Democratic Services	RIPA Officers Group	Advice and Consultancy	Complete for 2019/20	
Resources	Legal & Democratic Services	Scheme of Delegation	Assurance	Planning and Preparation	
Resources	Legal & Democratic Services	Tender Opening Arrangements	Assurance	Cancelled	
Resources	Corporate Finance and Commercial Services	Capital Accounting	Assurance	Planning and Preparation	
Resources	Corporate Finance and Commercial Services	Property Investment Fund	Advice and Consultancy	Cancelled	
Resources	Corporate Finance and Commercial Services	Contract Management	Assurance	Cancelled	
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Assurance	Cancelled	
Resources	Corporate Finance and Commercial Services	Electrical Components Contract	Assurance	Final	Substantial
Resources	Corporate Finance and Commercial Services	Oracle Programme Board	Advice and Consultancy	Complete	
Resources	People and Talent Management	Disciplinary Policy	Assurance	In Progress	
Resources	Finance and Transactional Services	Service Level Agreements Board (SLAB)	Advice and Consultancy	Complete	

INTERNAL AUDIT PLAN PROGRESS AS AT 31 MARCH 2020

SERVICE GROUPING	SERVICE	AUDIT ACTIVITY	AUDIT TYPE	STATUS	OPINION
Resources	Finance and Transactional Services	Service Level Agreements Board (SLAB) - Tendering Workstream	Advice and Consultancy	Complete	
Resources	Finance and Transactional Services	Section 256 Agreements	Grant	Final	N/A
Resources	Finance and Transactional Services	Creditors	Key System	In Progress	
Resources	Finance and Transactional Services	Creditors - Supplier Masterfile	Key System	Defer to 2020/21	
Resources	Finance and Transactional Services	Creditors - National Fraud Initiative	Key System	Complete	
Resources	Finance and Transactional Services	Creditors - Invoice and PO authorisation	Key System	Final	Moderate
Resources	Finance and Transactional Services	Creditors - Receipting of Goods	Key System	In Progress	
Resources	Finance and Transactional Services	Procurement Cards	Assurance	Final	Moderate
Resources	Finance and Transactional Services	Work Stream on Petty Cash and Payment Cards	Advice and Consultancy	Complete for 2019/20	
Resources	Finance and Transactional Services	P2P Performance and Improvement Project	Advice and Consultancy	Complete	
Resources	Finance and Transactional Services	Better Care Fund and Improved Better Care Fund (Section 75)	Grant	Final	N/A
Resources	Finance and Transactional Services	Payroll	Key System	In Progress	
Resources	Finance and Transactional Services	Payroll - Access to Data and Records	Key System	In Progress	
Resources	Finance and Transactional Services	Payroll - Preparation and Corrections	Key System	Defer to 2020/21	
Resources	Finance and Transactional Services	Payroll - System Implementation	Advice and Consultancy	In Progress	
Resources	Finance and Transactional Services	Cash Management	Key System	In Progress	
Resources	Finance and Transactional Services	Cash Management - Crook CAP	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors	Key System	In Progress	
Resources	Finance and Transactional Services	Debtors Working Group	Advice and Consultancy	Complete for 2019/20	
Resources	Finance and Transactional Services	Financial Deputies (Compliance with OPG Standards)	Assurance	In Progress	
Resources	Finance and Transactional Services	Deputies and Appointees - Working Group	Advice and Consultancy	Complete for 2019/20	
Resources	Finance and Transactional Services	Deputies and Appointees - Personal Allowance Payments	Assurance	Defer to 2020/21	
Resources	Digital and Customer Services	Change Management	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Incident Management	Assurance	Final	Substantial
Resources	Digital and Customer Services	Office 365	Advice and Consultancy	Complete for 2019/20	
Resources	Digital and Customer Services	IT Governance	Assurance	In Progress	
Resources	Digital and Customer Services	ICT Purchasing	Assurance	Planning and Preparation	
Resources	Digital and Customer Services	Process Reviews	Advice and Consultancy	Complete for 2019/20	
Resources	Digital and Customer Services	Digital Durham	Grant	Defer to 2020/21	
Resources	Strategy	Data Quality - System Process Review	Assurance	Defer to 2020/21	
Resources	Transformation	Transformation	Advice and Consultancy	Complete for 2019/20	
Resources	Transformation	Business Support Process Reviews	Advice and Consultancy	Complete for 2019/20	
Resources	Transformation	GDPR compliance	Assurance	In Progress	
Resources	Transformation	Freedom of Information (FOI)	Assurance	In Progress	
Resources	Transformation	Information Governance Group	Advice and Consultancy	Complete for 2019/20	
Resources	Legal & Democratic Services	Beamish Museum – Review of internal control procedures (1)	Advice and Consultancy	Final	N/A
Resources	Finance and Transactional Services	Miscellaneous Income Working group	Advice and Consultancy	Complete for 2019/20	
Resources	Legal & Democratic Services	Beamish Museum – Review of internal control procedures (2)	Advice and Consultancy	Final	N/A
Resources	Finance and Transactional Services	Cash Management - Meadowfield Depot	Key System	Final	Moderate
Resources	Finance and Transactional Services	Cash Management - Proceeds of Crime Act	Key System	Final	Substantial
Resources	Corporate Finance and Commercial Services	CIPFA Financial Management Code	Advice and Consultancy	Planning and Preparation	
Resources	Strategy	Police and Crime Panel Grant	Grant	Final	N/A
Resources	Finance and Transactional Services	Fuel Cards	Assurance	In Progress	
Resources	Finance and Transactional Services	Enforcement Programme Board	Advice and Consultancy	Complete for 2019/20	
Resources	Finance and Transactional Services	Cash Management - Bishop Auckland Registrars	Key System	In Progress	
Resources	Finance and Transactional Services	Debtors Extended Testing (Credit Notes)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors Extended Testing (Write Offs)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors Extended Testing (VAT Analysis)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Debtors Extended Testing (Outstanding Balances)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Creditors - Extended Testing (Exceptions)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Creditors - Extended Testing (Manually scanned invoices paid late)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Creditors - Extended Testing (Holds cleared but invoice not paid)	Key System	Planning and Preparation	
Resources	Finance and Transactional Services	Creditors - Extended Testing (Unpaid Invoices more than 30 days old)	Key System	Planning and Preparation	

FINAL REPORTS ISSUED IN PERIOD ENDING 31 MARCH 2020

AUDIT AREA	BRIEF DESCRIPTION OF SCOPE OF THE AUDIT	FINAL OPINION
ADULT AND HEALTH SERVICES (AHS)		
Stop Smoking Service	Advice and Consultancy review that analysed data recorded within the Quit Manager System in respect of stop smoking sessions.	N/A
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)		
DurhamWorks Learning Working Earning Grant Review	Assurance review that considered the effectiveness of DurhamWorks LWE grant administration processes.	Moderate
REGENERATION AND LOCAL SERVICES (ReaL)		
Durham Crematorium	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is not accounted for/misappropriated; - Ineffective budget monitoring processes are in place; - Unauthorised payments are made; - Employees are incorrectly paid; - Non compliance with the Cremation Regulations 2008; - Non compliance with the Federation of British Cremation Authorities Code of Cremation Practice; - Lack of experienced staff; - Damage / theft of equipment; - Ashes are disposed of incorrectly. 	Substantial
Mountsett Crematorium	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is not accounted for/misappropriated; - Ineffective budget monitoring processes are in place; - Unauthorised payments are made; - Employees are incorrectly paid; - Non compliance with the Cremation Regulations 2008; - Non compliance with the Federation of British Cremation Authorities Code of Cremation Practice; - Lack of experienced staff; - Damage / theft of equipment; - Ashes are disposed of incorrectly. 	Substantial

REGENERATION AND LOCAL SERVICES (ReaL) Contd.		
Concessionary Fares	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Concessionary fare passes are granted to those that do not qualify; - Travel operators are not reimbursed the correct amount. 	Substantial
Abbey Leisure Centre	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is recorded or processed inaccurately; - Income is not received for bookings/course; - Cash is held or transported insecurely; - Unauthorised access to cash receipting system and till; - Expenditure is inappropriate; - Stocks are inappropriate or insecure. 	Substantial
Meadowfield Leisure Centre	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is recorded or processed inaccurately; - Income is not received for bookings/course; - Cash is held or transported insecurely; - Unauthorised access to cash receipting system and till; - Expenditure is inappropriate; - Stocks are inappropriate or insecure. 	Substantial
Riverside Leisure Centre	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Income is recorded or processed inaccurately; - Income is not received for bookings/course; - Cash is held or transported insecurely; - Unauthorised access to cash receipting system and till; - Expenditure is inappropriate; - Stocks are inappropriate or insecure. 	Substantial
Asset Valuation	Assurance review of the arrangements in place to mitigate against the risk of material misstatement of the value of assets in the statement of accounts.	Substantial
Stephanie 6 (Space technology with photonics for market and societal challenges)	Grant Certification	N/A
Local Highways Maintenance Fund – Incentive Element	Grant Certification	N/A
SME Power	Grant Certification	N/A
Local Growth Fund – NETParkPhase 3 Infrastructure	Grant Certification	N/A

REGENERATION AND LOCAL SERVICES (ReaL) Contd.		
Carbon Connects	Grant Certification	N/A
Stanley Bowls Club	Review of Accounts.	N/A

RESOURCES		
Prepaid Cards	Advice and consultancy review of the governance arrangements for prepaid cards.	N/A
Debtors – Standing Charges	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Failure to adhere to legislation, best practice or procedures; - Failure to collect or recover income in line with policies and procedures; - Information not being held securely and appropriately retained. 	Moderate
Procurement Cards	Assurance review of the arrangements in place to mitigate against the risks of: <ul style="list-style-type: none"> - Procurement cards are used inappropriately; - Overspend on budgets; - Value for money is not achieved or there is limited business benefit from the use of procurement cards. 	Moderate
Section 256 Agreements	Grant certification	N/A
Better Care Fund (Section 75)	Grant certification	N/A

	Actions Due	Actions Implemented	Overdue Actions by original target date	Number of Actions where the original target has been revised	Overdue Actions following a revised target date
ADULT AND HEALTH SERVICES (AHS)					
2017/18					
High	10	10	0	0	0
Medium	19	19	0	0	0
Total	29	29	0	0	0
2018/19					
High	0	0	0	0	0
Medium	36	34	2	2	0
Total	36	34	2	2	0
2019/20					
High	0	0	0	0	0
Medium	2	1	1	1	0
Total	2	1	1	1	0
Overall Total	67	64	3	3	0
CHILDREN AND YOUNG PEOPLE'S SERVICES (CYPS)					
2017/18					
High	2	2	0	0	0
Medium	63	61	2	2	0
Total	65	63	2	2	0
2018/19					
High	1	1	0	0	0
Medium	71	71	0	0	0
Total	72	72	0	0	0
2019/20					
High	0	0	0	0	0
Medium	39	38	1	1	0
Total	39	38	1	1	0
Overall Total	176	173	3	3	0
REGENERATION AND LOCAL SERVICES (Real)					
2017/18					
High	3	3	0	0	0
Medium	56	54	2	2	0
Total	59	57	2	2	0
2018/19					
High	0	0	0	0	0
Medium	69	65	4	4	0
Total	69	65	4	4	0
2019/20					
High	2	2	0	0	0
Medium	51	41	10	4	6
Total	53	43	10	4	6
Overall Total	181	165	16	10	6
RESOURCES (RES)					
2017/18					
High	11	11	0	0	0
Medium	131	129	2	2	0
Total	142	140	2	2	0
2018/19					
High	3	3	0	0	0
Medium	78	75	3	3	0
Total	81	78	3	3	0
2019/20					
High	0	0	0	0	0
Medium	79	59	20	20	0
Total	79	59	20	20	0
Overall Total	302	277	25	25	0
TOTAL COUNCIL					
2017/18					
High	26	26	0	0	0
Medium	269	263	6	6	0
Total	295	289	6	6	0
2018/19					
High	4	4	0	0	0
Medium	254	245	9	9	0
Total	258	249	9	9	0
2019/20					
High	2	2	0	0	0
Medium	171	139	32	26	6
Total	173	141	32	26	6
OVERALL TOTAL	726	679	47	41	6

Performance Indicators as at 31 March 2020

Efficiency			
Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	98% at 31 March 2020
Timeliness of Draft Reports	% of draft reports issued within 30 calendar days of end of fieldwork/closure interview	90% (Quarterly)	80% (98 out of 122)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	100% (122 out of 122)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Av score of 4.7
Customers providing feedback Response	% of customers returning satisfaction returns	70% (Quarterly)	79%
Cost			
Objective: To ensure that the service is cost effective			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average (Annually)	Yes (2015/16 exercise) £226 cost per chargeable audit day

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Audit Committee

29 June 2020



Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2020

Ordinary Decision

Report of John Hewitt, Corporate Director of Resources

Electoral division(s) affected:
Countywide

Purpose of the Report

1. Durham County Council is required to assess whether it should be considered as a 'going concern' organisation, and whether the council's annual accounts should be prepared on that basis. This report considers the council's status as a going concern and recommends that Members approve this.

Executive Summary

2. When preparing the annual statement of accounts the council complies with the Code of Practice on Local Authority Accounting 2019/20 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the accounts to be prepared on a going concern basis.
3. This report details the reasons why it is recommended that the council be considered as a going concern and it is appropriate for the statement of accounts to be prepared on that basis. In summary those reasons are:
 - (a) the financial position of the council remains healthy;
 - (b) as at 31 March 2020 the council held general reserves of £23.95 million and reserves earmarked for specific future

purposes, including those held for schools, of £216.84 million;

- (c) net assets at 31 March 2020 amounted to £229.81 million;
- (d) the council has been able to set a balanced budget for 2020/21 and has a clear plan in place to continue to deliver local services up to 2023/24;
- (e) the council has a history of stable finance and ready access to financial resources in the future; and
- (f) there are no significant financial, operating or other risks that would jeopardise the council's continuing operation.

Recommendations

- 4. It is recommended that:
 - (a) the council be considered as a going concern and
 - (b) the statement of accounts are prepared on that basis.

Background

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

Key Issues

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

10. An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current and future performance.

Historical Position

11. The following table shows the net assets of the council for the last five years:

Year ended 31 March	Net Assets £ million
2016	568.129
2017	335.364
2018	362.326
2019	388.566
2020	229.807

12. The external auditor provides a 'Value For Money' conclusion at each year end providing their opinion on whether the council has put arrangements in place for securing economy, efficiency and effectiveness in its use of resources. The council's arrangements are considered against one overall criterion which is made up of three sub criteria as set out by the National Audit Office (NAO).
13. The overall criterion is 'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'. The three sub-criteria are: informed decision-making; sustainable resource deployment; and working with partners and other third parties.
14. The last Audit Completion Report related to 2018/19 and was reported to the Audit Committee on 31 July 2019. Within that report the external auditor stated he was satisfied that in all significant respects, the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Current Position

15. At 31 March 2020 the council held general reserves of £23.95 million and reserves earmarked for specific future purposes, including those held for schools, of £216.84 million.

16. The financial position of the council remains healthy. Net assets at 31 March 2020 amounted to £229.8 million, a decrease of £158.8 million during 2019/20. This is mainly due to an increase in the estimated pension liability for employees, calculated by the Pension Fund Actuary, for which statutory arrangements for funding the deficit mean that the financial position of the council remains healthy.

Future Plans

17. The council approved its budget for 2020/21 and Medium Term Financial Plan (MTFP) 10 to 2023/24, in February 2020.

Medium Term Financial Plan (10) – 2020/21 to 2023/24

18. The financial landscape for the council is likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review until the Autumn of 2020 means that there will be little certainty over the council's longer term funding outlook and this will need to be carefully managed as the council considers the recovery actions it needs to take and commit to. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022/23.
19. The outcome of these reviews will determine the quantum of funding available to local government and the share available to the council. The added uncertainty brought about by the exit from the European Union will serve to compound these issues. There is a risk that funding reductions may continue beyond this point placing further pressure on the MTFP.
20. The council has continued to effectively manage its resources during a period of increasing cost pressures and a backdrop of many years of government funding reductions. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid 19 and the recovery from it will undoubtedly impact on the council and its communities for a number of years.
21. The Covid 19 outbreak will have a significant financial impact on the council in 2020/21 and the recovery take place over a number of years. The financial implications of the council's recovery plan will not be fully understood. The council began to experience the impact of the outbreak in March 2020 when a number of front line service facilities were closed and supplier relief began to be

provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

22. The council's spending has also significantly increased to cope with the outbreak. Whilst some Covid 19 financial support has been received from government, it is unclear as to the extent to which all of the cost pressures and reductions in income will be reimbursed. This represents a financial risk to the council that will form part of future medium term financial planning.
23. By the end of 2019/20, the council had delivered £234 million of financial savings with additional savings of £8 million approved for 2020/21. It is forecast that total savings for the period 2011/12 to 2023/24 will be £282 million.
24. The council's MTFP for the last eleven years has focussed on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management. As this strategy becomes increasingly more difficult to maintain over time, the council's Transformation Programme was designed to ensure all options were exhausted to protect front line services wherever possible. Nevertheless, front line services will inevitably become progressively impacted over the coming years if funding continues to be restricted.
25. The council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.
26. The council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contributions.
27. The MTFP sets out the council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the council over the planning period and outlines the financial pressures it will face.

28. In general, the council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and enabled the council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the council in as strong a position as possible to meet the ongoing financial challenges across this MTFP and beyond, where savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and smooth in reductions across financial years.
29. After taking into account base budget pressures, additional investment and savings, the council's net budget requirement for 2020/21 is £430.059 million. The financing of the net budget requirement is detailed in the following table.

Financing of the 2020/21 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	28.070
Business Rates	56.083
Business Rates – Top Up Grant	72.780
Collection Fund Surplus	1.740
Council Tax	234.458
New Homes Bonus	7.563
Section 31 Grant	11.713
Adults/ Childrens Pressures Grant	17.652
TOTAL	430.059

Capital Funding

30. On 26 February 2020 Council approved the 2019/20 revised capital budget and the MTFP (10) capital budget for the period 2020/21 to 2022/23.
31. Service groupings developed capital bid submissions alongside the development of revenue MTFP (10) proposals. Bids were submitted in the main for 2020/21 to maintain the two year rolling programme approach to the capital budget. The capital Member Officer Working Group (MOWG) considered the capital bid submissions taking the following into account:
- (a) service grouping assessment of priority;

- (b) affordability based upon the availability of capital financing. This process takes into account the impact of borrowing on the revenue budget;
- (c) whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.
32. Whilst considering capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time, MOWG also recognised the need for caution in committing the council to high levels of prudential borrowing at this stage for future years.
33. The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation.

MTFP (10) Capital Programme

Service Grouping	2019/20	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m	£m
Adult and Health Services	-	-	-	-	-
Children and Young People's Service	20.268	30.960	11.176	-	62.404
Neighbourhoods & Climate Change	31.747	38.008	21.397	-	91.152
Regeneration, Economy & Growth	61.966	116.944	84.616	5.512	269.038
Resources	3.593	13.131	4.245	-	20.969
TOTAL	117.574	199.043	121.434	5.512	443.563
Financed by:					
Grants & Contributions	44.604	48.435	31.077	0.050	124.166
Revenue & Reserves	16.021	34.451	2.257	0.430	53.159
Capital Receipts	10.439	9.913	16.469	-	36.821
Borrowing	46.510	106.244	71.631	5.032	229.417
TOTAL	117.574	199.043	121.434	5.512	443.563

34. The council has been able to set a balanced budget for 2020/21 and has a clear plan in place to continue to deliver local services up to 2024. Based upon this, it is evident that the council is a going concern.

Financial Reserves

35. Reserves are held as a:
- (a) working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;
 - (b) contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather - this also forms part of general reserves;
 - (c) means of building up funds, earmarked reserves to meet known or predicted future liabilities.
36. The council's current reserves policy is to:
- (a) set aside sufficient sums in earmarked reserves as is considered prudent;
 - (b) aim to maintain general reserves of between 5% and 7.5% of the net budget requirement in the medium term, which in cash terms is up to £32 million.
37. Based on the level of reserves held, the council has demonstrated robust financial management that underpins its status as a going concern.

Risk

38. The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the outcome of the anticipated Comprehensive Spending Review and Fair Funding Review which will determine the funding available to the council. There is added uncertainty brought about by the exit from the European Union and also Covid 19. All risks will be assessed continually. Some of the key risks identified include:
- (a) Ensure the achievement of a balanced budget and financial position;
 - (b) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;

- (c) there is no certainty for the quantum of government funding for local government beyond 2020/21. Given the pressures faced, particularly from social care, it is imperative that the quantum is increased and that a long-term settlement is agreed as part of the expected 2020 Comprehensive Spending Review;
 - (d) The outcome of the government's Fair Funding Review could result in significant changes to the distribution of government funding;
 - (e) The localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers;
 - (f) Council retaining 49% of all business rates collected locally but also being responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and the revised 'check and challenge' appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications on the MTFP;
 - (g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards which will need to be closely monitored;
 - (h) the council continuing to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(10) period this issue will need to be closely monitored;
 - (i) the funding position for the High Needs Dedicated Schools Grant. It is hoped that the government fully recognises this pressure as part of the Comprehensive Spending Review;
 - (j) The impact of Brexit which could affect future government finance settlements, inflation and European funding.
39. Based upon the above there are no risks which would indicate that the council is not a going concern.

Conclusion

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

Other useful documents

- (a) County Council – 26 February 2020 – Medium Term Financial Plan, 2020/21 to 2023/24 and Revenue and Capital Budget 2020/21
- (b) County Council – 26 February 2020 – Budget 2020/21 Report under Section 25 of Local Government Act 2003
- (c) Audit Completion Report – 2018/19 – Durham County Council
- (d) Cabinet – 18 March 2020 - Forecast of Revenue and Capital Outturn 2019/20 - Period to 31 December 2019.

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Appendix 1: Implications

Legal Implications

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2019/20 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

Finance

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

Consultation

None.

Equality and Diversity/ Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

None.

Procurement

None.

Audit Committee**29 June 2020****Annual Review of the System of Internal Audit 2019/2020****Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud Manager****Electoral division(s) affected:**

Countywide.

Purpose of the Report

- 1 To present to members the annual review of the system of Internal Audit for consideration and comment.

Executive Summary

- 2 To examine the effectiveness of the internal audit service for the past year this annual review considered key elements and assessed their contribution to enabling the service to fulfil its responsibilities. This includes:
 - (a) The structure and resourcing level, including qualifications and experience of the audit team;
 - (b) The extent of conformance with the Public Sector Internal Audit Standards (PSIAS);
 - (c) Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 - (d) The overall performance of the internal audit service.
- 3 The review found that the structure and resourcing level, including qualifications and experience of the audit team are satisfactory.
- 4 Internal Audit has completed a self-assessment against the key elements of the PSIAS. For 2019/2020 this demonstrated that the Section was **conforming** with the Code's requirements. The service must be externally assessed once every five years. The last external assessment was completed in July 2016.

- 5 It is considered that the 2019/2020 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals. An emergent Internal Audit Plan was provided to the Audit Committee in February 2020 however given the COVID-19 pandemic the internal audit plan is being reviewed and present a six-month plan to the committee in June 2020 with a view to re-assessing the plan at the end of September 2020 to take account of current working arrangements and government legislation.
- 6 Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.
- 7 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review. Performance is monitored throughout the year and there are no significant issues that would demonstrate the Service was not effective.
- 8 The service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The service has delivered a comprehensive plan for the year and it is considered that it has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Recommendation

- 9 Members are asked to:
 - (a) Note the findings and conclusions of the 2019/2020 review of the effectiveness of the system of Internal Audit contained within this report.

Background

10 The Accounts and Audit Regulations 2015 Regulation 3 states that –

‘A relevant authority must ensure that it has a sound system of internal control which –

- (a) Facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) Ensures that the financial and operational management of the authority is effective; and*
- (c) Includes effective arrangements for the management of risk.’*

11 Furthermore, the Accounts and Audit Regulations 2015 Regulation 6 states that –

‘A relevant authority must, each financial year conduct a review of the effectiveness of the system of internal control as required by Regulation 3’.

12 Internal Audit is defined as the means by which the Council assesses its governance and assurance requirements, ensuring that an effective internal control system is in place. Outcomes from the current governance process are evaluated and reported in the Annual Governance Statement.

13 To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit has been carried out and is presented for consideration by those charged with governance.

Detailed Review

14 A dedicated Internal Audit Service forms part of the system of Internal Audit in the Council. The Service is part of the Resources Service Grouping. It is led by the Chief Internal Auditor and Corporate Fraud Manager. It has strong links with the Risk, Insurance Claims and Corporate Fraud and works closely with others across the Council tasked with governance, assurance and risk management. Whilst part of a wider service, it retains its own identity as Internal Audit for the Council.

15 The Chief Internal Auditor and Corporate Fraud Manager reports directly to the Corporate Director of Resources but also has direct access to the Chief Executive and the members of the Audit Committee.

- 16 At the start of 2019/20 the team comprised of 18 approved posts (16.35FTE) plus the Chief Internal Auditor and Corporate Fraud Manager. This team delivered work for the Council as well as work for external clients including the Pension Fund, Durham Police, Durham and Darlington Fire Authority, Peterlee Town Council, Spennymoor Town Council, Horden Parish Council, Shotton Parish Council and Trimdon Parish Council.
- 17 The Vision and Strategy for Internal Audit is described in the Annual Internal Audit Plan and Strategy, the Internal Audit Service Terms of Reference (TOR) within the Internal Audit Charter and it outlines the status of the Section in context with the organisation and defines the principles of how the service operates. The TOR provides appropriate arrangements to ensure that the Service is sufficiently independent and objective and that there is access to all information and people required to discharge its responsibilities. The requirements of the Public Sector Internal Audit Standards (PSIAS) are reflected in the Internal Audit Charter.
- 18 Arrangements for investigation work are defined in the Council's policies and procedures for Counter Fraud and Confidential Reporting (Whistleblowing) and these are reported to Corporate Management Team and the Audit Committee in the Protecting the Public Purse update reports. The Council's Corporate Fraud Team conduct this work.

Resourcing, Qualifications and Experience

- 19 Audit work was actively managed within the resource available and progress toward delivery reviewed regularly. The focus was maintained on clear scoping and coverage for assurance activity; timing of work and availability of clients; and control over the allocation of resources for investigation referrals and in-year requests for support. Alternative means for gaining assurance were assessed and used where appropriate to support audit opinions. Progress and outcomes were regularly reported to Clients, Service Grouping Management Teams, Corporate Management Team and to the Audit Committee.
- 20 The audit plan was delivered at the year end, with a minimum need to carry forward audit work from 2019/20 into next year except where draft reports still require management responses to enable final reports to be issued or where services have asked for timings and/or scope changes in work. Some work was deferred following review of the audit plan and these have been agreed at the Audit Committee throughout the year.

- 21 The structure of the service reflects the configuration of the Council at Corporate Director level and allows for close client liaison during the year. It is the intention that auditors continue to develop knowledge and client relationships. Where possible auditors will continue to work with similar service groupings to that of 2019/20 in order to offer an element of continuity for clients with whom we have built constructive relationships. We consider this approach continues to be successful in building a better understanding of the Council and its business needs and objectives and the service continues to receive positive feedback from management on this approach. There has been a need for employee rotation for development purposes and to maintain objectivity, this is continually reviewed.
- 22 The service enables the objectives of Internal Audit to be more clearly articulated through the service planning process and is demonstrated in service plans. Key priorities, options for development and service delivery, service objectives assessments of performance and workforce plans are encapsulated in the annual Internal Audit Plan. Shared intelligence and some joint working has been undertaken to improve the assurance and support services offered to Service Groupings and Schools while maintaining Internal Audit's distinct identity.
- 23 The training and development within the division encourages development through the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Association of Accounting Technicians (AAT) and Continuing Professional Development (CPD).
- 24 During the year, one auditor has progressed their IIA studies, whilst the two apprentices who are enrolled on the AAT have passed all of the examinations they have sat. All other employees hold at least one audit qualification. For CPD all employees have access to and attended events selected from internal and external training events. Formal internal CPD sessions are held for all employees with individuals keeping records of their CPD based on their professional requirements. A training plan for the coming year is being constructed based on needs for the service, linked to the service improvement plan and individual appraisals training plans.

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

Experience 2018/19

Auditing Experience	No	%	Public Sector Auditing	%
Up to 1 Year	0	0	0	0
1 to 5 Years	1	5	1	5
5 to 10 Years	0	0	0	0
Over 10 Years	18	95	18	95
Total Employees	19	100	19	100

Qualifications

Accountants (CCAB)	6
Institute of Internal Auditors	1
Institute of Internal Auditors – Training	1
Certified Information System Auditor	1
Association of Accounting Technicians	9
Association of Accounting Technicians – Training	1
Total	19

- 26 The level of experience of audit employees was increased in year with skills level available remaining high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.
- 27 At 31 March 2020 the Service has no vacant posts. This is reflected in the audit plan proposed for 2020/21.

Conformance with UK Public Sector Internal Audit Standards (PSIAS)

- 28 Internal Audit completed a self-assessment against the key elements of the PSIAS (2017) using the Local Government Application Note. For 2019/20 this demonstrated that the Section was **conforming** to the Code's requirements.
- 29 All employees comply with the ethics requirements (as described in PSIAS) in relation to the professional role of an auditor. All employees provided an annual declaration of interests for consideration to enable management to ensure that there was enough information to address any potential conflicts of interest which arise during audit activities. Employees are obliged to raise any conflicts or issues with management during the year. Records are maintained for this.

- 30 Quality of audit work was actively managed in year and the achievement of quality standards enabled the Chief Internal Auditor and Corporate Fraud Manager to confirm work has been completed in conformance with PSIAS. Individual audits had agreed and clear scope; activity was reviewed and assessed for its effectiveness and quality during and after completion of work; and customer feedback was received from post audit questionnaires.
- 31 Liaison with the External Auditor in year was productive and the two services continue to share information and to use this to inform risk assessments and to direct audit activity.

Ensuring the Effective Prioritisation of Internal Audit Work

- 32 Prioritisation of the work of the Service is achieved by the development and delivery of an annual risk-based audit plan. This describes the assurance plans for the Service and includes capacity for flexibility to adjust to changing circumstances and for demand led and urgent work if appropriate. The plan is based on a mix of different types of audit and work to ensure that assurance over the systems of governance, risk management and internal control is obtained from a number of different directions and sources.
- 33 The Service's methodology for establishing audit priorities is aligned with governance and risk management systems. Audit plans are developed through an assessment of risk and assurance needs and are linked to the PCVC's and Constabulary's overall objectives.
- 34 It is considered that the 2019/20 Internal Audit Plan represented a reasonable view of critical areas for audit review and assurance needs when it was constructed and agreed with Senior Management and the Audit Committee. It was based on reasonable estimates of available resources and with management requests and fraud investigations and referrals. An emergent Internal Audit Plan was provided to the Audit Committee in February 2019 and the final internal Audit Plan for 2019/20 was presented to Audit Committee on 31 May 2019.

Performance Measures

- 35 Performance Management of the Section and for individual auditors is focused on deployment of auditor time to best effect. This has three main elements related to how much time is spent auditing, completion of audits within set timescales and effectiveness of time deployed. The key deliverable for the Section is the completion of the Internal Audit Plan within the year.

- 36 Performance and progress are monitored through Key Performance Indicators (KPIs). These are agreed with the Audit Committee as part of the Internal Audit Charter. And allow for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
- 37 The key performance measures for the Section over the last 12 months are:

KPI	Measure of Assessment	Target	Actual as at 31 March 2020
Planned audits completed	% of plan achieved.	90%	98%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure	90%	80% (98 out of 122)
Timeliness of Final Reports	% of final reports issued within 14 Calendar days of receipt of management response	95%	100% (122 out of 122)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%
Post Audit Customer Surveys	% of customers scoring at least 3 out of 5	100%	100%
Customers providing feedback responses	% of customers returning satisfaction returns	70%	79%

- 38 There continues to be a positive response to customer satisfaction returns and positive feedback on a number of specific assignments, which is reflected in the customer satisfaction questionnaires.
- 39 The issuing of draft reports is an assessment of the timeliness of the audit activity from the completion of a piece of work to the issuing of a draft report for consideration and response. This has been consistent with previous years with all reports being issued within the set timescales. Delays are largely consigned to school reports where clients are unavailable due to holidays etc.

- 40 No concerns have been raised in relation to the application of professional standards for audit work and there have been no formal complaints.

Implementation of Recommendations

- 41 The process for monitoring implementation of recommendations continues to build on improvements last year and there are good levels of engagement from all services across the Council. Working closely with managers allowed for greater understanding of the challenges faced and in ensuring practical recommendations were made and alternative solutions considered in order to address risk.
- 42 Internal Audit continues to engage with the Council's quarterly reporting process and deliver regular quarterly reports to Service Grouping Management Teams and to the Corporate Management Team. This process has ensured that time is targeted on key issues and that appropriate support and advice is offered at the right time.
- 43 The Audit Committee are provided with regular updates from the Section during the year and have the opportunity to challenge progress and outcomes. This includes asking senior managers to provide updates as necessary where there is felt of be a significant risk or concern. This process has provided an effective method for obtaining assurance during 2019/2020.

Audit Committee

- 44 The system of Internal Audit includes the role of the Audit Committee and in particular its role in the receipt and evaluation of audit reports, both in terms of assurance opinions and in the ensuring that appropriate arrangements are in place for the delivery of an effective service. The arrangements for the Audit Committee remained the same during 2019/2020.
- 45 Audit Committee request reports from management in response to issues raised in within Internal Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.
- 46 A review of effectiveness of the Audit Committee in line with CIPFA Publication – Practical Guidance for Local Authorities and Police 2018 Edition that sets out CIPFA's guidance on the function and operation of audit committees in local authorities was carried out and endorsed by the Audit Committee at its meeting on 31 May 2019. This assessment demonstrated that the Committee is performing in line with recommended guidance.

Summary and Key Priorities

- 47 The service continues to build on its strengths and enhance its reputation. Service delivery remains a key priority in support of the Council's priorities and to help identify and address any risks to the delivery of corporate objectives. The service is on track to deliver a comprehensive plan for the year and it is considered that it has a sound base for carrying out its audit activities and meeting its objectives to provide audit assurance and advisory support to the Council.

Contact: Paul Bradley

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Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Completion of the review of the effectiveness of internal audit ensures compliance with both the Public Sector Internal Audit Standards 2017 and the Accounts and Audit Regulations 2015

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

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

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no human rights implications as a result of this report.

Staffing

The report presents the internal audit services 17.35 FTE (19 posts) and the relevant experience within the service.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that the internal audit service is not effective. To mitigate this risk, a defined process exists within the Service to carry out effective performance management and as such assurance is reflected in reports to the Audit Committee. Any issues with performance would be reported to the Audit Committee where further action would be agreed and overseen. To provide further assurance an external assessment is required every five years with the last external review being completed in 2016 which delivered a positive outcome.

Procurement

There are no procurement implications as a result of this report.

Audit Committee

29 June 2020

**Protecting the Public Purse - Annual
Report 2019 / 2020**



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

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 This report presents the Annual Protecting the Public Purse Report, to inform Members of the work that has been carried out by the Corporate Fraud Team during the period 1 April 2019 to 31 March 2020.

Executive Summary

- 2 The report provides Members with the progress that has been made by the Corporate Fraud Team for 2019/2020 up to 31 March 2020 and provides as update on:
 - (a) The work of the Corporate Fraud Team;
 - (b) Action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation;
 - (c) Reported cases of potential fraud reported during 2019/20;
 - (d) Proactive Counter Fraud work;
 - (e) Progress on the Council's participation in the National Fraud Initiative (NFI) 2018/19;
 - (f) Fraud Reporting;
 - (g) Fraud Training.
- 3 The appendices attached to this report are summarised below. Appendix 5 and 6 marked with an asterisk are not for publication (Exempt information under Part 3 of Schedule 12a to the Local Government Act 1972, paragraph 3).

- (a) Appendix 2 – Case load and values of Fraud identified for 2019/2020;
- (b) Appendix 3 – Counter Fraud Operation Plan 2020/2021;
- (c) Appendix 4 – Fighting Fraud & Corruption Locally a Strategy for the 2020's;
- (d) Appendix 5* – CIPFA Fraud & Corruption Tracker Durham 2019 report;
- (e) Appendix 6* – Cases of potential internal corporate fraud reported and ongoing investigations.

Recommendations

- 4 Members are asked to note the contents of the Annual Protecting the Public Purse Report 2019 / 2020 including:
 - (a) The work carried out by the Corporate Fraud Team;
 - (b) The actions taken to improve awareness and the arrangements in place for managing the risk of fraud and corruption;
 - (c) Corporate Fraud Team numbers and values of fraud identified for 2019/2020 (Appendix 2);
 - (d) Counter Fraud Operation Plan 2020/2021 (Appendix 3);
 - (e) The Fighting Fraud & Corruption Locally a Strategy for the 2020's (Appendix 4).

Background

- 5 The risk of fraud and corruption is recognised as a strategic risk within the Council's Corporate Strategic Risk Register.
- 6 The latest Counter Fraud and Corruption Strategy was agreed by CMT and then Audit Committee in June 2018. It was reviewed during 2019/20 but did not require any changes. The Strategy will be reviewed and updated during 2020/21 in line with the new Fighting Fraud & Corruption Locally a Strategy for the 2020's (Appendix 4).
- 7 The Corporate Fraud Team is responsible for:
 - Developing, implementing and promoting the Council's Counter Fraud and Corruption Strategy, raising awareness of the risk of fraud and corruption and advising on controls that will effectively manage the risk;
 - Investigating cases of suspected fraud and overseeing that any investigations are completed in accordance with the Council's Fraud Response Plan and other Counter Fraud Policies;
 - Supporting management pro-actively in the prevention and identification of potential irregularity through membership of the National Anti-Fraud Network (NAFN), the North East Fraud Forum (NEFF), CIPFA's Counter Fraud Centre and directly through the Cabinet Office's National Fraud Initiative (NFI).
- 8 The Audit Committee is responsible for monitoring the arrangements the Council has put in place to mitigate the risk of fraud and corruption by seeking assurance on their effectiveness.

Corporate Fraud Team

- 9 The Corporate Fraud Team has continued to develop over 2019/20. The team has investigated both internal and external frauds, as well as assisting with counter fraud activity.
- 10 The work of the Corporate Fraud Team includes:
 - Investigating potential council tax reduction fraud;
 - Investigating potential single person discount fraud and other council tax frauds;
 - Investigating potential business rates fraud;
 - Investigating potential employee fraud;

- Investigating potential fraud in schools;
- Investigating potential abuse of blue badges, working with colleagues from Regeneration and Local Services;
- Investigating potential direct payments fraud, working with colleagues from Adult Health Services;
- Investigating potential insurance fraud;
- Investigating grant fraud;
- Investigating procurement fraud;
- Investigating serious data breach cases where the Information Commissioners Office will be notified;
- Coordinating and investigating reports from the National Fraud Initiative (NFI);
- Creating stronger partnership working and a multi-agency approach to tackle organised crime and fraud and corruption by having a member of the Corporate Fraud Team working alongside Durham Constabulary;
- Working with Believe Housing and Livin Housing to investigate potential tenancy fraud;
- Working with Karbon Homes, Livin Housing, Bernicia Homes and Gentoo Homes to investigate potential right to buy and right to acquire fraud and verification checks;
- Membership of the CIPFA Counter Fraud Centre, attending Round Table Events and forums to gain best practice;
- Working with colleagues in People and Talent Management to review and support disciplinary investigations;
- Working with colleagues in People and Talent Management and Corporate Complaints Unit to review employee complaints;
- Single point of contact (SPOC) for housing benefit fraud for information sharing with the Department for Works and Pensions.

Counter Fraud Awareness

11 A summary of the counter fraud awareness initiatives progressed in 2019/20 are as follows:

- A continued review of the Corporate Strategic Risk into Fraud & Corruption has been completed, with an action to develop a Fraud Risk Register embedded within each Service grouping;
- Attendance at Durham Constabulary's quarterly Serious and Organised Crime Disruption Panel;
- Attendance at Durham Constabulary's Gold Command Group;
- Fraud awareness training has been delivered to high risk areas during 2019/20. Fraud Awareness is an ongoing action included within the Fraud Operational Plan to be delivered on an annual basis;
- Fraud awareness is incorporated into the induction process for new employees. Employees are directed to Counter Fraud pages and Policies on the intranet;
- As part of the annual review of the Recruitment and Selection Policy, a fraud declaration is included to act as a deterrent. It has been agreed for employee data to be reviewed and matched against Durham Constabulary's Organised Crime Group (OCG) data;
- A number of warnings have been received from the National Anti-Fraud Network (NAFN) regarding a range of frauds and scams against Councils and schools. All warnings are communicated to the relevant service areas and publicity to warn our customers;
- To help reduce the potential risk to schools within the County, details of the common frauds and scams, and how to avoid them, have also been made available on the school extranet and in school newsletters;
- DCC is a member of the CIPFA Counter Fraud Centre and the North East Fraud Forum (NEFF), receiving warnings of scams and alerts and good practice. Again, all warnings are communicated to the relevant service areas and publicity to warn our customers;
- The Corporate Fraud System records all scams and alerts, so intelligence searches can be made at any time;

- A review of how scams and alerts are communicated started during 2019/20 and should be completed during 2020/21;
- The Confidential Reporting Code (Whistleblowing) is available on the DCC website for contractors, suppliers and former employees, as well as publicity for current employees being included on the intranet;
- The Corporate Fraud Sanction Policy is publicised on the DCC website acting both as a deterrent and allowing us to pursue fraudsters. This policy sets out what actions will be taken with fraud and the sanctions available to dispose of offenders. Since the policy was approved, we have had 30 prosecutions and sanctioned 42 cases.
- A continued review of Durham County Council's website relating to fraud and the reporting methods has been carried out, with new pages added to the landing page www.durham.gov.uk/fraud;
- The Counter Fraud and Corruption Strategy, the Fraud Response Plan, the Confidential Reporting Code, the Corporate Fraud Sanction Policy and the Anti Money Laundering Policy have all been reviewed during 2019/20, with no changes required. All the documents are available on both the DCC website and on the DCC intranet, under the 'Counter Fraud Awareness' section;
- Training, which includes counter fraud guidance, is included in the Governor Training Booklet. We provide one course every school term, therefore three are provided annually;
- The Corporate Fraud System is maintained for all reported cases of fraud, which is then reported to Service areas and Audit Committee;
- The CRM corporate fraud reporting form has continued to be the most popular reporting method from the public. During 2019/20, 279 referrals have been made using this access channel, which is 24% of the overall referrals reported.
- The Fraud Communications Strategy and delivery programme has continued throughout 2019/20, with various forms of publicity and communications. Further details of this is included below;
- A review of the Employee Code of Conduct (CCE) declarations is ongoing, which is considering a new electronic process.

- 12 The Counter Fraud Operational Plan 2019/20 was implemented and monitored throughout the year. A new Counter Fraud Operational Plan has been developed for 2020/21, which is shown as Appendix 3. The plan will continue to be monitored every four weeks, so that progress can be effectively managed.
- 13 A programme for managers is included within the Corporate Training Programme and includes Fraud Awareness. Regular sessions are held which includes as many as managers as possible to alert them to the risk of fraud as an organisation and in their respective service areas.
- 14 Durham County Council signed up in May 2019 to a joint counter fraud initiative with the Department of Works and Pensions (DWP) local fraud investigators. The joint counter fraud initiative involved DWP local fraud teams, working together with council fraud teams, carrying out joint criminal fraud investigations of Council Tax Reduction Scheme (CTRS) and Social Security benefit fraud.
- 15 During 2019/20 there have been a total of six cases jointly investigated. Five cases have been closed with no fraud and one is still ongoing. It was expected that the joint working initiative would increase the number of investigations, prosecutions, sanctions and the value of savings to the authority. Sadly, this has not been the outcome to date, and we will be reviewing the joint working initiative during 2020/21 to determine if it is worthwhile continuing.
- 16 The fraud campaign has progressed during 2019/20, with the continued key messages to 'fight fraud together' and 'stamp out fraud' asking residents, stakeholders, Members and employees to 'help stop fraud and report it'.
- 17 Awareness of the campaign has continued to be delivered via press releases, on social media, internal and external communications, the DCC website and at our Customer Access Points. We have refreshed our promotional materials to advertise around the county at DCC venues and finalised a fraud awareness video for social media and to include on the screens at our Customer Access Points.
- 18 The Fraud Communication Strategy is a live document, with further internal and external communications being developed and will be rolled out during 2020/21, with the plan to keep our awareness refreshed and ongoing, especially as 'fraud doesn't stop'.

Reported Cases of Potential Fraud and Irregularity

- 19 The Fraud Response Plan, which underpins the Counter Fraud and Corruption Strategy, requires that cases of attempted, suspected or proven corporate fraud or irregularity reported to service managers must be reported to the Chief Internal Auditor and Corporate Fraud Manager when they are identified or raised.
- 20 A register is maintained by the Chief Internal Auditor and Corporate Fraud Manager of all suspected cases of fraud reported, whether or not the matter is investigated by them. The register is maintained on the Council's Corporate Fraud System and identifies all different types of fraud, both internal and external.
- 21 The maintenance of these records is essential to monitor the impact of fraud on, and within, the Council, as a measure of the effectiveness of the Counter Fraud and Corruption Strategy.
- 22 Cases are also monitored to identify any potential trends and/or potential weaknesses in the control environment that may require further action or attention.
- 23 A summary of the potential cases of internal corporate fraud reported each of the last five years is as follows: -

Financial Year	Number of Cases
2015/16	33
2016/17	58
2017/18	40
2018/19	30
2019/20	37

- 24 Referrals in 2019/20 have increased in comparison to the previous year. It is expected that this is due to further awareness of the Corporate Fraud Team and working with new service areas. With further fraud awareness planned during 2020/21, including the continuation of publicising the Confidential Reporting Code, this will continue to encourage cases to be reported.
- 25 A summary of ongoing cases from previous years, and cases reported in 2019/20, together with the outcomes from any subsequent investigation, are shown as Appendix 6 within Protecting the Public Purse Annual Report (Part B).

- 26 As with all fraud investigations carried out, where weaknesses in control are identified, recommendations are made to minimise the risk of repeat cases. Where applicable, and where patterns emerge, this helps inform the Internal Audit Plan and potential proactive fraud work in the future.
- 27 A summary of the potential cases of external corporate fraud reported and investigated since 2015/16 is as follows: -

Financial Year	Number of Referrals	Number of Cases Investigated	Actual Outcome Values	Notional Outcome Values
2015/16	804	744	£1,726,802	Not Recorded
2016/17	803	364	£793,331	Not Recorded
2017/18	1,041	659	£796,691	Not Recorded
2018/19	978	481	£1,344,290	Not Recorded
2019/20	1,156	721	£3,569,089	£64,888
Totals	4,782	2,969	£8,230,203	£64,888

- 28 All reported figures have increased during 2019/20 compared to 2018/19. Referrals and the number of investigations has increased, with the fraud campaign, continued fraud awareness and awareness of the corporate fraud team and our partnership working, believed to be the main contributory factors.
- 29 The value of the fraud outcomes for 2019/20 has increased significantly. This is due to the partnership work with Believe Housing, Gentoo Homes, Karbon Homes and Livin Housing, especially the right to buy verification/money laundering checks and the savings involved.
- 30 These partnerships, as well as others, have also allowed the team to commercialise and bring in an income. During 2019/20 the team income was circa £100,000.
- 31 During 2019/20 a notional value was measured and introduced within the team's performance indicators. These values calculate the preventative amount, that a fraud investigation has saved, that would have continued to be paid. The methodology and calculations that are used are from both a national report by the Cabinet Office and using our own methodology with costs for DCC.
- 32 A summary of the Corporate Fraud Team case load and values of fraud cases identified during 2019/20, are shown as Appendix 2.

Proactive Counter Fraud Work

33 Across the year, a number of proactive counter fraud initiatives have been completed, including:

- The continuation of the North East Tenancy Fraud Forum (NETFF), with the Fraud Manager as joint chair;
- The continuation of the North East Regional Investigation Officers Group (NERIOG), with the Fraud Manager as the chair. The objectives and functions of the group are to review good practice information and guidance, promote awareness and understand fraud risks across the region, to develop joint working and data sharing to tackle these fraud risks, to coordinate regional projects, to review training requirements as a group and to develop a network of key contacts;
- Further development of the Corporate Fraud System data warehousing software, which allows localised data matching and intelligence led investigations. New datasets have been included during 2019/20;
- The partnership work with Durham Constabulary allows for data matching to be done against specific council datasets against police OCG data. The partnership has also allowed for direct access to Police intelligence systems to assist with the Corporate Fraud investigations;
- The continuation of the Blue Badge Enforcement Group (BBEG) with one of the Corporate Fraud Investigators as chair. This group is attended by parking Services, Adult Health Services and the Corporate Fraud Team. The terms of reference of the group is to develop joint working and data sharing, promote awareness, share best practice and knowledge, and tackle fraud and misuse as a joined-up authority;
- The Corporate Fraud Sanction Policy has allowed us to dispose of 6 prosecutions and 16 sanctions during 2019/20;
- Progress has continued to develop the North East Regional fraud data hub, with Durham being the lead authority. This will assist with cross boundary intelligence and data matching, allowing us to tackle fraud on a regional level with Gateshead Council and Newcastle City Council;

- The Regional Hub is being developed under the Digital Economy Act and will be one the first fraud pilots for local authorities once this goes live. It is hoped to get ministerial approval September 2020;
- A three-year Strategic Partnership is continuing with both Believe Housing Group and Livin Housing, for the Corporate Fraud Team to deliver Tenancy Fraud work for both organisations;
- A Strategic Partnership with both Karbon Homes and Bernicia Homes is continuing for the Corporate Fraud Team to deliver right to buy and right to acquire verification checks and any potential money laundering fraud;
- Two pilots with Gentoo Homes and Livin Housing has been entered into for the Corporate Fraud Team to deliver right to buy and right to acquire verification checks and any potential money laundering fraud;

National Fraud Initiative (2018 / 2019)

- 34 The National Fraud Initiative (NFI) is the Cabinet Office's data matching exercise that runs every two years. Data from various Council systems was submitted in October 2018 and was matched across systems and against data submitted by other organisations to identify potential fraud and / or error.
- 35 It has been acknowledged by the Cabinet Office that, due to the quality of the data in the host systems, the resulting data matches will be of differing quality. In addition, due to the number of matches identified, it may not be possible to investigate all the matches produced. Consequently, organisations are expected to review their data matches to determine priorities for investigation.
- 36 On comparison to previous years, the exercise hasn't generated as much value. This could be due to service areas already doing their own proactive work and the timing differences between submitting data and receiving the results.
- 37 The National Fraud Initiative is also carried out by DCC on behalf of Durham Constabulary and Durham & Darlington Fire & Rescue.

Fraud Reporting

- 38 Fraud data has continued to be provided in respect of surveys for the CIPFA Counter Fraud Centre.

- 39 A specific CIPFA Counter Fraud and Corruption Tracker report for DCC was published in December 201 and is attached for the Committees reference at Appendix 5. The report compares DCC data with other similar types and tiers.
- 40 As part of NERIOG, a benchmarking document has been agreed that will be used to show a regional position, allowing Durham to benchmark against neighbouring authorities in the region.
- 41 Fraud transparency data has continued to be reported on the website as part of the Local Government Transparency Code 2015.
- 42 DCC has volunteered to support the new Fighting Fraud and Corruption Locally Board and is named in the new Fighting Fraud and Corruption Locally a Strategy for the 2020's, as a best practice authority.
- 43 The Corporate Fraud Team has continued to benchmark with its Local Performance Indicators as part of the Performance Management Framework of the Service.

Fraud Training

- 44 Two members of the Corporate Fraud Team have successfully completed their studies with the Association of Accounting Technician (AAT) Level 4 qualification.
- 45 A Durham Managers programme is included within the Corporate Training Programme and includes Fraud Awareness. Regular sessions are held to include as many managers as possible to alert them to the risk of fraud in their respective service areas.
- 46 It has been agreed that all members of the Corporate Fraud Team will complete the new Accredited Counter Fraud Specialist qualification, showing the continued commitment within DCC to protect the public purse. Two members of the team are already qualified, with one member of the team part way through her qualification. Five members of the team are already Professional in Security accredited counter fraud specialists.
- 47 The Corporate Fraud Officer has attended numerous conferences and seminars this financial year to assist with the team's continuing professional development.
- 48 Two apprentices started employment in September 2018, once within the Corporate Fraud Team and the other within Internal Audit. Both apprentices are doing the AAT as part of their three-year apprenticeships.

- 49 The Corporate Fraud Team has joined in partnership with ITS Training (UK) Limited, a specialist fraud training provider, for DCC to be a training venue. The Corporate Fraud Team has benefitted by receiving free places on training courses and save costs not having to travel to other venues outside Durham.

Background papers

- None.

Other useful documents

- None.

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	Steven Graham	Tel: 03000 260776

Appendix 1: Implications

Legal Implications

Governance procedures in place, (particularly the Counter Fraud & Corruption Strategy, Contract Procedure Rules, Financial Procedure Rules, Codes of Conduct and the Confidential Reporting Code), supported by a robust audit programme of counter fraud awareness measures and assurance reviews will assist the Council in complying with anti-corruption law, in particular the Bribery Act, and also serves to reduce the risk of reputation damage and financial loss by litigation.

Finance

Loss to the Council arising from fraudulent actions. The cost of the Corporate Fraud Team is £201,891 and in 2019/20 has recovered or intercepted £3,569,089 of potential fraud. Since the set-up of the Team in June 2015 the team have recovered or intercepted £8,230,203. Some of the work of the team is also not measured and therefore does not have a value that can be calculated.

Consultation

There has been no need for consultation to be undertaken as a result of this report.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

Fraud is a criminal offence as defined by the Fraud Act 2006.

Staffing

Potential for disciplinary action to be taken against employees where fraud has been proven.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The risk of fraud and corruption is recognised as a corporate strategic risk. An effective counter fraud strategy is a key control in helping to mitigate the risk.

Procurement

There are no procurement implications as a result of this report.

**Corporate Fraud Team Results
2019 - 2020**

Appendix 2

Fraud Type	Referrals Total	Referrals Accepted	Referrals Rejected	Investigations Closed	OUTCOMES			Value (£)
					Frauds No.	Prosecutions No.	Sanctions No.	
Adult Care	5	2	3	1	0			-
Financial Assessment								
Blue Badge	60	38	22	37	7	5	8	26,680.00
Council Tax (other)	42	9	33	15	6			14,168.63
Council Tax Support	150	108	42	137	45	1	8	54,260.47
Data Breach	3	2	1	3	2			-
Direct Payments	6	5	1	4	1			6,689.85
Employee	37	37	0	23	15			105,543.00
Funding/Grant	2	2	0	1	0			-
Housing Benefit	1	1	0	1	1			114,563.18
Insurance	26	22	4	21	6			160,408.00
Irregularity	10	3	7	3	1			-
NNDR	26	2	24	2	0			5,000.00
Procurement	4	4	0	2	1			85,022.78
Right to Buy	307	295	12	251	112			2,678,187.40
Schools	1	1	0	0	0			-
Single Person Discount	164	130	34	125	48			63,682.90
Tenancy	102	91	11	95	30			319,770.00
External	210	0	210	0	0			-
Totals	1,156	752	404	721	275	6	16	3,633,976.21

Notes:

Employee/Irregularity cases don't always have values – we are only recording financial monetary values at present i.e. theft.

Employee/Irregularity cases also includes non-Corporate Fraud Team cases.

External referrals are cases that are not for the Corporate Fraud Team and referred onto the Police, DWP, HMRC etc. and some of these may be prosecuted/sanctioned by the external body.

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
1) Annual review and publication of: <ul style="list-style-type: none"> • Confidential Reporting Code • Counter Fraud & Corruption Strategy • Fraud Response Plan • Money Laundering Policy • Fraud Sanction Policy 	Fraud Manager / Chief Internal Auditor & Corporate Fraud Manager	31/03/2021		
2) Annual review of Counter Fraud pages on the Internet and Intranet.	Fraud Manager / Comms Team	31/03/2021		
3) Annual submission of Fraud Transparency data.	Fraud Manager	30/06/2020		
4) Fraud Awareness: <ul style="list-style-type: none"> • Service fraud awareness delivered to high risk areas • Consider and review a corporate e-learning fraud awareness training system • Introduce a process to alert all relevant service areas of fraud risks alerts • Review fraud awareness at induction within recruitment and selection 	Fraud Manager / Corporate Fraud Team	31/03/2021		
5) Completion of all benchmarking exercises in which we participate; <ul style="list-style-type: none"> - CIPFA Tracker 	Fraud Manager	30/06/2020		

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
6) To review and develop a process for reporting all frauds recorded on the CFS to the relevant Service Grouping (no longer included in the quarterly audit reports)	Fraud Manager	30/09/2020		
7) To progress the Internal Data Hub extracts. To agree and upload the remaining extracts into the data warehousing. (In total this will have 21 internal extracts loaded into the internal hub).	Fraud Manager	31/03/2021		
8) To review Privacy Notices and retention guidelines. Compliance required in the following areas: - Data warehouse - Case Management System - Extracts held on network folders - Recordings	Fraud Manager	31/03/2021	April 2020	Completed April 2020 Privacy Notices Retention is fine

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
<p>9) To develop data analytics within the Corporate Fraud Team using both CFS and IDEA.</p> <p>To include a proactive action plan and timetable for potential internal data matching/data analytics from within all of the datasets in the warehouse.</p>	<p>Fraud Manager / Corporate Fraud Team</p>	<p>31/03/2021</p>		
<p>10) To implement the Regional Data Hub with Gateshead and Newcastle, progressing the Digital Economy Act route.</p>	<p>Fraud Manager</p>	<p>31/03/2021</p>		<p>Progressing with the Digital Economy Act</p>
<p>11) To review and develop further the Regional Data Hub.</p> <p>Potential uses of hub: Data Matching – NFI replica Data Matching – Other Intelligence – Internal Intelligence – Cross boundary Verification Vetting RSLs data to be included</p>	<p>Fraud Manager</p>	<p>31/03/2021</p>		<p>To progress as with the above</p>

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
<p>12) To monitor and manage the current tenancy fraud SLAs and develop these further following the end of the contract in September 2020.</p> <p>Current partnerships are with:</p> <p> Livin Housing Believe Housing</p>	<p>Fraud Manager / Corporate Fraud Team</p>	<p>Ongoing</p>		
<p>13) To monitor and manage all RTB verification SLAs.</p> <p>Current partnerships are with:</p> <p> Karbon Homes Bernicia Livin Housing Gentoo (still need to finalise contract)</p>	<p>Fraud Manager / Corporate Fraud Team</p>	<p>Ongoing</p>		
<p>14) Review CTRS Joint Working with the DWP and determine whether we should continue.</p>	<p>Fraud Manager / Corporate Fraud Team</p>	<p>31/12/2020</p>		

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
15) Collection and collation of information / data required for bi-annual reports to Audit Committee.	Fraud Manager	Audit Committee: Full Report for 2019/20 (June 2020) Update Report for 2020/21 (Nov 2020)		
16) Review the Partnership with Durham Constabulary and introduce any new innovative ideas. To include: Develop OCG timetable for 'data-washing' exercises Data Sharing Agreement Access to CFS data warehousing New areas of work	Fraud Manager / Corporate Fraud Team	31/03/2021		
17) National Fraud Initiative 2020/21.	Fraud Manager / Corporate Fraud Team	31/03/2022		
18) Develop a Fraud Risk Survey and Operational Fraud Risk Register.	Fraud Manager / Principal Risk Officer	31/03/2021		

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
19) Continue to chair and develop the North East Regional Investigation Officers Group (NERIOG), the North East Tenancy Fraud Forum (NETFF) and the Fighting Fraud and Corruption Locally (FFCL) Regional Rep and Operational Board member.	Fraud Manager	Ongoing		
20) Progress and further develop the Fraud Communication Strategy into 2020/21. To include: Internal/Employee Fraud Schools Any new fraud risks Continue with themed areas already included	Fraud Manager / Comms	Ongoing		
21) Monitor team performance against the (a) Fraud Performance Framework and review if all (b) Performance Indicators are still relevant.	Fraud Manager	31/03/2021		
22) To review and develop the Counter Fraud Apprenticeship and review possibility of Durham as a Cohort and Regional lead.	Fraud Manager / Chief Internal Auditor and Corporate Fraud Manager	31/08/2020		

COUNTER FRAUD OPERATIONAL PLAN

Task	Responsibility.	Planned Completion Date	Actual Completion Date	Comments
23) To develop the Financial Investigators Role and embed this within the Team. (If this is successful to then review and develop the Financial Confiscator Role).	Fraud Manager / Corporate Fraud Team	31/12/2020		
24) To review Durham becoming a pilot and/or member of the Counter Fraud Profession.	Fraud Manager / Chief Internal Auditor and Corporate Fraud Manager	31/03/2021		
25) To review and develop a new Prosecution File Standard and Procedure.	Corporate Fraud Team	31/12/2020		

Fighting Fraud and Corruption Locally

A strategy for the 2020s

A response to economic crime and fraud



With support from:



This is the third Fighting Fraud and Corruption Locally Strategy, produced by local government for local government.

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Foreword

— Richard Watts



Since the first strategy was produced in 2011 councils have faced significant financial challenges. Councils have innovated, collaborated and prioritised in order to meet the financial challenge and to protect front line services. Tackling the threat of fraud and corruption has been and continues to be a cornerstone of protecting council finances and enabling them to maximise the value of every pound spent on behalf of local residents.

Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant. Councils have a good record in countering fraud and the strategy contains numerous case studies and examples of successes.

As the strategy highlights, it is estimated that about one in three of all crimes committed nationally is fraud based and fraudsters are always seeking new ways to take money. The strategy also highlights that potential losses to fraud could run into hundreds of millions or even billions of pounds if preventative action is not

taken. Councils need to be agile and work together with national agencies and the Government to respond to new fraud threats, to prevent losses and to protect vulnerable people in our society. Collaboration to counter and prevent fraud is a theme running through the strategy.

The Fighting Fraud and Corruption Locally Strategy is an excellent example of how councils can come together for the overall benefit of local services and residents served. The strategy has been led by the Fighting Fraud and Corruption Locally Board. This Board has been described as “a coalition of the willing”. It is a group of senior multi-disciplinary experts from councils working together with partners, that work with the councils on counter fraud activities. The Board is currently chaired by a representative from the Society of Local Authority Chief Executives (SOLACE). The Board members and the organisations they come from all provide their expertise on a pro bono basis, for the benefit of the sector and to help counter fraud. The board is supported by the LGA. In carrying out the research to draft this new strategy, the board has run several workshops up and down the country that have been attended by representatives from more than 250 councils. The work of all these people is reflected in the strategy and our thanks are due to all of them.

The strategy outlines, outlines a governance framework for continuing national and regional collaboration on counter fraud under the Fighting Fraud and Corruption Locally umbrella. Section four of the strategy outlines a practical programme and checklist for individual councils to follow.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work in the 2020s.

Cllr Richard Watts
Chair Resources Board, Local
Government Association
Leader Islington Council

Foreword

— Mike Haley



As the Chair of the Joint Fraud Taskforce I am delighted to support The Fighting Fraud and Corruption Locally 2020 strategy at a time when incidences of fraud and corruption are rising and there is an identified need for councils and their leaders to adopt a robust response.

Having worked as a fraud investigator I understand the importance of collaborative working and of having a structure and framework that guides and governs counter fraud and associated corruption activities.

Through working together and applying the principles of this strategy I am convinced that, perhaps for the first time, we have a model for true collaboration that is so important in identifying fraudsters, often organised groups, who seek to undermine and take financial advantage of systemic vulnerabilities and abuse those citizens in our community who are in themselves vulnerable.

I recognise the challenge that we all face in having to balance demands on resource across essential services at a time when funding is constrained. However, I also recognise the important role that local authorities and their frontline services play in tackling fraud and corruption that are a drain on those resources. Savings through enforcement and bringing fraudsters to justice can be used to support our social services and can build stronger and safer communities.

I am convinced that this strategy is an important step in tackling fraud and corruption that is so corrosive to society. In my role as Chair of the Joint Fraud Taskforce I welcome my local authority colleagues. By working together, I am convinced that we can deliver a step change in tackling fraud.

Mike Haley

Chair of the Joint Fraud Taskforce

The Joint Fraud Taskforce is a partnership between banks, law enforcement and government to deal with economic crime.

Executive Summary

Fighting Fraud and Corruption Locally 2020 is the updated counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities with the support of those at the top.

By using this strategy local authorities will:

- *develop and maintain a culture in which fraud and corruption are unacceptable*
- *understand the harm that fraud can do in the community*
- *understand their fraud risk*
- *prevent fraud more effectively*
- *use technology to improve their response*
- *share information and resources more effectively*
- *better detect fraud loss*
- *bring fraudsters to account more quickly and efficiently*
- *improve the recovery of losses*
- *protect those at risk.*

This strategy is aimed at council leaders, chief executives, finance directors and all those charged with governance in local authorities including those on audit committees and with portfolio responsibility. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategies written in 2011 and 2016. It is not 'owned' by any one organisation but by the local authorities who have given time and support to develop it. Areas of focus for elected members, chief executives and those charged with governance are laid out in Section 4: The Local Response.

This partnership has been so successful it has existed since 2010 when the research and engagement first began.

Local authorities continue to face a significant fraud challenge and while the official figures are dated the argument about protecting funds and vulnerable people remains. The National Fraud Authority estimated local authorities face the threat of £2.1bn fraud in a year in 2013. In fact, the Annual Fraud Indicator produced by Crowe Clark Whitehill estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. The Government's Economic Crime Plan states that the numbers of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions maybe far reaching.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issues.

In addition to the scale of losses and potential losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities report that they are still encountering barriers to tackling fraud effectively, including lack of incentives, data sharing, information sharing and powers, but also that they require support from senior stakeholders and those in charge of governance.

These factors do present challenges. However, this strategy demonstrates the tenacity of local fraud teams in continuing to lead on innovation and collaborate and also that there is a network of local leaders willing to support this initiative. This strategy, then, is about creating a self-sustaining counter fraud response for the sector.

Review of 2016 Fighting Fraud and Corruption Locally Strategy

The previous two strategies focused upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'.

These pillars are still applicable. During the research for this strategy they were supported as key areas by those who have input. However, another two areas of activity have emerged that underpin tenets of those pillars. These are 'govern' and 'protect'.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Govern

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.

Acknowledge

Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

Prevent

Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat and protect themselves and the community.


The second new area that has appeared during the research recognises the increased risks to victims and the local community:

Protect

Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.



 **PROTECTING ITSELF AND ITS RESIDENTS**
*Recognising the harm that fraud can cause in the community.
 Protecting itself and its' residents from fraud.*

This strategy and its tools provide ways for local authorities to further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes – the six Cs – that emerged from the 2016 research:

- Culture
- Capability
- Competence
- Capacity
- Communication
- Collaboration

Many local authorities have demonstrated that they can innovate to tackle fraud and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings. There are case studies and quotes through this document evidencing the good work that is already happening.

This strategy

- *recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community*
- *calls upon senior management in local authorities to demonstrate that they are committed to tackling fraud and corruption*
- *calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*
- *calls upon local authorities to work together to illustrate the benefits that can accrue from fighting fraud more effectively*
- *calls upon senior stakeholders to listen to the business cases on barriers put by local authorities in order to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers such as a lack of powers.*

Case Study

Birmingham City Council: Acknowledge Using data to tackle fraud

In the original Fighting Fraud Locally 2011 Birmingham City Council was cited as good practice for setting up a data warehouse and protecting public funds. BCC continues to put fraud at the top of the agenda.

BCC has used a well-established, sophisticated data warehouse to develop an automated programme of data matching that allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for council tax single person discounts and fraudulent housing applications. In time BCC expects the process to reduce the amount of fraud or error requiring a formal investigation as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error.

“Local authorities must ensure they take the necessary steps to put in place a strategy which can deliver a response that protects itself and its residents. Councils need to commit adequate resources to support that work and also measure its progress against that strategy. Fighting Fraud and Corruption Locally provides the necessary tools and ideas to support that work.”

Trevor Scott, Chief Executive Wealden District Council

Introduction

This strategy document is aimed primarily at council leaders and other elected members, chief executives, finance directors and those charged with governance in local authorities.

As a result of lessons learned during previous incarnations this document contains the core strategy together with companion documents which provide more detailed guidance on its implementation which will be updated when necessary during the life of this strategy. In that way there will be live documents for practitioners to draw upon that will more readily reflect the ever changing fraud local landscape.

We recognise that pulling together practitioners and stakeholders to discuss these issues is a local authority exercise and detracts from day-to-day activity where there are limited resources in place. Therefore this strategy will cover from 2020 onwards supported by live companion documents.

The research for this strategy was carried out by local practitioners and board members.

The research was commissioned by the board and was coordinated by the secretariat.

The research consisted of:



The original Fighting Fraud Locally 2011 strategy was launched with a series of pilots and joint working, conferences and awards and was hugely successful. The workshops highlighted much work being done in local authorities that is commendable and can prevent fraud across boundaries. Therefore, as part of these fact-finding engagement exercises those that attended workshops were asked to offer activity to demonstrate the partnership as part of FFCL. Around 30 activities and events have been identified for 2020 that demonstrate some of the good practice found during the research for this document and show that local authorities continue to tackle fraud and corruption. It is intended that these examples will be used to kick-start momentum in the way that the 2011 strategy did. In addition a number of working groups have formed already to implement the recommendations.

The activity following the publication of FFCL 2016 was more limited. There was no formal local launch and limited board activity. Therefore some of the issues raised during that research still persist. Efforts have been made to redress this during the research for this strategy by setting in place activity to address those persistent issues.

Nevertheless it is clear that local authorities continue to tackle fraud, as evidenced in this strategy's case studies and by the appetite to take forward the issues raised during the research and in the good practice guides.

Several new areas were raised during the research as barriers to overcome and local authorities have already stepped up to join together to help tackle these barriers. As part of the engagement exercise working groups and local authorities are already in place to begin the work on these issues.

This document is divided into four sections:

Section 1

The Context

Sets out the nature and the scale of fraud losses, the argument for measurement and the key issues raised by stakeholders.

Section 2

The Strategic Response

Describes the response that is required from local authorities to address the challenges they are facing, identifying the activities necessary in order to achieve the strategic vision.

Section 3

Turning Strategy into Action – Delivery Plan

Sets out the recommendations and the framework for delivery.

Section 4

The Local Response – Appendices

Companion Annexes

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. These documents may be refreshed at any time during the life of the strategy. They are not part of the strategy but are further guidance that is changeable. Areas they cover include fraud risks, good practice and the counter fraud local landscape.

Section 1: The Context

a) The scale of fraud and corruption

It is accepted that fraud affects the UK across all sectors and causes significant harm.

The Office for National Statistics states that one in 16 members of the population is likely to fall victims. The Government's Economic Crime Plan 2019 states that the number of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

The last, most reliable and comprehensive set of local authority figures was published by the National Fraud Authority in 2013, and indicates that the fraud threat may have been costing the UK £52bn a year.

Within these figures the threat to local authorities totalled £2.1bn.

More recent estimates are higher. The Annual Fraud Indicator produced by Crowe Clark Whitehill estimated that figure may be as high as £7.8bn in 2017 of which procurement fraud was estimated as £4.3bn. This study estimated that the total threat faced by the public sector was £40.4bn.

“We do not have a wholly reliable estimate of the total scale of economic crime. However, all assessments within the public and private sectors indicate that the scale of the economic crime threat continues to grow.”

Economic Crime Plan 2019

The National Fraud Authority estimated public sector fraud (including local government) at £20.6bn in 2013.

The National Audit Office's Local Landscape Review 2018 estimated fraud at up to £20.3bn excluding local government.

The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:

Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated loss
Housing tenancy fraud	£845m
Procurement fraud	£876m
Payroll Fraud	£154m
Council Tax fraud	£133m
Blue Badge Scheme misuse	£46m
Grant fraud	£35m
Pension fraud	£7,1m

Annual Fraud indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss. The fraud landscape has changed since 2013 as councils have introduced new ways of working and innovative responses to risks, while at the same time new areas of fraud risk have appeared.

Local authorities were sceptical about current publications on sector fraud figures and performance as there was a plethora of different numbers with no agreement or consensus. However, they remain keen to develop a consistent risk and performance methodology for the sector and for individual councils to estimate the potential risk they face on a consistent basis. Following the research for this strategy, a working group has been set up to develop methodologies for the sector to use.

b) The nature of the problem

In June 2019 the Government published its first Economic Crime Plan and included fraud and corruption in the definition.

The Government's Economic Crime Plan 2019

What is economic crime?

To help establish our partnership, we have agreed a common language across the public and private sectors regarding economic crime. We have used the following definition of economic crime to guide our efforts. Economic crime refers to a broad category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others. This poses a threat to the UK's economy and its institutions and causes serious harm to society and individuals. It includes criminal activity which:

- allows criminals to benefit from the proceeds of their crimes or fund further criminality

- damages our financial system and harms the interests of legitimate business
- undermines the integrity of the UK's position as an international financial centre
- poses a risk to the UK's prosperity, national security and reputation

1.12 This definition is broader than terms such as 'financial crime' or 'white-collar crime' to provide a holistic response to the following types of criminality:

- fraud against the individual, private sector and public sector
- terrorist financing
- sanctions contravention
- market abuse
- corruption and bribery
- the laundering of proceeds of all crimes

For the purposes of this strategy we have retained the terms 'fraud' and 'corruption' while recognising that they are part of a wider agenda. The strategy has not been re-titled 'Economic Crime'.

c) Issues raised by stakeholders

During the workshops and research a number of barriers to effective working were raised – the main issues raised are below. Participants were asked how they would solve these issues and there were many ideas and opportunities presented. Local authorities are keen to play a part and influence the outcomes. Therefore a working group has been set up for each of these areas to assess the evidence so far, collect any further evidence and to report into the secretariat for the FFCL Board to consider. There is evidence to create an FFCL operational group from the current FFCL representative network. Further detail on how this will operate will be in the live Delivery Annex.

Recommendation: A single regional FFCL operational group should be formed from the existing FFCL regional representatives.

Fraud measurement

While recognising that the repercussions of fraud are wider than financial it is important that councils have an up-to-date estimate of what the figures and areas of risk appear to be. There are a number of different methods of calculating fraud losses, and these vary across regions. Moreover the fraud priorities differ across regions. External organisations present figures to the sector but there is little or no ownership of these within local authorities. Local authority attendees raised this lack of independent analysis and free benchmarking to look at areas in deep detail rather than reported figures on numbers of referrals or cases detected. Local authorities could use this analysis to make the business case to tackle fraud, understand fraud issues more closely and see a more detailed picture across boundaries.

Recommendation: A working group on measurement should be formed to develop a consistent risk and performance methodology for the sector.

Local authorities have agreed to work together to build a set of figures for use as an indicator of actual losses, prevention measures and fraud areas. In addition this group will look at the area of benchmarking. This work is underway and the working group is now formed and is in place.

Powers

Local authorities welcomed the introduction of the Prevention of Social Housing Fraud Act (PSHFA) and reported that it had improved accessibility to information and intelligence.

However, some issues on powers that had been raised previously had not been taken forward by any parties, as the PSHFA, had and have been exacerbated by

Case Study

An employee responsible for managing Ipswich Market and collecting stall rent from traders was prosecuted for theft of cash collected. The council's finance team identified an irregularity when it attempted to reconcile income received to income due. The theft was valued at £33,376 and totalled 91 thefts. The employee was given an 18-month prison sentence suspended for two years and ordered to carry out 250 hours of unpaid work in the community.

He was also ordered to pay £14,000 compensation to Ipswich Borough Council at the rate of £400 a month.

new fraud areas such as social care fraud where local authorities report it is difficult to obtain information. During the research local authorities have provided a number of examples across service areas where they cannot obtain information or access organisations in order to progress investigations.

There are a number of potential avenues to resolve these issues and local authorities have themselves suggested opportunities to resolve these. These issues need to be explored further to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud investigations. This will then enable the sector to lobby for the additional powers required.

Recommendation: A working group on powers should be formed.

Local authorities have agreed to work together to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud activity and identify what additional powers are required, what forms that should take and to examine the suggestions that have been collated. This evidence should then be used to lobby government to grant additional powers required. This recommendation is underway and the working group is now formed and is in place

Incentives

Local authorities welcomed the Counter Fraud Fund in 2015 which had been distributed by the then Department for Communities and Local Government

This fund was a one-off and there were good results that are detailed on the Local Government Association Counter Fraud Hub page. However, many local authorities did not have the opportunity to bid and some had lost resources. Local authorities reported that they did not have funds to set up dedicated teams or undertake proactive work, and offers of technology were expensive and often duplicated existing offerings. Local authorities have made some suggestions about ways in which counter fraud activity may be funded. Local authorities have put together ideas on what types of incentives could support improved activity.

Recommendation: A working group on incentives should be formed.

Local authorities have agreed to work together to indicate where incentives may be required from Government and what forms they may take and to examine the suggestions that have been collated in the research.

The working group is now formed and is in place and the work is underway.

Data analytics and matching

A number of data related initiatives exist which local authorities may take part in for example, counter fraud hubs. At the majority of workshops it was said that there is inconsistent advice, high pricing, lack of discussion with suppliers and difficulty filtering out what is useful from what is not. The National Fraud Initiative has two products which were highlighted as useful and these are the Fraud Hub and AppCheck. It was also reported that there were issues with data quality, data standards and a lack of quality assurance about products.

Recommendation: A working group should be formed to review existing data related initiatives available to local authorities and recommend best practice or new ideas.

Local authorities have agreed to form a working group to look at the area of data. A number of ideas have been put together and the group will consider these and what further activity is required. This group will need to decide what is in scope for this work as the issues raised are varied. This recommendation is underway and the working group is now formed and is in place.

Social care issues

At most workshops the area of social care fraud was raised. Social care fraud harms the community and vulnerable individuals who are unable to detect scams or fraud and are often unable to report them. Sometimes abuse of funds by family members or carers complicates the situation. This can include financial abuse of vulnerable persons, not just direct payments and personal budgets.

This area of fraud has emerged as a growing risk since the last strategy was published. The impact of this risk on already stretched social care services and budgets is potentially very significant. For this reason, organisations with relevant skills together with those local authorities that have developed good practice have offered to support work in this area of risk. Our research also highlighted a number of ideas about identifying and tackling some systemic vulnerabilities in this area. Local authorities should ensure fraud strategies are aligned with safeguarding responsibilities to ensure we actively protect the most vulnerable in our communities. Close working with social care teams will be required with joint approaches and planning.

Recommendation: A working group on social care fraud should be formed to look at how local fraud strategies should align to local authorities' safeguarding responsibilities as well as to identify best practice in countering risks relating to social care fraud.

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these and what further activity is required. This recommendation is underway and the working group is now formed and is in place.

“Investing to prevent fraud should be one of the early steps in building your counter fraud response. The repercussions of fraud can be far reaching. We have a duty to protect residents in our communities from fraud and we should work in collaboration with officers across the council and partner agencies to prevent fraud and safeguard the vulnerable. Fraud is not a victimless crime”.

*Clive Palfreyman, Executive Director Finance & Resources
London Borough of Hounslow*

d) The themes

In FFCL 2016 a number of themes were identified and while those are still relevant and supported during the research one in particular stood out: collaboration.

Collaboration

There is an appetite for collaboration across the sector and geographically. However, it does not apply solely to local authorities. There is a need for collaboration across sectors, local law enforcement and with suppliers and external organisations.

The current FFCL regional representatives' network functions well. However, there is still a gap where information does not flow. There are also links to law enforcement and both national and local bodies which if they were stronger would help support the fight against fraud. Some councils already participate in regional bodies that could easily be better connected. There is overwhelming support for the idea of more formal FFCL-linked groups. Local authorities requested FFCL regional group.

There is also the possibility of exploring the principle of placing an obligation on partner bodies to share information to assist the detection and prevention of fraud even if the fraud is not against the sharing body.

Furthermore, local authorities reported the need to be more formally linked into the national law enforcement bodies. During the research a number of issues and patterns appeared in workshops that have been raised with enforcement; this demonstrates the merits of a joined-up approach. The Chief Executive of Cifas currently chairs the Joint Fraud Taskforce as well as sitting on the FFCL board and this has enabled Cifas to raise issues with the National Economic Crime Centre about local authorities' fraud risks. Local authorities requested support for better links to the major bodies in enforcement.

It was noted that where support was offered from outside the sector this could lead to a lack of 'ownership' by local authorities and that, had they been consulted or asked to contribute, products and services might have had better take-up. In particular, the cost of external support was raised several times as a barrier to take-up.

Recommendation: A single FFCL regional operational group should be created using the existing network that can link to relevant boards and enforcement.

Activity

During the workshops local authorities agreed to join the existing FFCL regional groups with a representative who is able to form part of a regional FFCL operational group supported by an FFCL Strategic Advisory Board (the current FFCL board).

The North East Regional Investigations Group will form a pilot and link to wider local law enforcement. This has been agreed with that region and is in place.

The new FFCL Strategic Advisory Board should have a dotted-line link into the Joint Fraud Taskforce, which will give access to the main players in local law enforcement.

There is further detail on this in the Delivery Plan Annex with a diagram that outlines how operational issues may flow upwards. The new FFCL regional operational group should be initially chaired by one of the local authority experts from the FFCL Strategic Advisory Board.

Organising ourselves – a collaborative governance model

Local authorities involved in the workshops realised the need for a strategic board and were pleased that the FFCL board had been in place since 2010 with oversight and had stood the test of time. It was also noted that the board had changed in role several times as had the membership. The original board had been very active, the second board had been more of an oversight body and the current board was wider but less visible. Attendees at workshops raised questions regarding the governance of FFCL, the route for selection to the board and the seniority and expertise of the board.

Further detail is included in the Delivery Plan Annex

Attendees appreciated the support from the firms and private sector and did not object in any way to these board members. In particular, the rebuilt secretariat and the support for the conference and awards in 2019 were noted, as was Mazars' free support on toolkits.

Recommendation: It is recommended that a review of governance takes place in respect of the role of the current board in light of the FFCL regional operational group and links to the Joint Fraud Taskforce.

Further recommendations are detailed in the Delivery Plan Annex.

Case Study

The first social care fraud prosecuted by Veritau and City of York Council

Veritau investigated following a referral from a member of the public. This is the first prosecution of a social care fraud by the council's legal department and an area of development for the counter fraud team. Several prosecutions for social care fraud have been achieved before, but these were jointly investigated by the police and taken to court by the Crown Prosecution Service.

The defendant was the financial representative for his mother who received social care support funded by City of York Council. The council funded his mother's social care, and he failed to inform them when his parents' property sold in 2014. He subsequently lied about this on a financial assessment form. The £86,000 has been paid back to the council in full. Information was received that his parents' property had been sold in 2014 for £200,000 and he had not declared this to the council in an attempt to avoid paying for his mother's care fees. The investigation found that on two separate occasions in 2015 he informed the council that his parents were still joint owners of the property and that his father lived there. In a financial assessment for social care funding, jointly owned properties are disregarded if a family member continues to live there.

The counter fraud team worked alongside financial investigators from the council's trading standards team, who were able to obtain financial information which showed that £198,000 from the house sale was deposited into the son's bank account. This money should have been taken into account for his mother's social care funds, meaning that the council would not have had to pay £86,000 out of the public purse. As a result of the two teams working together, the man was billed and the entire loss has now been repaid to the council.

He pleaded guilty to two charges of fraud by false representation at York Magistrates' Court on 8 October 2019. The case was referred to York Crown Court for sentencing on 19 November where he received a 20-month suspended sentence and was ordered to do 80 hours of unpaid work. He was also ordered to pay court costs of over £1,100 and an £80 victim surcharge. When sentencing, the judge said that a significant factor in mitigation was that he had already repaid the £86,000 to the council.

e) Fraud risk areas

The research has highlighted the following types of fraud risks. These frauds are expanded on in the companion documents and the list below is a brief description:

Fraud risks raised in the research

<i>Social care fraud: personal budgets and direct payments</i>	overstatement of needs through false declaration, multiple claims across authorities, third party abuse by carer, family or organisation, posthumous continuation of claims
<i>Schools</i>	most issues that were raised in the workshops were also raised as issues for schools. This area did not feature in FFCL 2016
<i>Right to buy</i>	fraudulent applications under the right to buy/acquire
<i>Money laundering</i>	exposure to suspect transactions
<i>Commissioning of services</i>	including joint commissioning, joint ventures, commercial services, third sector partnerships – conflicts of interest, collusion
<i>Tenancy</i>	fraudulent applications for housing or successions of tenancy, and subletting of the property
<i>Procurement</i>	tendering issues, split contracts, double invoicing
<i>Payroll</i>	false employees, overtime claims, expenses
<i>Identity fraud</i>	false identity/fictitious persons applying for services/payments
<i>Council tax</i>	discounts and exemptions, council tax support
<i>Blue Badge</i>	use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees
<i>Grants</i>	work not carried out, funds diverted, ineligibility not declared
<i>Business rates</i>	fraudulent applications for exemptions and reliefs, unlisted properties
<i>Insurance fraud</i>	false claims including slips and trips
<i>Disabled facility grants</i>	fraudulent applications for adaptations to homes aimed at the disabled

“Fraud has not disappeared: it is ever present, evolving and affects the funding that is needed for frontline services. In many public sector bodies it is still an area where there is significant underinvestment, because they are not recognising the extent of the epidemic and seeing other priorities, particularly around service delivery, as more important. As fraudsters evolve, we must too. To these ends, through collaboration and intelligence sharing with a fraud prevention specialist service, we are ensuring that cases of fraud are not replicated across our partnership, mitigating controls are put in place and offenders are dealt with appropriately. Through our proactive intelligence-led approach we are taking steps to ensure the public purse is protected from all fraudulent activity.”

David Hill, Chief Executive South West Audit Partnership

Concessionary travel schemes – use of concession by ineligible person, including freedom passes

No recourse to public funds – fraudulent claims of eligibility

New responsibilities – areas that have transferred to local authority responsibility

Local Enterprise Partnerships – partnerships between local authorities and businesses. Procurement fraud, grant fraud. All LEPs should now be incorporated, with a local authority as accountable body, in a more formal and regulated relationship. Key issues are LEP governance, procedures for allocating/prioritising grants

Immigration – including sham marriages. False entitlement to services and payments

Cyber-dependent crime and cyber-enabled fraud – enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

However, during the research for this strategy it has become clear that some frauds have become more prevalent and that some risks have reduced. In addition, fraud risks were raised at several workshops about money laundering, suspicious activity reports and risks attached to local authorities becoming more commercial.

The details of these risks are included in the companions as these are seen as changing areas that may need frequent updating.

While the direct consequences of fraud may be financial and reputational loss there are wider impacts that surround the harm to victims locally and the harm in the community. Local authorities have raised a number of issues about protecting the vulnerable from fraud and this spans a large area. There are also other stakeholders in this local landscape who offer support to victims, have developed networks and done deeper research. A large number of volunteers have come forward from the workshops with good practice and a willingness to collaborate to prevent and tackle these issues. The main fraud risk area that has drawn attention is social care fraud. However, there are other frauds that may merit scrutiny.

Activity

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these, what further activity is required and if any wider work can be done.

Economic Crime Plan 2019

Economic crime touches virtually all aspects of society. Economic crimes range across the full breadth of criminality, ranging from low-level frauds through to sophisticated cyber-enabled market manipulation. Fraud is now the second most common crime type in England and Wales, with nearly every individual, organisation and type of business vulnerable to fraudsters.

f) Counter Fraud Capacity, Competence and Capability

In FFCL 2016 themes were identified in the areas of capacity, competence and capability as part of the 6Cs – see page 23. These issues still exist.

Despite the challenge around capacity, competence and capability and lack of dedicated resource it is clear that activities to tackle fraud across the sector are being pursued and having a positive impact. But demand and growth in the number of incidents of fraud reported nationally mean local authorities must focus on areas of fraud that they identify as posing greatest risk and adverse impact on their organisations and the vulnerable. Working collaboratively and sharing resources should be encouraged and the FFCL regional board should undertake an analysis of which local authorities may benefit from support and how this might happen.

Many local authority practitioners reported that their capacity to tackle fraud and corruption had been reduced as a result of austerity-related local authority funding reductions. In addition several workshops were attended by shared service representatives and reported that non-attendees no longer had counter fraud resources. In one workshop it was noted that eight councils did not have any resource but that a colleague in the revenue department of a neighbouring authority had been 'helping out' across them. There are also situations that require collaboration: for example, a district council pursues council tax and business rates fraud, but the main beneficiaries are the county council and the Government.

In many cases practitioners also reported that some of the skilled investigation resource had been transferred to the Department for Work and Pensions and had not been replaced. There were large disparities in respect of numbers of staff and skills.

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Many attendees were skilled and qualified. It was also clear that because a number of local authorities did not have access to a team they were not covering the full range of fraud activities. In contrast the workshops were well attended by experts who, while overloaded, were attempting to tackle all frauds but with one hand behind their backs. Very often they said they would be pleased to assist neighbouring councils but had no contact or requests. The FFCL regional board may assist with this and what support can be given.

In addition there were some parts of the country where the teams were not up to date with current local landscape issues or activities that would benefit them in their roles. At the FFCL 2019 conference questions were raised about free access to tools and

good practice and it was agreed to hold this in the Knowledge Hub, which is an independent, free tool that many local authorities already use. In addition some local authorities already have small networks in the Knowledge Hub that they could link to the FFCL pages. The Knowledge Hub has been open for FFCL since the summer and now contains the archive documents as well as details about other current issues.

Adult care services successful prosecution and repayment in full of fraud loss

The subject of this investigation was the husband of a Hertfordshire County Council service user in receipt of financial support to pay for daily care. He completed the financial assessment forms on behalf of his wife but failed to declare ownership of residential property that was rented out in the private sector.

The allegation originated from a social worker who had a 'gut feeling' that the couple had a second home and referred to matter to Herts' shared anti-fraud service.

The investigation found that the couple jointly owned three properties in addition to their residential home. All three properties were rented out and held equity.

The husband was interviewed under caution where he accepted ownership of the properties but denied any wrongdoing, stating that there was no capital in any of the additional homes and that he had been struggling financially since his wife became ill. As part of the enquiries conducted by the team a fourth property was identified abroad.

On 1 July 2019 at Luton Crown Court, he pleaded guilty to all three counts of fraud by false representation. He was sentenced to two years in prison, suspended for two years. The judge adjourned any financial sanction until the confiscation order was completed. A service decision was made in that had the financial assessment form been completed correctly and the additional property declared, the service user would have been deemed a self-funder and received no financial support for care. Therefore the loss to HCC was calculated as £75,713 and a future saving of £1,166 per week (£60,632 per year) was recorded.

The loss including interest was calculated to be £89,141, which he has paid in full.

Case Study

Collaboration on Protect and Pursue

A man was sentenced to 18 months' imprisonment, suspended for 18 months, after forging documents when applying for disabled persons' freedom passes and disabled persons' Blue Badges.

He was found guilty of 12 offences - nine at Brent, Enfield and Haringey councils. He then pleaded guilty to a further three charges of forgery at Waltham Forest Council.

A lengthy investigation, led by Brent Council's fraud team, discovered that the subject used fake birth certificates, utility bills and medical certificates to falsely present himself and others as disabled.

Brent Council worked with the other three local boroughs, who carried out their own thorough and professional investigations with Brent's support, to join up the charges that resulted in the successful verdict.

For the Brent, Enfield and Haringey offences he was sentenced to 18 months' imprisonment per offence for these nine offences to be served concurrently. The sentence was suspended for 18 months.

The man was sentenced to 12 months' imprisonment for each of the three Waltham Forest offences. This was also suspended and will be served concurrently with the 18-month sentence. He also needs to complete 20 hours of a rehabilitation activity requirement order.

Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to a focus on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated. Appendix 1 details what senior officers and members should focus on.

There is reluctance in some cases to report identified fraud, for example in press releases, for fear of presenting a negative impression of an authority. Reporting of successful outcomes is a powerful tool in prevention and deterrence.

It is important to embed a counter fraud culture and this requires a focus and leadership from the top. This requires having an appropriate resource in place. There is a role for the audit committee to challenge activity, understand what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments and the private sector. They reported a range of difficulties in securing progress to working together.

Examples included counter fraud work not being consistently prioritised across the sector, lack of financial incentives to make the business case to collaborate, local lack of understanding of data protection rules, and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to get the police involved in their cases and that they did not receive feedback on cases from crime reporting hotlines.

During the research a number of incidents were highlighted that demonstrated patterns of activity, organised fraud and money laundering. These issues have been acted upon. However, it is important that local authorities have access to routes where they can report these matters. Local authorities are the eyes and ears of the community and have a wealth of data that can help other local law enforcement if legally

accessed but this communication is not happening everywhere. This collaboration would support the fight against serious and organised crime. If the recommendations about links between the operational board and the JFT are agreed this will start to resolve some of the issues in this section.

Recommendations:

The external auditor should highlight FFCL and its appendices to the audit committee in the annual report

The regional network should continue use the Knowledge Hub as a free, independent, non-commercial confidential space to share information. When it is live the secretariat should hand it to the FFCL operational board.

Local authorities should partner with neighbours and engage in regional networks and should consider sharing resources and expertise. The FFCL operational board should take the lead on this.

While this strategy covers fraud and corruption, no instances of corruption were raised at the workshops though it was clearly considered alongside fraud in local strategies. The Ministry of Housing, Communities and Local Government has conducted research on procurement fraud and corruption that will be added to

the live FFCL documents.

“Working in partnership has allowed the Veritau member councils to establish a dedicated corporate fraud team. The team offers each council access to fraud investigators with specialist knowledge of the fraud risks facing local government. The team has also helped each council to recover significant fraud losses, particularly in new and emerging areas like adult social care.”

Max Thomas, Managing Director Veritau

Case Study

Devon Audit Partnership

A social housing local landlord alleged that Mr P was potentially subletting his property illegally to an unentitled third party. Mr P was already in the process of applying for the right to buy his social housing property.

The subsequent investigation revealed evidence that Mr P's friend was subletting the property from him and had been for at least two years. It also confirmed that Mr P was living in a private rented property with his girlfriend less than two miles away.

Mr P constantly denied the allegations. However, at his interview under caution with the DAP counter fraud services team, after repeatedly lying, he admitted the overwhelming evidence proved he was letting his friend live at his social housing property but denied that he had done anything wrong.

Mr P was subsequently prosecuted and pleaded guilty at that point to two offences contrary to:

Prevention of Social Housing Fraud Act 2013 – in relation to the dishonest illegal sublet of a social housing property

Fraud Act 2006 – in relation to the dishonest attempt to fraudulently obtain a £39,600 discount on his right to buy.

Mr P was sentenced to 160 hours' unpaid work for each charge and ordered to pay Plymouth City Council £750 towards its costs. Judge Darlow stated at the end of the case: “It was fraud [and] the decision by Plymouth City Council to prosecute is to be applauded.”

Section 2: The Strategic Approach

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements to foster and improve collaboration across boundaries.

The recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support and leadership across all levels of local

government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

The key principles are laid out in the pillars and themes:



Govern

The bedrock of the strategy is that those who are charged with governance support the activity by ensuring that there are robust arrangements and executive support to ensure counter fraud, bribery and corruption measures are embedded throughout the organisation. Beating fraud is everyone's business. The internal arrangements that are put in place should be communicated throughout the organisation and publicly available to demonstrate the culture and commitment to preventing fraud.

Without exception the research revealed an 'ask' that those charged with governance be directed to the strategy and that this become a key element. During the research for FFL 2011 and 2016 it was requested that some key points be laid out for those charged with governance in local authorities to make it simple for them to ensure fraud was being tackled. This request was repeated on numerous occasions during the workshops for FFCL 2020. Some basic questions are laid out at the end of the strategy in Appendix 1.

The supplements to this strategy lay out some key stakeholders, their roles and the areas that they should consider when evaluating the counter fraud efforts in their organisations.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Acknowledge

In order to create a counter fraud response an organisation must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource to tackling fraud.

This means undertaking a risk assessment of fraud areas and vulnerabilities and then agreeing an appropriate resource. Not every local authority requires a large team but they should have assessed the risk, have a plan to address it and have access to resources with the right capabilities and skills.

Prevent

Fraud can be prevented and detected by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Local authorities should set in place controls to prevent fraudsters from accessing services and becoming employees. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users. If someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds. In any case they may not have the training or qualifications to perform the job to the required standard.

Case Study

Fraud Hub Herfordshire County Council

Hertfordshire County Council and a number of its neighbouring authorities are taking the next step to protect themselves by sharing intelligence in a newly formed FraudHub from the National Fraud Initiative to ensure they can reveal the full extent of fraudulent activities within their region.

Results so far have been extremely positive for Herfordshire with over...

- *3,000 Blue Badges cancelled*
- *3,000 concessionary travel passes being revoked*
- *120 LG pensions or deferred pensions stopped*
- *182 Direct Payments or personal budgets for adult care being stopped/reduced or reviewed*
- *15 residential care placements being cancelled*
- *23 payroll discrepancies being subject to further investigation*
- *50,000 customer records removed from database alone using mortality data*
- *More than £5m in estimated savings in its first 12 months*

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response on sanctions and collaboration.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

A further theme has appeared during the research to link with the government strategy but also recognising the increased risks to victims and the local community.

Protect

Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cyber-crime and also protecting itself from future frauds. This theme lies across the pillars of this strategy.

From the research it is clear that a large number of local authorities use the FFCL initiative as a basis for local plans. Some local authorities have embedded the pillars into operational work. An example of how this has been done is included in the Annexes.

Case Study Pursue

Subletting Case Study Westminster City Council – unlawful profits

The council investigated following an anonymous tipoff that the tenant of a council property was not using the address as required by their tenancy and was profiting from the short-term letting of the property using Airbnb.

Searches of Airbnb carried out by the investigator found the property, which is a studio flat, advertised as a whole property with over 300 reviews. The council investigator found that even though the listing was not in the tenant's name, some of the reviews mentioned the tenant by his name, thanking him for his advice and local restaurant recommendations.

The council obtained the tenant's bank statements under the provisions of the Prevention of Social Housing Fraud Act using the authorised officer service provided by the National Anti-Fraud Network. The investigator subsequently found credits totalling over £125,000 covering four years.

All payments were credited from Airbnb, PayPal or Worldpay. When investigators visited the property they found a man at the premises who denied being the tenant even though his appearance matched the tenant's description. The next day the adverts had been removed from Airbnb but the investigator

had already retrieved and saved copies.

The tenant failed to attend several interviews under caution, but when possession action began his solicitors asked for a further opportunity for their client to be interviewed under caution to provide an account of events. This was agreed but again the tenant failed to attend the interview. Having applied the Code for Crown Prosecutors to the facts of the case and the defendant's personal circumstances, criminal action was not taken.

At the possession hearing, the District Judge said the Airbnb evidence was strong and that there was no distinction between 'short-term let' and subletting the home. The judge found in favour of the council. At an unsuccessful appeal hearing the judge agreed to the council's unlawful profits order of £100,974.94 – one of the highest that has ever been awarded to the council.

The tenant has now been evicted from the property.

Fighting Fraud and Corruption Locally – embedding the pillars

Durham County Council's counter fraud and corruption team has embedded many of the themes to create a robust approach. They have set up partnerships across sectors and regions, created a data hub and used the FFCL strategy to inform all of their work. The audit committee has supported the team and attended the FFCL awards in 2019.

DCC believes the best defence is to create a strong anti-fraud culture based on zero tolerance to deter fraud from being committed. It has reinforced this with a new corporate fraud sanction policy.

Norwich City Council adopted the FFCL pillars into its anti-fraud and bribery strategy in 2017 with the additional pillars of governance (similar to the NHS model). This has had a positive response from council executives and members including the audit committee. The annual report contains a RAG-rated review against the criteria set out in the local strategy and an activity plan based on the criteria each year to demonstrate progress and highlight areas to focus on.

A more detailed explanation of these is in the Annexes.

The Themes – Six Cs

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. In the 2016 Strategy six themes were identified and during the research the workshop attendees were keen that these remain part of the strategy document.

Local authorities should consider their performance at a minimum against each of the six themes that emerged from the research conducted. To ensure this is effective and proportionate local authorities should benchmark this information where possible.

The themes are:

Culture – creating a culture where fraud and corruption are unacceptable and that is measurable

Capability – assessing the full range of fraud risks and ensuring that the range of counter fraud measures deployed is appropriate

Capacity – deploying the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance

Competence – having the right skills and standards commensurate with the full range of counter fraud and corruption activity

Communication – raising awareness internally and externally, deterring fraudsters, sharing information, celebrating successes

Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

Making the business case:

Investing in counter fraud activity –

Local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses.

Local authorities do not, as a rule, explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems. However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

The moral case – fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they achieve wider benefits for the community. For example, adult social care sits within the precept for council tax and reducing fraud in this area means that taxpayers' money is protected and is an incentive.

Case Study

An interim manager hired vehicles for personal use covering at least nine different vehicles and costing more than £18,000. The fraud included various invoice frauds for gardening services and over £20,700 paid to the interim manager's account.

In total the interim manager's actions resulted in monies, goods or services with a total value of £60,882.16 being ordered or obtained at a cost to the council from seven suppliers, including false invoices purporting to be from a gardening company.

Thirty-one fraudulent invoices were introduced by the interim manager totalling over £48,000 and were processed, authorised and paid using the council's systems. A further eight invoices totalling

more than £7,000 were subsequently authorised by the interim manager's line manager for liabilities incurred by the interim manager. Employee purchase cards were used to pay for goods worth over £1,270 and the interim manager personally benefited by £4,000 from the compensation payment and over £20,780 from the fraudulent invoices he submitted from the gardening company.

The fraud was discovered via a whistleblowing referral to audit services

The council's investigation found that the maintenance company with the same bank account as the interim manager's company did not exist. The council's audit services department led an investigation with the police to take the matter to Birmingham Crown Court where the interim manager pleaded guilty to Fraud Act offences. He was sentenced to three years' imprisonment on 25 September 2019.

Section 3: Turning Strategy into Action

The Delivery Plan

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements and foster and improve collaboration across boundaries.

The set of recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support across all levels of local government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

Further details on governance and recommendations are in the Delivery Plan Annex.

Section 4: The Local Response

Appendix 1

What should senior stakeholders do?

The chief executive

1. Ensure that your authority is measuring itself against the checklist for FFCL
2. Is there a trained counter fraud resource in your organisation or do you have access to one?
3. Is the audit committee receiving regular reports on the work of those leading on fraud and is the external auditor aware of this?

The section 151 officer

1. Is there a portfolio holder who has fraud within their remit?
2. Is the head of internal audit or counter fraud assessing resources and capability?
3. Do they have sufficient internal unfettered access?
4. Do they produce a report on activity, success and future plans and are they measured on this?

The monitoring officer

1. Are members, audit committees and portfolio leads aware of counter fraud activity and is training available to them?
2. Is the fraud team independent of process and does it produce reports to relevant committees that are scrutinised by members?

The audit committee

1. Should receive a report at least once a year on the counter fraud activity which includes proactive and reactive work
2. Should receive a report from the fraud leads on how resource is being allocated, whether it covers all areas of fraud risk and where those fraud risks are measured
3. Should be aware that the relevant portfolio holder is up to date and understands the activity being undertaken to counter fraud
4. Should support proactive counter fraud activity
5. Should challenge activity, be aware of what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

The portfolio lead

Receives a regular report that includes information, progress and barriers on:

- The assessment against the FFCL checklist
Fraud risk assessment and horizon scanning.

Appendix 2

FFCL Checklist

- The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.
- The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.
- There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.
- The relevant portfolio holder has been briefed on the fraud risks and mitigation
- The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources
- There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.
- The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
- The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.
- Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.
- Successful cases of proven fraud/corruption are routinely publicised to raise awareness.
- The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.
- The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:
 - codes of conduct including behaviour for counter fraud, anti-bribery and corruption
 - register of interests
 - register of gifts and hospitality.
- The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended

- in FFCL 2020 to prevent potentially dishonest employees from being appointed.
- Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.
- There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.
- There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.
- Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.
- Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.
- There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.
- Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.
- Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.
- There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.
- All allegations of fraud and corruption are risk assessed.
- The fraud and corruption response plan covers all areas of counter fraud work:
 - prevention
 - detection
 - investigation
 - sanctions
 - redress.
- The fraud response plan is linked to the audit plan and is communicated to senior management and members.
- Asset recovery and civil recovery are considered in all cases.
- There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.
- There is a programme of proactive counter fraud work which covers risks identified in assessment.
- The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.

- The local authority shares data across its own departments and between other enforcement agencies.
- Prevention measures and projects are undertaken using data analytics where possible.
- The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.
- The counter fraud team has access to the FFCL regional network.

There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.

The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.

The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for:

- surveillance
- computer forensics
- asset recovery
- financial investigations.

Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud-proof systems.

Section 4

The Fighting fraud and Corruption Locally board would like to thank

The Fighting Fraud and Corruption Locally board is:

Charlie Adan – Chief Executive and SOLACE
 Bevis Ingram – LGA
 Andrew Hyatt – Royal Borough of Kensington and Chelsea
 Mike Haley – Cifas and Joint Fraud Taskforce
 Rachael Tiffen – Cifas and secretariat
 Suki Binjal - Lawyers in Local Government
 Colin Sharpe – Leicester City Council
 Clive Palfreyman – LB Hounslow
 Trevor Scott – Wealden District Council
 Alison Morris – MHCLG
 Mark Astley – NAFN
 Paula Clowes – Essex County Council
 Simon Bleckly – Warrington Council
 Karen Murray – Mazars
 Paul Dossett – Grant Thornton
 Marc McAuley – Cipfa

The Board would like to thank Cifas for managing this process, for the delivery of the research and the drafting of this document.

Regional Workshops

Around 260 councils attended workshops organised in the following areas:

East Anglia
SouthWest, Devon, Plymouth, Cornwall and Devon
Kent
London and the South East
Essex
Hertfordshire and Home Counties
Midlands Fraud Group and Chief Internal Auditors and County Networks
North West Fraud Groups
Yorkshire Groups
North East and North Regional Fraud Group

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Debbie Dansey
Helen Peters
James Flannery
Jamie Ayling
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Gary Taylor
Nick Jennings
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Mark O'Halloran
Paul Bicknell
Lauren Ashdown
Steven Graham
Matt Drury
Gillian Martin
Sara Essex
Sally Anne Pearcey
Paula Hornsby
Rachel Worsley
Nikki Soave
Francesca Doman
Andrew Reeve
Jason Pengilly
Paul Bradley
Professor Alan Doig
Sean Turley
Neil Masters
Dan Matthews
Scott Reeve
Corinne Gladstone
Louise Baxter
Keith Rosser
Ben Russell
Philip Juhasz
Paddy O'Keefe
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Andy Hyatt – Royal Borough of Kensington and Chelsea

**

And all those who attended the workshops, provided feedback, responded to surveys and who took up the actions after the workshops.

Section 5

Glossary and documents

NAFN – National Anti-Fraud Network
CIPFA – Chartered Institute of Public Finance and Accountancy
Cifas – UK's fraud prevention service
NECC – National Economic Crime Centre
NCA – National Crime Agency
MHCLG – Ministry of Housing, Communities and Local Government

ONS: www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingseptember2019#fraud
www.gov.uk/government/publications/economic-crime-plan-2019-to-2022
National Fraud Authority, Annual Fraud Indicator, March 2013
National Fraud Authority - Good practice publication: www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/
Economic Crime Plan 2019: www.gov.uk/government/publications/economic-crime-plan-2019-to-2022
Eliminating Public Sector Fraud: www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf
Smarter Government: www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/smarter-government-report
Local Government Association Counter Fraud Hub: www.local.gov.uk/counter-fraud-hub
Veritau: veritau.co.uk/aboutus
SWAP Internal Audit Services: www.swapaudit.co.uk
Devon Audit Partnership: www.devonaudit.gov.uk

Audit Committee

29 June 2020

**Annual Internal Audit Opinion and
Report 2019 / 2020****Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud
Manager****Electoral division(s) affected:**

Countywide.

Purpose of the Report

- 1 To present to members the Chief Internal Auditor and Corporate Fraud Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment.
- 2 Members are also presented with the Annual Internal Audit Report for 2019 / 2020.

Executive Summary

- 3 The Public Sector Internal Audit Standards (PSIAS) 2017 state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control but still contribute to the overall opinion however each review does not deliver individual assurance opinions.
- 4 Based on the work undertaken during the year, internal audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020.

- 5 This opinion is however qualified, in light of the current COVID-19 pandemic and the impact of this on the Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control that have been put in place.
- 6 Processes link business objectives, budget and workforce planning and are governed by timely and appropriate layers of officer and Member challenge and scrutiny. These arrangements remain robust. The Council remains well placed to respond to risks however the scale and pace of change continues to be an inherent risk to the control environment and this needs to be effectively managed.
- 7 There are significant developments and projects ongoing across the Council including ongoing work in key areas including health and social care integration, the replacement of significant IT systems in both Adults and Children's Social Care, the future development of the Council's new headquarters and various commercial investment and regeneration projects.
- 8 The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Given the constant extent of change the Council continues to face, the reduction in resources and the increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive.
- 9 Many of the reviews during 2019/2020 have made references to unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council is on a journey of Transformation and it is evident that there is a direction and drive from the organisation to change the culture and behaviours. It is recognised that this will not be a quick or easy task but the Council's previous track record holds it in good stead to achieve its objectives. Furthermore, it is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value. Internal Audit can be a valuable tool to the Council during its Transformation and will continue to be involved going forward.

- 10 Additionally, further work will be required in 2020/2021 on the effectiveness of the Council's Company governance. This work has been referenced in the Council's Annual Governance Statement as an area for improvement. The Chief Internal Auditor and Corporate Fraud Manager sits on a corporate group providing advice and guidance to implement improvements in the governance arrangements currently in place where the Council has a significant interest or control in a company.
- 11 During the year internal audit issued 7 'Limited' assurance opinions which is less than last year, however 4 were in schools. Limited assurance opinions are issued where there are significant concerns about the system of internal control or an absence of controls which could put the process or system objectives at risk and urgent improvement is needed.

Recommendation

- 12 Members are asked to:
 - (a) Note the content of the Annual Internal Audit Report for 2019/2020 at Appendix 2;
 - (b) Note the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's internal control environment for 2019/2020;

Background

- 13 The Public Sector Internal Audit Standards (PSIAS) established in 2013 and revised in 2017 are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2019/2020. It sets out the requirement for the Chief Internal Auditor and Corporate Fraud Manager (“Chief Audit Executive”) to report to officers and the Audit Committee (“The Board”) to help inform their opinions on the effectiveness of the Internal Control environment in operation within the Council.
- 14 The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
- 15 The annual internal audit opinion contributes to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council’s annual review of governance and internal control.
- 16 Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Council’s Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to Corporate Management Team and the Audit Committee.
- 17 No system of internal control can provide absolute assurance against material misstatement or loss, nor can internal audit give absolute assurance.

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Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Completion of the Annual Internal Audit Opinion ensures compliance with both the Public Sector Internal Audit Standards 2017 and the Accounts and Audit Regulations 2015

Furthermore, internal audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

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

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

There are no staffing implications as a result of this report.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that the Chief Internal Auditor and Corporate Fraud Manager is unable to deliver an annual opinion to inform the Annual Governance Statement. To mitigate this risk, a defined process exists within the Service to carry out effective performance management and as such assurance is reflected in reports to the Audit Committee. Any issues with performance would be reported to the Audit Committee where further action would be agreed and overseen.

Procurement

There are no procurement implications as a result of this report.

INTERNAL AUDIT

ANNUAL REPORT

2019 / 2020

Altogether better



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2. Service Provided and Audit Methodology
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7. Audit Opinion Statement

APPENDICES

Appendix A: Performance Indicators

Appendix B: Key Advice and Consultancy Work

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

Appendix D: Assurance Opinion Methodology

Appendix E: Summary of Assurance Work 2019/2020

1. Introduction and Background

- 1.1 This report summarises the work carried out by internal audit during the financial year 2019/2020 and provides assurance on the effectiveness of the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires Local Authorities 'make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs'. Authority has been delegated to the Corporate Director of Resources to fulfil this function.
- 1.3 Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 1.4 From 1 April 2013 Public Sector Internal Audit Standards (PSIAS) define the proper internal control practices alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
- 1.5 This report fulfils the requirement of PSIAS 2450 for the Chief Internal Auditor and Corporate Fraud Manager ("Chief Audit Executive") to provide an annual report to the Audit Committee ("The Board") timed to support the Annual Governance Statement (AGS).
- 1.6 The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework (i.e. the control environment);
 - A summary of the audit work carried out from which the opinion is derived;
 - Details of the quality assurance arrangements in place during 2019/2020 which incorporates the outcomes of the last annual review of the effectiveness of internal audit carried out by the External Assessor in July 2016 and the self-assessment completed in June 2020 to ensure conformance with the PSIAS.

2. Service Provided and Audit Methodology

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

3. Types of Audit Work Carried Out in 2019/2020

Assurance Reviews

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

Advice and Consultancy Work

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

Counter Fraud Work

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

Grant Certification

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

4. Audit Quality Assurance Framework

- 4.1 The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
- 4.2 Key elements of the quality assurance framework operating during 2019/2020 include:
- Independent quality reviews undertaken by audit managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by appropriate Heads of Service, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
- 4.3 A summary of our performance against agreed indicators is provided in Appendix A.
- 4.4 As at 31 March 2020, the % of planned work completed indicated that the service has achieved its target to complete 90% of the audit plan in terms of productive days.
- 4.5 The PSIAS requires that the Council completes an annual review of the effectiveness of internal audit. The outcome is reported to Audit Committee. This was last completed in the form of an external assessment in July 2016 and a self-assessment in June 2020.
- 4.6 As per PSIAS requirements, an External Assessment must be completed once every five years. An External Assessment therefore has been performed by Newcastle City Council in April 2016 and reported to management and the Audit Committee in July 2016. The assessment involved an evaluation against the requirements of PSIAS, a sample review of audit files and working papers and an interview with the Corporate Director, Resources. The external assessment concluded “Durham County Council’s Internal Audit Service **conforms** to the requirements of the Public Sector Internal Audit Standards”.

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

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

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

On 1 April 2020 audit responsibilities were reallocated across all at Principal Auditor and Senior Auditor level. Work is regularly allocated on the basis to ensure individual auditors gain experience in a variety of areas in order to maintain their training and development. The rotation of responsibilities occurs annually.

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

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

6. Summary of Audit Work Carried Out

Assurance Work

6.1 Our work programme for the financial year 2019/2020 included work carried out between April 2019 and March 2020.

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

Advice and Consultancy Work

6.3 All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks and the development of controls. This evaluation and challenge supports the effective and efficient use of resources and value for money (VFM).

6.4 Through our advice and consultancy work we are able to add value proactively and reactively.

- 6.5 Reactive work involves positively responding to ad-hoc requests for advice and reviews added to the audit plan to address new or emerging issues and risks. It also includes responding to potential fraud and irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven. This work is delivered from the contingency provision within the audit plan.
- 6.6 A summary of key advice and consultancy work completed during the year is attached at Appendix B.

7. Key Areas for Opinion

- 7.1 The four main areas of the control environment considered when determining our assurance opinion are:
- Overall Control Environment
 - Financial Management
 - Risk Management
 - Corporate Governance
- 7.2 Assurance has been provided on some aspects of all key financial systems during the year. It is acknowledged that good progress continues to be made during the year in improving the operational efficiency and performance of key financial systems. However, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 7.3 Independent assurance on the effectiveness of the Council's risk management arrangements has been provided by consideration of the adequacy and effectiveness of operational risk management through the risk based audit approach and the CRA methodology applied to individual audit assignments. This in turn provides some assurance on the management of related strategic risks.
- 7.4 A number of audits have been carried out during the year to provide independent assurance on the effectiveness of specific key corporate governance arrangements. In addition, compliance with relevant key council policies and procedures has also been considered as part of the risk based approach to the audit service related planned assurance reviews.
- 7.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.

7.6 The implementation of audit recommendations made to improve the control environment helps to embed effective risk management and strengthen the effectiveness of the Council's corporate governance arrangements. Details of progress made on the implementation of all High and Medium ranking recommendations are reported quarterly to Corporate Directors and the Audit Committee. A summary of progress on actions due at the 31 March 2020 is given below:

Service Grouping	Number of Actions Due to be Implemented	Number of Actions Actually Implemented	Actions Overdue by Agreed Original Target Date	Actions with an Agreed Revised Target Date	Actions Overdue by Revised Target Date
Adult and Health Services (AHS)	67	64	3 (4%)	3	0
Children and Young People's Service (CYPS)	176	173	3 (2%)	3	0
Regeneration and Local Services (REAL)	181	165	16 (9%)	10	6
Resources (RES)	302	277	25 (8%)	25	0
TOTAL	726	679	47 (6%)	41	6

7.7 The % of audit recommendations implemented by service managers within agreed target dates continues to improve and the Council out performs many of its benchmarked comparators. This statistic stands at 94% before revised targets are incorporated, this increases to 99% if revised to include revised target dates. The remaining six outstanding actions relate to Leisure Services which at 31 March the facilities were closed and staff had been redeployed to assist with the Council's COVID-19 response. These will be followed up as soon as practically possible.

8. Audit Opinion Statement

8.1 The Council has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.

8.2 Internal Audit is required to provide an opinion on the Council's risk management, control and governance process.

8.3 In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.

8.4 In assessing the level of assurance to be given, we based our opinion on:

- All of the audit work undertaken during the year.
- Follow up actions on audit recommendations.
- Any significant recommendations not accepted by management and the consequent risk.
- The effects of any significant changes in the Council's systems.
- Matters arising from previous reports to the Audit Committee.
- Any limitations which may have been placed on the scope of the internal audit.
- The extent to which resource constraints may impinge on internal audit's ability to meet the full audit needs of the Council.
- The outcomes of the audit quality assurance process.
- The reliability of other sources of assurance considering when determining the scope of audit reviews.

8.5 We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's system of internal control. Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020. There are no qualifications to this opinion. This moderate opinion ranking provides assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

8.6 This opinion is however qualified, in light of the current coronavirus pandemic and the impact of this on the Council. The opinion given at paragraph nine is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short term measures or the overall impact on the framework of governance, risk management and control that have been put in place.

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

Assurance Level	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Full	7	5	N/A	N/A	N/A	N/A	N/A	N/A
Substantial	23	37	40	65	53	35	61	44
Moderate	40	60	51	60	39	34	67	46
Limited	15	10	12	6	16	22	10	7
Total	85	112	103	131	108	91	138	97

8.8 The adequacy and effectiveness of key financial controls is a consideration in our opinion. Good progress continues to be made during the year, including improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management.

8.9 Policies and procedures are now in place across most key financial systems however a number of our recommendations continue to relate to non-compliance where system owners are requested to send reminders to employees or offer refresher training as appropriate.

8.10 Many of the reviews during 2019/2020 have referred to unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council is on a journey of Transformation and it is evident that there is a clear direction and drive from the organisation to change the culture and behaviours. This will not be a quick or easy task but the Council's previous track record holds it in good stead to achieve its objectives. Furthermore, it is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value. Internal Audit can be a valuable tool to the Council during its Transformation and will be actively involved going forward.

8.11 In addition further work will be required in 2020/2021 on the effectiveness of the Council's Company governance. This work has been referenced in the Council's Annual Governance Statement as an area for improvement. The Chief Internal Auditor and Corporate Fraud Manager sits on a corporate group providing advice and guidance to implement improvements in the governance arrangements currently in place where the Council has a significant interest or control in a company.

- 8.12 Of the 7 Limited Assurance reports 4 were related to Schools. Internal Audit is working closely with Children and Young People's Service Grouping at root causes and have implemented a range of preventative measures to get the right messages to schools including, internal audit newsletters and face to face training sessions for Governors, Head Teachers, School Business Managers and Educational Development Partners.
- 8.13 All audits with a limited assurance opinion have disclosed at least one high risk finding or a number of medium priority recommendations and these are subject to a follow up audit six months after the final report has been issued and are reported to Audit Committee on an exception basis.
- 8.14 It is especially pleasing to note that service groupings are valuing the work of internal audit and particularly around involving us in advice and consultancy work where major systems or processes are being implemented or amended. This is illustrated in the continuing work around key financial systems, e.g. Creditors, Debtors, Payroll and the implementation of new IT software in both Adult and Childrens Services. It is therefore important that service groupings continue to engage internal audit in work of this nature where controls and processes can be evaluated before implementation.
- 8.15 Where internal audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

PERFORMANCE INDICATORS

Appendix A

Efficiency			
Objective: to provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2020
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage	90% (Annually)	98%
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview	90% (Quarterly)	80% (98 out of 122)
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response	95% (Quarterly)	100% (122 out of 122)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2020
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	100% - Average score 4.7
Customers providing feedback responses	% of Customer returning satisfaction returns	70% (Quarterly)	79%
Cost			
Objective: To ensure the service is cost effective			
KPI	Measure of Assessment	Target (Frequency of Measurement)	Actual as at 31/03/2020
Cost per chargeable audit day	CIPFA Benchmarking Club – Comparator Group (Unitary)	Lower than average	Yes (2015/16 exercise) £226 cost per chargeable audit day.

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2019/2020

Information Governance

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

Grant Work

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

Review of Contracts

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

Oracle Programme Board

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

Debtors Working Group

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

Procure to Pay: Performance and Improvement

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

Payroll System (ResourceLink)

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

Petty Cash / Procurement Cards

Petty Cash arrangements are being reviewed alongside the use of Procurement Cards as an alternative. The Service is represented to give advice on controls and reconciliations to be put in place and to give counter fraud guidance as applicable.

General Data Protection Regulations (GDPR)

With the implementation of the new GDPR legislation on 25 May 2018 the service has sat on both the Information Governance Group and the GDPR specific task group giving advice and guidance on controls and data protection where applicable.

SSID Replacement – Liquid Logic

Assisting the Children and Young Peoples Service with advice and guidance in terms of the required controls when changing system. Work continues this project.

SSID Replacement - Azeus

Assisting the Adult and Health Services with advice and guidance in terms of the required controls when changing system. Work continues this project.

Company Governance

Assisting the Head of Legal and Democratic Services with advice and guidance as to the proper governance structures required within the Council to effectively report on the performance of companies in which the Council has an interest or control.

KEY CONTROL ISSUES

Key Financial Systems

The main areas where improvements were identified through internal work related to cash collection, debt recovery and the timely payment of creditors. A number of control weaknesses were identified primarily due to procedures not being followed.

It should be noted that there continues to be good progress made on the implementation of audit recommendations arising from both internal work and completion of internal audit work.

Limited Assurance Opinions

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

Leisure Centre Timesheets

A review that looked at:

- Ensuring payments to employees do not reflect actual hours worked.

High Needs Budget

A review that looked at:

- Ensuring Children/young people with SEND are provided with appropriate support to achieve their goals in life.
- Any non-compliance with Contract Procedure Rules.
- SEN funding paid to schools is appropriate.
- The panels in place for SEND are effective.
- Decision Making
- Payments
- Budget Management, forecasting and modelling.

Welfare Rights

A follow up review that looked at:

- Adherence with legislation, best practice and procedures.
- User access to relevant systems
- Information is held securely and appropriately.
- Appeals case management and tribunal representation are adequate, sufficiently recorded and evidenced.
- Performance is adequately managed and reported.

Schools

4 x Primary Schools

School reviews attempt to support each Governing Body in providing an independent assurance opinion on the school's financial management and key governance processes.

They look at the effectiveness of:

- relevant key policies and procedures;
- the arrangements in place in school to identify, assess and monitor risks;
- the control design to ensure that the school's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money.

Fraud and Irregularity

Weaknesses in control identified through fraud and irregularity investigations.

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

It should be noted that of the potential cases reported in 2019/2020, improvements in controls weaknesses were identified in many of the cases, irrespective of whether any wrong doing was substantiated.

Assurance Opinion Methodology

Appendix D

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of our recommendations

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

High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment.

Overall Assurance Opinion

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

Substantial Assurance	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risks.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

Summary of Assurance Work 2019 / 2020

Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Children and Young People's Service	Children's Social Care	First Contact Service – Data Protection Issues	Moderate
Children and Young People's Service	Operational Support	Caldicott	Moderate
Children and Young People's Service	Operational Support	Section 17 – Follow Up	Moderate
Children and Young People's Service	Early Help, Inclusion and Vulnerable Children	High Needs Budget	Limited
Children and Young People's Service	Education	DurhamWorks Learning Working Earning Grant Review	Moderate
Children and Young People's Service	Education	x Schools	Substantial
		x Schools	Moderate
		4 x Schools	Limited
Regeneration and Local Services	Community Protection Services	Fair Trading – Consumer Complaints	Substantial
Regeneration and Local Services	Corporate Property and Land	Asset Valuation	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Abbey Leisure Centre	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Meadowfield Leisure Centre	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Riverside Leisure Centre	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Competition Line UK Income Share Agreement	Substantial
Regeneration and Local Services	Culture, Sport and Tourism	Consett Leisure Centre	Moderate
Regeneration and Local Services	Culture, Sport and Tourism	Louisa Centre	Moderate
Regeneration and Local Services	Culture, Sport and Tourism	Leisure Centre Timesheets	Limited
Regeneration and Local Services	Development and Housing	Safety at Sports Grounds	Substantial
Regeneration and Local Services	Environment	Durham Crematorium	Substantial
Regeneration and Local Services	Environment	Mountsett Crematorium	Substantial
Regeneration and Local Services	Environment	Public Health Funerals	Substantial
Regeneration and Local Services	Environment	Driver Checks	Moderate
Regeneration and Local Services	Transport and Contract Services	Park and Ride	Substantial
Regeneration and Local Services	Transport and Contract Services	Concessionary Fares	Substantial

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Corporate Finance and Commercial Services	Value Added Tax	Substantial
Resources	Corporate Finance and Commercial Services	Variations	Substantial
Resources	Corporate Finance and Commercial Services	Electrical Component Contract	Substantial
Resources	Corporate Finance and Commercial Services	Off Contract Spend	Moderate
Resources	Corporate Finance and Commercial Services	Contract Procedure Rules	Moderate
Resources	Digital and Customer Services	Incident Management	Substantial
Resources	Digital and Customer Services	Oracle Licenses	Moderate
Resources	Finance and Transactional Services	Council Tax	Substantial
Resources	Finance and Transactional Services	Council Tax: Valuation – Empty Homes Review	Substantial
Resources	Finance and Transactional Services	Council Tax: Recovery	Substantial
Resources	Finance and Transactional Services	Business Rates	Substantial
Resources	Finance and Transactional Services	Business Rates: Valuation	Substantial
Resources	Finance and Transactional Services	Business Rates: Recovery	Substantial
Resources	Finance and Transactional Services	Housing Benefits and Council Tax Reduction	Substantial
Resources	Finance and Transactional Services	Housing Benefits: Overpayment Recovery	Substantial
Resources	Finance and Transactional Services	Payroll Processing	Substantial
Resources	Finance and Transactional Services	Financial Deputies (Compliance with OPG Standards)	Substantial
Resources	Finance and Transactional Services	Cash Management – Proceeds of Crime Act	Substantial
Resources	Finance and Transactional Services	Creditors Payments	Moderate
Resources	Finance and Transactional Services	Creditors: Supplier Masterfile	Moderate
Resources	Finance and Transactional Services	Creditors: System Access	Moderate
Resources	Finance and Transactional Services	Payroll: Taxation (PAYE)	Moderate
Resources	Finance and Transactional Services	Debtors: Customer Masterfile	Moderate

Service Grouping	Service	Audit Activity	Assurance Opinion
Resources	Finance and Transactional Services	Debtors: Standing Charges	Moderate
Resources	Finance and Transactional Services	Creditors: Invoice and PO Authorisation	Moderate
Resources	Finance and Transactional Services	Procurement Cards	Moderate
Resources	Finance and Transactional Services	Cash Management: Meadowfield Depot	Moderate
Resources	Finance and Transactional Services	Welfare Rights	Limited
Resources	People and Talent Management	Apprentices	Moderate
Resources	People and Talent Management	Attendance Management Framework	Moderate

Audit Committee

29 June 2020

Compliance with International Auditing Standards – Durham County Council including Pension Fund



Report of Councillor Edward Bell, Chair of the Audit Committee

Purpose of the Report

- 1 Members are asked to agree the response to questions put to the Committee at its meeting on 27 February 2020 from the External Auditor that look to evidence how management and those charged with governance are discharging their responsibilities.

Executive summary

- 2 The committee's response to the range of questions posed by the external auditor are detailed within the report at Appendix 2. There are no issues to bring to the Committee's attention

Recommendation(s)

- 3 Members are asked to:
 - (a) Agree the response to the External Auditor set out at Appendix 2

Background

- 4 At its meeting on 27 February 2020 the External Auditor requested in their regular progress report that the Audit Committee consider a range of questions in order to obtain evidence of how management and those charged with governance are discharging their responsibilities in order for the External Auditor to discharge their duties under International Standards for Auditing (ISA).

Contact: Paul Bradley

Tel: 03000 269645

Appendix 1: Implications

Legal Implications

Compliance with International Standards for Auditing

Finance

The response to the questions posed will serve as information used by the External Auditor for their work on the Council's Statement of Accounts for 2018/2019

Consultation

The Chair and Vice Chair of the Audit Committee have been consulted in drafting this response.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

There are no staffing implications as a result of this report.

Accommodation

There are no accommodation implications as a result of this report.

Risk

There are no direct risk implications as a result of this report.

Procurement

There are no direct procurement implications as a result of this report.

Appendix 2: Response to External Auditors Questions

The auditor's responsibility to consider fraud in an audit of financial statements

1) ***How does the Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal control? In particular how the Committee oversees managements:***

- ***Assessment of the risk that the financial statements may be materially misstated due to fraud or error;***
- ***Processes for identifying and responding to risks of fraud in the organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;***
- ***Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the Council's code of conduct; and***
- ***Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error.***

The Audit Committee maintains an oversight of management processes in place for assessing the risk that the financial statements may be materially misstated by considering all the sources of assurance that it has available to it on the effectiveness of the internal control environment. This is demonstrated through quarterly internal audit progress reports and the Annual Audit Opinion and Internal Audit Report that is presented to the Committee by the Chief Internal Auditor and Corporate Fraud Manager.

The Audit Committee also receives quarterly risk reports from the Risk and Governance Manager where key strategic risks are brought to the attention of the Committee.

The Audit Committee is responsible for considering proposed changes to the Council's Counter Fraud and Corruption Strategy and the Confidential Reporting Code (Whistleblowing.. The Audit Committee have also considered changes to the Council's Fraud Response Plan that supports the Counter Fraud and Corruption Strategy and to the Council's Money Laundering Policy.

Members of the Committee are aware of how to report any suspected fraud and are satisfied that employees are encouraged to report their concerns about fraud and both are supported by the Confidential Reporting Code (Whistleblowing) which is formally reviewed by the Committee.

The Committee is responsible for considering any proposed amendments to the Council's Code of Local Governance prior to approval by Full Council, and maintains an understanding of key corporate policies and procedures that are an integral part of the Council's Internal Control Framework to help mitigate the risk of fraud e.g. officers and members code of conduct, financial procedure rules, contract procedure rules, officer scheme of delegations, complaints procedures and performance management arrangements.

2) *Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2019 – 31 March 2020?*

The Audit Committee is aware that all suspected cases of corporate fraud must be reported to the Chief Internal Auditor and Corporate Fraud Manager and are advised of all potential and proven cases reported.

Details of all actual, suspected or alleged fraud and action taken in response are as reported by the Chief Internal Auditor and Corporate Fraud Manager in their bi-annual reports. New potential cases of corporate fraud are also reported to the Committee as and when they arise, updates are provided through Internal Audit quarterly progress reports and Protecting the Public Purse updates.

3) *Has the Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?*

The Committee is aware that certain posts, such as those involved with treasury management activities and those with access to the Council's bank accounts and cash carry a higher risk and consequently covered by fidelity guarantee insurance.

The Committee also receives assurance from Internal Audit from planned work around key financial systems and the counter fraud plan that is reported through quarterly Internal Audit progress reports and the bi-annual 'Protecting the Public Purse' reports.

The Committee therefore has no specific concerns that would impact on the Statement of Accounts as it gains the assurance required as described.

4) *Is the Audit Committee aware of any significant breaches of internal control during 2019/2020?*

The Audit Committee receives quarterly Internal Audit progress reports. These progress reports highlight any assurance audit that has been given a 'Limited' assurance audit opinion. The Chief Internal Auditor and Corporate Fraud Manager has established 'follow up' arrangements in place to give the Audit Committee assurance that recommendations to improve the Internal Control environment are being made. In addition the Committee regularly calls officers to attend its meetings in order to ascertain their intentions for control improvements. Therefore, the Audit Committee can confirm that they are unaware of any significant breaches of Internal Control during 2019/2020 that impact negatively on the Statement of Accounts.

5) *Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively?*

The Audit Committee receives the Annual Internal Audit Opinion and Internal Audit Report from the Chief Internal Auditor and Corporate Fraud Manager that gives assurance that the Internal Controls are working effectively and also receive regular quarterly reports on Internal Audit progress. As such the Audit Committee is satisfied that internal controls both exist and work effectively.

In addition, the Audit Committee also reviews the draft Annual Governance Statement where in addition to the assurance from the Chief Internal Auditor and Corporate Fraud Manager the Committee also receive statements from Corporate Directors and the Director of Transformation and Partnerships that confirm from their perspective that controls are working effectively.

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

Areas of interest or of importance are also presented to the Committee for example in November 2019 the Head of Transformation gave a presentation on the Council's Transformation Programme. This also showed the work Internal Audit were completing where it would give the Committee the assurance that controls were in place and working well.

6) *Is the Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?*

The Audit Committee is not aware of any related party relationships or transactions that could give rise to instances of fraud.

7) *How does the Audit Committee mitigate the fraud risks associated with related party relationships and transactions?*

The Audit Committee is aware that all Members and Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable (Creditors) to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. The last review was completed as part of the National Fraud Initiative 2019/20.

The Committee is also aware that Corporate Finance have prepared a list of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2019/2020. These are included in the 2019/2020 statement of accounts for the Audit Committee's approval in June 2020.

8) *Is the Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? In particular:*

- ***Are there particular balances where fraud is more likely to occur?***
- ***Is the Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?***
- ***Are there any external fraud factors which create a high risk of fraud?***

The Audit Committee is not aware of any specific entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading.

9) *Is the Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?*

The Audit Committee is not aware of any organisational or management pressure to meet financial or operating targets.

10) *Is the Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered to employees to meet financial or operating targets?*

The Audit Committee is not aware of any inappropriate organisational or management pressure being applied or incentives offered, to employees to meet financial or operating targets.

Consideration of laws and regulations in an audit of financial statements

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

The Audit Committee is responsible for the review of the Council's Local Code of Corporate Governance and approving the Annual Governance Statement and is therefore aware of management arrangements in place for identifying and responding to changes in laws and regulations and any significant governance issues arising as a result.

The Audit Committee gains independent assurance over the effectiveness of the arrangements in place through the work of Internal and External Audit and other external review bodies.

The Audit Committee receives regular updates on the management of strategic risks that include risks relating to non-compliance with laws and regulations.

2) *Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?*

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

Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

1) *Is the Audit Committee aware of any actual or potential litigation and claims involving the Council that would impact on the financial statements?*

The Audit Committee is aware of the monitoring and reporting arrangements in place of financial risks associated with potential litigation claims and seeks to gain assurance that revised processes are effective and that any material amounts, significant risks or control implications are brought to its attention.

Consideration of the going concern assumption in an audit of financial statements

1) *How has the Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?*

The Audit Committee considered a report of the Corporate Director of Resources at its meeting on 29 June 2020 relating to an assessment of the going concern assumption. The Committee is satisfied that it is appropriate to adopt the going concern basis in preparing the 2019/2020 financial statements.

2) *Has the Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?*

The Audit Committee has not identified any events or conditions since this assessment was considered which casts any doubt on the Council's ability to continue as a going concern.

Consideration of related parties

1) *What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?*

The Audit Committee is aware that all Members and Corporate Management Team are required to complete an annual return of related party relationships and transactions and guidance notes have been issued to support their completion. Where any related transactions are declared extracts are obtained from Accounts Payable (Creditors) to identify actual payments made and received.

In addition, Internal Audit carries out periodic reviews of all employees and members' declarations to help identify any potential undeclared relationships and / or fraudulent transactions using outputs from data matching exercises. The last review was completed as part of the National Fraud Initiative 2019/20.

The Committee is also aware that Corporate Finance has prepared a list of all related party transactions, with an explanation of the nature of these and whether any transactions have been entered into with these related parties during 2019/2020. These will be included in the 2019/2020 statement of accounts for the Audit Committee's approval in June 2020.

2) Confirmation that the Audit Committee have:

- ***Disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and***
- ***Appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.***

The Audit Committee confirms that the identity of all the authority's related parties have been appropriately disclosed in accordance with the requirements of the framework.

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Audit Committee

29 June 2020

**Annual Governance
Statement for the year April
2019 – March 2020**



Report of Corporate Management Team

John Hewitt, Corporate Director Resources

**Councillor Alan Napier, Deputy Leader and Portfolio Holder for
Finance**

Electoral division(s) affected:

None

Purpose of the Report

- 1 To seek approval of the Annual Governance Statement (AGS) for 2019/20, attached in appendix 2.

Executive summary

- 2 The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement, which must accompany the Statement of Accounts.
- 3 The AGS demonstrates how far the Council complies with the principles of good governance, and the review of effectiveness for 2019/20 concludes that the Council's corporate governance arrangements in place during the year were fit for purpose in accordance with the governance framework.
- 4 The review also concluded that five actions, listed in appendix C of the AGS, should be included in the plan of improvements to strengthen governance arrangements during 2020/21.

Recommendation(s)

- 5 Audit Committee is requested to approve the draft AGS in appendix 2.

Background

- 6 The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement, which must accompany the Statement of Accounts.
- 7 The Corporate Director, Resources is responsible for co-ordinating and overseeing the Council's corporate assurance arrangements and prepares the AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts. The draft AGS is included in **appendix ii**.

The Implications of the Covid19 Pandemic on the Review of Effectiveness

- 8 The review of effectiveness for 2019/20 was conducted while the Council was responding to the coronavirus pandemic (COVID19), although the regulations were amended to defer the respective dates for publication of the draft and final accounts.
- 9 A special briefing was issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which recognised the limitations caused by the pandemic on providing the AGS, and provided the following guidance on the approach to conducting the review and reflecting challenges from Coronavirus to ensure a meaningful but focused review.

Conducting the review

- (a) Use existing and interim reports and assessments, where possible, to inform the draft AGS, and completed reports to inform the final publication of the AGS.
- (b) Make it risk based and focus on any key gaps and risk areas. Use existing reports rather than asking for new evidence.
- (c) Consult the audit committee chair about the application of the governance framework and whether they have any concerns.
- (d) Be clear about any limitations to the review when it is presented to the audit committee. They should not take greater assurance than it is possible to give from a more limited review.

- (e) Before the date of the final publication of the AGS it will hopefully be possible to undertake a more in-depth review and address any gaps. Where there is a clear need for this, it should be made clear when the draft AGS is published. It is important that the AGS is current at the time of final publication.

Reflecting the challenges from Coronavirus in the AGS

- (f) Governance arrangements for most of 2019/20 were unaffected by coronavirus and the review's conclusion should reflect the normal operations.
- (g) Where necessary a second conclusion on the adequacy of governance arrangements during the affected period could be included. The impacts on governance may include changes to decision making arrangements, the conduct of meetings and revised priorities and programmes. Other changes may include new areas of activity as part of the national response, as well as funding, logistical and collaborative arrangements.
- (h) A review of lessons learned from the response is a potential topic for inclusion in the report or as an area requiring improvement.

Outcome of the Review

- 10 The outcome of the review of effectiveness is set out in the AGS and concludes that the Council's corporate governance arrangements in place during 2019/20 were fit for purpose in accordance with the governance framework.
- 11 The review also concluded that five actions, listed in appendix C of the AGS, should be included in the plan of improvements to strengthen governance arrangements during 2020/21.
- 12 The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out separately in **appendix D** of the AGS, aligned to the principles of good governance.

Author(s)

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Appendix 1: Implications

Legal Implications

The governance review process ensures that the Council discharges its statutory duties under the Local Government Act 1999 and the Accounts and Audit Regulations 2015 as set out at paragraphs 2 and 4 of the report. The Code of Corporate Governance enables the Council to demonstrate how it complies with the Delivering Good Governance in Local Government Framework 2016.

Finance

There are no financial implications associated with this report. However, financial planning and management is a key component of effective corporate governance.

Consultation

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

Equality and Diversity / Public Sector Equality Duty

Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

Climate Change

There are no direct climate change implications, but good governance helps to avoid or minimise adverse impacts.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

There are no impacts on staffing but ensuring the adequate capability of staff meets a core principle of the CIPFA/ SOLACE guidance.

Accommodation

There are no accommodation implications, but asset management is a key component of effective corporate governance.

Risk

There are no reportable risks associated with the report, but the assessment of corporate risk is a key component of the Council's governance arrangements.

Procurement

There are no procurement implications as a result of this report.

Appendix 2: Annual Governance Statement 2019/20

INTRODUCTION

1. This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2020.

COVID19 PANDEMIC

2. The initial surge in COVID-19 cases in the UK happened in early March 2020, the final month of the period to which the AGS relates, while the review of effectiveness and AGS preparation were underway. When the UK government published the [coronavirus action plan](#), much of the Council's resources were directed towards the pandemic response. This statement includes a description of how the Council's governance systems were deployed and adapted.

CONTEXT

3. Summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

SCOPE OF RESPONSIBILITY

4. Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
5. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
6. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.

7. In May 2019, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – “Delivering Good Governance in Local Government”.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

8. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
9. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
10. The governance framework has been in place across the Council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

11. The key elements of the Council’s governance arrangements are detailed in the Council’s Local Code of Corporate Governance. This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
12. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in May 2020.
13. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [County Durham Vision 2035](#). The Head of Strategy is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.

14. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2019/20.

REVIEW OF EFFECTIVENESS

15. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and by comments made by the external auditors and other review agencies and inspectorates.

16. Maintaining the effectiveness of the corporate governance framework involves the key member and officer roles outlined below, namely:

- The Executive
- Chief Financial Officer
- Monitoring Officer
- Overview and Scrutiny Committee
- Standards Committee
- Audit Committee

17. The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:

- The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
- Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
- External Audit provides an independent opinion on whether the AGS is materially accurate.

18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which will be incorporated in the Annual Internal Audit Report to the Audit Committee in June 2020. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in seven cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements.

19. Based on the work undertaken during the year, internal audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020.
20. This opinion is however qualified, in light of the current COVID-19 pandemic and the impact of this on the Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control that have been put in place.
21. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2019/20 is included in **appendix A**. An update on improvements identified in the 2018/19 Annual Governance Statement is included in **appendix B**.
22. The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out in **appendix D**, aligned to the principles of good governance.

CONCLUSION

23. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2019/20 were fit for purpose in accordance with the governance framework. Through the review of governance arrangements, and the work of both internal and external audit, we have identified five actions as part of ongoing improvements to further strengthen governance arrangements in 2020/21. These are shown in **appendix C**.

APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed:

Simon Henig
Leader of Durham County Council

Terry Collins
Chief Executive

John Hewitt
Corporate Director, Resources

APPENDIX A: Governance Arrangements during 2019/20

A full description of the Council's governance arrangements is set out in the [Local Code of Corporate Governance](#). Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2019/20.

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

Behaving with integrity

1. The [register of gifts, interests and hospitality for members](#) is available online. Staff declarations are maintained and monitored by their Head of Service.
2. In January 2020, the Council agreed to a [members' allowance scheme for 2020/21](#), taking into account the views of the independent remuneration panel, which the Council is required by law to establish and maintain.

Demonstrating strong commitment to ethical values

3. The annual report of the [Standards Committee, which is responsible for promoting and maintaining high standards of conduct by councillors](#), was presented to Council in January 2020. The [Work Programme 2020/21](#) was approved in March 2020.
4. In September 2019, the Standards Committee agreed that proposed changes to the [Code of Our Values, Behaviours and Conduct](#) be considered by the Constitution Working Group and by full Council. The amendments provide clarification on employees' obligations in relation to [gifts and hospitality](#).
5. A quarterly customer feedback report is presented to the Overview and Scrutiny Management Board, summarising performance in dealing with corporate and statutory complaints, and identifying actions to improve service provision.
6. Cabinet approved the introduction of the [WASPI Concessionary Travel Scheme](#) to assist approximately 35,000 women across County Durham who have been most impacted by the changes to the Government's State Pension Age.

Respecting the rule of law

7. The [Environment, Health & Consumer Protection enforcement policy](#) sets out the standards and guidance applied by officers authorised to act on behalf of the Council in its role as regulator and enforcement agency. Officers must have regard to codes of conduct, legislation and other statutory provisions, and adhere to the 'principles of good regulation' when exercising regulatory functions to improve outcomes without imposing unnecessary burdens on individuals and businesses.

8. Through the [Counter Fraud & Corruption Strategy](#), the Council is committed to a zero-tolerance approach to fraud and corruption against the Council and its partners. The Counter Fraud team vigorously pursues all reports of fraud, for example, council tax reduction scheme fraud, false insurance claims and blue badge misuse, with successful prosecutions featuring in the [news pages](#) of the Council's website. Their achievements were recognised at the Fighting Fraud and Crime Locally conference in London in March 2019 where they won the Acknowledge Award. The award recognised their zero-tolerance approach to fraud, and the collaborative work with internal and external stakeholders under the 'Durham Partnerships', with innovative projects and promoting best practice with the use of technology, to proactively target fraud risk areas. The team was also a finalist in the IRRV Excellence Awards in Counter Fraud category. Since 2015, the team has uncovered or intercepted over £7.9m of fraud, investigating over 3,500 cases across the authority, handling a diverse range of investigations.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

9. The Council seeks to make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes, with a presumption for openness and, where relevant, giving reasons for keeping any decision confidential. Clear reasoning and evidence are provided for decisions, being explicit about the criteria, rationale and considerations used, to ensure that the impact and consequences of those decisions are clear. These commitments are demonstrated, for example, by the decision made by Cabinet on the [Leisure Transformation Programme](#), which set out the case for change for the Council's leisure centre offer, including building new leisure centre facilities, refreshing existing buildings and progressing towards an extensive new programme of activities and amenities.

Engaging comprehensively with institutional stakeholders

10. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in County. The Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment.

Examples of partnership working are included in regular 'Council Activity Reports' to Cabinet: -

- (a) The council, with its partners, works hard to promote County Durham as a place for businesses to grow and invest, and provides and supports several key [strategic employment sites](#), which continue to grow and flourish.
- (b) Working with its partners to support people across the county, some of whom are in work but on a low income, who are struggling to pay their rent, mortgage or household bills. Specific initiatives include the [Welfare Assistance Scheme](#).

(c) County Durham has seen continued growth and investment in cultural, sporting and heritage activity during the past few years thanks to support from the county council and its partners, including the [#Durham19](#) campaign.

11. The Aykley Heads Redevelopment Plan is supported by a number of regional organisations including the North East Local Enterprise Partnership and North East England Chamber of Commerce, as well as Durham University. In the attached [video](#), organisations and key business leaders in the area explain why this development is important for the future of Durham.
12. [DurhamWorks](#) is a partnership programme between the Council and seven other organisations, working together to support young people into education, training or employment. The programme has been granted a further £12 million of EU funding and extended to 2021 having so far signed up 7,300 young people, 3,600 of those having progressed into some form of employment, education or training. [DurhamWorks](#) also supports local employers. Business advisors are on hand to offer tailored support and advice, including financial support to small or medium sized businesses looking to take on a young person.
13. In May 2019, Cabinet refreshed the [SEND Strategy](#) for supporting work across local partners for children, young people and young adults with Special Educational Needs and Disabilities (SEND).

Engaging with individual citizens and service users effectively

14. The Consultation Officer Group supports the Council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
15. The [Statement of Community Involvement](#) describes how we will involve communities, businesses and organisations in the preparation of the County Durham Plan (Local Plan) and on planning application decisions. It also sets out our advice on how town and parish councils and Neighbourhood Forums should seek to involve and consult on the preparation of Neighbourhood Plans.
16. As the new proposed savings for 2020/21 are not expected to impact upon front line service provision, the focus of the consultation on [Medium Term Financial Plan 2020/21 to 2023/24](#) has been to utilise the extensive exercises that were recently carried out as part of the development of the County Durham Vision 2035 to inform the proposed investment priorities.
17. Public consultation exercises were undertaken during the year on a range of issues, including the new Durham History Centre, how to tackle climate change, how we spend our money to help children with special educational needs or a disability, and on proposals to increase the council tax premium charge for long term empty properties. The full list can be found on the [Consultations](#) pages of the website.

18. The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. Fourteen [Area Action Partnerships \(AAPs\)](#) are fully engaged with the community in identifying and addressing local priorities, and utilising locality budgets to drive improvements to the local area.

The Council receives regular updates from AAPs for example, [Weardale AAP](#) (projects delivered), [Derwent Valley AAP](#) (priorities, action plans and forthcoming Projects) and [East Durham AAP](#) (participatory budgeting, Youth Forum and Cyber Crime Project, ATOMS Education Project and Social Isolation).

19. The Council is continuing to build on progress in attracting inward investment and Development in the County through the new [durham powered by people](#) campaign, which engaged with a range of stakeholders across the business community to support economic growth across the county.

20. [Durham County News](#), the Council's magazine for residents is issued to every household in the County four times a year in line with the [recommended code of practice for local authority publicity](#).

21. To supports the delivery of the Children and Young People's Strategy 2019-2022, Cabinet [agreed to the implementation of recommendations](#) that will enhance engagement with children and young people, including annual elections to appoint CYP representatives to a new County Durham Youth Council.

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

Defining outcomes

22. The Council conducts a number of strategic assessments of need, which have been brought together into an [Integrated Needs Assessment](#) (INA). This brings together the evidence base and a wide range of strategic assessments to inform strategic planning across the council and by the county's thematic partnerships. The [INA](#) provides links to data, analysis, external frameworks, local profiles, strategies and plans relevant to life in County Durham. An online data mapping site is being developed.

23. The [County Durham Vision 2035](#) was agreed by the County Durham Partnership and Cabinet in September 2019. This vision will be delivered through an integrated framework of partnership and organisational plans and strategies across the County Durham Partnership. A Strategic Partnership Governance Review is currently taking place to ensure the governance arrangements are fit for purpose and will be completed by May 2020. The vision had been built following extensive public consultation, where residents, businesses, partners and visitors were asked what they would like to see in the future for the county. Building on the success of the last ten years the new vision would replace the current 'Altogether Better' vision from 2009.

24. The Vision was launched by [County Durham Partnership](#) on 25/10/19.

25. The vision is structured around three externally focused results-based ambitions of 'more and better jobs', 'long and independent lives' and 'connected communities'.
- (a) The More and Better Jobs ambition has a wide-ranging focus which includes not only development of the economy and creating jobs, but also working with young people and adults to help them into work, through good quality education and training.
 - (b) The Long and Independent Lives ambition focuses strongly on the health and wellbeing of the local population, including ensuring that all of our children and young people get the best start in life, and services for children with special educational needs and disabilities (SEND) are improved. The ambition has a strong focus on improving mental as well as physical wellbeing.
 - (c) The Connected Communities ambition focuses on making life better in local communities across the County. On how we ensure that children and young people have safe lives in safe communities where people support each other, and have access to high quality housing, good transport links and vibrant town and village centres. As it is a broad ambition, performance reporting is split into two areas of focus: safer communities, and sustainable communities.

26. [Children and Young People's Services Commissioning Plan 2019-21](#)

27. On 11/9/19, Cabinet agreed the draft updated Poverty Action Strategy and Poverty Action Plan, through which the council and its partners aim to address and alleviate poverty in the county.

28. [The County Durham Strategic Partnership Approach to Early Help for Children, Young People and Families](#) sets out our partnership vision, priorities and approach for providing effective, targeted and coordinated 'early help' in County Durham in order to address inequalities, promote opportunity and secure better outcomes for children, young people and their families. The strategy focuses on supporting family and community resilience. The strategy also outlines the collective responsibility across key partners for identifying children and young people who require additional help and support.

29. In July 2019, the [Youth Justice Plan 2019-2021, incorporating a review of performance and activity for 2018-2019, and improvement plans, staffing and budgets for 2019-2020](#), was presented to Council.

30. County Durham Housing Strategy 2019 to 2024. In July 2019, Cabinet adopted the [Housing Strategy](#), the aims of which are better housing support for residents and the [Homelessness Strategy](#), which aims to prevent homelessness by providing housing advice, assistance and support for older and vulnerable people.

Sustainable economic, social and environmental benefits

31. Despite this very challenging financial period, the scale and sustained level of government spending cuts and the impact on the council's finances, this report includes some very positive outcomes for the people of County Durham including: -

- (a) significant one-off investment in a broad range of priority front line services;
- (b) continued support to protect low income working age households through the continuation of the existing Council Tax Reduction Scheme;
- (c) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people;
- (d) significant capital investment in leisure provision, town centres and infrastructure, including new transport schemes.

32. In February 2019, the Council declared a Climate Change Emergency, and set targets to reduce its own carbon emissions and make County Durham carbon neutral by 2050. Response to consultation demonstrated that residents supported and wanted to be actively involved in taking forward the [Climate Change Emergency Response Plan](#), which was approved by Cabinet in February 2020. In July 2019, Cabinet was updated on the successful completion of the six-year, invest-to-save [Street Lighting Energy Reduction Project](#), which has been the biggest single contributor to the Council's reduction in carbon emissions. A 69% reduction in annual energy consumption was achieved, saving 8,413 tonnes in carbon emissions.

33. The [County Council of Durham Roads and Street Works Permit Scheme](#) aims to reduce disruption caused by street works in County Durham by enabling our highways team to manage the number and duration of works taking place on the county's roads at any one time. This would help to minimise disruption, which in turn would support economic growth and reduce carbon emissions.

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

Determining and planning interventions

34. The Council ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, to secure best value regardless of the service delivery method. Two examples are the [Cabinet reports](#) in January 2019 on: -

- (a) The County Durham Plan Pre-Submission Draft; and
- (b) Durham History Centre – Next Steps.
- (c) [Review of School Provision – Wolsingham School & Sixth Form](#)
- (d) [Mainstream Primary and Secondary Formula Funding 2020-21](#)
- (e) [Options for the future of the two schools that constitute the Durham Federation](#)

35. In February 2020, in response to a request for analysis and insight into the impact of welfare reform and austerity, Cabinet considered a report which provided key messages and selected analyses for County Durham for the Index of Deprivation 2019 from the Ministry of Housing, Communities and Local Government. Members were concerned with the increased levels of deprivation, and wider analysis will be undertaken of the impact on vulnerable residents, including struggling families and children living in poverty, and communities.

36. A range of controls have been implemented for the Council's commercial companies and joint venture arrangements, appropriate to the specific entity, to ensure that effective governance arrangements are established and maintained. Examples include: -
- (a) Contributing to the attainment of the company's business objectives by providing strategic and financial guidance to ensure that the company's financial commitments are met, to ensure the sound financial management and control of the Company's business, and to support future growth of the company.
 - (b) Provision of a Finance Director or Chief Financial Officer.
 - (c) Requiring annual reports on operations and performance to be brought to the Council, as a shareholder, through Corporate Management Team and, where considered necessary, Cabinet.
 - (d) Financial management support to ensure that annual accounts are prepared and submitted appropriately with HMRC and Companies House, and that they are independently audited.
37. The [Medium Term Financial Plan 2020/21 to 2023/24 \(MTFP\)](#) was approved by the Council in February 2020. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#).

Optimising achievement of intended outcomes

38. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and the £15.7m of savings proposed for MTFP(10) period results in the council having saved £250 million since 2011/12. The Council's strategy since 2010/11 has been to protect front line services as far as possible and the 2020/21 proposals are in line with this strategy both in terms of savings being realised and additional investment. To ensure that front line services can be protected wherever possible, the [Transformation Programme](#) seeks to ensure that all options are explored. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.
39. To ensure that attention remains focused on Council priorities, an approach to performance management was developed that answers key performance questions rather than rely on performance indicators. [Quarterly reports](#) are concise, using a dashboard style with shorter narrative, and attention is moving towards analysing and developing insights from the performance data.

- (a) In relation to the *More and Better Jobs* ambition, we are continuing to invest, building on our growing tourism and cultural activity, creating new infrastructure and developing new business parks with the potential to create thousands of jobs. We are developing focused improvement plans, reviewing educational provision across the county (including elective home education), offering intensive support to young people not in education, employment and training, and addressing inequality across employment through our work to become a Disability Confident Leader.
- (b) In relation to our *Long and Independent Lives* ambition, we continue to support people to stop smoking, reduce exposure to second-hand smoke and promote campaigns such as Stoptober. Our partnership approach to help people achieve a healthy weight focuses on the Best Start in Life, the physical and food environments, with actions to increase physical activity in schools, promote active travel and improve the regulation of hot food takeaways. We have established a workforce leads network to ensure a consistent approach to mental health training across partners and are developing a tailored approach to mental health awareness across small-to-medium sized businesses. We are working closely with the CCG and health providers to monitor key areas of work, including waiting times for therapeutic services and have allocated additional resource to our SEND Casework Team, which continues to experience high demand.
- (c) In relation to our *Connected Communities* ambition, we are using focused improvement plans, initiatives and interventions to mitigate against the challenges we face in relation to violence against the person, shoplifting, criminal damage and arson, of which County Durham is recording high levels. For example, two dedicated neighbourhood wardens now patrol Durham City centre, we are putting in place a multi-agency training programme in relation to licensing, have implemented a plan for student fresher week in relation to water safety and started planning for the 2020 cold-water shock campaign.

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

41. In September 2018, Cabinet approved a report, which considered the next steps in delivering the Aykley Heads Strategic Employment site to ensure the proposed 6,000 jobs are secured for the benefit of County Durham's economy. The report also proposed a strategy for the development of the site in a flexible manner, enabling a responsive approach to opportunities and changes within the marketplace.

42. In October 2019, Cabinet approved the establishment of an Internal Enforcement Agent Service for the collection of council tax, business rates, parking fines and fixed penalty notices, commercial rents, sundry debt and housing benefit overpayments. Benefits include a more joined-up, streamlined and flexible approach to debt recovery and management, more direct control over the standards of behaviour and the actions taken by the service, ensuring that the Council's values and behaviours are embedded within the service.

43. Cabinet approved a report on the governance structure of the newly-established [Local Lettings Agency](#), which will support Housing and Homelessness Strategies. Delegated authority was given to the Corporate Director for Regeneration and Local Services to lease properties from landlords on an individual basis for use in discharging the Council's duties under the Homelessness Reduction Act.

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

Developing the Council's capacity

44. Inspiring Places, which is part of our [Transformation Programme](#), seeks to provide different types of flexible work spaces. Work areas will be paper-lite, which means digital records will replace paper records, where appropriate. Desk-based employees have access to software that allows them secure, remote access to the Council's computer systems, including from home.
45. Work is well underway to transform office accommodation at each of the Council's sites, leading to a more productive and creative workforce and reduced travelling times. Modern, open plan spaces allow more flexibility, with printers, recycling bins and stationery being centralised on each floor. New technology, such as video conferencing and mobile working, is increasingly being used.
46. The Council's Inspire Programme seeks to enable flexible working through digital and mobile technology, make our workspaces more cost effective and productive, and support collaboration between teams across the organisation. Several projects supporting these aims are either nearing completion or are well underway: -
- (a) A reform of business support services seeks to increase the use of digital solutions to create a more consistent service, improved management information and less labour-intensive administrative processes.
 - (b) A major upgrade to the email, calendar and related systems will deliver numerous benefits, including increased storage capacity, online collaborative working, reduced paper usage and improved data security.
 - (c) A comprehensive development plan for the ResourceLink computer system sets out priorities for streamlining and digitising transactional HR and payroll processes, leading to a reduction in back office administrative tasks. Employees have improved access to personal information, reducing the need for printing and posting documents.
 - (d) The Council has commenced a programme examining how we can use business intelligence technologies and invest in skills to further automate processes, make more strategic use of our data and improve our analytical capacity.
47. The new [Digital Strategy](#) sets out the Council's digital ambitions for the County. It provides a framework within which these ambitions can be delivered and aligns to the interlocking objectives of the revised Council Vision and the Transformation Programme. The new strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities.

48. The latest version of Office 365 has been rolled out across the council, offering a number of new tools that proved invaluable, especially during the lockdown period of the response to COVID19: -
- Virtual meetings hosted with online agendas and papers.
 - Greater collaboration enabled through storing, sharing and even simultaneous co-authoring of documents.
 - Communications between staff enhanced through functions that show colleagues' availability, and enable instant messaging, screen-sharing and continuous connectivity through a range of devices.
 - Sharing of information, posts and conversations in public and private online spaces.
49. The Council approved a proposal by the Chief Executive to [restructure the corporate management team](#), ensuring leadership is aligned to the council's strategic priorities and that appropriate resources are in place to deliver the wider partnership vision for the county. Two posts were deleted, Corporate Director of Regeneration and Local Services and Director of Transformation and Partnerships, with the creation of two posts of Corporate Director, Regeneration, Economy and Growth and Corporate Director, Neighbourhoods and Climate Change.
50. In relation to the Transformation and Partnerships service grouping, Transformation and Strategy services were realigned to the Resources Service Grouping. The Communications and Marketing service grouping was realigned directly to the Chief Executive. The Partnerships and Community Engagement service will be realigned to the new Director of Neighbourhoods and Climate Change but in the interim, the head of service reported to the Corporate Director of Adults and Health.
51. As part of the development of a Health and Social Care Plan for County Durham, the Council approved the establishment of a Head of Integrated Strategic Commissioning within Adult and Health Services, to be jointly funded by the Council and the respective Clinical Commissioning Groups.
52. The Overview and Scrutiny Management Board, supported by its five committees, makes decision-making processes transparent, accountable and inclusive and seeks to improve services for people by being responsive to their needs. Where appropriate, members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#).
53. Overview and Scrutiny arrangements have been enhanced following Government Guidance issued last year. This work has included further developing member training, updating member role descriptors, improving our liaison and reporting links between NECA/Regional Scrutiny and COSMB and also additional reporting is being introduced to Council.

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

54. The [Transformation Programme](#) report to Cabinet in October 2017 confirmed that, following a restructure of the Corporate Management Team, a restructure of the Council's Extended Management Team (EMT) (heads of service) was completed in June 2017. The new EMT gives additional focus to the digitisation of process and ICT systems management, strengthens our capacity to lead organisational change and manage our people and gives additional focus to our work to support looked after children.
55. The Durham Learning and Development system hosts our new Performance and Development Review scheme, which was launched for leaders and managers, then rolled out to core employees from July 2019. The Durham Leadership Way programme outlines the expectations of leaders and managers together with a development and support offer. The Durham Leadership and Management Development Programme includes several mandatory courses, including coaching as a management style and mental health awareness for managers. Other courses are linked to corporate priorities, management skills and your personal development.
56. The Council's Apprenticeship Strategy 2019 to 2022 is being delivered through the People and Talent Management service, which is working with service managers and maintained schools to identify opportunities for new and existing employees to support workforce development and planning. By March 2020, there were 226 apprentices across a range of occupational areas and levels, and 280 employees were upskilling through an apprenticeship.
57. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
58. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme. An intranet page has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.
59. The Valuing our Employees Framework, which was developed in consultation with employees, was rolled out with the aim of creating a supportive working culture. The framework includes a range of initiatives about employee engagement, recognition, benefits, ideas and innovation.
60. The Council successfully achieved the gold National Better Health at Work award for its work on improving employee health and wellbeing, including awareness training for managers and training for mental health first aiders.

61. The Inspiring People Awards (formerly Great Staff, Great Stuff) reflect the aspirations of our Inspire [Transformation Programme](#). The scheme culminates in a celebration of the very best of our employees, teams and projects – those who are making a massive difference to residents and communities or who are delivering innovative projects and solutions to help both the council and our customers.

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

Managing risk

62. Risk management continues to be embedded in decision making and key business processes and the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, underpins this. The Audit Committee has gained assurance that the Council's strategic risks are being effectively managed through reports issued in [July](#) and [November 2019](#), and [February 2020](#). In July 2019, the Council received a [report from the Chairman of the Audit Committee](#) on its work between September 2018 and August 2019, and how the Committee continues to provide for good governance across the Council.

63. The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. The arrangements for managing the risk of such events are explained, and a copy of the latest Community Risk Register can be found, on the [Local Resilience Forum](#) web page. One of the intended outcomes of the Council's [Transformation Programme](#) is to help make communities become more self-reliant and resilient, so the Council's website includes advice for [business and care services on planning for emergency situations](#).

64. The referendum result in June 2016, in which the United Kingdom (UK) voted to leave the European Union (EU), created national uncertainty for the economy, safety and welfare and was compounded by protracted negotiations to secure a withdrawal agreement. An EU Exit Working Task & Finish Group was established, chaired by the Director of Transformation and Partnerships with representatives from all service groupings, reporting to Corporate Management Team. Taking account of a range of guidance from the government and professional bodies, the Group worked with key partners including the Local Resilience Forum, as well as key suppliers and service providers, to identify and minimise the impacts on council services and service users.

65. Several challenges and uncertainties lie ahead, and these are being monitored through the Council's strategic risk management reporting arrangements: -

- (a) The financial outlook for the council and the whole of local government remains extremely challenging.
- (b) The implications of the UK leaving the European Union, including the position of EU citizens living in the UK and UK nationals living in the EU.

- (c) Capacity issues caused by nationwide hard-to-recruit posts in children's social care.
- (d) Funding pressures in adult social care.
- (e) Recovery from the effects of the COVID-19 pandemic.

Managing performance

- 66. The [County Durham Partnership](#), which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners. Its' role includes monitoring performance towards implementing [County Durham Vision 2035](#), and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
- 67. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through [quarterly performance reporting](#) and through performance clinics between the Chief Executive, individual Corporate Directors and the Director of Transformation and Partnerships during the year.
- 68. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the [County Durham Vision 2035](#) and the [Council Plan](#). The format of performance reports has been realigned to the ambitions in the new Council vision. We are developing online (near) real-time performance dashboards using business intelligence and reporting services tools to provide more immediate views and visualisations of performance as part of a business intelligence programme. Examples available in children's social care and customer services.
- 69. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality.
- 70. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the [annual report](#), decisions and actions of the Police and Crime Commissioner. An update on activity from the Panel is presented to each meeting of the Council's [Safer and Stronger Communities Overview and Scrutiny Committee](#).

Robust internal control

- 71. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective. Internal audit progress updates were provided to Audit Committee in [May](#), [September](#) and [November 2019](#), and in [February 2020](#).

72. Updated versions of the [Counter Fraud & Corruption Strategy and Fraud Response Plan](#), and the [Anti-Money Laundering Policy](#) were presented to Audit Committee in June and July 2018.

Managing data

73. The designated Senior Information Risk Officer is the Corporate Director of Resources, and the designated Data Protection Officer is the Strategic Manager, Executive Support. The council has an Information Governance Group, with representatives from all services, which meets regularly and formulates regulatory responses to the Information Commissioner's Office and handles day-to-day management issues around information governance.

Strong public financial management

74. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer (Local Government Act 1972) to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the Corporate Management Team (CMT) and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications.

75. In February 2020, an update was given to Audit Committee on the Council's [accounting policies](#) to be applied in the preparation of the 2019/20 Statement of Accounts. The following reports provide assurance that the Council's financial management supports both long-term achievement of outcomes and short-term financial and operational performance: -

- (a) [Treasury Management Outturn 2018/19](#)
- (b) [Final Outturn for the General Fund and Collection Fund 2018/19](#)
- (c) [Update on the delivery of the Medium Term Financial Plan 8](#)
- (d) [Update on the delivery of the Medium Term Financial Plan 9](#)
- (e) [Report under Section 25 of Local Government Act 2003 - Reserves](#)
- (f) [Pension Fund Annual External Audit Letter 2018/19](#)

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

Implementing good practice in transparency

76. The Council is committed to being open and transparent about how it works and how decisions are made. In line with the Local Government Transparency Code, information is published on a [transparency and accountability web page](#) about how money is spent, how services are purchased, land and assets owned, structures and salaries, and fraud. As required by law, the sum paid to each county councillor is also published. The Council has also been publishing open datasets through the Data Mill North website.

77. Reports about complaints against members are included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information).

Implementing good practices in reporting

78. The Local Code of Corporate Governance is reviewed annually before being considered for approval by the Audit Committee and County Council.

79. The [Statement of Accounts 2018/19](#), incorporating the Annual Governance Statement, was approved by the Audit Committee in July 2019, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate.

80. The Council's commitment to regular reporting to stakeholders on performance, value for money and stewardship of resources is evidenced throughout this statement. Other examples include: -

- (a) [Annual report of the Director of Public Health 2019](#)
- (b) [Health and Wellbeing Board Annual Report 2018/19](#)
- (c) [Local Safeguarding Children Board Annual Report 2018/19](#)
- (d) [Corporate Parenting Panel Annual Report 2018-19](#)
- (e) [Transport Asset Management Plan Annual Update](#)
- (f) [Protecting the Public Purse Annual Report 2019/20](#)

Assurance and effective accountability

81. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in June 2020. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.

82. Revised versions of the [Internal Audit Strategy, Charter and Plan for 2019/20](#) were approved by Audit Committee in May 2019.

83. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services: -

- (a) The [External Audit Annual Letter 2018/19](#) summarises the work undertaken for Durham County Council and Durham County Council Pension Fund for the year.
- (b) The [Audit Completion Report \(Statement of Accounts\)](#) summarises the external auditor's conclusions for the year ended 31 March 2019.
- (c) The [External Audit, Audit Strategy Memorandum, February 2020](#) sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2020.
- (d) External Audit Progress reports in [November 2019](#) and [February 2020](#).

(e) The [Audit Completion Report \(Pension Fund\)](#) summarises the external auditor's conclusions for the year ended 31 March 2019.

84. In May 2019, Audit Committee approved revised [Terms of Reference](#) incorporating the Chartered Institute of Public Finance and Accountancy's model Terms of Reference defined in the Practical Guidance for Local Authorities 2018. The Committee also completed a core knowledge and [self-assessment](#) against the good practice for Audit Committees in Local Authorities guidance, and no significant gaps were identified.

85. In June 2019, the Audit Committee approved responses to a range of [questions from the External Auditor](#) to provide evidence of how management and those charged with governance are discharging their responsibilities, to discharge their duties under International Standards for Auditing.

86. Aycliffe Secure Centre, which offers specialist secure accommodation for young people, was given an outstanding review by Ofsted. Inspectors reported the centre as 'outstanding' in all four areas it assessed, building on its 'good' rating at Ofsted's last two visits.

87. Three Council teams were shortlisted in the prestigious Local Government Chronicle Awards, which celebrate excellence in local government. Our Corporate Parenting Panel is nominated in the Children's Services category; our economic investment in Durham is competing in the Driving Growth category; and our Durham Resilience Project, which works to improve mental health in schools, will represent us in the Public Health category.

APPENDIX B: Update on improvements identified in the 2018/19 Annual Governance Statement

Following the production of the Annual Governance Statement for 2018/19, nine improvement actions were identified for 2019/20.

No.	Actions to be taken	Lead Officer	Update
1	Implement an action plan to enable approval of the County Durham Plan (CDP) within the statutory requirements and the anticipated National Planning Policy Framework (brought forward).	Corporate Director, Regeneration and Local Services, March 2020	Status: Substantially complete The hearing sessions for the Examination in Public of the County Durham Plan were held from October to December 2019. The Inspector's interim report is expected in the spring where several modifications to the Plan will be recommended. These will then be consulted on and the final Plan is expected to be adopted in the Summer/Autumn 2020. The action plan has been implemented and has successfully brought the Plan to this point. Future timescales are now at the discretion of the Inspector. Therefore, although the Plan has not yet been adopted the action plan has served its purpose.
2	Develop a new council vision and a new Council Plan to replace the Council Plan 2016-19 (brought forward).	Head of Strategy, October 2019	Status: Substantially complete County Durham Vision 2035 was approved by Council on 23 October 2019 and launched by the County Durham Partnership on 25 October 2019.
3	MTPF and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved (brought forward).	Corporate Director, Children and Young People Services, March 2020	Status: In progress, carry forward to 2020/21 The review is in progress and monitoring will be carried forward to 2020/21.
4	Develop revised Children's Performance Management Framework.	Head of Strategy/ Strategic Manager Safeguarding Professional Practice (CYPS), June 2019	Status: Complete The revised Children's Performance Management Framework is complete and continues to drive improvement within the service.

No.	Actions to be taken	Lead Officer	Update
5	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Head of Planning and Assets (ReaL), March 2020	Status: In progress, carry forward to 2020/21 An appointment was made to a newly created post of Head of Corporate Property and Land, and management of the Council's estate has been unitised under this service. A new Corporate Landlord Service Delivery Model is being implemented during 2020/21.
6	Prepare evidence base around major economic challenges that will influence the NE Local Industrial Strategy with a view to supporting the implementation of corporate priorities and the development of County Durham Industrial Strategy.	Business Durham (ReaL), March 2020	Status: Complete An evidence base has been prepared which is current and is being used to inform discussions with the NELEP regarding the North East Local Industrial Strategy, and the development of a County Durham Industrial Strategy.
7	Undertake a review of governance arrangements of the County Durham Partnership.	Head of Partnerships and Community Engagement, December 2019	Status: In progress, carry forward to 2020/21 The strategic governance review of the County Durham Partnership will be complete for May 2020 and presented to the County Durham Partnership for approval.
8	Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels.	Head of Education and Skills, March 2020	Status: In progress, carry forward to 2020/21 The recommendations from a public consultation on proposals for reviewing nine priority service areas were approved in January 2020 by Cabinet, who also agreed the financial strategy to reduce expenditure by £1.5 million per year and spend within grant available over the next five years. Work is currently underway to identify financial savings targets for each area of the HNB budget.
9	Review the arrangements in place to ensure the Council is discharging its sufficiency duty in relation to Looked After Children and responding to gaps in provision.	Corporate Director, Children and Young People Services, April 2020	Status: Complete The Council's duty will be met through the Placement Sufficiency Strategy 2020 - 2025 supported by the Placement Resource Panel, the Fostering to Adopt initiative and Foster Xtra initiative.

APPENDIX C: Proposed Governance Improvements required during 2020/21

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2020/21. These are shown in the table below.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
1	Brought forward from 2019/20 MTFP and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved (brought forward).	Optimising the achievement of intended outcomes with robust mechanisms for making decisions, which are reviewed continually (4.34).	Corporate Director, Children and Young People Services	March 2021
2	Brought forward from 2019/20 Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Developing the Council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38).	Head of Planning and Assets (Real)	March 2021
3	Brought forward from 2019/20 Undertake a review of governance arrangements of the County Durham Partnership.	Engaging effectively with institutional stakeholders and developing formal and informal partnerships (4.21).	Head of Partnerships and Community Engagement	May 2020
4	Brought forward from 2019/20 Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels.	Improving the use of its resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)	Head of Education and Skills	March 2021
5	The governance surrounding the Council's companies require refinement and efforts have begun to ensure all necessary documentation is in place and that key officers are aware of their roles and responsibilities with regards to the companies they are involved with.	Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements (3.14)	Head of Legal and Democratic Services	March 2021

APPENDIX D: COVID-19 Implications for Governance

The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out below, aligned to the principles of good governance. As the impact of the pandemic is still changing, we will assess the impact on the Council's Local Code of Corporate Governance in the period between approving this draft AGS and approving the final AGS. Any temporary changes that have occurred which are considered a material change to current governance arrangements will be reflected in the final AGS for approval. In particular, any changes to the decision-making process which have resulted in greater delegation of decisions to executive management due to the difficulties in undertaking member committee meetings.

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

1. Our core values have been invaluable in shaping the response: -
 - (a) We will work together to achieve the best for people.
 - (b) We put people and communities at the heart of everything we do and value our employees.
 - (c) We value, trust and support each other.
 - (d) We embrace change and look for better ways to deliver services.

Ensuring openness and comprehensive stakeholder engagement

2. Working with strategic partners through the Local Resilience Forum on collective capacity and capability, protection from the virus, managing deaths and planning for the future.
3. Management of the crisis has been overseen at a corporate and cross-agency regional level:
 - Regional command and control arrangements have been established. These are being led by NHS England and based upon the established North East Pandemic Influenza Framework which includes coronavirus. Well established close working arrangements are in place between Durham County Council and PHE for health protection outbreaks and will continue during this outbreak.
 - County Durham and Darlington Local Resilience Forum (LRF) is also working with Northumbria LRF and Cleveland LRF to co-ordinate activities across the region to ensure effective planning across all agencies for Covid-19. Each LRF has set up a Strategic Co-ordinating Group, known as a Gold Command Group, and they are also meeting as a cross region group.
 - Our leadership team continues to meet daily (virtually) to provide direction to the council's response, with regular input from Cabinet.
 - COVID-19 planning meetings have been taking place since January 2020.

4. We have maintained effective engagement with individual citizens and service users during the crisis. Examples of this include:
 - We have set up a helpline, webpage and support network to help people in County Durham who are struggling during the Coronavirus pandemic. County Durham Together is a virtual support hub for those self-isolating. It can help with a range of requests including food supplies, deliveries, general help and guidance, as well as access to someone who can listen and support.
 - Supporting key voluntary services through our 14 Area Action Partnerships (AAPs). Each AAP Facebook site is also used to highlight the support that is available locally, and we have set up a [website](#) enabling people to register with us as a volunteer so that we can try to match them with local residents who need support. We have also signposted people to register as an [NHS Volunteer Responder](#)
 - Local communications and updates are being channelled through a [single point of entry](#)
 - We have increased support and advice to businesses and individuals with financial worries in relation to personal wellbeing and mental health, including directing them to organisations that can help them look after their mental health during the lockdown
 - Following the announcement of the Government's £500 million Hardship Fund, we have taken swift action to ensure those receiving Local Council Tax Support receive this additional relief as soon as possible where applicable.
 - Our Housing Solutions team has continued to carry out daily checks on people identified as sleeping rough in the County and we are working with accommodation providers to secure suitable housing.
5. We quickly engaged with key suppliers to support them through the crisis in line with fresh government guidance to maintain delivery of essential goods and services.
6. We maintained daily contact with care homes in the county to check on their requirements for support and personal protective equipment.
7. Regular contact was maintained with education providers to provide support on school closures, business continuity management and messaging.

Defining outcomes in terms of sustainable economic, social, and environmental benefits

8. The Council's new vision, which is structured around three externally focused results-based ambitions of 'more and better jobs', 'long and independent lives' and 'connected communities', is highly pertinent and will drive our efforts during the recovery from the pandemic.
9. While the impacts of the COVID-19 outbreak have been catastrophic, the Council will seek to learn from the experience and look for opportunities to maintain the positive effects. These include modern ways of working and reduced travel and carbon emissions.

Determining the interventions necessary to optimise the achievement of the intended outcomes

10. We have made, and will continue to make, the interventions necessary during the pandemic and the post-pandemic period to optimise the achievement of our objective of sustainable economic benefits by:

- Working hard with colleagues at Business Durham and Visit County Durham to keep businesses, employees and the self-employed informed of the support being offered nationally, as well as reviewing the support we provide locally.
- Actively encouraging businesses to take advantage of the Coronavirus Job Retention Scheme.
- Lobbying the Government to assist the self-employed and we are now directing sole traders in County Durham to information about the support being offered through HRMC.
- Offering virtual employability sessions to job seekers.
- Providing grants to help cover the cost of home working technology through the Digital Drive County Durham programme.

Developing the Council's capacity, including the capability of its leadership and the individuals within it

11. The Council acted quickly to establish, and refine, governance arrangements specifically for responding to the pandemic.

12. In recent years, the Council's Inspire Programme has enabled flexible working through digital/mobile technology and supported virtual meetings between teams across the organisation.

13. Despite the difficult barriers to service delivery arising from the pandemic, we have implemented new ways of working to maintain high service levels, particularly on those areas of priority need. Examples of this include:

- Concentrating on providing priority services including public health, adults and children's social care, refuse collections and looking after the local environment.
- Stopping all non-essential face-to-face contact and moved to only digital and telephone communication where possible.
- Mobilising more than 1,500 employees to work in different ways including working from home.
- More than 3,500 employees have now completed a COVID-19 questionnaire online to enable the Council to be in a position to draw on employees with the right skills to help us to keep providing front line and critical services and to help the most vulnerable. The Corporate Management Team made the decision that all employees must complete the questionnaire to provide a cross-council assessment of our employees' skills
- Helped maintain the capability of the Council's human resources by developing a new course on COVID-19 for staff.

Managing risks and performance through robust internal control and strong public financial management

14. Inevitably, the pandemic has initiated many significant risks, and to manage these effectively, the Council has:

- Reviewed over 250 business continuity plans.
- Identified and assessed key risks caused by the COVID-19 crisis, which are monitored by the leadership team to ensure that they are being managed effectively.
- Utilised the internal counter-fraud team to advise and support on measures to counter criminals who are exploiting the COVID-19 pandemic to defraud people in a variety of ways.
- Publicised scam awareness on various topics and alerted staff to the risk of fraud.

15. It is recognised that enforced swift implementation of emergency procedures increases the risk of a breakdown in internal control systems. Regular monitoring and discussion through the COVID-19 governance arrangements seek to eliminate the incidence of fraud and error.

16. The potential financial impact of the pandemic response is huge and there is no guarantee that they will be covered by government funding. Guidance on COVID-19 expenditure was promptly issued to budget managers and requisitioners, and the frequency of monitoring and reporting was escalated.

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

17. Internal Audit have been consulted and involved in the Council's response to COVID-19 from the outset.

18. Internal Audit have played a part in the continuous audit of the risk management and governance processes of the Council's response to COVID-19.

19. New cost centres have been created to accurately report the level of COVID-19 expenditure which will be reviewed by Internal Audit in 2020/2021.

20. Where procurement rules have been relaxed Internal Audit have been informed and again the application will be reviewed in 2020/2021.

21. Large volume payments with respect to Small Business Grant and Hospitality and Leisure Grant Schemes are currently being subjected to a post payment assurance review. The initial controls for the payments were discussed with the Chief Internal Auditor and Corporate Fraud Manager prior to application. Any fraud and error as a result has been underwritten by the Secretary of State for Business, Energy and Industrial Strategy such due to the pace payments were made.

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Audit Committee

29 June 2020

**Statement of Accounts for the year
ended 31 March 2020**

Ordinary Decision



Report of John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To present the draft (unaudited) statement of accounts for the year ended 31 March 2020 and raise any significant issues arising from the accounts.

Executive Summary

- 2 The unaudited statement of accounts for Durham County Council for the financial year ended 31 March 2020 was authorised by the responsible financial officer and published on the council's website on 12 June 2020, in accordance with statutory deadlines.
- 3 The statement of accounts is available for public inspection for the period covering 29 June 2020 to 7 August 2020.
- 4 The accounts are currently being reviewed by the external auditor (Mazars LLP). Following this review, we expect to present the final (or audited) statement of accounts to Members of the Audit Committee for approval at the September 2020 meeting.

Recommendation

- 5 It is recommended that Members of the Audit Committee consider the attached statement of accounts for the council for the financial year ended 31 March 2020.

Background

- 6 The 'Accounts and Audit Regulations 2015' stipulates a two stage approval process for the statement of accounts. The first statutory deadline required that the responsible financial officer, by no later than 31 May, should sign and certify that the statement of accounts presents a true and fair view of:
 - (a) the financial position of the council for the year to 31 March previous, and
 - (b) its expenditure and income for the year to 31 March previous, subject to the views of the external auditor.
- 7 The second stage required that on or before 31 July approval needed to be given to the statement of accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take account of the views of the external auditor. This is done so that the statement of accounts can then be formally published.
- 8 However, for this year only, due to the impact of Covid 19 on local authorities, the statutory deadlines have been extended. The Ministry of Housing, Communities and Local Government confirmed that a statutory instrument amending the Accounts and Audit Regulations had been laid and came into force on 30 April 2020. The Regulations change the dates that local authorities are required to publish their draft and final accounts for 2019/20 and remove the 'common' period during which local electors can inspect and object to those accounts.
- 9 The key changes for the publication of the accounts for 2019/20 are as follows:
 - (a) the deadline for the council to publish its draft accounts is 31 August 2020 (not 31 May); and
 - (b) the deadline for publication of its final (audited) accounts has moved from 31 July to 30 November 2020.
- 10 The requirement for a 'common' public inspection period, to begin on 1st June, has been removed. There is still the requirement for the council to hold a thirty working day inspection period which can commence at any time, but no later than 1 September 2020. This

allows individual local authorities to produce draft accounts and commence inspection periods as soon as practicable for them.

- 11 Despite the extension to the statutory deadlines, and following discussion with external auditors, it was agreed that council officers would, as far as possible, adhere to the deadlines set out in the final accounts timetable for 2019/20 (which was agreed by the Audit Committee in February 2020). The aim was to have the draft accounts approved, published and available for audit by mid June 2020.
- 12 The unaudited statement of accounts for Durham County Council for the financial year ended 31 March 2020 was authorised by the responsible financial officer and published on the council's website on 12 June 2020, in accordance with revised statutory deadlines.
- 13 The statement of accounts is subject to audit by Mazars LLP. The audit of the accounts is currently ongoing; upon completion, the Auditor's report will be incorporated into the published version of the document.
- 14 Mazars are anticipating completing their audit by the end of August 2020. With their agreement, we expect to present the final statement of accounts for 2019/20 for approval at the Audit Committee meeting planned for September 2020.
- 15 The attached statement of accounts is available for inspection by the public from 29 June 2020 to 7 August 2020, in line with the revised regulations, and has been published on the council's website.

Statement of Accounts

- 16 The statement of accounts for the financial year 2019/20 has been prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2015 and the 'Code of Practice on Local Authority Accounting 2019/20' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 17 The Code is based on approved accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The council is therefore legally required to follow this code of practice. Explanatory notes are included in the document to assist in the

interpretation of the accounts which are unavoidably technical and complex.

- 18 To help Members in reading and interpreting the contents, Appendix 2 to this report briefly explains the purpose of each section of the statement.

Key information from the Statement of Accounts

- 19 Page numbers used in this report refer to the page numbers on the statement of accounts document, not those used in the full pack of reports.
- 20 There are five core statements to provide fundamental information on the financial activities and position of the Council:
- (a) Comprehensive Income and Expenditure Account (page 34)
 - (b) Movement in Reserves Statement (page 35)
 - (c) Balance Sheet (page 36)
 - (d) Cash Flow Statement (page 37) and
 - (e) Collection Fund (page 138).
- 21 The statement of accounts also includes the accounts for Durham County Council Pension Fund (commencing at page 145) for which the council is the administering authority.
- 22 The financial position of the council remains healthy. The statement of accounts shows that the council's net worth was £229.807 million at 31 March 2020, a decrease of £158.759 million during 2019/20. This is mainly due to an increase in the estimated pension liability calculated by the Pension Fund's Actuary, for which statutory arrangements are in place to fund the deficit.
- 23 The council's usable reserves during 2019/20 have reduced.
- (a) The general reserve has decreased by £1.156 million to £23.950 million. This reserve is held to cushion the impact of uneven cash flows, unexpected events or emergencies.
 - (b) Earmarked reserves have decreased by £9.571 million to £216.840 million, although this reduction would have been £17.5 million higher were it not for the receipt of the first tranche of the Covid 19 Support Grant in March 2020. The unutilised element of the first tranche of £17.5 million has been transferred into an earmarked reserve. Earmarked reserves are held for specific future purposes.

- 24 The Pension Fund accounts show that its net assets as at 31 March 2020 have decreased by £195.8 million to £2.786 billion. Further information on the Pension Fund is contained within the Pension Fund's Annual Report, which will be published following the approval of the accounts.

Audit of Accounts

- 25 The final audit of the statement of accounts is underway. At the end of this process the external auditor will provide an Audit Completion Report detailing their comments and recommendations for improvements, based on the position at 31 March 2020.

Contact: Beverley White Tel: 03000 261900

Appendix 1: Implications

Legal Implications

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2019/20 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

Finance

This report details the financial position of the council as at 31 March 2020

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

None.

Procurement

None.

Appendix 2: Statement of Accounts - Summary and Explanation

Item	Pages	Explanation of Purpose and Content
Narrative Report	3 - 26	To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.
Statement of Responsibilities for the Statement of Accounts	27	Sets out the responsibilities of the council and the Corporate Director of Resources for the statement of accounts.
Independent Auditor's Report to Durham County Council	29 - 33	Once the audit is completed the External Auditor's report will be included here.
Durham County Council Core Financial Statements		
Comprehensive Income and Expenditure Account (CIES)	34	This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
Movement in Reserves Statement	35	This statement shows the movement in the year on the different reserves held by the council analysed into 'usable' reserves and other reserves.
Balance Sheet	36	The balance sheet shows the value of the assets and liabilities recognised by the council as at 31 March. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.
Cash Flow Statement	37	The cash flow statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
Notes to the Core Financial Statements	38 - 137	The notes are important in the presentation of a true and fair view. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the policies and procedures adopted in compiling the accounts.

Item	Pages	Explanation of Purpose and Content
Collection Fund	138 - 144	The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
Durham County Council Pension Fund Accounts	145 – 188	Shows the operation and membership of the Pension Fund, the expenditure and income during the year and its financial position at 31 March. Notes providing further information follow the accounts.
Annual Governance Statement	189 - 211	Gives assurance that appropriate mechanisms are in place for the maintenance of good governance across the activities of the council.
Glossary of Terms used in the Accounts	212 - 227	To assist readers in understanding terminology used in the statement of accounts.



Statement of Accounts

For the year ended 31 March 2020

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

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

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

e-mail: help@durham.gov.uk
Telephone: 03000 260000

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

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1. Message from John Hewitt CPFA – Corporate Director of Resources

Durham County Council remains committed to the delivery of its vision and priorities which are developed in consultation with the public, our partners and stakeholders. The council has continued to effectively manage its resources during a period of increasing cost pressures and a backdrop of many years of government funding reductions. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid 19 and the recovery from it will undoubtedly impact on the council and its communities for a number of years.

The financial landscape for the council is therefore likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review until the Autumn of 2020 means that there will be little certainty over the council's longer term funding outlook and this will need to be carefully managed as the council considers the recovery actions it needs to take and commit to.. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022/23.

The outcome of these reviews will determine the quantum of funding available to local government and the share available to the council. The added uncertainty brought about by the exit from the European Union will compound these issues. There remains a risk that funding reductions may continue beyond this point placing further pressure on the Medium Term Financial Plan (MTFP).

The Covid 19 outbreak will have a significant financial impact on the council in 2020/21 and the recovery take place over a number of years. The financial implications of the councils recovery plan will not be fully understood . The council began to experience the impact of the outbreak in March 2020 when a number of front-line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

The council's spending has also significantly increased to cope with the outbreak. Whilst some Covid 19 financial support has been received from government, it is unclear as to the extent to which all of the cost pressures and reductions in income will be reimbursed. This represents a financial risk to the council that will form part of future medium term financial planning.

By the end of 2019/20, the council had delivered £234 million of financial savings with additional savings of £8 million approved for 2020/21. It is forecast that total savings for the period 2011/12 to 2023/24 will be £282 million.

The council continues to deliver services which are of a high standard and are well regarded. All service groupings of the council continue to work together and build on our

achievements in order to provide the best possible services for the people of County Durham, businesses which operate here and people who visit the county.

The council's Medium Term Financial Plan (MTFP) for the last eleven years has focussed on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management. As this strategy becomes increasingly more difficult to maintain over time the council's Transformation Programme was designed to ensure all options were exhausted to protect front line services wherever possible. Nevertheless, front line services will inevitably become progressively impacted over the coming years if funding continues to be restricted.

This document presents the published accounts for Durham County Council for the year ended 31 March 2020 – the 'Statement of Accounts'.

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

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

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

John Hewitt CPFA
Corporate Director of Resources

2. Introduction

The purpose of the statement of accounts is to give members of the public, electors, those subject to locally levied taxes and charges, Members of the council, employees and other interested parties clear information about the council's finances in order that they may:

- understand the financial position of the council and the outturn for 2019/20;
- have confidence in the council's stewardship of public money which has been used and accounted for in an appropriate manner; and
- be assured that the financial position of the council is sound and secure.

The statement of accounts begins with this narrative report and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

This narrative report provides information about Durham, including key issues affecting the council and its accounts. It also provides a summary of the financial position as at 31 March 2020 and an executive summary of the non-financial performance of the council in 2019/20. The purpose is to provide an understandable guide of the most significant aspects of the council's financial performance, year-end financial position and cash flows. The narrative report focuses on the matters that are of relevance to the principal users of the statement of accounts. As well as complementing and supplementing the information provided in the accounts, it also provides a forward look at the issues that have affected the council's development, performance and position during 2019/20 and are likely to impact in the future. This foreword covers and is structured as below:

- 1 Message from the Corporate Director of Resources
- 2 Introduction
- 3 An Introduction to Durham
- 4 An Introduction to Durham County Council
- 5 Financial Performance of the council 2019/20
- 6 Impact of Covid 19 on the council
- 7 Non-Financial Performance of the council 2019/20
- 8 Significant Issues for 2019/20 and Beyond
- 9 Corporate Risks
- 10 Summary Position
- 11 Receipt of Further Information
- 12 Explanation of Accounting Statements

3. An Introduction to Durham

Many of our distinctive qualities can be explained by our history. In medieval times, Durham held great political importance as a buffer state between England and Scotland with its own autonomous ruler, the Prince Bishop of Durham, holding both spiritual and

secular power in the region and having responsibility for protecting England's northern frontier. As a religious centre, Durham helped to illuminate the Dark Ages. Durham Cathedral was the site of the tomb of St Cuthbert, the great northern saint and a popular site of pilgrimage in medieval times. The cathedral was also the home of the Lindisfarne Gospels, the oldest surviving translation of the Gospels into English and one of the finest illuminated manuscripts in existence. Today, Durham Castle and Cathedral are one of only a few World Heritage Sites in the British Isles and are a major tourist attraction for visitors from all over the world.

Later in our history when coal was king, our mines powered the Industrial Revolution. This area saw the birth of the railways and provided the coal, steel and ships for economic growth across the country and the world. In the nineteenth century the growth of the mining industry transformed the landscape and the population of the county. Colliery villages sprang up and migrant workers from all parts of the British Isles swelled the workforce. Some of the housing erected in our old colliery villages to accommodate the large population increases of the boom years of coal remain, so the built environment in some parts of the county needs regeneration. Despite improvements in recent years, some of these communities still face challenges. The demise of mining and heavy industry in the 1980s hit the local economy hard, seeing significant increases in unemployment. This led to large scale environmental reclamation work to restore the natural beauty of our county and the economic renaissance that continues today.

Today the county has one of the best natural environments in the country, boasting some wonderful countryside from the unspoilt Area of Outstanding Natural Beauty of the North Pennines to the Durham Heritage Coast. The county's industrial heritage is well served by museums such as Beamish, the largest open-air museum in the UK and Locomotion, the National Railway Museum at Shildon, the world's first railway town.

A partnership of public agencies working together with the private sector has redeveloped the economy of the county, investing in leisure and tourism, green technologies, creative industries, financial services, pharmaceuticals and advanced engineering sectors. The University of Durham, the third oldest in England, is a member of the prestigious Russell Group of universities known for their world class teaching and research. Collaboration between local businesses and the University of Durham has led to developments in science, technology and innovation.

The county enjoys good north-south connectivity being on the East Coast Mainline and is served by two airports and two maritime ports. We enjoy relatively traffic free roads in comparison with the rest of the country. However, east-west connectivity within the county needs improvement. Accessibility remains a priority for residents, particularly in rural areas and areas of high deprivation with low car ownership. The county has poorer health outcomes in comparison to some UK measures, partly due to the legacy of heavy industry and the deprivation suffered in some of our communities, which means we have some challenges. There is a high dependency on benefits in some parts of the county and the introduction of Universal Credit has disproportionately affected County Durham. Children living in poverty and levels of fuel poverty are higher than national averages and the

demand for children's social care has increased in line with national trends, putting significant pressure on our public services.

Interesting facts about your county:

- County Durham has a population of 526,980, making it the most populated local authority in the North East and the seventh most populated all-purpose local authority in England
- 1 in 5 people are aged 0-17 years old
- 1 in 5 people are aged over 65, an increase of nearly 36% since 1991.
- The number of people aged over 65 is projected to increase by 31% over the next 15 years and the number of people aged over 85, will increase by 82% over the same time period.
- The county covers an area of 862 square miles making it nearly 20 times the size of Newcastle-upon-Tyne.
- Over a third of the county is made up of accessible green space.
- It has a rich history. Its Norman cathedral and castle were one of the first sites in the UK to be listed as a world heritage site by UNESCO.
- The University of Durham is highly regarded and was recently ranked as 5th in the UK and is in the top 8% of universities worldwide.
- Durham Constabulary is unique among police forces in the country, having been ranked as outstanding for the last four years.
- There are over 240,000 households in the county with 2 in 5 living in rural areas.
- Over 7,000 homes are off the gas network.
- 40% of dwellings are in terraced properties.
- There are over 14,000 businesses registered in the county and this has increased by nearly 20% in the last 10 years.
- 74% of our working age population are in employment which is the highest it has been in over 15 years.
- 1 in 3 people are employed in public administration, health and education. The largest business sectors in the county are construction and scientific and technical industries. Production is the fastest growing sector.
- Nearly a third of our population are aged under 25.
- We have enough renewable energy based in the county to power 157,000 homes a year; that's over 65% of our homes.
- Less than 5% of our domestic refuse goes to landfill
- Carbon emissions throughout the county have reduced by 52% since 1990
- Last year there were just under 98 crimes per 1,000 population.
- Nearly 20 million people visited County Durham last year spending almost £870 million.
- Nearly 12,000 jobs are supported by the visitor economy.

4. An Introduction to Durham County Council

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

Interesting facts about the council:

- it had a net revenue budget requirement of £400 million in 2019/20 and a capital budget of £444 million for 2019/20 to 2022/23;
- it employs around 8,121 staff (excluding schools);
- it maintains 3,793 km of highway, over 80,000 street lights, owns and manages 39 libraries, 12 leisure centres, 8 customer access points and 222 schools (excluding academies);
- it consists of 5 service groupings, namely: Adult and Health Services, Children and Young People's Services, Regeneration and Local Services, Resources and Transformation and Partnerships;
- There are 248,502 domestic and 15,650 business premises in the County;
- 126 councillors represent 63 electoral divisions within County Durham making it the largest elected body in England outside of the UK Parliament;
- The political makeup of the council on 31 March 2020 was as follows:
 - 70 Labour councillors,
 - 15 Liberal Democrat councillors,
 - 12 Independent councillors,
 - 10 Conservative councillors,
 - 7 Derwentside Independent councillors,
 - 4 Spennymoor Independent People Before Politics councillors,
 - 3 The North East Party councillors,
 - 4 other councillors,
 - 1 Labour and Co-operative councillor.
- its administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and County Hall, Durham;
- there are 14 Area Action Partnerships covering the county providing residents with the opportunity to set local priorities which are acted on through local projects.

5. Financial Performance of the Council 2019/20

Revenue Outturn Position

The council's revenue outturn is shown in the following table. The original net revenue expenditure budget of £411.050 million was approved at the Council meeting on 20 February 2019. The original budget set out how the council planned to allocate its funding during the year in order to deliver services to the people and communities of Durham. During the financial year, amendments to the council's budget were approved by Cabinet.

In overall terms, the outturn was an underspend of £27,000 when comparing actual net expenditure to the revised budgeted/ planned net expenditure. The underspend represents less than 0.01% of the revised total net expenditure budget. The deficit for the year in respect of Service Groupings (£5.088 million) has been allocated or drawn from the individual Cash Limit Reserves to meet future service demands. The remaining £5.061 million was allocated to the council's General and Earmarked Reserves.

	Original Budget	Revised Budget (Including Qtr 4 Cash Limit Adjustments)	Service Groupings Final Outturn	Variance
	£000	£000	£000	£000
Service Groupings				
Adult and Health Services	123,776	123,312	121,792	-1,520
Children and Young People's Services	123,639	129,360	135,577	6,217
Regeneration and Local Services	137,586	129,113	130,903	1,790
Resources	21,268	21,774	20,463	-1,311
Transformation and Partnerships	10,784	11,334	11,246	-88
	417,053	414,893	419,981	5,088
Corporate Finance				
Contingencies/sums outside the cash limit	5,161	2,265	0	-2,265
Centrally Held Budgets	0	0	0	0
Corporate Costs	3,728	3,998	3,583	-415
Capital, Treasury and Technical Accounting	-30,953	-8,984	-9,949	-965
Levies	16,061	16,080	16,080	0
	-6,003	13,359	9,714	-3,645
Total Net Expenditure	411,050	428,252	429,695	1,443
Funded by:				
Council Tax	-222,275	-222,275	-222,267	8
Use of (-) / contribution to earmarked reserves	-11,010	-14,629	-14,629	0
Estimated net surplus on Collection Fund	-2,168	-2,168	-2,168	0
Business Rates	-54,401	-54,401	-54,473	-72
Top up grant	-71,613	-71,613	-71,613	0
Levy Account Surplus Grant	0	0	-427	-427
Revenue Support Grant	-27,620	-27,620	-27,620	0
Covid-19 LA Support Grant	0	-17,521	-17,521	0
New Homes Bonus	-6,709	-6,709	-6,709	0
Section 31 Grant	-10,423	-10,423	-11,348	-925
Adult/Childrens Pressures Grant	-4,822	-4,822	-4,822	0
Contribution to / from (-) Cash Limit Reserve	-9	3,929	3,929	0
Budgeted Use of General Reserves	0	0	0	0
Total Funding	-411,050	-428,252	-429,668	-1,416
Variance	0	0	27	27

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

- In Adult and Health Services (AHS) there was a net underspend of £1.520 million. This was mainly due to:
 - the early achievement of a number of MTFP savings across the Adult Care and related areas;
 - the careful management and control of vacant posts and supplies and services budgets across the service; partially offset by
 - additional spend on adult care packages. Spending on adult care packages will continue to be closely monitored to assess the impact of demographic and procedural/ operational changes.
- In Children and Young People's Services (CYPS) there was a cash limit overspend of £6.217 million. This was primarily made up from:
 - An overspend of £2.535 million within the Education Service, mainly due to pressures on the Home to School Transport budget, linked to increased demand, increased contract prices and the effect of the implementation of Public Service Vehicle Accessibility Regulations.
 - An overspend of £3.682 million within the Children's Services. There was an overspend of £5.431 million on costs associated with the increase in children's placements. Placements include children who have a legal status of looked after and those young people in permanent placements who are financially supported by the council. In addition, there was a £0.124 million overspend on associated legal expenses for childcare cases and a shortfall on income from joint funded placements £0.406 million, which is mitigated in part by savings resulting from employees related costs mainly related to staff vacancies of £2.279 million. The pressure on the budget in children's social care has been evident over the last few years, as the number of children in the care system has increased significantly and their needs have become more complex. There are now circa 920 looked after children, compared to an average of 795 in 2017/18.
- In Regeneration and Local Services there was a cash limit overspend of £1.790 million. The main reasons for this are as follows:
 - Environmental Services was £1.484 million overspent. This is mainly due to pressures on the Waste Disposal and Collection services of £0.785 million due to increased tonnages, this has been recognised when preparing the MTFP(10); unachieved MTFP savings within Fleet of £0.204 million; and a £0.156 million overspend in Refuse due to additional transport costs.
 - Culture Sport and Tourism was overspent by £0.749 million. This is mainly the result of an overspend of £0.197 million at the Gala Theatre linked to reduced income and a £0.499 million overspend relating to the former Leisureworks facilities. These reduced income levels / budget pressures have been recognised in MTFP(10).
 - Technical Services was £0.194 million overspent. Within this service area there was an overspend of £1.370 million attributable to additional policy led expenditure on highways maintenance, mainly in relation to Category 1 and 2 defects and footway maintenance. This was offset by additional income

generated within the Highways Services Trading Accounts of £0.384 million, additional Section 38 income of £0.690 million and other savings of £0.102 million across this service in year.

- £2.265 million of the contingencies/ sums outside of the cash limit budget remained unspent at the end of the financial year;
- Within Capital, Treasury and Technical Accounting there was an overachievement of investment income of £0.965 million which was mainly due to higher than anticipated levels of returns on loan investments and commercial activities;
- A Levy Account Surplus Grant of £0.427 million was received from MHCLG at the end of the financial year;
- Additional Section 31 grant income of £0.925 million, which had not been included in the budget, was received.

Capital Outturn Position

The original capital budget for 2019/20, taking into account the budgets approved by Council on 20 February 2019 and adjustments for re-profiling of underspends at 2018/19 year end was £143.472 million. This was agreed by Cabinet on 10 July 2019.

Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year. Requests for re-profiling capital programme underspends at 31 March 2020 have also been considered by MOWG.

The council spent £110.128 million on its capital programme in 2019/20 compared to the revised forecast spend of £117.574 million. The capital programme was financed through a number of sources including borrowing, government grants, revenue contributions, earmarked reserves and capital receipts. The following table shows the capital expenditure incurred during the year and how it was financed.

Expenditure/ -Income	Revised Budget	Service Groupings Final Outturn	Variance
	£000	£000	£000
Service Groupings			
Adult and Health Services	-	-	-
Children and Young People's Services	20,269	19,542	-727
Regeneration and Local Services	91,537	85,466	-6,071
Resources	3,593	3,102	-491
Transformation and Partnerships	2,175	2,018	-157
Total	117,574	110,128	-7,446
Funded by:			
Grants and Contributions	-44,604	-49,032	-4,428
Revenue and Reserves	-16,021	-23,745	-7,724
Capital Receipts	-10,439	-10,471	-32
Borrowing	-46,510	-26,880	19,630
Total	-117,574	-110,128	7,446

The variance between the revised capital budget and the final outturn for the year was £7.446 million. This underspend of planned expenditure will be re-profiled into 2020/21 and future years together with the associated financing and therefore this does not represent a financial issue for the council.

Other Key Financial Items in 2019/20

Material Assets and Liabilities:

- As at 31 March 2020, the council held:
 - £1,819.039 million of Long Term Assets
 - £338.898 million of Current Assets
 - £151.202 million of Current Liabilities and
 - £1,776.928 million of Long Term Liabilities.
- Long Term Assets have decreased by £43.889 million, which is mainly due to a decrease in the value of Property, Plant and Equipment assets.
- Current Assets have increased by £37.661 million, which is mainly due to an increase of £44.597 million in short term debtors and reductions of £12.788 million in Short Term Investments.
- Current Liabilities have decreased by £2.300 million, mainly due to a decrease of £1.730 million in Short Term Borrowing.
- Long Term Liabilities have increased by £154.831 million, which is mainly due to an increase in Pension Liabilities of £103.234 million and the movement in Long Term Borrowing of £49.768 million during the year.

Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2019/20 to 2022/23 and Revenue and Capital Budget 2019/20 Report, approved by Council on 20 February 2019, details the 2019/20 borrowing limits for the council.
- The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The council is required to set borrowing limits for the following three financial years. The limits for 2019/20 were as follows:
 - Authorised limit for external debt of £576 million
 - Operational boundary for external debt of £523 million
- As part of the council's Treasury Management service, these indicators are monitored on a daily basis, and neither was exceeded during 2019/20. The highest level of external debt incurred by the council during the year was £438.415 million.

6. Impact of Covid 19 on the Council

The Covid 19 (coronavirus) outbreak spread rapidly across the world and was declared a global pandemic on 11 March 2020. As at 13 May 2020, 213 countries/ territories had been affected; there were 4,179,479 confirmed cases globally; and 287,525 confirmed deaths. In the UK, there were 226,467 confirmed cases and 32,692 confirmed deaths and in County Durham, there were 1,728 confirmed cases and 394 confirmed deaths.

The coronavirus pandemic is one of the most profound challenges society has faced in more than a generation. Previous pandemics have lasted for years and with effective coronavirus vaccines yet to be produced, it is anticipated that society will be affected by Covid 19 for some time to come.

The council and its partners had emergency and business continuity management planning frameworks in place, which enabled us to prepare and respond promptly to the threat as it emerged. However, we have had to respond dynamically and innovatively as the pandemic developed, revising our approach as the national coronavirus action plan and recovery strategy evolved. In line with the national response, the council has worked regionally and locally to protect communities from the virus and to support those affected by the pandemic, economically, socially, and in relation to their own physical and mental health.

County Durham communities themselves have been a major force in this and have made an immense contribution to the 'County Durham Together' response. As a category one responder under the Civil Contingencies Act 2004, the council has worked with partner agencies via the County Durham and Darlington Local Resilience Forum (LRF). In particular, the council has led the LRF in relation to:

- community support;
- excess deaths;
- intelligence and data;

- media and communications;
- multi-agency information;
- personal protective equipment (PPE); and
- recovery.

The Director of Public Health has been a member of the regional Health Strategic Group which has worked with the three LRFs in the region and we have played a key leadership role regionally, in addressing mental health issues related to the pandemic. As well as supporting the LRF and regional health partnerships, the council has focussed upon the following, as key features of its own response plan:

- public health and overall planning and response to the pandemic;
- population health management;
- community support;
- social care and commissioning;
- support to businesses;
- education and children's services;
- business continuity;
- human resource management;
- testing;
- recovery planning including physical and mental health.

In responding to the pandemic, the council:

- developed overall planning arrangements, translating World Health Organisation and government guidance into local action and support, underpinned by dedicated intelligence and data analysis, public health practitioner advice, communications and human resources (HR) management;
- offered assistance to over 25,600 medically vulnerable people in the county who have been encouraged to shield from infection because they are at extreme risk of illness;
- contacted over 12,400 people who are shielding and need help;
- undertook a series of prioritised mailshots with leaflets delivered to all those shielding, to over 75,000 other vulnerable people, then to all 310,000 households in the county.
- received nearly 4,100 calls into our dedicated community support hub call centre and resolved over 2,700 requests where people required actual help and assistance;
- introduced enhanced support for residents affected by domestic abuse, homelessness and drug and alcohol problems, all of which have been exacerbated by the pandemic;
- established a volunteer bureau to enable local people and groups who want to help;

- invested an additional £1.5 million via Area Action Partnerships (AAPs) to support local and cross-county community responses and have enabled local Members to allocate Member budgets more flexibly, potentially providing a further £1.764 million of revenue support;
- increased our Welfare Assistance Scheme by a further £1m to provide emergency financial assistance for those in crisis;
- adjusted our Local Council Tax Support scheme, utilising the Hardship Fund to provide up to an additional £300 council tax relief and arranged individually with council tax payers in financial hardship for their payments to be deferred until later in the year;
- supported commissioned social care providers through over 9,000 telephone calls and the provision of advice and support;
- agreed 5% and 10% funding increases for providers and made £13 million of payments upfront, as opposed to in arrears, in order to help with funding and cashflow issues.
- supplied over 275,000 pieces of PPE to the social care sector on an emergency basis and managed the provision of emergency PPE on behalf of the LRF;
- established an infection inspection team and comprehensive multi-agency support package to support care homes to prevent and tackle infection outbreaks;
- supported the rapid discharge of Covid 19 patients from hospital through the provision of emergency care packages;
- supported over 8,000 businesses with total grant payments of over £90 million;
- recalculated the business rates bills of just under 2,300 businesses, applying business rate reductions and discounts totalling over £49 million;
- introduced immediate supplier payments, supplier relief for important vulnerable suppliers and rent deferrals for our commercial tenants;
- provided advice and assistance to schools across the county and assisted over 250 schools to remain open to provide childcare for key workers;
- maintained all child protection, safeguarding and social care services, retaining contact with children and their families;
- prioritised and maintained service delivery wherever possible, which has involved the redeployment, training and development of 467 staff;
- developed a comprehensive emergency human resource policy and support physical and mental health support packages for staff;
- developed access to rapid local testing for council and social care staff, supported the roll-out of testing via the National Testing Programme and developed regional and local contact tracing arrangements.

The council's focus has now turned to restoring council services and laying the foundations for recovering from the pandemic. While there is a possibility that we may experience secondary outbreaks and pandemic peaks, recovering from Covid 19 will set

the context for future community and council planning and decision-making in the county as we develop and implement the new county vision and council plan.

7. Non-Financial Performance of the Council 2019/20

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

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

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

Council Plan

We have a three year, high level plan which is underpinned by service planning arrangements and links closely to the Medium Term Financial Plan (MTFP) and the County Durham Plan. The MTFP sets out how our priorities will be resourced. The County Durham Plan is a spatial representation of our ambitions around housing, jobs and the environment as well as the transport, schools and healthcare infrastructure to support it. It sets out how Durham County Council is to consider corporate priorities for improvement, and the key actions to be taken to deliver the longer-term goals in the Vision for County Durham 2035 and the council's own transformation agenda.

There are three ambitions for County Durham, plus an additional one specifically for the council. Each of these priorities, alongside the main objectives and achievements are set out below:

- **More and Better Jobs** - focusing on continuing our economic renaissance and ensuring that people can enjoy a thriving economy with more and better jobs and reduced levels of poverty and deprivation.

Objectives

- Deliver a range of employment sites across the county
- A strong, competitive economy where County Durham is the premier place in the North East to do business

- A broader experience for residents and visitors in the county
- Young people will have access to good quality education, training and employment
- Helping all people into rewarding work
- Fewer people will be affected by poverty and deprivation within the county

Achievements

- Outstanding success in attracting countywide private and public investment in enterprise and tourism
- £25 million invested in Jade Enterprise Zone
- £178 million invested on Integra 61 warehousing facility at Bowburn including facilitating internet giant, Amazon
- £271 million has been invested in one of Europe's leading technology parks at NETPark, Sedgefield
- £13 million has been invested at Forrest Park in Aycliffe preparing for further investment of over £140million
- £200 million in Bishop Auckland on Kynren, the Auckland Project at the castle and Auckland Tower
- £90 million spent in Barnard Castle by Glaxo Smith Kline on a new manufacturing facility
- Almost £1.5 billion in Durham City, £750 million by the University and over £240 million on the Riverside and other projects
- Plans to create up to 6,000 jobs on the Aykley Heads strategic employment site
- £100 million invested through Project Genesis in Consett
- £17 million spent at Beamish Museum on the 1950s town, upland farm and Georgian coaching inn
- Lumiere in Durham, the biggest light festival in Europe, celebrated its 10th anniversary with 37 separate artworks attracting thousands of visitors and boosting the local economy in Durham City.
- Successful food festivals held at Bishop Auckland and Seaham

More and Better Jobs Statistics

- The employment rate in County Durham has steadily improved since a mid-recession low point in 2015 when it stood at 66.6% and is now 74.1%, just 1.6 percentage points behind the national average
- Over 165,000 people visited the Lumiere festival in November, bringing the total number of people who have enjoyed the festival since it began in 2009 to just over one million.
- A record 29,000 people attended the 14th annual Bishop Auckland Food Festival boosting takings of more than 150 traders from County Durham and beyond and 15,000 attended the inaugural Seaham Food Festival.

- Pupils in County Durham achieved an average Attainment 8 score of 44.6 at GCSE compared to a national average of 46.5. The average points score per A-level entry for state funded schools in County Durham was 35.4 compared to a national average of 32.4.
 - Educational attainment decreases at Key Stage 4 (GCSE-level), with County Durham performing worse than the national average, and fewer pupils are in secondary schools judged by Ofsted to be good or outstanding than nationally
 - There was a net increase of 1,642 homes across the county
 - County Durham is in the top 40% most deprived upper-tier authorities in England
- **Long and Independent Lives** – Improve both the life expectancy and number of years our residents remain in good health by providing children and young people with the best start in life, a high quality environment for everyone to access, promote positive behaviours amongst our residents, more integrated health and social care services and enabling them to live in their own homes for longer.

Objectives

- Children and young people will enjoy the best start in life, good health and emotional wellbeing
- Children and young people with special educational needs and disabilities will achieve the best possible outcomes
- A physical environment that will contribute to good health
- Promotion of positive behaviours
- Better integration of health and social care services
- People will be supported to live independently for as long as possible by delivering more homes to meet the needs of older and disabled people

Achievements

- Life expectancy has increased by three years for men and two years for women since 2001/02.
- 32,000 fewer people smoke now than in 2012.
- Teenage pregnancies have halved since 2012.
- Effective discharge planning and joint working between health and social care services means that County Durham is one of the best performing areas in the country at delayed transfers of care from hospital.
- We have low rates of permanent admissions to residential or nursing care for older people in comparison with national figures.
- We have excellent levels of satisfaction from clients in receipt of adult social care services compared to national figures.
- The council in partnership with other local organisations work together to support families with problems through our Stronger Families Programme. We have turned around the lives of over 4,000 families.

- 100% of our maintained nursery education providers are rated as good or outstanding by Ofsted.
- The tonnage of carbon emissions from council operations has been reduced by 47% since 2008-09.
- The council has actively worked to eliminate single use plastics from all its operations and has encouraged over 200 organisations throughout the county to sign up to our plastics pledge and work to eradicate unnecessary plastics from their business.
- Less than 5% of the household waste that we collect now goes to landfill compared to over 60% in 2008.
- To facilitate greater investment, over 18,000 council houses were transferred to the social housing sector in 2015, one of the largest housing transfers in the country.

Long and Independent Lives Statistics

- Almost 9 in 10 children under the age of two living in the county's most deprived communities are registered with, and have sustained contact with, a Children's Centre
 - Almost a quarter of school children are overweight or obese at reception (age 4-5) and this rises to over a third at year six (age 10 to 11)
 - Female life expectancy and healthy life expectancy is statistically significantly lower in County Durham than England
 - We have a gap between life expectancy and the number of years lived in good health of 19 years for men and 23 years for women (significantly wider than national rates)
 - We have one of the lowest rates of daily delayed transfers of care from hospital to a social care setting in the country
 - Less than 5% of the domestic refuse that we collect goes to landfill sites
- **Connected communities** – Help our residents create caring and welcoming communities where everyone is valued, we can help and support each other and we give everyone the opportunity to realise their potential.

Objectives

- All children and young people will have a safe childhood
- Standards will be maintained or improved across County Durham's housing stock
- Our towns and villages will be vibrant, well used, clean, attractive and safe
- People will have good access to workplaces, services, retail and leisure opportunities
- Communities will come together and support each other

- Delivery of new high-quality housing which is accessible and meets the needs of our residents

Achievements

- Significant investment in increasing workforce capacity both at a managerial and social worker level and effective workforce planning has led to reduced caseloads, better quality and timeliness in children's social care.
- Investment in new IT systems has transformed children's social care performance information available and management oversight has improved compliance in most areas of performance.
- Since 2016, the council in collaboration with a range of partner organisations has played its part in the UK's commitment to support some of the world's most vulnerable refugees and has been recognised nationally as best practice for its resettlement programme.
- A local lettings agency has been established to help secure suitable housing for homeless people and people who find it difficult to access the housing market.
- Durham County Council is one of only two local authorities in the country to achieve the maximum under the Department for Transport's incentive fund in recognition of its efficiency rating and has managed to prioritise and increase investment in its highways.
- The council invests £3.7 million per year on town centre regeneration, purchasing derelict buildings and land and environmental improvements.
- Over the last 10 years our Area Action Partnerships have completed over 6,000 community projects, benefiting over 30,000 people and helping to secure over £100 million funding.
- Over 30,000 people have taken part in volunteering across all sectors in County Durham over the last two years

Connected Communities Statistics

- County Durham has a higher than average crime rate (97 per 1,000 population compared to 83 nationally)
- There are around 900 children in care at any one time - this is in addition to around 420 children on a child protection plan and 3,700 children in need
- The rate of first time entrants to the youth justice system in County Durham is higher than the national average (262 per 100,000 population aged 10-17 years old compared to 238 nationally)
- Antisocial behaviour in County Durham is showing a reducing trend
- The number of people killed and seriously injured on our roads is showing a long-term reducing trend
- Standards of cleanliness in County Durham are good and reported incidents of fly-tipping is decreasing

- **An Excellent Council** – Rethinking the way that we deliver many of our services in order to meet increasing demand with reducing resources and make sure that we are equipped for the future by reskilling our workforce and working more effectively for the benefit of our residents across organisational boundaries with partner organisations.

Objectives

- Our resources will be managed effectively
- We will create a workforce for the future
- We will design our services with the customer
- We will use data and technology more effectively
- We will actively performance manage our services

Achievements

- By the end of 2019/20, the council will have delivered £232 million of savings and lost just under 3,000 posts since the introduction of the Government's austerity programme in 2011.
- The council leads on Digital Durham, a £35 million initiative to transform broadband speeds for residents and business across the North East which has already provided access to fibre broadband to over 105,000 properties.
- Over 100 council services are available digitally and 40% of residents access our services this way.
- We have 246 people employed in apprenticeship posts and 276 existing staff are accessing the apprenticeship levy to increase their skills. 7.8% of 16 to 17 year olds in County Durham compared to a national figure of 5.8%.
- The council holds gold status in the Better Health at Work Award, which recognises the efforts of employers regionally in helping to address health issues of its workforce. We also work with local companies and other organisations to help them achieve the award.
- The council has 200 trained mental health first aiders and 80 time to change (mental health) champions.
- The council has been awarded the Disability Confident Leader status by the Department for Work and Pensions in recognition of its commitment to be a good employer of people with a disability, and will support local businesses to become Disability Confident.

An Excellent Council Statistics

- 57% of our staff had no sickness absence in the last 12 months and 78% had sickness absence of five days or fewer.
- 10% of transactions with the public are now through our self-service 'do it online' portal.

- Satisfaction rates for dealing with the council remain high. 96% felt that their request was knowledgeably and effectively handled and 92% found it easy to contact the right service.
- Superfast broadband coverage in County Durham is at 96%, despite much of our county having some of the sparsest population densities in the country.

8. Significant Issues for 2019/20 and Beyond

Economic climate

The financial landscape for the council is likely to remain challenging for the foreseeable future. The financial outlook will continue to be extremely uncertain as the expected Comprehensive Spending Review has been delayed until the Autumn of 2020 and may only cover one year due to the impact of Covid 19. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022/23.

The outcome of these reviews will determine the quantum of funding available to local government and the share available to the council. The added uncertainty brought about by the exit from the European Union will only serve to compound these issues. There is a risk that funding reductions may continue beyond this point placing further pressure on the Medium Term Financial Plan (MTFP).

The Covid 19 outbreak will also have a significant financial impact on the council in 2020/21 with the impact then likely to be felt in future years. The council began to experience the impact of the outbreak in March 2020 when a number of front line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

The council's spending has also significantly increased to cope with the outbreak. Although government initially indicated that it would fund all additional costs associated with the pandemic, this is no longer a certainty. Local authorities may be expected to use their own reserves to fund any shortfall in future funding.

By the end of 2019/20, the council had delivered £234 million of financial savings with additional savings of £8 million approved for 2020/21. It is forecast that total savings for the period 2011/12 to 2023/24 will be £282 million.

The council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contributions.

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

Brexit

Whilst still unclear what the local implications will be, the impact of leaving the European Union (EU) may lead to increased instability and uncertainty in respect of the financial context for councils and regions. The implications of leaving the EU are still not fully known but there could be a potential impact for the council due to reductions in EU funding, a change in interest rates, an increase in expenditure and an increase in the cost of basic goods which could impact on residents and businesses.

It is too early to understand the full implications of Brexit on jobs and investment in the County until trade negotiations are finalised. However, a series of studies from government academics and other researchers have shown that the North East is expected to be impacted with lower future levels of economic activity as a result of Brexit, particularly due to its disproportionately large trading relationship with the EU in manufacturing. The impact of Brexit will obviously depend on the outcome of the negotiations and what trade deals are put in place. The current uncertainty regarding the ongoing negotiations, which businesses have been operating within since the Brexit referendum, is also having a negative impact. As there is still a degree of doubt, the risk associated with leaving the EU is not measurable.

9. Corporate Risks

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

The council's key strategic risks are:

- If there was to be slippage in the delivery of the agreed MTFP savings projects, this will require further savings to be made from other areas, which may result in further service reductions and job losses;
- There is significant uncertainty in relation to the future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and Fair Funding review;
- Failure to protect a child from death or serious harm (where service failure is a factor or issue);
- Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).

10. Summary Position

The council's financial and non-financial performance in 2019/20 continues to be good. The revenue outturn with a £27,000 overspend (0.01% more than the revised budget) is broadly in line with forecasts, capital outturn has been managed to minimise the level of re-profiling required at the year end and the council has sufficient reserves and balances to provide financial resilience for 2020/21 and future years.

In 2019/20 the council has faced and dealt successfully with significant change. This trend will continue but the council is well placed to adapt to the challenges and take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the council is in a strong position as it moves into 2020/21.

11. Receipt of Further Information

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

12. Explanation of Accounting Statements

The Statement of Accounts comprises core and supplementary financial statements, and disclosure notes.

The **core statements** are:

- **Comprehensive Income and Expenditure Statement (CIES)**

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

- **Movement in Reserves Statement**

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

- **Balance Sheet**

This shows the value of the assets and liabilities recognised by the council as at 31 March. The net assets (assets less liabilities) are matched by the reserves held by the council. Reserves are reported in two categories. The first category consists of 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 consists of reserves that the council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

- **Cash Flow Statement**

This presents the changes in cash and cash equivalents during the reporting period. It shows how the council generates and uses cash and cash equivalents by classifying cash flows into 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.

The **supplementary statements** are:

- **Collection Fund**

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

- **Durham County Council Pension Fund Accounts**

Presents the expenditure and income of the Pension Fund during the year, its financial position at 31 March and the operation and membership of the Fund. Notes providing further information follow the Accounts.

- **Annual Governance Statement**

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

- **Glossary of Terms**

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

Notes to the Accounts are fundamentally important in the presentation of a true and fair view. They aim to assist understanding and have three significant roles:

- presenting information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclosing information required by the Code that is not presented elsewhere in the financial statements, for example sub-classification of Property, Plant and Equipment; and
- providing information that is not provided elsewhere in the financial statements, but is relevant to the understanding of any of them, this applies to information that is material in a qualitative rather than quantitative sense, for example, transactions with Related Parties.

The Council's Responsibilities

The council is required to:

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

The Corporate Director of Resources' Responsibilities

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

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

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

The Corporate Director of Resources has also:

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

Certificate of the Corporate Director of Resources

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the council as at 31 March 2020 and its expenditure and income for the year ended 31 March 2020.

John Hewitt

Corporate Director of Resources

12 June 2020

Certificate of Chairman

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**Independent Auditor's Report To The Members Of Durham County
Council**

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Comprehensive Income and Expenditure Statement

2018-19			Note	2019-20			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
277,618	-162,984	114,634	Adult and Health Services	289,489	-168,310	121,179	
488,248	-375,310	112,938	Children and Young People's Services	519,248	-376,826	142,422	
237,343	-75,083	162,260	Regeneration and Local Services	255,972	-89,440	166,532	
195,700	-180,102	15,598	Resources	181,719	-163,689	18,030	
15,173	-2,658	12,515	Transformation and Partnerships	35,328	-6,556	28,772	
56,085	-433	55,652	Corporate Costs	3,460	-222	3,238	
1,270,167	-796,570	473,597	Cost of Services	7,8	1,285,216	-805,043	480,173
71,316	-5,193	66,123	Other Operating Expenditure	11	68,161	-5,307	62,854
46,954	-5,515	41,439	Financing and Investment Income and Expenditure	12	47,378	-12,726	34,652
-	-453,251	-453,251	Taxation and Non Specific Grant Income	13	-	-473,149	-473,149
		127,908	Surplus (-) or Deficit on Provision of Services				104,530
			Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services				
		-96,629	Surplus (-) or deficit on revaluation of PPE / Heritage assets	14,15			9,944
		4,994	Impairment losses on non-current assets charged to revaluation reserve	14			2,985
		-100	Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income	17			3,538
		-59,470	Remeasurements of the net defined benefit liability	26,44			34,030
		166	Difference between actuary's estimate and actual employer's pension contributions	26,44			473
		-3,110	Net increase (-) or decrease in pensions assets and liabilities from disposals / acquisitions	26,44			3,260
		-154,149	Other Comprehensive Income and Expenditure				54,230
		-26,241	Total Comprehensive Income and Expenditure				158,760

2019/20:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2019 brought forward	25,106	226,411	8	251,525	137,041	388,566
Movement in Reserves during 2019-20						
Total Comprehensive Income and Expenditure	-104,530	-	-	-104,530	-54,230	-158,760
Adjustments between accounting basis and funding basis under regulations (Note 9)	93,803	-	-	93,803	-93,803	-
Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves	-10,727	-	-	-10,727	-148,033	-158,760
Transfers to / from Earmarked Reserves (Note 10)	9,571	-9,571	-	-	-	-
Balance at 31 March 2020 carried forward	23,950	216,840	8	240,798	-10,992	229,806

2018/19:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018 brought forward	24,500	224,433	8	248,941	113,384	362,325
Movement in Reserves during 2018-19						
Total Comprehensive Income and Expenditure	-127,908	-	-	-127,908	154,149	26,241
Adjustments between accounting basis and funding basis under regulations (Note 9)	130,492	-	-	130,492	-130,492	-
Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves	2,584	-	-	2,584	23,657	26,241
Transfers to / from Earmarked Reserves (Note 10)	-1,978	1,978	-	-	-	-
Balance at 31 March 2019 carried forward	25,106	226,411	8	251,525	137,041	388,566

31 March 2019 £000		Notes	31 March 2020 £000
1,802,008	Property, Plant and Equipment	14	1,763,406
14,895	Heritage Assets	15, 47	14,131
6,442	Investment Property	16	6,252
4,408	Intangible Assets		5,081
18,396	Long Term Investments	17	14,660
16,779	Long Term Debtors	17	15,508
1,862,928	Long Term Assets		1,819,038
223,763	Short Term Investments	17	210,975
-	Assets Held for Sale	22	-
4,610	Inventories	19	4,105
59,003	Short Term Debtors	20	103,600
13,861	Cash and Cash Equivalents	21	20,218
301,237	Current Assets		338,898
-15,122	Short Term Borrowing	17	-13,392
-129,487	Short Term Creditors	23	-129,081
-6,504	Provisions	24	-6,007
-2,389	Capital Grants Receipts in Advance	36	-2,722
-153,502	Current Liabilities		-151,202
-17,574	Provisions	24	-15,998
-299,195	Long Term Borrowing	17	-348,963
-1,887	Capital Grants Receipts in Advance	36	-6,504
-1,228,057	Other Long Term Liabilities - Pensions	44	-1,331,291
-75,384	Other Long Term Liabilities - Other	39, 40	-74,172
-1,622,097	Long Term Liabilities		-1,776,928
388,566	Net Assets		229,806
251,525	Usable Reserves	25	240,798
137,041	Unusable Reserves	26	-10,992
388,566	Total Reserves		229,806

2018-19		Notes	2019-20
£000			£000
127,908	Net surplus (-) or deficit on the provision of services		104,530
-202,281	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	27	-108,234
8,313	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	4,813
-66,060	Net Cash flows from Operating Activities		1,109
97,184	Investing Activities	28	34,001
-9,954	Financing Activities	29	-41,468
21,171	Net increase (-) or decrease in cash and cash equivalents		-6,357
35,032	Cash and cash equivalents at 1 April	21	13,861
13,861	Cash and cash equivalents at 31 March	21	20,218

Notes to the Accounts

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

1. Accounting Policies

1.1. General Principles

The Statement of Accounts summarises the council's financial performance for the 2019/20 financial year and its position at the year-end of 31 March 2020. The council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and the Service Reporting Code of Practice 2019/20 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

1.2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge

made to revenue for the income that might not be collected. The council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000, other than in exceptional circumstances.

1.3. Business Improvement District Schemes

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

1.4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

1.5. Exceptional Items

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

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

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

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

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

1.7. Charges to Revenue for Non-Current Assets

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue to reduce the overall borrowing requirement calculated by the council on a prudent basis and in accordance with statutory guidance. This annual contribution is known as the minimum revenue provision.

Therefore, so that council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision with the difference being transferred to the Capital Adjustment Account in the balance sheet.

1.8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for services in the year in which employees render service to the council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the Comprehensive Income and Expenditure

Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for restructuring.

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

Post-Employment Benefits

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

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

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Children and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the Durham County Council Pension Fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates,

employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate provided by the actuary.
- The assets of Durham County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:
 1. Quoted securities – current bid price.
 2. Unquoted securities – professional estimate.
 3. Unlisted securities – current bid price.
 4. Property – market value

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

- Service cost, comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - Gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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

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

Discretionary Benefits

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

1.9. Events After the Reporting Period

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

Financial Assets

Financial assets are classified using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council holds most of its investments solely to collect contractual cash flows, which means that the majority of its financial assets are measured at amortised cost.

There are some exceptions e.g. where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. With these types of investments, the purpose of the contract is not solely concerned with the payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). For each of these investments a separate assessment has been

made on the appropriate accounting treatment in relation to IFRS 9 for Financial Instruments.

Financial Assets Measured at Amortised Cost

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

The council has given small loans to external or voluntary organisations, but these are for trivial amounts. The council has not provided guarantees against loans they have received from financial institutions. However, the council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the council, for example where the council holds a legal charge against a property that enable sums to be reimbursed from sale proceeds at a later date. These are similar to loans at less than market rates and are referred to as soft loans. If any of the lost interest against the soft loan was significant then adjustments would be made to the relevant service revenue account and Balance Sheet. However, the impact on the council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements.

Expected Credit Loss Model

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a twelve month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of twelve month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are

initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

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

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

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

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the council from the chosen classification.

1.11. Foreign Currency Translation

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

1.12. Government Grants and Contributions

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

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

1.13. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

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

Recognition and measurement

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant

and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the council's approach is as follows:

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

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

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

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

Museum Collections and Artefacts

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

Artwork, including Public Art and Sculptures

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

The distinction between sculptures, monuments and statues can be subjective. However, for the purposes of classification, the council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are

usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading “Monuments, Statues and Historic Buildings” below.

Monuments, Statues and Historic Buildings

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

Civic Regalia and Silverware

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

Geophysical / Archaeological

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

Depreciation

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

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council’s general policies on impairment.

Disposal

Heritage assets are rarely disposed of. However, in such cases, disposal proceeds are accounted for in accordance with the council’s general provisions relating to the disposal of property, plant and equipment. Proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

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

1.14. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised

when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.15. Interests in Companies and Other Entities

The Code requires local authorities to produce group accounts to reflect significant activities provided to council tax payers by other organisations in which an authority has an interest. The council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and joint arrangements against the criteria for group accounts, as set out in the Code, and has concluded that there are no such material interests that require the preparation of group accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

1.16. Inventories and Long Term Contracts

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

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

1.17. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.18. Joint Operations

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

1.19. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. This annual contribution is known as the minimum revenue provision. Therefore, as council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision, with the difference being transferred to the Capital Adjustment Account in the balance sheet. 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. Where there is a material cost or benefit at the start or end of the lease (e.g. a rent free period at the start of the lease) then charges are made on a

straight-line basis over the life of the lease, even if this does not match the pattern of payments.

The County Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where there is a material cost in addition to the regular payments (e.g. there is

a premium paid at the commencement of the lease or there are costs of negotiating and arranging the lease), then credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

1.20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2019/20 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate Costs. These are costs relating to the council's status as a multifunctional, democratic organisation, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

1.21. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The cost of assets acquired other than by purchase is deemed to be its 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.

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2019/20 were carried out by council staff. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions in any given year will be revalued as and when such changes occur.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired or revalued. 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 or revaluation loss is recognised for the shortfall.

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and Non-current Assets Held for Sale

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

Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also

as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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

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

1.22. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

Non-current Assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

1.23. Provisions

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

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

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

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

1.24. Contingent Liabilities

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

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

1.25. Contingent Assets

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.26. Reserves

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

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

1.27. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.28. Value Added Tax (VAT)

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

1.29. Schools

In line with accounting standards on group accounts and consolidation, all maintained schools in the County are now considered to be entities controlled by the council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and

cash flows of each school are recognised in the council's single entity accounts. The council has the following types of maintained schools under its control:

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

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

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

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

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

1.30. Collection Fund Statement

Council Tax Income

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

Business Rates Income

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

2. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

There are no changes in accounting requirements for 2020/21 that are anticipated to have a material impact on the council's financial performance or financial position.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Funding of Local Government

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Academy schools

Five schools transferred to academy status in 2019/20. At the completion of a statutory process, the governing bodies of the relevant schools have agreed to change from local authority maintained schools. The assets are removed from the council's Balance Sheet and a loss on disposal is recorded in the Comprehensive Income and Expenditure Account at the completion of the statutory process.

PFI

In 2009/10, the council signed a Private Finance Initiative contract for the provision of three sets of new school buildings; Sedgefield Community College (now an Academy), Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the balance sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £4.6m, but this does not include assets relating to Sedgefield Community College and the Academy at Shotton Hall. Further details can be found in Note 40.

Under the PFI arrangement, the contractor is able to renegotiate its financing arrangements, and the council has contracted to share the benefit of the reduction in interest payable by the operator. These gains can be shared in the form of a reduction in the unitary payment for the remaining term of the contract but can also be paid as a cash

lump sum. The council's treatment is that, unless the gain is material, it should be recognised as a cash lump sum. In 2019/20, there was no gain.

Accounting for schools – Balance Sheet Recognition

The council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, or the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the council, school or school governing body, they are not included on the council's Balance Sheet.

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

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	11	129	10	9	159
b)	Voluntary Controlled (VC)	-	15	-	-	15
b)	Voluntary Aided (VA)	-	43	1	-	44
c)	Foundation	-	-	1	-	1
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	Maintained Schools	11	188	12	10	221
e)	Academies	-	24	20	2	46
	Total	11	212	32	12	267

- a) All Community schools are owned by the council and the land and buildings used by the schools are included on the council's Balance Sheet.
- b) Legal ownership of Voluntary Controlled and Voluntary Aided school land and buildings usually rests with a charity, normally a religious body. Voluntary Controlled schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the council's Balance Sheet.
- c) Foundation schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, as the school Governing Body has legal ownership of the

land and buildings, they have been included on the council's Balance Sheet in line with the council's judgement.

- d) The Woodlands (Alternative Provision) and the Endowed Parochial School are owned by the council and the land and buildings used are included on the council's Balance Sheet.
- e) Academies are not considered to be maintained schools in the council's control. Thus, the land and building assets are not owned by the council and not included on the council's Balance Sheet.

Group Accounts

The council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 37. There are a number of criteria by which the council must determine whether its interest in such bodies is significant enough to be included in the council's consolidated accounts. After consideration of these criteria, the council has determined that the consolidation of related companies would have no material effect on the council's financial position and therefore it is not necessary to produce Group Accounts for 2019/20.

Pension Fund Advance Payment

In April 2017 the council made an advance payment of £55.890m to the Pension Fund in respect of amounts due from 2017/18 to 2019/20. The council has spread this charge to the General Fund in equal annual instalments of £18.630m over the three-year period, as permitted by the Code, and the Actuary's Rates and Adjustment Certificate dated 31 March 2016, which sets out the pension contribution rates payable. While the pensions liability is reduced by the full prepayment, the pensions reserve is credited only with the amount charged to the General Fund.

Pensions: McCloud Judgement

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public service schemes who were within 10 years of their normal pension age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remained in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement. On 27 June 2019, the Supreme Court denied this request for an appeal. The next stage is for the case to be referred to the Employment Tribunal to agree the remedy - it is not likely to be known until 2020/21.

Although it is unknown what impact this will have on future employer pension contributions at this stage, the Pension Fund's Actuary has calculated a potential IAS 19 accounting liability of 0.84% of pensionable pay for 2019/20 which has been included in the current service cost. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012.

Pensions: Guaranteed Minimum Pension (GMP) Indexation and Equalisation

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. The rate at which GMP was accrued, and the date it is payable is different for men and women, meaning there is an inequality for male and female members who have GMP.

On 26 October 2018, the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. The ruling confirmed that trustees have a duty "to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs".

HM Treasury have, however, gone on record since the Lloyds judgement to say, "Public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement".

The council will recognise the liability for GMP Indexation for all members whose State Pension Age is after 6 April 2016 with effect from 2019/20

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	<p>The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES.</p> <p>These changes do not have an impact on the council's General Fund position as the council is not required to fund such non-cash charges from council tax receipts.</p> <p>Accumulated depreciation totalled £301m as at 31 March 2020 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £3.010m.</p>
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the council.	<p>If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets are next revalued.</p> <p>A 1% change in asset valuation would equate to £17.634m.</p>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £58.870m</p>

Item	Uncertainties	Effect if actual results differ from assumptions
	return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the council with expert advice about the assumptions to be applied.	In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions. IAS19 now requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. The results from the sensitivity analysis are disclosed in note 44 and indicate how the figures are sensitive to the assumptions used.
Arrears	At 31 March 2020, the council had a balance of debtors of £118.160m. A review of significant balances suggested that an impairment of doubtful debts of 20.48% (£24.194m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £24.194m to be set aside as an allowance.

5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts in 2019/20.

6. Events After the Balance Sheet Date

Non-adjusting Event - Academy Schools

Three local authority schools have converted since the end of 2019/20 and six more are planning to convert to Academy status during 2020/21. These were non-adjusting events in 2019/20. This change in status will lead to the removal of these schools from the

Balance Sheet in 2020/21 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £51.888m, which is the carrying value of the assets in the balance sheet.

7. Expenditure and Funding Analysis

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

2018-19				2019-20		
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
£000	£000	£000		£000	£000	£000
113,846	788	114,634	Adult and Health Services	118,762	2,417	121,179
92,162	20,776	112,938	Children and Young People's Services	104,242	38,180	142,422
99,857	62,403	162,260	Regeneration and Local Services	106,570	59,962	166,532
11,868	3,730	15,598	Resources	12,770	5,260	18,030
10,076	2,439	12,515	Transformation and Partnerships	25,227	3,545	28,772
4,544	51,107	55,651	Corporate Costs	3,583	-345	3,238
332,353	141,243	473,596	Net Cost of Services	371,154	109,019	480,173
-365,800	20,112	-345,688	Other Income and Expenditure	-400,707	25,064	-375,643
30,863	-30,863	-	Adjustments between Funding and Accounting basis outside the CIES	40,280	-40,280	-
-2,584	130,492	127,908	Surplus (-) or Deficit	10,727	93,803	104,530
-248,933			Opening General Fund Balance (including earmarked reserves) at 1 April	-251,517		
-2,584			Surplus (-) or Deficit on General Fund Balance in year	10,727		
-251,517			Closing General Fund Balance (including earmarked reserves) at 31 March	-240,790		

Note to the Expenditure and Funding Analysis

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

2018-19				2019-20				
Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
671	155	-38	788	Adult and Health Services	200	2,215	2	2,417
22,872	908	-3,004	20,776	Children and Young People's Services	29,004	7,449	1,727	38,180
61,511	842	50	62,403	Regeneration and Local Services	54,468	5,495	-1	59,962
3,255	466	9	3,730	Resources	2,935	2,322	3	5,260
2,509	-70	-	2,439	Transformation and Partnerships	2,653	804	88	3,545
-	51,107	-	51,107	Corporate Costs	-	-345	-	-345
90,818	53,408	-2,983	141,243	Net Cost of Services	89,260	17,940	1,819	109,019
-10,088	30,200	-	20,112	Other Income and Expenditure from the Funding Analysis	-3,836	28,900	-	25,064
-35,451	-	4,588	-30,863	Adjustments between Funding and Accounting basis outside the CIES	-37,824	-	-2,456	-40,280
45,279	83,608	1,605	130,492	Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit	47,600	46,840	-637	93,803

Adjustments for capital purposes

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

Net Change for the Pensions Adjustments

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

- **For services** this represents the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs.
- **Financing and investment income and expenditure** – the net interest on the defined benefit liability.

Other Differences

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

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

Segmental Income

Revenue received from external customers is analysed on a segmental basis as follows:

2018-19		2019-20
£000		£000
-40,641	Adult and Health Services	-42,230
-22,724	Children and Young People's Services	-21,359
-50,503	Regeneration and Local Services	-52,057
-7,752	Resources	-7,193
-139	Transformation and Partnerships	-274
-409	Corporate Costs	-191
<u>-122,168</u>	Total	<u>-123,304</u>

8. Expenditure and Income Analysed by Nature

The following table analyses expenditure and income both within and outside of the cost of services in the Comprehensive Income and Expenditure Statement, and reconciles to the surplus or deficit on the provision of services.

2018-19		2019-20
£000		£000
	Expenditure	
569,733	Employee benefits expenses	550,781
635,598	Other service expenditure	664,266
95,541	Depreciation, amortisation and other capital charges	100,831
28,751	Precepts and levies	29,229
42,560	Amounts of non-current assets written off on disposal	38,929
16,254	Interest payable	16,719
1,388,437	Total Expenditure	1,400,755
	Income	
-132,168	Fees, charges and other service income	-132,099
-5,193	Capital receipts	-5,307
-276,941	Council Tax and non domestic rates	-294,369
-828,197	Grants and contributions	-833,041
-18,030	Other income	-31,409
-1,260,529	Total Income	-1,296,225
127,908	Surplus (-) or Deficit on Provision of Services	104,530

Revenue from Contracts with Service Recipients

The council is required to follow the requirements of IFRS 15 Revenue from Contracts with Customers, however has concluded that the impact is not material and therefore no changes have been made to the accounts.

9. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

General Fund Balance

This is the statutory fund into which all council receipts are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. This balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

Capital Receipts Reserve

This holds the proceeds from the disposal of land or other assets which are restricted by statute from being used, other than to fund new capital expenditure or be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

2019-20:

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
Adjustments to Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-46,841	-	46,841
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	2,313	-	-2,313
• Holiday pay (transferred to the Accumulated Absences Account)	-1,819	-	1,819
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
o Depreciation and amortisation of non-current assets	-64,593	-	64,593
o Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-22,516	-	22,516
o Amounts of non-current assets written off on disposal or sale	-38,919	-	38,919
o Revenue expenditure funded from capital under statute	-13,722	-	13,722
o Capital grants and contributions credited to the CI&E Statement	49,032	-	-49,032
Total Adjustments to Revenue Resources	-136,921	-	136,921
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,297	-4,866	-431
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-3	3	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	14,071	-	-14,071
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	23,753	-	-23,753
Total Adjustments between Revenue and Capital Resources	43,118	-4,863	-38,255
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	5,641	-5,641
Application of capital grants unapplied to finance capital expenditure	-	-	-
Cash payments in relation to deferred capital receipts	-	-778	778
Total Adjustments to Capital Resources	-	4,863	-4,863
Total Adjustments	-93,803	-	93,803

2018-19:

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
Adjustments to Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-83,607	-	83,607
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	-4,732	-	4,732
• Holiday pay (transferred to the Accumulated Absences Account)	2,982	-	-2,982
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
o Depreciation and amortisation of non-current assets	-63,158	-	63,158
o Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-11,698	-	11,698
o Amounts of non-current assets written off on disposal or sale	-42,548	-	42,548
o Revenue expenditure funded from capital under statute	-20,685	-	20,685
o Capital grants and contributions credited to the CI&E Statement	52,183	-	-52,183
Total Adjustments to Revenue Resources	-171,119	-	171,119
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,181	-5,181	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-5	5	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	13,335	-	-13,335
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	22,116	-	-22,116
Total Adjustments between Revenue and Capital Resources	40,627	-5,176	-35,451
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	6,455	-6,455
Application of capital grants unapplied to finance capital expenditure	-	-	-
Cash payments in relation to deferred capital receipts	-	-1,279	1,279
Total Adjustments to Capital Resources	-	5,176	-5,176
Total Adjustments	-130,492	-	130,492

10. Transfers to/from Earmarked Reserves

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

	31 March 2018 £000	2018-19 Out £000	Transfers In £000	31 March 2019 £000	2019-20 Out £000	Transfers In £000	31 March 2020 £000
Adult and Health Services							
Social Care Reserve	21,235	-3,370	7,541	25,406	-226	491	25,671
Public Health Reserves	2,943	-509	2,025	4,459	-489	1,275	5,245
Children and Young People's Services							
Children's Services Reserve	1,875	-771	2,051	3,155	-1,419	49	1,785
DSG Reserve	4,734	-5,467	384	-349	-3,458	-	-3,807
Education Reserve	14,286	-4,532	3,155	12,909	-952	673	12,630
Balances held by schools under a scheme of delegation	18,415	-725	-	17,690	-1,741	-	15,949
Regeneration and Local Services							
Business Growth Fund Reserve	744	-140	-	604	-	-	604
Community Protection Reserve	735	-152	-	583	-139	132	576
Culture and Sport Reserve	3,680	-390	340	3,630	-1,445	98	2,283
Direct Services Reserve	2,905	-945	116	2,076	-362	860	2,574
Economic Development Reserve	1,500	-208	1,824	3,116	-1,043	50	2,123
Employability and Training Reserve	57	-	-	57	-	219	276
Funding and Programmes Management Reserve	480	-2	-	478	-	28	506
Housing Regeneration Reserve	1,086	-448	-	638	-165	-	473
Housing Solutions Reserve	1,680	-265	612	2,027	-88	261	2,200
Neighbourhoods AAP Reserve	71	-71	-	-	-	-	-
North Pennines AONB Partnership Reserve	1,302	-	165	1,467	-	444	1,911
Planning Reserve	1,573	-	7	1,580	-453	-	1,127
REAL Match Fund Programme Reserve	1,653	-66	-	1,587	-373	-	1,214
Restructure Reserve	114	-114	-	-	-	-	-
Technical Services Reserve	2,798	-1,085	-	1,713	-911	-	802
Town and Villages Regeneration Reserve	-	-	10,000	10,000	-233	10,000	19,767
Transport Reserve	1,065	-940	366	491	-286	541	746
Resources							
Corporate Reserve	890	-890	425	425	-	104	529
Customer Services Reserve	346	-11	-	335	-19	-	316
DWP Grant Reserve	2,233	-1,062	218	1,389	-815	-	574
Elections Reserve	708	-	56	764	-	95	859
Housing Benefit Subsidy Reserve	820	-268	589	1,141	-	401	1,542
Human Resources Reserve	426	-126	-	300	-	23	323
ICT Reserves	1,326	-174	325	1,477	-254	19	1,242
Internal Audit and Corporate Fraud Reserve	-	-	-	-	-	80	80
Legal Reserves	354	-	25	379	-38	110	451
Operations and Data Reserves	-	-	50	50	-12	-	38
Registrars Trading Reserve	200	-	-	200	-	-	200
Revenue and Benefits Reserve	980	-372	150	758	-134	230	854
System Development Reserve	412	-44	-	368	-14	-	354
Transformation and Partnerships							
AAP/Members Reserve	1,851	-635	265	1,481	-74	626	2,033
Grant Reserve	1,224	-175	39	1,088	-167	8	929
Operational Reserve	1,572	-465	1,298	2,405	-647	1,301	3,059
Transformation Reserve	2,147	-457	-	1,690	-413	-	1,277
Corporate							
Budget Support Reserve	30,000	-340	-	29,660	-10,488	-	19,172
Business Support Reserve	-	-	-	-	-32	1,064	1,032
Capital Reserve	-	-	2,510	2,510	-1,810	-	700
Commercialisation Support Reserve	4,000	-	1,800	5,800	-24	2,600	8,376
Covid-19 Support Grant Reserve	-	-	-	-	17,521	-	17,521
Equal Pay Reserve	19,509	-4,516	-	14,993	-5,014	-	9,979
ER/VR Reserve	7,507	-5,023	6,164	8,648	-5,301	-	3,347
Feasibility Study Reserve	-	-	500	500	-	-	500
Inspire Programme Reserve	1,379	-493	-	886	-556	-	330
Insurance Reserve	11,485	-3,300	1,803	9,988	-2,600	2,682	10,070
Office Accommodation Capital Reserve	31,731	-87	1,300	32,944	-8,589	384	24,739
Office Accommodation Project Support Reserve	77	-77	-	-	-	-	-
Performance Reward Grant Reserve	38	-38	-	-	-	-	-
Cash Limit Reserves	18,287	-9,235	3,863	12,915	-10,380	9,224	11,759
Total	224,433	-47,988	49,966	226,411	-43,643	34,072	216,840

The significant earmarked reserves at 31 March 2020, together with a brief explanation of their purpose, were as follows:

Social Care Reserve: to fund future health and social care-related projects, in particular to support further integrated work with local NHS partners.

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

Dedicated Schools Grant (DSG) and Education Reserves: to carry forward the unspent, central element of Dedicated Schools Grant funding for multi-agency operations, and to provide education business links between schools and local businesses. See Note 35 for further information about the negative DSG balance.

Balances Held by Schools: surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31 March 2020 comprised individual school balances totalling £15.949m.

Culture and Sport Reserve: to provide resources to support future cultural and sporting projects.

Town and Villages Regeneration Reserve: to provide resources to improve local communities within County Durham.

Budget Support Reserve: to enable the council to protect frontline services for a period and ensure that the council is able to plan effectively and consult fully on future years' savings plans.

Capital Reserve: to support spending on future capital schemes in line with the capital programme.

Commercialisation Support Reserve: to provide resources to enable the council to improve value for money in the context of its commercialisation agenda.

Covid 19 Support Grant Reserve: the council received £18.588m from central government on 27 March 2020, the first tranche of Covid 19 support funding. £1.067m was utilised in 2019/20 to meet the additional costs and lost revenue incurred due to the Covid 19 outbreak. The remaining £17.521m has been transferred to the reserve, which will be utilised in 2020/21 to fund additional expenditure and lost income related to Covid 19.

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

ER/VR Reserve: to provide for the costs of approved redundancy and early retirements.

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

Office Accommodation Capital Reserve: to provide a resource for the review of Office Accommodation across the County.

Cash Limit Reserves: to carry forward under and overspends to meet future service demands.

11. Other Operating Expenditure

2018-19 £000		2019-20 £000
12,544	Parish council precepts	13,149
16,207	Levies	16,080
5	Payments to the Government Housing Capital Receipts Pool	3
37,367	Losses / - Gains on the disposal of non-current assets	33,622
<u>66,123</u>	Total	<u>62,854</u>

12. Financing and Investment Income and Expenditure

2018-19 £000		2019-20 £000
16,254	Interest payable and similar charges	16,719
30,200	Pensions net interest on the net defined benefit liability	28,900
-3,536	Interest receivable and similar income	-4,299
323	Impairment of Financial Investments	1,568
-1,950	Income and expenditure in relation to investment properties and changes in their fair value	-1,970
148	Other investment income	-6,266
<u>41,439</u>	Total	<u>34,652</u>

13. Taxation and Non-Specific Grant Income

2018-19 £000		2019-20 £000
-222,781	Council tax income *	-235,704
-54,159	Non domestic rates	-58,665
-128,823	Non-ringfenced government grants	-141,129
-47,488	Capital grants and contributions	-37,651
<u>-453,251</u>	Total	<u>-473,149</u>

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

14. Property, Plant and Equipment

Movement on Balance 19/20:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
Cost or valuation							
At 1 April 2019	1,276,292	93,675	630,561	2,985	40,158	9,887	2,053,558
Additions	28,554	10,570	35,225	65	444	22,925	97,783
Revaluation increases/(decreases)	-30,703	-	-	-	-4,740	928	-34,515
Derecognition - disposals	-43,354	-6,978	-	-	-3,072	-	-53,404
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	9,130	-5	-	-1,594	1,997	-8,175	1,353
At 31 March 2020	1,239,919	97,262	665,786	1,456	34,787	25,565	2,064,775
Accumulated Depreciation and Impairment							
At 1 April 2019	-21,987	-64,030	-165,244	-88	-200	-	-251,549
Depreciation charge	-37,548	-9,432	-16,242	-	-173	-	-63,395
Depreciation written out on revaluation	4,749	-	-	-	279	-	5,028
Impairment losses/(reversals)	-4,789	-	-	-	-1,145	-	-5,934
Derecognition - disposals	6,381	6,930	-	-	1,174	-	14,485
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	89	-	-	-	-91	-	-2
At 31 March 2020	-53,105	-66,532	-181,486	-88	-156	-	-301,367
Net Book Value							
At 31 March 2020	1,186,814	30,730	484,300	1,368	34,631	25,565	1,763,408
At 31 March 2019	1,254,305	29,645	465,317	2,897	39,958	9,887	1,802,009
The Revaluations / Impairments above:							
Revaluation increases/(decreases)	-30,703	-	-	-	-4,740	928	-34,515
Depreciation written out	4,749	-	-	-	279	-	5,028
Impairment losses/(reversals)	-4,789	-	-	-	-1,145	-	-5,934
	-30,743	-	-	-	-5,606	928	-35,421
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	-7,158	-	-	-	-3,723	938	-9,943
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-18,795	-	-	-	-739	-10	-19,544
Impairment losses in the Revaluation Reserve	-2,439	-	-	-	-546	-	-2,985
Impairment losses in the Surplus/Deficit on the Provision of Services	-2,351	-	-	-	-598	-	-2,949
	-30,743	-	-	-	-5,606	928	-35,421

Comparative Movements in 2018/19:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
Cost or valuation							
At 1 April 2018	1,266,832	91,992	593,960	2,908	42,694	912	1,999,298
Additions	16,800	8,297	36,601	61	643	9,393	71,795
Revaluation increases/(decreases)	36,796	-	-	16	-954	-	35,858
Derecognition - disposals	-44,703	-6,614	-	-	-5,591	-	-56,908
Assets reclassified (to)/from Held for Sale	-	-	-	-	1,665	-	1,665
Other reclassifications	955	-	-	-	-	-	955
Other movements in cost or valuation	-388	-	-	-	1,701	-418	895
At 31 March 2019	1,276,292	93,675	630,561	2,985	40,158	9,887	2,053,558
Accumulated Depreciation and Impairment							
At 1 April 2018	-37,164	-60,350	-149,891	-88	-329	-	-247,822
Depreciation charge	-36,525	-10,053	-15,353	-	-236	-	-62,167
Depreciation written out on revaluation	49,370	-	-	-	390	-	49,760
Impairment losses/(reversals)	-5,859	-	-	-	-	-	-5,859
Derecognition - disposals	8,158	6,373	-	-	8	-	14,539
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	33	-	-	-	-33	-	-
At 31 March 2019	-21,987	-64,030	-165,244	-88	-200	-	-251,549
Net Book Value							
At 31 March 2019	1,254,305	29,645	465,317	2,897	39,958	9,887	1,802,009
At 31 March 2018	1,229,668	31,642	444,069	2,820	42,365	912	1,751,476
The Revaluations / Impairments above:							
Revaluation increases/(decreases)	36,796	-	-	16	-954	-	35,858
Depreciation written out	49,370	-	-	-	390	-	49,760
Impairment losses/(reversals)	-5,859	-	-	-	-	-	-5,859
	80,307	-	-	16	-564	-	79,759
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	96,828	-	-	16	-211	-	96,633
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-10,662	-	-	-	-353	-	-11,015
Impairment losses in the Revaluation Reserve	-4,994	-	-	-	-	-	-4,994
Impairment losses in the Surplus/Deficit on the Provision of Services	-865	-	-	-	-	-	-865
	80,307	-	-	16	-564	-	79,759

Depreciation

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

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

Revaluations

Valuations as at 1 April 2019 have been carried out by valuers in the council's Asset Management team. The valuations covered Direct Services assets under the rolling programme whereby 20% of assets are valued each year. This provides a full revaluation every five years, in line with statutory requirements. Surplus Properties, Investment Properties and Assets Held for Sale were also subject to their annual revaluation as at 1 April 2019.

In total in 2019/20, the council revalued £112m of its land and buildings, community and surplus assets and assets held for sale, equal to 9% of the £1,276m gross value for these asset categories. For the remaining £1,164m there were revaluations in 2018/19 (£906m or 71%), 2017/18 (£45m or 4%), 2016/17 (£107m or 8%) and 2015/16 (£19m or 1%), with £87m (7%) being valued at historic cost.

An annual review of market conditions was undertaken at 31 March 2020, to ensure that the value of assets was not materially misstated. The conclusion was that there had been minimal change in market conditions during the year and therefore the value of assets valued at Depreciated Replacement Cost were not changed. At the end of the year these assets were valued at £938m, or 74% of the total.

Surplus Property

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

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

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation

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

The fair value for the above properties at 31 March 2020 (£34.631m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Capital Commitments

At 31 March 2020 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £65.828m in future years. Similar commitments at 31 March 2019 were £4.088m. The commitments at 31 March 2020 are:

• New Council Headquarters	£38.663m
• Digital Durham	£8.247m
• Bowburn Primary	£7.746m
• Horden (Peterlee) Rail Station	£5.102m
• Jade Business Park Factory Build	£3.508m
• Social Services Information Database (SSID) Replacement	£0.747m
• Pennine PeatLIFE – Forest of Bowland	£0.730m
• Chester le Street Deculverting	£0.581m
• Greenfield School	£0.503m

15. Heritage Assets

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

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
Cost or valuation					
At 1 April 2019	8,961	659	4,116	1,158	14,894
Additions	-	-	122	-	122
Depreciation	-	-	2	-	2
Assets reclassified from / -to Property Plant and Equipment	-	-	-887	-	-887
At 31 March 2020	8,961	659	3,353	1,158	14,131
Cost or valuation					
At 1 April 2018	8,961	659	4,773	1,158	15,551
Additions	-	-	63	-	63
Assets reclassified from / -to Property Plant and Equipment	-	-	-720	-	-720
At 31 March 2019	8,961	659	4,116	1,158	14,894

Museum Collections and Artefacts

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

Artwork, including Public Art and Sculptures

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

Monuments, Statues and Historic Buildings

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

Civic Regalia and Silverware

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

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

16. Investment Properties

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

2018-19 £000		2019-20 £000
-1,978	Rental Income from Investment Property	-2,160
-	Direct Operating Expenses arising from Investment property	-
<u>-1,978</u>	Net (-) Gain / Loss	<u>-2,160</u>

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

2018-19 £000		2019-20 £000
7,378	Balance at start of the year	6,442
	Additions:	
47	Enhancements	-
-	Disposals	-
-28	Net gains / losses from fair value adjustments	-190
	Transfers:	
-955	(-)To / from Property, Plant and Equipment	-
<u>6,442</u>	Balance at end of the year	<u>6,252</u>

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

The fair value for the above properties at 31 March 2020 (£6.252m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

17. Financial Instruments

Categories of Financial Instruments – 2019/20

The values for financial instruments carried in the Balance Sheet are as follows:

Financial Assets

	Long-term				Current				Total	
	Investments		Debtors		Investments		Debtors		31 March 2019	31 March 2020
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Amortised cost	3,739	3,439	13,033	11,757	237,623	231,193	42,533	77,566	296,928	323,955
Fair value through other comprehensive income - designated equity instruments	10,810	7,272	-	-	-	-	-	-	10,810	7,272
Total financial assets	14,549	10,711	13,033	11,757	237,623	231,193	42,533	77,566	307,738	331,227
Non-financial instrument balances	3,847	3,949	3,746	3,751	-	-	16,470	26,033	24,063	33,733
Total	18,396	14,660	16,779	15,508	237,623	231,193	59,003	103,599	331,801	364,960

The current investments include cash and cash equivalent balances.

Financial Liabilities

	Long-term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors		31 March 2019	31 March 2020
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	-299,195	-348,963	-75,384	-74,172	-15,123	-13,392	-94,321	-76,736	-484,023	-513,263
Total financial liabilities	-299,195	-348,963	-75,384	-74,172	-15,123	-13,392	-94,321	-76,736	-484,023	-513,263
Non-financial liabilities	-	-	-	-	-	-	-35,166	-52,346	-35,166	-52,346
Total	-299,195	-348,963	-75,384	-74,172	-15,123	-13,392	-129,487	-129,082	-519,189	-565,609

Soft Loans

The council can sometimes make loans at less than market rates, where a service objective justifies making a concession (soft loans). The Code requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first time. This treatment reflects the economic substance of the transaction, i.e. the council is locking itself into an arrangement where it will incur an effective loss on interest receivable over the life of the instrument.

Fair Value of Equity instruments designated at fair value through other comprehensive income disclosures on derecognition

The council has not derecognised any equity instruments designated at fair value through other comprehensive income during this accounting period.

Income, Expense, Gains and Losses

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

2018-19			2019-20			
Financial Liabilities measured at amortised cost £000	Financial Assets measured at amortised cost £000	Total £000		Financial Liabilities measured at amortised cost £000	Financial Assets measured at amortised cost £000	Total £000
16,254	-	16,254	Interest expense	16,719	-	16,719
-	37	37	Impairment losses	-	951	951
16,254	37	16,291	Total expense in Surplus or Deficit on the Provision of Services	16,719	951	17,671
-	-3,430	-3,430	Interest income	-	-3,696	-3,696
-	-3,430	-3,430	Total income in Surplus or Deficit on the Provision of Services	-	-3,696	-3,696
16,254	-3,393	12,861	Net (gain)/loss for the year	16,719	-2,745	13,975

Fair Value of Financial Assets and Financial Liabilities

Financial liabilities and financial assets are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (level 2), using the following assumptions:

- For loans from the PWLB and other loans payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2019			31 March 2020		
Carrying Amount	Fair Value		Carrying Amount	Fair Value	
£000	£000		£000	£000	
-258,977	-294,368	PWLB borrowing	-288,974	-308,146	
-51,628	-72,542	Non-PWLB borrowing	-69,605	-91,090	
-88,812	-88,812	Short term creditors	-71,072	-71,072	
-4,497	-4,497	Short term finance lease liability	-4,605	-4,605	
-38,214	-38,214	Long term finance lease liability	-38,060	-38,060	
-38,182	-38,182	PFI liability	-37,170	-37,170	
-480,310	-536,614	Total Liabilities	-509,486	-550,142	

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

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

The fair value of Public Works Loan Board (PWLB) loans of £308.146m at 31 March 2020 measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the balance sheet date. The difference between the carrying amount and the fair value measures the additional interest that the council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB.

If a value is calculated on this basis, the carrying amount of £288.974m at 31 March 2020 would be valued at £308.146m. 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 including the penalty charge would be £411.870m at 31 March 2020.

Fair Value at Amortised Cost

The fair values for investments and debtors have been determined by reference to similar practices as above which provide a reasonable approximation for the fair value of a financial instrument, and includes accrued interest.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value, as reflected in the following table:

31 March 2019			31 March 2020	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
223,763	223,763	Short term investments	210,975	210,975
3,741	3,741	Long term investments	3,544	3,544
46,365	46,365	Short term debtors	77,566	77,566
16,779	16,779	Long term debtors	15,508	15,508
290,648	290,648	Total Investments and Debtors	307,593	307,593

The short term investments included here exclude cash and cash equivalents that are detailed in Note 21. The long term investments included here exclude equity shareholdings that are detailed overleaf.

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

Equity Shareholdings

The council's equity shareholdings are shown in the following table:

31 March 2019	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2020
£000				£000
10,658	Newcastle International Airport Ltd	Level 3	Inputs other than quoted prices in active markets that are observable for the asset	7,120
-	Durham Tees Valley Airport Ltd	Level 3		-
2,545	Chapter Homes	Level 3		2,545
300	Polyphotonix	Level 3		300
1,000	Forrest Park (Newton Aycliffe)	Level 3		1,000
152	Atom Bank	Level 3		152
<u>14,655</u>	Total			<u>11,117</u>

The shares in these companies are not traded in an active market and the total fair value of £11.117m has been calculated using valuation techniques that are not based on observable current market transactions or available market data.

The investments in Newcastle International Airport Ltd. and Atom Bank, valued at £7.272m in total (£10.812m at 31 March 2019) are investments that the council has opted to designate as Fair Value Through Other Comprehensive Income. This protects the council from movements in shareholding value until such time as the shares are sold or released. Dividends of £0.620m were received for Newcastle International Airport Ltd. in 2019/20 (nil in 2018/19).

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels in the fair value hierarchy during the year.

18. Nature and Extent of Risks Arising from Financial Instruments

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

The council's activities expose it to a variety of financial risks, including:

- 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
- refinancing and maturity risk – the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous rates or terms
- market risk – the possibility that financial loss may arise for the council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions and 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 minimum credit ratings from the three major credit ratings agencies. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each rating category and country.

Risk also arises from loans to local businesses, in order to encourage regeneration and economic development in the area. Any new investments are only agreed after significant due diligence checks have been carried out and is agreed through the Annual Investment Strategy, which is contained within the council's approved Treasury Management Strategy.

Amounts Arising from Expected Credit Losses

The council's investments have been reviewed and the loss allowance for each has been recalculated as at 31 March 2020. The result is that the calculated provision required at 31 March 2020 is £0.037m (£0.037m at 31 March 2019).

A summary of the credit quality of the council's investments at 31 March 2020 is shown as follows:

	Lowest long term rating	Balance at 31 March 2020	Historical rate of default	Estimated maximum exposure to default at 31 March 2020
		£000	%	£000
Deposits with banks and financial institutions				
Local Authorities	AA	98,393	0.00	-
Banks (less than 1 year)	A	13,119	0.05	3
Banks (more than 1 year)	A	4,373	0.15	10
Banks (less than 1 year)	A+	78,714	0.05	24
Banks (less than 1 year)	AA	21,471	0.02	-
Building Societies (less than 1 year)	Not rated	15,306	n/a	-
National Savings	Not rated	875	n/a	-
		<u>232,250</u>		<u>37</u>

Loans are generally issued to subsidiaries and joint ventures so are all low credit risk arrangements by nature. Each of the bodies to which loans have been issued have been considered to assess their ongoing financial stability and viability. Consideration has been given to whether there has been any late payment against contractual cashflows as well as looking at the current financial position of each organisation. An assessment of the likelihood of default within the next twelve months has been determined for each loan.

The only loan against which a loss has been calculated is the loan to Newcastle International Airport Limited. This is a loan for £9.385m and, based on information supplied by the airport on its expected financial performance as a result of the effects of the Covid 19 pandemic the council has calculated a modification loss of £0.796m, reducing the loan value to £8.589m. Against this the council has calculated an expected credit loss of £0.118m. No credit losses are expected for other loans the council has made.

The council does not generally allow credit for customers, although £23.123m of the £58.601m balance of Other Debtors (Note 20) is past its due date for payment. The balance that is past its due date for payment can be analysed by age as follows:

31 March 2019		31 March 2020	
£000		£000	
11,219	Less than three months	15,840	
1,150	Between three and six months	2,299	
2,686	Between six months and one year	1,494	
2,798	More than one year	3,490	
<u>17,853</u>	Total	<u>23,123</u>	

Collateral and Other Credit Enhancements

The council holds legal charges on properties where clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2020 was £2.628m (£2.018m at 31 March 2019).

Liquidity Risk

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

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

Refinancing and Maturity Risk

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

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

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

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

31 March 2019		31 March 2020	
£000		£000	
15,123	Less than one year	13,392	
10,012	Between one and two years	5	
30,034	Between two and five years	62,553	
72,359	Between five and ten years	39,873	
54,098	Between ten and fifteen years	54,031	
1	Between fifteen and twenty years	-	
-	Between twenty and twenty five years	3,000	
132,690	More than twenty five years	189,500	
<u>314,317</u>	Total Short and Long Term Borrowing	<u>362,355</u>	

Market Risk

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

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

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

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

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

According to the council's assessment strategy, at 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £51.997m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

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

As at 31 March 2020, the council has undertaken three forward borrowing deals with Phoenix Group:

- £15m: start date 15/02/2021, end date 15/02/2071, at 2.773%
- £15m: start date 13/08/2021, end date 13/08/2071, at 2.793%
- £10m: start date 15/02/2022, end date 15/02/2072, at 2.807%

19. Inventories

	Balance outstanding at start of year	Purchases	Recognised as an expense in the year	Balance outstanding at year-end
	£000	£000	£000	£000
Year to 31 March 2020				
Consumable Stores	3,421	4,088	-4,279	3,230
Maintenance Materials	439	80	-128	391
Client Services Work in Progress	-	-	-	-
Rechargeable Works	750	484	-750	484
Total	4,610	4,652	-5,157	4,105
Year to 31 March 2019				
Consumable Stores	3,737	9,677	-9,993	3,421
Maintenance Materials	445	147	-153	439
Client Services Work in Progress	125	-	-125	-
Rechargeable Works	693	793	-736	750
Total	5,000	10,617	-11,007	4,610

20. Short Term Debtors

31 March 2019		31 March 2020
£000		£000
12,163	Central government bodies	52,634
2,916	Other local authorities	3,728
1,553	NHS bodies	3,197
	Other entities and individuals:	
20,152	Council Tax	22,766
2,251	Non-Domestic Rates	2,231
39,302	Other	33,604
	Less Impairment Allowance:	
-15,294	Council Tax	-16,134
-1,447	Non-Domestic Rates	-1,279
-6,635	Other	-6,781
<u>54,961</u>		<u>93,966</u>
4,041	Payments in advance	9,634
<u>59,002</u>	Total Debtors	<u>103,600</u>

21. Cash and Cash Equivalents

2018-19		2019-20
£000		£000
486	Cash at bank	457
-8,231	Overdraft	-2,601
20,739	Cash held on demand (call accounts)	21,486
867	Deposits held for liquidity purposes	876
<u>13,861</u>	Cash and Cash Equivalents balance	<u>20,218</u>

22. Assets Held For Sale (Current)

2018-19		2019-20
£000		£000
2,011	Balance outstanding at start of year	-
	Assets newly classified as held for sale:	
-	Property, Plant and Equipment	-
-	Revaluations	-
	Assets declassified as Held for Sale:	
-1,665	Property, Plant and Equipment	-
-346	Assets sold	-
<u>-</u>	Balance outstanding at year-end	<u>-</u>

Assets Held For Sale are measured at the lower of carrying amount and fair value, less costs to sell, and depreciation on these assets should cease.

There are no properties that fall into this category at 31 March 2020.

23. Short Term Creditors

31 March 2019		31 March 2020
£000		£000
-43,117	Central government bodies	-30,294
-1,580	Other local authorities	-1,541
-1,302	NHS bodies	-1,038
	Other entities and individuals:	
-10,641	Accumulated Absences Account	-12,460
-5,509	Short term finance lease and PFI liabilities	-5,664
-4,164	Collection Fund prepayments	-3,647
-7,109	Section 106 agreements	-10,013
-5,506	Pension Fund	-4,889
-41,841	Other	-36,747
<u>-120,769</u>		<u>-106,293</u>
-8,719	Receipts in Advance	-22,788
<u><u>-129,488</u></u>	Total Creditors	<u><u>-129,081</u></u>

24. Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential at some point in the future, and a reliable estimate can be made of the amount of the obligation. The estimated cost is charged as an expense to the appropriate service in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation. When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and any provisions which are no longer required are credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

The provisions at 31 March 2020 were as follows:

Insurance Provision

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

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

The provision is based on external insurers' estimates of the cost of identified claims for damages and associated costs in respect of fire, public and employer's liabilities, to be borne by the council. Settlement of the claims will continue over the coming years and the provision will be reassessed on an annual basis. The following table sets out the movement on the insurance provision during 2019/20.

Equal Pay

The council has outstanding equal pay complaints from existing and former staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid. A significant number of grievances and claims have been settled in earlier years and agreements regarding the remaining cases are expected to be settled in 2020/21. These have therefore been included as a short-term provision in the balance sheet, as set out in the following table.

NDR Appeals

Local authorities are liable for successful appeals against business rates charged to businesses. A provision has been recognised for the best estimate of the amount that will be successfully appealed in relation to 2019/2020 and previous years. In general the estimate is calculated using the Analyse Local system designed specifically to forecast the effects of outstanding appeals and other threats to rateable values in local lists. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the VOA relating to the 2010 list and historic estimates for likely appeals raised relating to the 2017 list. Whilst the settlement of these appeals is outside of the council's control, it is considered likely that 2010 list appeals will be settled within the next financial year and are therefore classified as a short-term provision.

In addition to this the council considers there is likely to be a liability to refund business rates to NHS bodies within Durham and has included a provision to cover 30% of the expected liability on the basis of the perceived risk of a successful appeal (please see Note 46 for further details). As the full value and timing of this liability is uncertain, as well as the risk of a successful appeal, the council has also considered it prudent to include a contingent liability for sums not included within the appeals provision.

The provision included in the following table represents the council's share of the provision held for successful appeals against business rates.

	Insurance £000	Equal Pay £000	NDR Appeals £000	Total £000
Balance at 1 April 2019	9,662	67	14,349	24,078
Additional provisions made in 2019/20	2,941	-	2,581	5,522
Amounts used in 2019/20	-1,193	-	-3,721	-4,914
Unused amounts reversed in 2019/20	-2,681	-	-	-2,681
Balance at 31 March 2020	8,729	67	13,209	22,005
As shown in Balance Sheet				
Long Term Provisions	6,633	-	9,365	15,998
Short Term Provisions	2,096	67	3,844	6,007
Balance at 31 March 2020	8,729	67	13,209	22,005

25. Usable Reserves

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

31 March 2019		31 March 2020
£000		£000
8	Usable Capital Receipts Reserve	8
25,106	General Fund Balance	23,950
226,411	Earmarked Reserves	216,840
<u>251,525</u>	Total	<u>240,798</u>

Usable Capital Receipts Reserve

Proceeds of non-current assets' sales available to meet future capital investment.

General Fund Balance

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

Earmarked Reserves

Earmarked Reserves are shown in more detail in Note 10 and are resources set aside for future spending plans.

26. Unusable Reserves

31 March 2019		31 March 2020
£000		£000
678,992	Revaluation Reserve	635,727
10,531	Financial Instruments Revaluation Reserve	6,994
702,632	Capital Adjustment Account	685,715
-1,496	Financial Instruments Adjustment Account	-1,352
943	Deferred Capital Receipts	596
-10,641	Accumulated Absences Account	-12,460
-1,246,687	Pensions Reserve	-1,331,292
2,767	Collection Fund Adjustment Account	5,080
<u>137,041</u>	Total	<u>-10,992</u>

Revaluation Reserve

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

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

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

2018-19 £000		2019-20 £000
632,306	Balance at 1 April	678,992
113,615	Upward revaluation of assets	20,448
-21,976	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-33,377
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-12,929
91,639		-12,929
-19,839	Difference between fair value depreciation and historical cost depreciation	-22,624
-25,114	Accumulated gains on assets sold or scrapped	-7,712
-44,953	Amount written off to the Capital Adjustment Account	-30,336
678,992	Balance at 31 March	635,727

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

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

2018-2019 £000		2019-20 £000
10,432	Balance at 1 April	10,532
100	Upward or downward revaluation of investments not credited to the Surplus/Deficit on the Provision of Services	-3,538
10,532		6,994
-	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
10,532	Balance at 31 March	6,994

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs, because depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

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

Note 9 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2018-19		2019-20
£000		£000
701,682	Balance at 1 April	702,632
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-62,818	Charges for depreciation and impairment of non-current assets	-66,349
-11,014	Revaluation losses on Property, Plant and Equipment	-19,378
-995	Amortisation of intangible assets	-1,192
-20,685	Revenue expenditure funded from capital under statute	-13,722
-42,548	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	-38,919
<u>-138,060</u>		<u>-139,560</u>
44,953	Adjusting amounts written out of the Revaluation Reserve	30,336
<u>-93,107</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>-109,224</u>
	Capital financing applied in the year:	
6,451	Use of Capital Receipts Reserve to finance new capital expenditure	10,471
-	Write down of capital loan repaid in year as a capital receipt	-4,830
52,183	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	49,032
13,335	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	14,071
22,116	Capital expenditure charged against the General Fund and HRA balances	23,753
<u>94,085</u>		<u>92,497</u>
-28	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-190
<u>702,632</u>	Balance at 31 March	<u>685,715</u>

Deferred Capital Receipts Reserve

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

2018-19 £000		2019-2020 £000
2,222	Balance at 1 April	943
	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	484
-1,279	Transfer to the Capital Receipts Reserve upon receipt of cash	-831
<u>943</u>	Balance at 31 March	<u>596</u>

Accumulated Absences Account

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

2018-19 £000		2019-20 £000
-13,623	Balance at 1 April	-10,641
13,623	Settlement or cancellation of accrual made at the end of the preceding year	10,641
-10,641	Amounts accrued at the end of the current year	-12,460
2,982	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	-1,819
<u>-10,641</u>	Balance at 31 March	<u>-12,460</u>

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Further detail can be found in Note 44.

2018-19		2019-20
£000		£000
-1,225,494	Balance at 1 April	-1,246,687
59,470	Remeasurements of the net defined benefit liability	-34,030
-166	Adjustment for previous year's difference between actuary's estimate and actual employers' pension contributions	-473
3,820	Net increase in assets from disposals / acquisitions	2,930
-710	Net increase in liabilities from disposals / acquisitions	-6,190
-151,980	Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-117,930
68,373	Employer's pensions contributions and direct payments to pensioners payable in the year	71,089
<u>-1,246,687</u>	Balance at 31 March	<u>-1,331,291</u>

27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2018-19		2019-20
(restated)		£000
£000		
16,291	Interest paid	17,671
-3,430	Interest received	-3,696
-110	Dividends received	-620

The Interest paid and Interest received for 2018/19 has been restated reflecting Financial Instruments note 17.

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

2018-19		2019-20
£000		£000
-62,163	Depreciation	-63,401
-11,670	Impairment and downward revaluation	-22,325
-995	Amortisation	-1,192
-3,009	Transfer to/from Accumulated Absences account	1,819
-326	Increase/decrease in the provision for bad debts	-147
-11,564	Increase/decrease in creditors	-1,620
-27,227	Increase/decrease in debtors	24,933
-390	Increase/decrease in inventory	-505
-83,607	Pension liability	-46,841
-42,548	Carrying amount of non-current assets sold	-38,919
41,218	Other non-cash items	39,964
<u>-202,281</u>		<u>-108,234</u>

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

2018-19 £000		2019-20 £000
8,313	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,813
<u>8,313</u>	Net cash flows from investing activities	<u>4,813</u>

28. Cash Flow Statement – Investing Activities

2018-19 £000		2019-20 £000
68,729	Purchase of property, plant and equipment, investment property and intangible assets	94,353
431,823	Purchase of short-term (not considered to be cash equivalents) and long-term investments	393,123
5,021	Other payments for investing activities - external trading	6,267
-8,313	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-4,813
-345,462	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-406,109
-54,614	Other receipts from investing activities (inc. external trading)	-48,820
<u>97,184</u>	Net cash flows from investing activities	<u>34,001</u>

29. Cash Flow Statement – Financing Activities

2018-19 £000		2019-20 £000
-30,000	Cash receipts of short-term and long-term borrowing	-60,000
3,957	Other receipts from financing activities	-189
6,066	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	6,696
10,023	Repayments of short-term and long-term borrowing	12,025
-	Other payments for financing activities	-
<u>-9,954</u>	Net cash flows from financing activities	<u>-41,468</u>

30. Reconciliation of liabilities arising from financing activities

2019/20:

	1 April 2019	Financing cash flows	Changes which are not financing cash flows		31 March 2020
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	-311,210	-60,000	-	-	-371,210
Short term borrowings	-3,107	12,025	-	-	8,918
Lease liabilities	-42,711	5,685	-5,639	-	-42,665
On balance sheet PFI liabilities	-38,183	1,011	-	-	-37,172
Total liabilities from financing activities	-395,211	-41,278	-5,639	-	-442,128

2018/19:

	1 April 2018	Financing cash flows	Changes which are not financing cash flows		31 March 2019
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	-281,210	-30,000	-	-	-311,210
Short term borrowings	-13,071	10,008	-	-44	-3,107
Lease liabilities	-43,192	5,080	-4,599	-	-42,711
On balance sheet PFI liabilities	-39,174	991	-	-	-38,183
Total liabilities from financing activities	-376,647	-13,921	-4,599	-44	-395,211

31. Agency Services

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

In 2019/20 £7.871m (£7.924m in 2018/19) was received for services including Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The overall decrease in Agency Services from 2018/19 to 2019/20 is due to an increase in services provided to County Durham and Darlington Fire and Rescue Authority, Chapter Homes, and Academies net off against a decrease in services provided to other local authorities and Schools outside of County Durham. The cost of providing the services is met by the income received.

32. Members' Allowances

The council paid the following amounts to Members of the council during the year.

2018-19 £000		2019-20 £000
1,667	Basic Allowance	1,675
286	Special Responsibility Allowance	287
5	Broadband Allowance	5
63	Expenses	61
2,021	Total	2,028

33. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - Terry Collins	2019-20	196,343	-	-	-	196,343
	2018-19	192,493	-	-	-	192,493
Corporate Director - Resources	2019-20	148,583	-	-	24,813	173,396
	2018-19	145,670	32	-	24,327	170,029
Corporate Director - Children and Young Peoples Services (01/04/19 - 31/08/19)	2019-20	61,910	-	-	-	61,910
	2018-19	145,670	-	-	-	145,670
Corporate Director - Children and Young Peoples Services (01/09/19 - 31/03/20)	2019-20	86,261	-	-	13,806	100,067
Corporate Director - Adult and Health Services	2019-20	148,789	272	-	24,813	173,874
	2018-19	145,670	124	-	24,327	170,121
Corporate Director - Regeneration and Local Services (01/04/19 - 31/01/20)	2019-20	123,819	184	-	20,678	144,681
	2018-19	145,670	-	-	24,327	169,997
Corporate Director - Regeneration, Economy and Growth (01/01/20 - 31/03/20)	2019-20	37,146	-	-	6,203	43,349
Director - Transformation and Partnerships * (01/04/19 - 06/12/19)	2019-20	121,297	-	112,895	14,522	248,715
	2018-19	124,860	-	-	20,852	145,712
Head of Legal and Democratic Services (Monitoring Officer)	2019-20	116,744	244	-	19,496	136,484
	2018-19	114,455	102	-	19,114	133,671

* The post of Director of Transformation and Partnerships was deleted with voluntary redundancy of the postholder

Payments to council employees receiving more than £50,000 remuneration in year (excluding employer's pension contributions) are set out in the following table (which excludes details of the senior employees, shown in the previous table).

The 'Other Staff' column in the table includes employees which provide educational support services within schools. Of the 202 'Other Staff' in 2019/20 there are no employees paid on Leadership Teacher grades and 39 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through Service Level Agreements from schools within County Durham and also a number of schools outside of the Durham area.

Remuneration band	2018-19 Number of Employees			2019-20 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	112	69	181	128	47	175
£55,000 - £59,999	85	37	122	92	55	147
£60,000 - £64,999	70	22	92	67	49	116
£65,000 - £69,999	31	8	39	37	6	43
£70,000 - £74,999	14	6	20	25	5	30
£75,000 - £79,999	6	6	12	8	4	12
£80,000 - £84,999	5	3	8	5	8	13
£85,000 - £89,999	2	2	4	3	2	5
£90,000 - £94,999	3	2	5	2	6	8
£95,000 - £99,999	1	2	3	2	2	4
£100,000 - £104,999	1	7	8	-	5	5
£105,000 - £109,999	2	1	3	1	1	2
£110,000 - £114,999	-	4	4	2	1	3
£115,000 - £119,999	-	2	2	-	8	8
£120,000 - £124,999	-	1	1	-	-	-
£125,000 - £129,999	-	-	-	-	-	-
£130,000 - £134,999	-	2	2	-	1	1
£135,000 - £139,999	-	-	-	1	2	3
£140,000 - £144,999	-	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-	-
£150,000 - £154,999	-	1	1	-	-	-
£155,000 - £159,999	-	-	-	-	-	-
£160,000 - £164,999	-	-	-	-	-	-
£165,000 - £169,999	-	-	-	-	-	-
£170,000 - £174,999	-	-	-	-	-	-
£175,000 - £179,999	-	-	-	-	-	-
£180,000 - £184,999	-	1	1	-	-	-
	<u>332</u>	<u>176</u>	<u>508</u>	<u>373</u>	<u>202</u>	<u>575</u>

The cost of exit packages comprises two elements: redundancy costs payable to the employee and early access costs, where the employee is also taking early retirement. The latter element is payable to the Pension Fund and is charged to the General Fund in the year of retirement.

The following table sets out the number and total cost of exit packages by type and cost band:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19 £000	2019-20 £000
£0 - £20,000	17	7	14	32	31	39	237	387
£20,001 - £40,000	4	2	6	28	10	30	289	871
£40,001 - £60,000	1	1	6	15	7	16	375	760
£60,001 - £80,000	2	-	2	14	4	14	287	950
£80,001 - £100,000	-	-	10	6	10	6	893	541
£100,001 - £150,000	1	-	10	6	11	6	1,299	697
£150,001 - £250,000	-	-	4	-	4	-	731	-
Total	25	10	52	101	77	111	4,111	4,206

34. External Audit Costs

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors. The appointed auditor for 2019/20, and up to 2021/22, is Mazars LLP.

2018-19 £000	2019-20 £000
193 Fees payable with regard to external audit services carried out by the appointed auditor for the year	193
- Fees payable in the year for the certification of grant claims and returns by the appointed auditor for Public Sector Appointments Ltd (PSAA)	-
25 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	28
218 Total	221

35. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

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

	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2019/20 before Academy Recoupment			393,267
B Academy figure recouped for 2019/20			112,305
C Total DSG after Academy Recoupment for 2019/20			<u>280,962</u>
Plus			
D Brought forward from 2018/19			-349
Less			
E Carry forward to 2020/21 agreed in advance			0
F Agreed initial budgeted distribution in 2019/20	54,099	226,514	280,613
G In year adjustments	65	47	112
H Final budgeted distribution for 2019/20	<u>54,164</u>	<u>226,561</u>	<u>280,725</u>
Less			
I Actual central expenditure	63,885		63,885
Less			
J Actual ISB deployed to schools		226,561	226,561
Plus			
K Local authority contribution for 2019/20	5,915	-	5,915
L Carry forward to 2020/21	<u>-3,806</u>	<u>0</u>	<u>-3,806</u>

* Total carry-forward deficit (-£3.806m) is the carry forward deficit on central expenditure (L) (-£3.806m) plus carry forward on ISB (L) (£nil) plus carry forward 2020/21 already agreed (E) (£nil).

- A Final DSG figure before any amount has been recouped from the council excluding the January 2019 early years block adjustment.
- B Figure recouped from the council in 2019/20 by the DfE for the conversion of maintained schools into Academies.
- C Total figure after EFA Academy recoupment for 2019/20.
- D Figure brought forward from 2018/19 as agreed with the Department.
- E Any amount which the council decided after consultation with the Schools Forum to carry forward to 2020/21 rather than distribute in 2019/20 – this may be the difference between estimated and final DSG for 2019/20, or a figure (positive or negative) brought forward from 2018/19 which the authority is carrying forward again.
- F Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the Schools Forum.
- G Changes to the initial distribution, for example, adjustments for exclusions or final early years block adjustment.
- H Budgeted distribution of DSG as at the end of the financial year.
- I Actual amount of central expenditure items in 2019/20.

- J Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the council once it is deployed to schools' budget shares).
- K Any contribution from the local authority in 2019/20 which will have the effect of substituting for DSG in funding the Schools Budget.
- L Carry forward to 2020/21:
- For central expenditure, difference between final budgeted distribution of DSG (H) and actual expenditure (I), plus any local authority contribution (K).
 - For ISB, difference between final budgeted distribution (H) and amount actually deployed to schools (J) plus any local authority contribution (K).
 - Total is carry-forward on central expenditure (L) less carry forward on ISB (L) plus carry forward 2020/21 already agreed (E).

New provisions have been put into Regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, so that local authorities are required to carry forward overspends of DSG to their schools budget either in the year immediately following or the year after. They can apply to the secretary of state to disregard this requirement. In the case of the secretary of state giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

All of the deficit will be carried forward into the financial year following the new year, using Regulation 8(7)(c).

This reflects the statutory requirement that a deficit must be carried forward to be funded from future DSG income, unless the secretary of state authorises the local authority not to do this.

36. Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

2018-19 £000		2019-20 £000
	Credited to Taxation and Non Specific Grant Income:	
	Non Ring-fenced Government Grants:	
-41,860	Revenue Support Grant	-27,621
-70,009	Top Up Grant	-71,613
-8,528	Section 31 Grants	-11,348
-1,922	Levy Account Surplus Grant	-427
-	Covid 19 Support Grant	-18,588
-	Social Care Support Grant	-4,822
-6,504	New Homes Bonus Scheme Grant	-6,709
-47,488	Capital Grants and Contributions	-37,652
<u>-176,311</u>		<u>-178,780</u>

Grant and Contribution Income Credited to Services

2018-19 £000		2019-20 £000
	Credited to Services:	
-4,145	Additional Grant for Schools	-3,401
-622	Apprenticeship Levy digital account	-1,165
-1,264	Arts Council England - NE	-1,268
-24,959	Clinical Commissioning Groups-Better Care Fund	-29,034
-1,833	DCSF Grant	-2,624
-281,773	Dedicated Schools Grant (DSG)	-281,074
-775	DEFRA Grant	-800
-1,039	Department of Health Grant	-1,091
-1,342	Discretionary Housing Payment Grant	-1,170
-468	Durham Police, Crime and Victims' Commissioner	-322
-	DWP New Burdens Grant	-549
-785	Education Authorities-other	-745
-8,313	Education Funding Agency	-8,128
-912	Educational Visits	-930
-3,733	ERDF Grant	-4,048
-	ESF Grant	-5,017
-5,498	General Contributions	-5,353
-1,355	Heritage Lottery Fund Grant	-795
-791	Home Office Grant - Syrian Vulnerable Persons	-1,870
-2,018	Housing Benefit - Admin Grant	-1,928
-148,497	Housing Benefit Grant - Rent Allowance	-129,699
-476	Housing Benefit Grant - Rent Rebate	-1,252
-21,475	Improved Better Care Fund	-29,959
-927	Local Council Tax Support Scheme Administration Grant	-916
-4,481	MHCLG Grant	-3,356
-16,347	NHS - Care Costs	-11,599
-3,391	NHS - Joint Arrangements	-3,190
-586	NNDR Cost of Collection Allowance	-581
-15,692	North East Combined Authority	-15,552
-890	Other Local Authorities	-977
-5,519	PFI Grants	-5,519
-48,698	Public Health Grant	-47,412
-19,924	Pupil Premium Grant	-19,644
-2,834	Skills Funding Agency	-3,023
-	Teacher Pay Grant	-2,413
-	Teacher Pension Grant	-4,860
-	Think Family Grant	-1,726
-4,496	Universal Infant Free School Meals Grant	-4,045
-612	Youth Offending Teams Grant	-611
-11,003	Other Grants and Contributions	-5,550
<u>-647,473</u>		<u>-643,196</u>

Capital Grants and Contributions Receipts in Advance

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

2018-19		Capital Grants and Contributions Receipts in Advance	2019-20	
Long Term £000	Short Term £000		Long Term £000	Short Term £000
-	-	Broadband Delivery UK	-3,294	-
-104	-	Darlington Borough Council	-104	-
-	-929	Department for Transport	-2,188	-354
-	-	Durham University	-	-50
-	-67	Education & Skills Funding Agency	-	-149
-	-	European Commission	-	-281
-	-169	Gateshead Council	-108	-61
-	-	Groundwork North East	-	-26
-	-	Heritage Lottery Fund	-	-18
-	-	Highways England	-	-26
-	-29	Historic England	-	-10
-1,257	-272	Home Loan Recycled Fund	-281	-548
-63	-	Middlesbrough Council	-63	-
-	-386	Ministry of Housing, Communities and Local Govt	-	-746
-	-	North East Combined Authority	-	-
-	-238	North Tyneside Council	-167	-71
-	-2	Public Health England	-	-
-170	-	Redcar and Cleveland Borough Council	-170	-
-	-83	South Tyneside Council	-57	-26
-157	-	Stockton Borough Council	-	-156
-135	-	Sunderland City Council	-	-58
-	-205	Tees Valley Combined Authority	-71	-135
-1	-9	Other	-1	-7
-1,887	-2,389	Total Capital Grants and Contributions Receipts in Advance	-6,504	-2,722

37. Related Parties

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

Central Government

Central government has effective control over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many

of the transactions that the council has with other parties (e.g. council tax bills, housing benefits).

Members

Members of the County Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in Note 32.

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

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.174m in 2019/20 (£0.197m in 2018/19). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Members are also involved in:

- the Citizens Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.767m in 2019/20 (£0.676m in 2018/19)
- Groundwork North East, carrying out environmental works for which there were transactions of £0.767m in 2019/20 (£0.986m in 2018/19).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.189m in 2019/20 (£0.231m in 2018/19)
- Consett YMCA (Delta North) for work done with various schools £0.449m in 2019/20 (£0.407m in 2018/19)
- Durham Christian Partnership £0.091m in 2019/20 (£0.081m in 2018/19)
- Cornforth Partnership £0.129m in 2019/20 (£0.214m in 2018/19)
- Glebe Centre £0.020m in 2019/20 (£0.011m in 2018/19)
- Easington Regeneration Partnership £0.010m in 2019/20 (£0.009m in 2018/19)
- South Durham Enterprise Agency £0.009m in 2019/20 (£0.061m in 2018/19)
- Pelton Fell Community Partnership £0.020m in 2019/20 (£0.022m in 2018/19)
- Craghead Community Association £0.026m in 2019/20 (nil in 2018/19)
- Arts Council £0.005m in 2019/20 (£0.003m in 2018/19)

During 2019/20, works and services to the value of £0.188m (£0.169m in 2018/19) were commissioned from companies in which some members had an interest. Contracts were entered into in full compliance with the council's Standing Orders.

Chief Officers

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

Chief Officer	Related party declaration
Corporate Director of Resources	Deputy Section 73 Officer for North East Combined Authority

No further declarations were identified.

Entities Controlled or Significantly Influenced by the Council

The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities provided to council taxpayers by other organisations in which the council has an interest. The council has considered its interests in its subsidiaries, associates, joint ventures and other bodies, both quantitatively and qualitatively, and has concluded all entities are not considered to be material and therefore have not been consolidated into the Group Financial Statements.

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

Chapter Homes

Chapter Homes Durham Limited was established as a private company limited by shares on 10 August 2015 and is owned 100% by Durham County Council. The Company has been established as a trading company to develop council owned land for market housing sale and private market rent to generate revenue income, capital receipts and contribute to housing regeneration in County Durham.

The unaudited draft company accounts for the full year 2019/20 have been prepared. In 2019/20 Chapter Homes Durham Limited had turnover of £4.740m (£8.230m in 2018/19), made a profit before taxation of £0.454m (£1.096m in 2018/19) no taxation has yet been determined, no dividend was paid. Chapter Homes had net assets of £4.076m at 31 March 2020 (£3.708m at 31 March 2019).

Forrest Park (Newton Aycliffe) Limited

This is a joint venture arrangement of which the council owns 51% of the share capital of the Company. The Company has been established to develop Forrest Park as a prime location for manufacturing, logistics and administration. The aims of the Company will be

to develop the site and maximise economic benefits from the commercial developments. The Company was established on 31 March 2016. The unaudited draft company accounts for the full year 2019/20 have been prepared. In 2019/20 Forrest Park (Newton Aycliffe) Limited had losses of £0.039m before taxation (loss of £0.006m in 2018/19). The net assets of the company total £1.964m at 31 March 2020 (£2.002m at 31 March 2019).

Durham Villages Regeneration Limited

This is a joint venture arrangement of which the council has 50% of the voting rights of the Company and 49% of the share capital. The Company operates as a public-private partnership formed to regenerate communities. The Company's principal activities during the year were private house building and property development. The Company accounts for 2019/20 are not yet available, however the draft unaudited management accounts show at 31 March 2020 Durham Villages Regeneration Limited made an operating profit before taxation of £1.335m for 2019/20 (£0.147m for 2018/19) and estimated £1.081m for 2019/20 after taxation (£0.119m in 2018/19).

Central Durham Crematorium

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2020 are £3.782m (31 March 2019: £4.012m). Durham County Council is the administrative body and employing authority for the crematorium.

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

Mountsett Crematorium

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2020 are £0.868m (31 March 2019: £0.624m). Durham County Council is the administrative body and employing authority for the crematorium.

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

Service Direct NewCo Limited

Service Direct NewCo Limited is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building

maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services. Durham County Council owns 100% of NewCo, which began trading in 2007/08. The unaudited draft company accounts for the full year 2019/20 have been prepared. In 2019/20 Service Direct NewCo Limited had turnover of £1.188m (2018/19: £1.175m), £0.004m operating profits before taxation (£0.003m: 2018/19), no dividend was paid, and had net assets of £0.022m at 31 March 2020 (£0.019m at 31 March 2019).

NIAL Holdings Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The council holds a 12.15% interest in NALAHCL, valued at £7.120m (£10.658m in 2018/19). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. No such events have occurred. The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS13 and IFRS9.

Through its shares in NALAHCL the council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £0.620m was received for the year ended 31 December 2019 (nil for the year ended 31 December 2018).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes (of which DCC shareholder loan notes share is £9.385m). The agreement stipulated that loan notes will be repayable in 2032 with interest being received up to that date on a six monthly basis. The airport company has advised that as a result of the effects of the Covid 19 pandemic on its expected financial performance it will not be in a position to make any further loan repayments until October 2022. Based on this information the council has calculated a modification loss of £0.796m, reducing the loan value to £8.589m. At 31 March 2020 the income from interest receivable was in arrears by £0.537m (£0.606m at 31 March 2019). Otherwise there are no outstanding balances owed to or from NIAL at the year end.

No accounts are available for the year ended 31 December 2019. NIAL Group Limited made a profit before tax of £10.443m and a profit after tax of £7.435m for the year ended 31 December 2018. In the previous year, the Group made a profit before tax of £6.884m and a profit after tax of £4.408m.

Durham Tees Valley Airport Limited

The council holds 1.45% of the total shareholding in Durham Tees Valley Airport. For the year ended 31 March 2019, Durham Tees Valley Airport Limited made a loss before taxation of £5.725m (loss of £1.994m for year ended 31 March 2018) and a loss of £4.291m after taxation (loss of £1.590m for year ended 31 March 2018). The Company accounts for 2019/20 are not yet available.

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

Durham County Cricket Club

As at 31 March 2020 the council holds £3.439m (£3.740m at 31 March 2019) in redeemable preference shares in Durham Cricket Community Interest Company (formerly Durham Cricket Limited). This is on the condition that the company will repay the amount of share capital within the fixed period of 10 years from June 2017 or even earlier at the discretion of the company. The Company accounts for the year ended 30 September 2019 are not yet available. For the year ended 30 September 2018, the Company made a loss before tax of £1.155m and a loss after tax of £1.136m. In the previous year the Company made a profit before tax of £2.246m and a profit after tax of £2.228m.

Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 115 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2019/20, the Pension Fund had an average balance of £38.895m (£36.119m in 2018/19) of surplus cash deposited with the council. In 2019/20 the council paid the fund a total of £0.319m (£0.262m in 2018/19) in interest on these deposits.

38. Capital Expenditure and Capital Financing

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

2018-19		2019-20
£000		£000
458,829	Opening Capital Financing Requirement	457,660
	Capital investment:	
66,987	Property, Plant and Equipment	92,144
4,599	Property, Plant and Equipment - Finance Leases	5,639
63	Heritage Assets	122
1,713	Intangible Assets	1,865
1,809	Acquisition of share and loan capital	1,970
20,685	Revenue Expenditure Funded from Capital under Statute	14,027
	Sources of finance:	
-9,391	Capital receipts	-10,471
-52,183	Government grants and other contributions	-49,032
	Sums set aside from revenue:	
-22,116	- Direct revenue financing	-23,745
-13,335	- Minimum Revenue Provision	-14,071
<u>457,660</u>	Closing Capital Financing Requirement	<u>476,108</u>
	Explanation of movements in year	
-5,525	Increase/-decrease in underlying need to borrow (supported by government financial assistance)	12,809
-243	Increase/-decrease in underlying need to borrow (unsupported by government financial assistance)	-
4,599	Assets acquired under finance leases	5,639
<u>-1,169</u>	Increase/-decrease in Capital Financing Requirement	<u>18,448</u>

39. Leases

Council as Lessee

Finance leases

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

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

31 March 2019		31 March 2020
£000		£000
2,485	Other Land and Buildings	2,274
13,325	Vehicles, Plant, Furniture and Equipment	14,622
<u>15,810</u>		<u>16,896</u>

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

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

31 March 2019		31 March 2020
£000		£000
	Finance lease liabilities (net present value of minimum lease payments):	
4,497	Current	4,605
38,214	Non-Current	38,060
18,183	Finance costs payable in future years	17,209
<u>60,894</u>	Minimum lease payments	<u>59,874</u>

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

31 March 2019			31 March 2020		
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000	
5,759	4,497	Not later than one year	5,838	4,605	
12,800	8,820	Later than one year and not later than five years	13,128	9,236	
42,335	29,394	Later than five years	40,908	28,824	
<u>60,894</u>	<u>42,711</u>		<u>59,874</u>	<u>42,665</u>	

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

The council has not sub-let any of the vehicles and equipment under finance leases, but it has sub-let properties at Freemans' Reach that were acquired under a finance lease. The total of future minimum sublease payments expected to be received under these leases was £21.280m (£23.240m at 31 March 2019). This is included in the table showing minimum lease payments receivable from operating leases in future years, where the council is a lessor.

Operating Leases

The council has acquired a number of administrative buildings by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2019		31 March 2020
£000		£000
2,562	Not later than one year	2,478
4,922	Later than one year and not later than five years	3,030
5,439	Later than five years	2,056
<u>12,923</u>		<u>7,564</u>

The following table sets out the expenditure in relation to these leases which has been charged against the cost of services line within the comprehensive income and expenditure statement.

31 March 2019		31 March 2020
£000		£000
588	Minimum lease payments	1,086
-3,660	Sublease payments receivable	-3,331
<u>-3,072</u>		<u>-2,245</u>

Council as Lessor

Finance Leases

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

Operating leases

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

- for the provision of community services, such as childcare and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for other purposes as the council determines as being beneficial to its interests.

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

31 March 2019		31 March 2020
£000		£000
(Restated)		
7,739	Not later than one year	6,156
15,209	Later than one year and not later than five years	14,334
17,712	Later than five years	15,596
<u>40,660</u>		<u>36,086</u>

The balances at 31 March 2019 have been restated so they are comparable to the figures at 31 March 2020. The minimum lease payments receivable does not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

40. Private Finance Initiatives and Similar Contracts

Schools

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

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

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

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

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

Two of the schools have become Academies since the construction date. Shotton Hall School became an Academy on 1 February 2011 and Sedgefield Community College became an Academy on 1 March 2020. The council has granted the Academies lease of the land and buildings at a peppercorn rent for 125 years. The PFI contract remains with the council and the Academies have signed agreements with the council to cover the operation of the contract as it affects the Academies and the Academies' contributions to meeting the costs of the contract.

The assets associated with PFI schools that have transferred to academy status (Shotton Hall and Sedgefield Community College) are not reflected in the council's balance sheet as the assets were written out in 2010/11 and 2019/20 retrospectively.

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

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

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

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

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

Value of Assets

31 March 2019		31 March 2020
£000		£000
(restated)		
22,365	Net book value at 1 April	23,547
43	Additions	69
-636	Depreciation	-506
1,775	Revaluations	-
-	Disposals	-18,993
<u>23,547</u>	Net book value at 31 March	<u>4,117</u>

2018/19 comparative figures have been restated to reflect final 2018/19 expenditure additions.

In addition to the net book value of £4.117m in respect of the PFI assets, the balance sheet also includes the value of the land on which the schools are built. The value of the land is £0.483m and the total net value of land and buildings for these schools carried forward is £4.600m.

Value of Liabilities

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

Movements in the values in 2019/20 are summarised as follows:

31 March 2019		31 March 2020
£000		£000
39,173	Balance outstanding at start of year	38,182
-991	Payments during the year	-1,011
<u>38,182</u>	Balance outstanding at year-end	<u>37,171</u>

Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2020-21	2,751	1,059	3,771	7,581
Payable within two to five years	11,262	5,937	13,839	31,038
Payable within six to ten years	16,553	10,690	13,299	40,542
Payable within eleven to fifteen years	19,732	15,985	7,001	42,718
Payable within sixteen to twenty years	2,853	3,499	355	6,707
Total	53,151	37,170	38,265	128,586

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates assume that after 2019/20 RPIX increases at 2.5% a year for the remainder of the contract.

Other reasons why costs might vary in future years are:

- The provision of facilities management (FM) services is subject to benchmarking and / or market testing every five years. Payments to the contractor will be adjusted to reflect the outcome of these exercises, which could reduce or increase costs.
- Once PFI contracts are operational it is sometimes possible to 're-finance' the contract which reduces the cost of borrowing incurred by the contractor. The council recognised a cash lump sum gain of £2.881m from a re-financing exercise in 2018/19 and there are no plans for further re-financing at this stage.

41. Impairment and Revaluation Losses

The value of the council's assets has been reduced by £57.157m in 2019/20 (£44.468m in 2018/19), charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This reduction includes both the consumption of economic benefits and also revaluation losses due to the downturn in the economy.

42. Termination Benefits

The council terminated the contracts of a number of employees in 2019/20. The value of the redundancy payments charged to services in 2019/20 was £3.439m and in 2018/19 was £3.519m. The following table analyses the payments made in the relevant financial years. The majority of the payments made in 2019/20 were due to the rationalisation of services within the council.

2018-19		2019-20
£000		£000
1,267	Adult and Health Services	228
1,667	Children and Young People's Services	1,282
311	Regeneration and Local Services	335
111	Resources	349
163	Transformation and Partnerships	1,245
<u>3,519</u>		<u>3,439</u>

In addition to the above redundancy payments, the pension enhancement value in 2019/20 was £1.821m and in 2018/19 was £2.325m.

43. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Capita Business Services Limited. The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2019/20, the council paid £23.242m to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% to 31 August 2019 and 23.68% from 1 September 2019 of pensionable pay (£18.481m or 16.48% in 2018/19). 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 £26.024m.

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. The costs are accounted for on a defined benefit basis and detailed in Note 44.

NHS Pension Scheme

NHS staff who transferred to the council in 2013/14 have maintained their membership in the NHS Pension Scheme, administered by the NHS Business Services Authority. The scheme provides these staff with specified benefits upon their retirement and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2019/20, the council paid £0.063m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 16.88% of pensionable pay (£0.067m or 14.38% in 2018/19). 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 £0.058m.

44. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Durham County Council – this is a funded defined benefit career average revalued earnings scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

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

The principal risks to the 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

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

Transactions Relating to Post-employment Benefits

The council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2018-19			2019-20	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
£000	£000		£000	£000
Comprehensive Income and Expenditure Statement				
Cost of services:				
Service cost comprising:				
70,320	-	- Current service cost	89,030	-
51,460	-	- Past service cost (including curtailments)	-	-
Financing and Investment Income and Expenditure:				
28,470	1,730	- Net interest on net defined benefit liability	27,420	1,480
150,250	1,730	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	116,450	1,480
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
-104,960	-	- Return on plan assets (excluding the amount included in the net interest expense)	157,990	-
163,360	1,440	- Actuarial gains and losses due to changes in financial assumptions	-77,110	-440
-121,130	-3,010	- Actuarial gains and losses due to changes in demographic assumptions	-92,010	-1,090
4,640	190	- Actuarial gains and losses due to liability experience	46,990	-300
92,160	350	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	152,310	-350
Movement in Reserves Statement				
-150,250	-1,730	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-116,450	-1,480
Actual amount charged against the General Fund Balance for pensions in the year:				
63,245	-	- Employer's contributions payable to the scheme	66,119	-
-	5,128	- Direct retirement benefits payable to pensioners	-	4,971

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2018-19			2019-20		
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements	
£000	£000		£000	£000	
-3,132,620	-64,370	Present value of the defined benefit obligation	-3,098,380	-58,940	
1,968,460	-	Fair value of plan assets	1,823,960	-	
<u>-1,164,160</u>	<u>-64,370</u>	Net liability arising from defined benefit obligation	<u>-1,274,420</u>	<u>-58,940</u>	
445	28	Difference between actuary's figures and actual contributions	2,179	-111	
<u>-1,163,715</u>	<u>-64,342</u>	Adjusted Total*	<u>-1,272,241</u>	<u>-59,051</u>	

* To produce a more accurate assessment of the council's IAS 19 liability, the adjusted total line shows the net liabilities per the actuary's figures adjusted for actual contributions made to the scheme.

In 2019/20, the net liability arising from defined benefit obligation has been increased by £3.260m (2018/19: reduced by £3.110m) to recognise:

- the transfer to academy status of two schools since the last actuarial valuation on 31 March 2019 (2018/19: three schools since the previous actuarial valuation on 31 March 2016; and the transfer into the management of the council of Derwentside Trust for Sport and the Arts, trading as Leisureworks, with effect from 1 April 2018).

The increase is made up of a £2.930m increase in assets and a £6.190m increase in liabilities (2018/19: £3.820m increase in assets and £0.710m increase in liabilities), which are shown in the following tables.

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

2018-19			2019-20		
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements	
£000	£000		£000	£000	
1,847,680	-	Opening fair value of scheme assets	1,968,460	-	
47,700	-	Interest Income	46,850	-	
104,960	-	Remeasurement gain / loss (-)	-157,990	-	
44,170	5,100	Contributions from employer	45,310	5,080	
14,410	-	Contributions from employees into the scheme	15,640	-	
-94,280	-5,100	Benefits paid	-97,240	-5,080	
3,820	-	Net increase in assets from disposals / acquisitions	2,930	-	
<u>1,968,460</u>	-	Closing fair value of scheme assets	<u>1,823,960</u>	-	

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

2018-19			2019-20		
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements	
£000	£000		£000	£000	
2,966,960	69,120	Opening balance at 1 April	3,132,620	64,370	
70,320	-	Current service cost	89,030	-	
76,170	1,730	Interest cost	74,270	1,480	
14,410	-	Contributions by scheme participants	15,640	-	
163,360	1,440	Remeasurement gains (-) and losses:	-77,110	-440	
		Actuarial gains and losses due to changes in financial assumptions			
-121,130	-3,010	Actuarial gains and losses due to changes in demographic assumptions	-92,010	-1,090	
4,640	190	Actuarial gains and losses due to liability experience	46,990	-300	
51,460	-	Past service cost (including curtailments)	-	-	
-94,280	-5,100	Benefits paid	-97,240	-5,080	
710	-	Net increase in liabilities from disposals / acquisitions	6,190	-	
<u>3,132,620</u>	<u>64,370</u>	Closing balance at 31 March	<u>3,098,380</u>	<u>58,940</u>	

Local Government Pension Scheme Assets comprised:

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

31 March 2019			31 March 2020			
Fair Value of scheme assets £000			Fair Value of scheme assets £000			
Quoted	Unquoted	Total	Quoted	Unquoted	Total	
982,262	-	982,262	Equity investments	855,437	3,648	859,085
25,590	120,076	145,666	Property	21,888	125,853	147,741
513,768	-	513,768	Government bonds	519,829	-	519,829
228,341	-	228,341	Corporate bonds	224,347	-	224,347
98,423	-	98,423	Cash	72,958	-	72,958
1,848,384	120,076	1,968,460	Total	1,694,459	129,501	1,823,960

Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary are:

2018-19		2019-20	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
Mortality assumptions:			
Longevity at 65 for current pensioners:			
22.6	22.6	22.2	22.2
24.1	24.1	24.2	24.2
Longevity at 65 for future pensioners:			
24.3	n/a	23.2	n/a
25.9	n/a	25.7	n/a
Principal financial assumptions (% per annum)			
2.4	2.4	2.3	2.3
2.2	2.2	2.0	2.0
2.2	2.2	2.0	2.0
3.7	n/a	3.0	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are based on reasonably

possible changes to the assumptions occurring at the end of the reporting period and assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2018/19.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 is set out in the following table:

Discount rate assumption			
Adjustment to discount rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,039,510	3,098,380	3,160,350
Change in present value of total obligation	-1.9%		2.0%
Projected service cost (£000)	82,850	85,860	88,950
Approximate change in projected service cost	-3.5%		3.6%
Rate of general increase in salaries			
Adjustment to salary increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,107,680	3,098,380	3,089,080
Change in present value of total obligation	0.3%		-0.3%
Projected service cost (£000)	85,860	85,860	85,860
Approximate change in projected service cost	0.0%		0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption			
Adjustment to pension increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,151,050	3,098,380	3,045,710
Change in present value of total obligation	1.7%		-1.7%
Projected service cost (£000)	88,950	85,860	82,850
Approximate change in projected service cost	3.6%		-3.5%
Post retirement mortality assumption			
Adjustment to mortality age rating assumption *	- 1 year	Base Figure	+ 1 year
Present value of total obligation (£000)	3,200,630	3,098,380	2,999,230
Change in present value of total obligation	3.3%		-3.2%
Projected service cost (£000)	89,210	85,860	82,510
Approximate change in projected service cost	3.9%		-3.9%

* a rating of + 1 year means that members are assumed to follow the mortality pattern of the base table for an individual who is 1 year older than them.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 18 years from 1 April 2020. Funding levels are monitored on an annual basis.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The council anticipates paying £59.800m contributions to the scheme in 2020/21 (£43.630m in 2019/20). This includes a £29.720m payment in April 2020 in respect of amounts due from 2020/21 to 2022/23 (£nil advance payment paid in 2018/19). The advance payment in respect of 2021/22 and 2022/23 will be held on the Balance Sheet and the charge will be released to the Comprehensive Income and Expenditure Statement in those years, £9.907m each year.

The weighted average duration of the defined benefit obligation for scheme members is 19.7 years at 31 March 2020 (18.2 years at 31 March 2019).

45. Contingent Liabilities

a) Pension Contributions on Equal Pay Payments

Equal pay settlements were not originally deemed to be pensionable however, this has now changed, and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable, which would lead to a liability for the council to make employer contributions to the Pension Fund. This provision has now been added to agreements that individuals with pending Equal Pay Settlements will sign up to. There is no certainty that an individual will decide to pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain.

b) Equal Value Claims

Solicitors representing a number of individuals have lodged claims under the Equality Act 2010 in relation to "work of equal value". These types of cases are complex and so far only partial information has been supplied by the claimants' solicitors. Currently the claims are split into two groups. A small group of claims are more advanced and have been

settled. The much larger group is less advanced, and it is not clear whether the council will have to make settlement payments or in what amount if payments are required.

c) Grievance Claims

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

d) Municipal Mutual Insurance

Historically, the Municipal Mutual Insurance Company (MMI) was the principal provider of insurance to the council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The council signed up to this agreement and as remaining assets have proven to be insufficient to cover potential future liabilities, the Scheme of Arrangement was invoked on 13 November 2012. At the current time, the council's maximum potential liability that can be clawed back is £7.2m.

The council's insurance adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. Based upon further information received from our Insurance Adviser during 2017/18, the provision was increased to 50%. As the provision is not for the total amount of the potential liability, there is the possibility of future claims, the council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

Any increase in the provision in respect of the Scheme of Arrangement will be met from the Insurance Reserve.

e) Tribunal and Court Claims

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

f) Warranties in relation to LSVT of Housing Stock

The council has given Believe Housing (formerly known as County Durham Housing Group (CDHG)) certain warranties in relation to staff transferring, property and

environmental pollution. These warranties to both Believe Housing and its Funders are for a maximum period of 30 years. The potential liability to the council is unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts. Insurance cover for environmental risks has been purchased to protect the council.

g) National Non Domestic Rates (NNDR) Mandatory Rate Relief Claims

The council considers there is likely to be a liability to refund business rates to NHS bodies within Durham. This is on the back of one leading NHS Foundation Trust, together with 19 other Foundation Trusts, having issued proceedings in the High Court against a County Council (the named defendant billing authority) and 48 other billing authorities to recover 80% of the business rates (NNDR) going forward and 6 years' worth of backdated payment of rates. The claim is based on the premise that the trusts are charities and therefore entitled to a mandatory 80% discount on their rates under Section 43 Local Government Finance Act 1988.

In 2018/19 a provision was included within the Collection Fund and council's General Fund accounts to cover 60% of the total liability on the basis of the perceived risk of a successful appeal. During 2019/20 the NHS Foundation Trusts lost the case at the High Court but have submitted an appeal, which will be heard in due course. The provision included in the Collection Fund and the council's General Fund at 31 March 2020 has been reduced to 30%. However, as the potential full value and timing of this liability is still uncertain, as well as the risk of a successful appeal, the council considers that it would be prudent to also include a contingent liability for sums not included within the appeals provision.

h) Covid 19 Related Expenditure

The Covid 19 outbreak will have a significant financial impact on the council in 2020/21 with the impact then likely to be felt in future years. The council began to experience the impact of the outbreak in March 2020 when a number of front line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

The council's spending has also significantly increased to cope with the outbreak. Although government initially indicated that it would fund all additional costs associated with the pandemic, this is no longer a certainty. Local authorities may be expected to use their own reserves to fund any shortfall in future funding.

The financial impact on the council for 2020/21 has been assessed and is being closely monitored and reviewed. Accurate forecasts are very difficult at this time due to the level of uncertainty, but early estimations indicate that government funding may not be sufficient to cover the full impact of Covid 19. The council feels it prudent therefore, to include a

contingent liability for the funding gap between the government grants receivable and additional costs/lost income.

46. Contingent Assets

LSVT - VAT Shelter

The council and Believe Housing have entered into a VAT shelter arrangement to enable Believe Housing to reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. Based on development works of £319m and adjusting for VAT on disabled adaptations works, the council is entitled to a 50% share of VAT recovered by Believe Housing from this VAT shelter arrangement. The estimated proceeds are £29.25m for the council over a 15 year period ending on 31 March 2030.

47. Heritage Assets: Further Information on the Council's Collection

Museum Collections and Artefacts

This includes:

- Museum exhibits owned by or on long-term loan to the council at Killhope Lead Mining Museum, Durham Town Hall and Shildon Locomotion Museum (excluding items belonging to the National Railway Museum). The museums are open to the public. Killhope holds the national collection of spar boxes, ornate mineral creations developed by miners in the North Pennines. Further details of the collections can be found on the museums' websites.
- Artefacts held by the council's Learning Resources service. These items are not on public display but are available for schools and other educational establishments to borrow via an online catalogue.
- Items held by Durham County Record Office, including documents, photographs, films and sound recordings. Public access to the record office is by appointment and an online catalogue is available. The records are stored securely with appropriate temperature and humidity control. These items are not recognised on the Balance Sheet as they have no separate insurance values.
- Books of remembrance and miners banners held in civic buildings.

Artwork, including Public Art and Sculptures

This includes items of art, including paintings and murals, many of which are open to the public, and public art and sculptures around the county which are publicly accessible. A number of public artworks are not recorded on the Balance Sheet as they have no insurance value and there is no recent cost information available.

Items of art in the public and administrative areas of civic buildings are not recorded on the Balance Sheet as their insurance value cannot be separately distinguished from the buildings and contents insurance values.

Paintings held at Durham Town Hall and by Durham Learning Resources are included in the Museum Collections category above.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county, which are all publicly accessible. Included here are the historic buildings at Killhope Lead Mining Museum, although they could also be classed as museum exhibits.

A number of monuments and statues are not recorded on the Balance Sheet as they have no insurance value.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes. These items are held in safe storage when they are not being used for official purposes.

Geophysical / Archaeological

This includes pit wheel sites around the county and excavations at Binchester Roman Fort (the council is the guardian of the site). They are not recorded on the Balance Sheet, as they have no insurance value and the land has no cost or market value. Binchester is open to the public from Easter Saturday until the end of September. The pit wheel sites are publicly accessible.

Various archaeological items found around the county are on deposit at Bowes Museum, Barnard Castle. They are not recognised as heritage assets by the council as they are held by the museum.

Preservation and Management

Since the Local Government Reorganisation in 2009 the council has developed a strategy in order to rationalise office accommodation throughout the county. The office accommodation project team has produced procedural guidelines to set out the agreed approach to dealing with heritage assets during office accommodation moves and/or refurbishments, including working with other local museums, services and specialists where needed, to assess the feasibility, and make suggestions for re-homing of other items.

Options for re-homing items that need to be relocated include:

- adding to the museums service collection
- temporary removal then reinstating in the refurbished building (where possible and suitable security measures can be made)
- relocation to another civic or community building
- gifting the item to a local museum
- disposal (in line with the council disposal procedure)

Some items are currently in safe storage until they can be returned for display at a suitable location.

48. Exceptional Items

There were no exceptional items in 2019/20.

49. Pooled Budget – Better Care Fund

The council has entered into a Pooled Budget arrangement under the Better Care Fund (BCF) Agreement for Health and Social Care initiatives. The BCF was introduced by the Government on 1 April 2015 and the Pooled Budget arrangement supports the BCF vision of improving the health and wellbeing of the people of County Durham and reducing health inequalities.

The pooled fund is subject to an agreement under Section 75 of the Health Service Act 2006.

The Pooled Budget partners consist of Durham County Council (Local Authority), North Durham Clinical Commissioning Group and Durham Dales, Easington and Sedgefield Clinical Commissioning Group (CCGs).

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

For accounting purposes the CCGs and the Local Authority have agreed that joint control does not exist and the council has therefore only accounted for its share of income and expenditure within the Comprehensive Income and Expenditure Statement.

31 March 2019 £000		31 March 2020 £000
	Funding Provided to BCF	
21,475	Local Authority (revenue)	29,959
5,708	Local Authority (capital)	6,159
41,167	CCGs	43,032
<u>68,350</u>		<u>79,150</u>
	Expenditure met from BCF	
46,435	Local Authority (revenue)	58,994
5,708	Local Authority (capital)	6,159
16,207	CCGs	13,997
<u>68,350</u>		<u>79,150</u>
<u>-</u>	Net (-) surplus / deficit on pooled budget	<u>-</u>
-	Authority share of the net surplus / deficit arising from pooled budget	-

50. Prior Period Adjustments (PPAs)

There were no prior period adjustments in 2019/20.

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to council tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Central Government, Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

Income and Expenditure Account

2018-19		2019-20		
		Council Tax £000	NNDR £000	Total £000
	Income			
-264,504	Council Tax due from Taxpayers	-282,055	-	-282,055
-117,226	Income from Business Ratepayers	-	-119,054	-119,054
<u>-381,730</u>	Total Income	<u>-282,055</u>	<u>-119,054</u>	<u>-401,109</u>
	Expenditure			
	Precepts and Demands			
222,257	Durham County Council	235,424	-	235,424
25,087	Durham Police, Crime and Victims' Commissioner	28,680	-	28,680
13,915	County Durham & Darlington Fire & Rescue Authority	14,463	-	14,463
	Payment of Previous Year's Surplus			
2,938	Central Government	-	736	736
7,506	Durham County Council	1,431	721	2,152
543	Durham Police, Crime and Victims' Commissioner	173	-	173
372	County Durham & Darlington Fire & Rescue Authority	111	15	126
	Business Rates			
52,840	Payment to Central Government	-	55,375	55,375
1,057	Payment to County Durham and Darlington Fire & Rescue Authority	-	1,107	1,107
51,890	Payment to Durham County Council, including Renewable Energy	-	54,401	54,401
14	Payment to Durham County Council, Renewable Energy - Prior year's surplus	-	72	72
586	Costs of Collection - Business Rates	-	581	581
	Bad & Doubtful Debts			
3,883	Write Offs	2,145	1,577	3,722
29	Change in Provision for Bad Debts	998	-342	656
5,013	Provision for Appeals	-	-2,326	-2,326
<u>387,930</u>	Total Expenditure	<u>283,425</u>	<u>111,917</u>	<u>395,342</u>
6,200	Movement on Fund Balance	1,372	-7,136	-5,764
-10,626	Surplus(-) /Deficit on Fund Brought Forward	-1,592	-2,834	-4,426
<u>-4,426</u>	Fund Balance Carried Forward	<u>-220</u>	<u>-9,970</u>	<u>-10,190</u>
	Allocated to :			
-2,695	Durham County Council	-184	-4,875	-5,059
-161	Durham Police, Crime and Victims' Commissioner	-24	-	-24
-117	County Durham and Darlington Fire & Rescue Authority	-12	-99	-111
-1,381	Central Government	-	-4,975	-4,975
-72	Durham County Council - Renewable Energy	-	-21	-21
<u>-4,426</u>		<u>-220</u>	<u>-9,970</u>	<u>-10,190</u>

Notes to the Collection Fund Accounts

i. The Collection Fund Income and Expenditure Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the council. The Collection Fund accounts independently for income relating to council tax and Non Domestic Rates on behalf of those bodies (including the council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

ii. Council Tax

Durham County Council is the billing authority for its administrative area and collects council tax to cover its own requirements, plus those of Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and where applicable, Town and Parish Councils.

Council tax is a tax levied on a domestic property broadly in accordance with the value of property. The properties in each Town and Parish Council area are classified into one of eight bands (A to H) according to its value and based upon information provided by the Valuation Office Agency (VOA).

Adjustments are made to the number of properties in each band by taking into account those occupied by a single council taxpayer (25% discount), long-term empty (50% premium) and other discounts and exemptions. A factor is applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection is applied to produce the tax base.

The council tax base is divided into the County Council demand and the precepts requested by Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and where applicable, Town and Parish Councils to calculate the standard Band D council tax. The other bands' liabilities are calculated by reference to the same proportion used to convert to band D.

The following table shows the property value bandings and the Band D equivalent properties in 2019/20.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	143,844	6/9ths	95,896
Over £ 40,000 up to £ 52,000	Band B	34,007	7/9ths	26,450
Over £ 52,000 up to £ 68,000	Band C	30,712	8/9ths	27,300
Over £ 68,000 up to £ 88,000	Band D	21,669	9/9ths	21,669
Over £ 88,000 up to £120,000	Band E	10,473	11/9ths	12,800
Over £120,000 up to £160,000	Band F	4,081	13/9ths	5,895
Over £160,000 up to £320,000	Band G	2,188	15/9ths	3,647
Over £320,000	Band H	277	18/9ths	554
		247,251		194,211
Net effect of discounts, reliefs, exemptions and premiums				52,469.0
Chargeable Properties (Taxbase) 2019/20:				141,742.0

In 2019/20, the Band D charge was £1,899.39 (£1,796.82 in 2018/19) made up of Durham County Council £1,590.65 (£1,515.05 in 2018/19), Durham Police, Crime and Victims' Commissioner £205.24 (£181.24 in 2018/19) and County Durham and Darlington Fire and Rescue Authority £103.50 (£100.53 in 2018/19). In addition, Band D Town and Parish precepts between £0 and £303.38 (£0 and £296.44 in 2018/19) were chargeable and there were some areas with no Town or Parish Council.

Any surplus or deficit on the Collection Fund – Council Tax (estimated in mid-January each year) must be taken into account when setting the following year's council tax by those authorities precepting upon the fund and either collected from or paid over to those bodies during the following financial year.

The Collection Fund - Council Tax estimated a £1.704m surplus for 2019/20, which will be distributed to major preceptors during 2020/21. At 31 March 2020, the actual outturn was a surplus of £0.220m (surplus of £1.592m at 31 March 2019).

Provision for Bad Debts

Each year the provision made for uncollectable amounts on council tax is revised by examining the aged debt analysis and applying the basis outlined below.

Arrears at 31 March 2020 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage provision applied:

Category of Arrears	Year	Percentage provision applied
1. No reminders yet sent	2019/20	20%
	2018/19	45%
	2017/18	85%
	2016/17	95%
	2014/15 & 2015/16	99%
	2013/14 & older	100%
2. First, second or final reminder	2019/20	35%
	2018/19	60%
	2017/18	85%
	2016/17	95%
	2014/15 & 2015/16	99%
	2013/14 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2019/20	50%
	2018/19	80%
	2017/18	85%
	2016/17	95%
	2014/15 & 2015/16	99%
	2013/14 & older	100%

At 31 March 2020, the calculated provision of £19.263m covered 71% of arrears (£18.264m, 76% at 31 March 2019).

Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2020 amounted to a surplus of £0.220m (surplus of £1.592 at 31 March 2019).

Durham County Council and the major preceptors, Durham Police, Crime and Victims' Commissioner and County Durham and Darlington Fire and Rescue, each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

This also applies to the balances for arrears and prepayments on the council taxpayers account and the Provision for Doubtful Debts for council tax.

The following table shows how the council tax balances have been allocated between Durham County Council and the major precepting authorities:

Authority	Year end Surplus (-)/ Deficit on Collection Fund £000	Provision for Bad Debts £000	Arrears £000	Overpayments and Prepayments £000
Durham County Council	-184	-16,134	22,766	-3,046
Durham Police, Crime & Victims' Commissioner	-24	-2,100	2,963	-396
County Durham & Darlington Fire & Rescue Authority	-12	-1,029	1,451	-194
Total Allocated	-220	-19,263	27,180	-3,636

iii. Business Rates (Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic multiplier each year. This multiplier is applied to the rateable value of the property to give, subject to various reliefs and exemptions, the rates payable for the year.

In 2019/20, the general multiplier was £0.504 (£0.493 in 2018/19) and the small business multiplier was £0.491 (£0.480 in 2018/19). The total non-domestic rateable value for Durham County Council at 31 March 2020 was £316.542m in accordance with the VOA schedule dated 18 March 2020) (£314.922m at 31 March 2019).

From 1 April 2013, the Business Rates Retention Scheme (BRRS) was introduced. Instead of paying into a central pool, the business rates income for the Durham County Council administrative area is shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). Any income from certain business areas, e.g. Renewable Energy, accrues only to Durham County Council. This scheme aims to give authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates.

The business rates due to be paid over during 2019/20 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2019. In addition, during 2019/20, the estimated surplus for 2018/19 was paid to shareholders as shown in the Income and Expenditure Account.

The estimated outturn for 2019/20 was included on the NNDR1 for 2020/21, submitted in January 2020. This predicted a surplus of £1.717m (surplus £1.472m estimated for 2018/19) of which Durham County Council's share would be £0.841m (surplus of £0.721m for 2018/19). Any estimated surplus or deficit is either paid to or recovered from each shareholder in the following financial year. The difference between the estimated outturn and the actual at 31 March is carried forward and taken into account in a future financial year. At 31 March 2020, the actual outturn was a surplus of £9.949m (surplus of £2.762m

in 2018/19). In addition, income from Renewable Energy amounted to £0.155m (£0.178m in 2018/19).

Provision for Bad debts

Each year the provision made for uncollectable amounts on Business Rates is revised by examining the aged debt analysis and applying the basis outlined below.

Arrears at 31 March 2020 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage provision applied:

Category of Arrears	Year	Percentage provision applied
1. No reminders yet sent	2019/20	20%
	2018/19	50%
	2017/18 and older	100%
2. First, second or final reminder	2019/20	35%
	2018/19	65%
	2017/18 and older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2019/20	50%
	2018/19	90%
	2017/18 and older	100%

At 31 March 2020, the calculated provision of £2.611m covered 57.27% of arrears (£2.953m, 64.11% at 31 March 2019).

Provision for Appeals

Business Ratepayers are entitled to appeal to the VOA against the rateable value applied to their property at any time during the validity of the Rating List. Such appeals, if successful, may be back dated to 1 April 2010. Prior to 1 April 2013, the cost of all such appeals would have been borne by Central Government. However, under the BRRS, the cost is also shared by Durham County Council and County Durham and Darlington Fire and Rescue Authority. In an attempt to stabilise the expected income from Business Rates, a provision against successful appeal has been introduced. Based on previous success of appeals, an estimate of the expected future repayment of reduction of bills already raised is made and charged to the Collection Fund - Business Rates.

At 31 March 2020, the provision for appeals was estimated at £26.957m (£29.283 at 31 March 2019).

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2020 amounted to a surplus of £9.949m (surplus of £2.762m at 31 March 2019).

Durham County Council, Central Government and County Durham and Darlington Fire and Rescue Authority each account for a share of the Collection Fund - Business Rates in proportion to their allocated share of Business Rates income under the BRRS. This also applies to the balances for arrears and prepayments on the Business Ratepayers accounts, the provision for bad debts and the provision for appeals.

The following table shows how Business Rates balances have been allocated at 31 March 2020.

Authority	Year-end Surplus (-)/ Deficit on Collection Fund £000	Provision for Bad Debts £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	-4,875	-1,279	2,231	-601	-13,208
Central Government	-4,975	-1,305	2,276	-613	-13,478
County Durham & Darlington Fire & Rescue Authority	-99	-26	46	-12	-270
Total Allocated	-9,949	-2,610	4,553	-1,226	-26,956

Fund Account

2018-19				2019-20	
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-99,068		Contributions receivable	8	-106,029	
-4,033		Transfers in from other pension funds	9	-8,910	
-3		Other income		-4	
	-103,104				-114,943
126,503		Benefits payable	10	126,817	
6,624		Payments to and on account of leavers	11	12,556	
	133,127				139,373
	30,023	Net withdrawals/ -additions from dealings with members, employers and others			24,430
	15,458	Management expenses	12		15,589
	45,481	Net withdrawals/ -additions including Fund Management Expenses			40,019
RETURN ON INVESTMENTS					
- 26,513		Investment income	13	-30,524	
-199,268		Profit and losses on disposal of investments and change in market value of investments	15	186,297	
	-225,781	Net returns on investments			155,773
	-180,300	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			195,792

Net Assets Statement

31 March 2019			31 March 2020	
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
348,884		Equities	15	276,336
575,582		Bonds	15	624,790
-		Infrastructure	15	3,696
<u>1,962,121</u>		Pooled investment vehicles	15	<u>1,807,754</u>
	2,886,587			2,712,576
279		Loans	15	252
		Other cash deposits:		
40,910		Fund Managers	15	52,716
36,933		Short term investments	15	32,720
7,052		Derivative contracts	15	15,898
	<u>85,174</u>			<u>101,586</u>
	2,971,761			2,814,162
Other Investment Assets				
1,642		Dividend accruals	15,18	1,594
639		Tax recovery	15,18	725
27,214		Other investment balances	15,18	<u>9,030</u>
	<u>29,495</u>			<u>11,349</u>
3,001,256	Total Investment Assets			2,825,511
INVESTMENT LIABILITIES				
-3,993		Derivative contracts	15	-16,378
-18,486		Other investment balances	19	-24,998
	<u>-22,479</u>	Total Investment Liabilities		<u>-41,376</u>
2,978,777	NET INVESTMENT ASSETS			2,784,135
	208	Long Term Assets	18	-
Current assets				
8,189		Contributions due from employers	18	8,436
<u>1,862</u>		Other current assets	18	<u>1,101</u>
	10,051			9,537
Current liabilities				
<u>-6,997</u>		Current liabilities	19	<u>-7,425</u>
	<u>-6,997</u>			<u>-7,425</u>
<u>2,982,039</u>	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			<u>2,786,247</u>

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 24.

These accounts should therefore be read in conjunction with the information contained within this note.

1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director of Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2015/16	2016/17	2017/18	2018/19	2019/20
Contributing Members	18,530	18,630	19,219	20,116	20,901
Pensioners in Payment	17,715	18,139	18,618	19,404	20,109
Pensioners Deferred	14,451	15,104	15,746	15,987	16,420

In comparison to the figures reported at 31 March 2019, the number of pensionable employees in the Fund at 31 March 2020 has increased by 785 (3.90%), the number of pensioners has increased by 705 (3.63%) and deferred pensioners have increased by 433 (2.71%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 115 at 31 March 2020), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 10 and 8 accordingly.

2018-19			2019-20	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
94,357	-59,075	Administering Authority	93,368	-62,686
24,210	-31,424	Scheduled Bodies	25,785	-34,213
7,936	-8,569	Admission Bodies	7,664	-9,130
126,503	-99,068		126,817	-106,029

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial

valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2019/20, the results of which determined the contribution rates effective from 1 April 2020 to 31 March 2023. Details of the latest valuation are included in Note 23.

3. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

No such accounting standards have been identified for 2019/20 that are applicable to the pension fund accounts.

4. Statement of Accounting Policies

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Pension Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 12 provides further information regarding the basis of Investment Managers' Fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the pension fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

Investment income

Investment income is accounted for as follows:

- dividend income is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis using the effective interest rate of the financial instrument as at the date of acquisition;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
- Unitised, unquoted managed property funds are valued at the net asset value adjusted for cash flows or a single price advised by the fund manager;

- Shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost as a proxy for fair value;
- Investments in private equity funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows;
- Derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

Investment transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund Account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accrual basis and included in administration costs.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 24).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 8 as additional contributions from members.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events After the Reporting Period

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

5. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has

to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions. These assumptions are summarised in Note 24.

6. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 23 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 94% as at 31 March 2019 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> - 86% if life expectancy increases by 2 years - 78% if discount rate falls by 1% - 78% if inflation increases by 1% - 82% if equities fall by 25% - 91% if pensionable pay increases by 1%
Private Equity and Infrastructure	Private equity, infrastructure and global property are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £2.91m included for private equity and £3.70m for infrastructure. Based on the sensitivity numbers included in Note 17 there is a possibility that this could be under or over stated in the accounts by £1.06m, and £0.63m respectively.
Fair Value of Investments	The Accounts are as at 31 March 2020 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 16) is £193.1m at 31/3/20 (£171.0m at 31/3/19). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure. In line with the market risk section within Note 17, there is a risk that the value of the Fund may be over/ under stated in the accounts by £28.17m (£23.77m at 31/3/19), which represents the potential market movement on the value of the unlisted property.

7. Events After the Reporting Period

There have been no events after 31 March 2020 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2018-19 £000		2019-20 £000
	Employer contributions:	
-63,158	Normal	-68,437
-4,247	Augmentation	-2,738
-7,293	Deficit funding	-8,662
	Member contributions:	
-24,298	Normal	-26,111
-72	Additional contributions	-81
-99,068		-106,029
-59,075	Administering Authority	-62,686
-31,424	Scheduled Bodies	-34,213
-8,569	Admission Bodies	-9,130
-99,068		-106,029

9. Transfers in From Other Pension Funds

2018-19 £000		2019-20 £000
-4,033	Individual Transfers	-8,910
-4,033		-8,910

10. Benefits Payable

2018-19 £000		2019-20 £000
102,008	Pensions	107,103
26,989	Commutations and lump sum retirement benefits	22,017
1,944	Lump sum death benefits	1,999
-4,438	Recharged benefits	-4,302
126,503		126,817
94,357	Administering Authority	93,368
24,210	Scheduled Bodies	25,785
7,936	Admission Bodies	7,664
126,503		126,817

11. Payments To and On Account of Leavers

2018-19			2019-20
£000			£000
256		Refunds to members leaving service	332
1		Payments for members joining state scheme	72
6,367		Individual transfers to other schemes	12,152
<u>6,624</u>			<u>12,556</u>

12. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the Fund's assets. Investment manager fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers when applicable; an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

2018-19			2019-20	
£000	£000		£000	£000
	996	Administration expenses		1,124
		Investment Management expenses		
11,202		Management fees	9,109	
203		Performance fees	410	
158		Custody fees	136	
1,914		Transaction costs	3,827	
	13,477			13,482
	985	Oversight and Governance costs		983
	<u>15,458</u>			<u>15,589</u>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2019/20 of £0.032m (£0.025m in 2018/19). Included in the 2019/20 audit fee is £9,060 for audit work undertaken on behalf of auditors of fund employers in relation to IAS 19 assurance. These fees will be recharged to the employers to whom the information is provided. No fees have been paid to Mazars in 2019/20 in respect of non-audit work.

13. Investment Income

2018-19 £000		2019-20 £000
-2,659	Interest from bonds	-2,829
-9,997	Dividends from equities	-9,197
-847	Interest on cash deposits	-742
-13,010	Income from pooled investment vehicles	-17,756
-26,513		-30,524

14. Taxation

The Code requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2019/20 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
- AB (Formerly AllianceBernstein Limited)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)
- Border to Coast Pension Partnership (BCPP)

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership Ltd (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that assets belonging to the Fund will be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

In line with the Fund's strategic asset allocation, during 2019/20, the Fund started to invest in private markets through BCPP and successfully transferred all of its global equity allocation to the Pool.

The strategic asset allocation as at 31 March was as follows:

31 March 2019	Asset Class	31 March 2020
%		%
40	Global equities	40
15	Global Bonds	15
0	Dynamic Asset Allocation	0
8	Global property	13
10	Private Markets	10
7	Emerging Market Equities	7
20	Investment grade sterling bonds	15
<u>100</u>		<u>100</u>

Although the strategic asset allocation was reviewed and agreed during 2019/20, funds have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, asset reallocation has temporarily been suspended and consequently actual allocations vary from the strategic allocations.

The actual market values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2019				31 March 2020	
£000	%	Investment Manager	Asset Class	£000	%
<u>Investments managed by BCPP asset pool:</u>					
-	0.00		Global Equities	976,643	35.32
-	0.00		Private Equity	2,907	0.11
-	0.00		Infrastructure	3,696	0.13
0	0			983,246	35.56
<u>Investments managed outside of BCPP asset pool:</u>					
487,448	16.63	Aberdeen Standard	Global Equities	-	0.00
401,460	13.70	AB	Global Bonds	391,519	14.16
566,360	19.33	BNYM	Global Equities	-	0.00
477,375	16.29	BlackRock	Dynamic Asset Allocation	385,835	13.96
218,754	7.46	CBRE	Global property	227,434	8.23
215,055	7.34	Mondrian	Emerging Market Equities	184,824	6.68
563,271	19.22	RLAM	Investment grade sterling bonds	591,121	21.38
833	0.03	BCPP	Unquoted UK Equity	833	0.03
2,930,556	100.00			1,781,566	64.44
2,930,556	100.00			2,764,812	100.00

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2020 excludes loans of £0.252m, cash invested by the administering authority of £32.720m, other investment assets of £11.349m and other investment liabilities of £24.998m (£0.279m, £36.933m, £29.495m and £18.486m respectively as at 31 March 2019).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2020, £2.764m (99.31%) is invested through Investment Managers (£2,931m or 98.38% at 31 March 2019).

Reconciliation of Movements in Investments 2019/20

Investment category	Value at 31 March 2019	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2020
	£000	£000	£000	£000	£000
Equities	348,884	144,241	-174,844	-41,945	276,336
Bonds	575,582	2,459,266	-2,430,894	20,836	624,790
Infrastructure		3,838		-142	3,696
Pooled investment vehicles	1,962,121	1,428,673	-1,429,090	-153,950	1,807,754
	2,886,587	4,036,018	-4,034,828	-175,201	2,712,576
Derivative contracts:					
Futures, margins & options	1,711	5,622	-7,609	2,540	2,264
Forward foreign currency	1,348	55,940	-58,770	-1,262	-2,744
	2,889,646	4,097,580	-4,101,207	-173,923	2,712,096
Other investment balances:					
Loans	279				252
Other cash deposits	77,843			-12,374	85,436
Dividend accruals	1,642				1,594
Tax recovery	639				725
Other investment balances	8,728				-15,968
Net Investment Assets	2,978,777			-186,297	2,784,135

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Reconciliation of Movements in Investments 2018/19

Investment category	Value at 31 March 2018	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	307,224	172,889	-147,387	16,158	348,884
Bonds	556,309	2,102,826	-2,116,491	32,938	575,582
Pooled investment vehicles	1,838,878	145,824	-191,410	168,829	1,962,121
	2,702,411	2,421,539	-2,455,288	217,925	2,886,587
Derivative contracts:					
Futures, margins & options	107	2,960	-848	-508	1,711
Forward foreign currency	-2,389	55,682	-32,803	-19,142	1,348
	2,700,129	2,480,181	-2,488,939	198,275	2,889,646
Other investment balances:					
Loans	304				279
Other cash deposits	100,232			993	77,843
Dividend accruals	1,611				1,642
Tax recovery	597				639
Other investment balances	-4,498				8,728
Net Investment Assets	2,798,375			199,268	2,978,777

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

31 March 2019			31 March 2020	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
514,079		UK - Public sector - quoted	562,076	
56,628		Overseas - Public sector - quoted	56,829	
4,875		Overseas - Corporate - quoted	5,885	
	575,582			624,790
Equities				
32,258		UK quoted	42,148	
833		UK unquoted	833	
315,793		Overseas quoted	230,447	
-		Overseas Unquoted	2,908	
	348,884			276,336
	-	Infrastructure		3,696
Pooled Investment Vehicles				
117,374		Managed funds - non property - UK quoted	81,236	
1,633,504		Managed funds - non property - overseas quoted	1,507,070	
1,703		Unit Trusts - property - UK quoted	1,388	
17,968		Unit Trusts - property - UK unquoted	19,426	
38,511		Unit Trusts - property - Overseas quoted	31,564	
153,061		Unit Trusts - property - Overseas unquoted	167,070	
	1,962,121			1,807,754
Derivative Contracts				
7,052		Assets	15,898	
-3,993		Liabilities	-16,378	
	3,059			-480
40,910	40,910	Fund Managers' Cash	52,716	52,716
2,930,556		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,764,812
OTHER INVESTMENT BALANCES				
36,933		Short term investments (via DCC Treasury Management)	32,720	
279		Loans	252	
29,495		Other investment assets	11,349	
-18,486		Other investment liabilities	-24,998	
2,978,777		NET INVESTMENT ASSETS		2,784,135

Analysis of Derivatives**Objectives and policies for holding derivatives**

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more

efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

31 March 2019		Derivative Contracts	31 March 2020	
£000	£000		£000	£000
		Forward foreign currency		
4,798		Assets	8,291	
<u>-3,450</u>		Liabilities	<u>-11,035</u>	
	1,348	Net Forward foreign currency		-2,744
		Futures		
1,302		Assets	5,820	
<u>-543</u>		Liabilities	<u>-2,123</u>	
	759	Net Futures		3,697
		Options		
952		Assets	1,787	
<u>0</u>		Liabilities	<u>-3,220</u>	
	952	Net Options		-1,433
	<u>3,059</u>	Net market value of derivative contracts		<u>-480</u>

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2020 and 31 March 2019.

31 March 2020

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	GBP	69,729,236	EUR	-71,855,092		-2,126
0 to 1 month	EUR	5,800,000	SEK	-4,954,002	180	
0 to 1 month	SEK	31,278,994	EUR	-2,566,886		-21
0 to 1 month	SEK	31,244,107	EUR	-2,566,886		-23
0 to 1 month	EUR	54,645,000	USD	-49,296,137		-928
0 to 1 month	GBP	5,610,385	JPY	-5,978,420		-368
0 to 1 month	JPY	1,000,000,000	GBP	-7,566,723		-94
0 to 1 month	USD	4,168,416	GBP	-3,200,000	161	
0 to 1 month	GBP	107,751,242	USD	-113,166,758		-5,416
0 to 1 month	USD	8,330,000	GBP	-6,386,905	329	
0 to 1 month	USD	30,000,000	GBP	-24,201,921		-14
0 to 1 month	USD	7,300,000	HKD	-5,908,844		-23
0 to 1 month	USD	10,500,000	IDR	-7,181,986	1,284	
0 to 1 month	IDR	30,943,500,000	USD	-1,693,138		-159
0 to 1 month	IDR	30,933,000,000	USD	-1,693,138		-160
0 to 1 month	IDR	30,939,300,000	USD	-1,693,138		-159
0 to 1 month	IDR	14,479,500,000	USD	-790,131		-72
0 to 1 month	IDR	17,354,750,000	USD	-947,351		-87
0 to 1 month	IDR	30,071,725,000	USD	-1,648,794		-158
0 to 1 month	USD	8,340,000	JPY	-6,824,278		-100
0 to 1 month	USD	10,500,000	KRW	-8,212,280	253	
0 to 1 month	USD	1,970,000	KRW	-1,574,393	14	
0 to 1 month	USD	2,950,000	KRW	-2,359,310	19	
0 to 1 month	KRW	6,984,675,000	USD	-4,474,747	145	
0 to 1 month	KRW	2,683,800,000	USD	-1,741,523	33	
0 to 1 month	KRW	5,343,537,500	USD	-3,487,078	47	
0 to 1 month	KRW	2,665,735,000	USD	-1,737,492	26	
0 to 1 month	KRW	1,523,970,000	USD	-991,701	16	
0 to 1 month	USD	15,800,000	SGD	-12,426,730	312	
0 to 1 month	USD	1,905,000	SGD	-1,516,009	20	
0 to 1 month	USD	5,430,000	SGD	-4,331,698	46	
0 to 1 month	SGD	3,384,266	USD	-1,866,494	50	
0 to 1 month	SGD	3,360,463	USD	-1,866,494	37	
0 to 1 month	SGD	6,705,621	USD	-3,728,956	69	
0 to 1 month	SGD	3,352,857	USD	-1,864,478	35	
0 to 1 month	SGD	10,038,766	USD	-5,595,450	90	
0 to 1 month	SGD	3,348,995	USD	-1,866,494	30	
0 to 1 month	SGD	3,344,890	USD	-1,864,478	30	
0 to 1 month	USD	26,500,000	TWD	-21,149,396	216	
0 to 1 month	TWD	126,862,106	USD	-3,409,462		-19
0 to 1 month	TWD	120,881,400	USD	-3,241,165		-11
0 to 1 month	TWD	130,867,750	USD	-3,511,263		-14
0 to 1 month	TWD	65,078,300	USD	-1,749,584		-10
0 to 1 month	TWD	120,559,800	USD	-3,241,165		-19
0 to 1 month	TWD	120,399,000	USD	-3,241,165		-24
0 to 1 month	TWD	23,034,150	USD	-616,789		-1
0 to 1 month	TWD	60,380,400	USD	-1,620,583		-7
0 to 1 month	TWD	3,610,800	USD	-96,751		0
0 to 1 month	TWD	23,769,544	USD	-637,964		-3
1 to 3 months	GBP	1,742,031	EUR	-1,891,867	65	
1 to 3 months	GBP	218,056	USD	-260,533	8	
1 to 3 months	GBP	39,409	USD	-47,086	1	
1 to 3 months	GBP	278,635	AUD	-555,876	5	

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	518,707	AUD	-1,034,820	9	
1 to 3 months	GBP	24,411,095	JPY	-3,254,975,453	41	
1 to 3 months	GBP	40,993,265	EUR	-44,519,185	1,524	
1 to 3 months	GBP	21,295	USD	-25,443	1	
1 to 3 months	GBP	1,239,097	SEK	-14,827,034	32	
1 to 3 months	GBP	17,530,144	AUD	-34,972,638	289	
1 to 3 months	GBP	3,313,986	JPY	-441,886,922	6	
1 to 3 months	GBP	68,346,261	USD	-81,660,112	2,588	
1 to 3 months	GBP	2,274,724	DKK	-18,436,640	84	
1 to 3 months	GBP	1,294,123	USD	-1,661,000	0	-44
1 to 3 months	GBP	7,769,634	EUR	-8,943,000	0	-155
1 to 3 months	USD	1,646,000	GBP	-1,268,771	57	0
1 to 3 months	GBP	1,953,847	EUR	-2,234,000	0	-26
1 to 3 months	GBP	15,021,579	USD	-19,345,000	0	-563
1 to 3 months	EUR	3,884,000	GBP	-3,433,275	8	0
1 to 3 months	GBP	5,131,124	EUR	-5,643,000	131	0
1 to 3 months	USD	1,519,000	GBP	-1,312,668	0	-89
1 to 3 months	EUR	2,559,000	GBP	-2,409,759	0	-142
					8,291	-11,035
Net forward foreign currency contracts at 31 March 2020						-2,744

31 March 2019

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	USD	3,000,000	CHF	-2,920,743	51	
0 to 1 month	GBP	70,496,283	EUR	-78,780,000	2591	
0 to 1 month	GBP	6,044,228	EUR	-6,900,000	97	
0 to 1 month	EUR	46,475,000	USD	-53,642,607		-1097
0 to 1 month	EUR	11,000,000	USD	-12,394,146		-26
0 to 1 month	GBP	3,392,382	JPY	-470,000,000	133	
0 to 1 month	GBP	146,780,186	USD	-189,330,000	1542	
0 to 1 month	USD	15,736,634	GBP	-12,200,000		-128
0 to 1 month	GBP	5,537,708	USD	-7,300,000		-62
0 to 1 month	GBP	1,931,180	USD	-2,500,000	13	
0 to 1 month	USD	10,600,000	TWD	-326,215,000	22	
0 to 1 month	USD	10,600,000	TWD	-326,904,000	5	
0 to 1 month	USD	10,230,000	TWD	-316,004,700		-8
0 to 1 month	USD	1,841,400	TWD	-56,899,260		-2
0 to 1 month	USD	1,790,000	TWD	-55,311,000		-2
0 to 1 month	USD	1,790,000	TWD	-55,298,470		-2
0 to 1 month	USD	1,795,000	TWD	-55,447,550		-1
0 to 1 month	USD	1,153,600	TWD	-35,634,704		-1
3 to 6 months	GBP	8,424,637	EUR	-9,640,000	100	
3 to 6 months	EUR	5,685,000	GBP	-4,950,083		-41
3 to 6 months	GBP	214,054	AUD	-400,000		-4
3 to 6 months	GBP	5,464,373	EUR	-6,374,000		-40
3 to 6 months	EUR	5,594,000	GBP	-4,787,066	44	
3 to 6 months	EUR	4,681,000	GBP	-4,032,911	9	
3 to 6 months	GBP	7,882,159	EUR	-9,139,000		-10
3 to 6 months	GBP	7,343,312	USD	-9,674,902		-59
3 to 6 months	GBP	3,717,397	EUR	-4,326,000		-18
3 to 6 months	GBP	449,138	USD	-590,000		-2
3 to 6 months	EUR	9,177,000	GBP	-7,939,527		-15
3 to 6 months	USD	9,745,313	GBP	-7,445,115	11	
3 to 6 months	EUR	4,320,000	GBP	-3,701,817	29	
3 to 6 months	GBP	1,936,899	USD	-2,573,364		-32
3 to 6 months	USD	3,030,000	GBP	-2,271,092	47	
3 to 6 months	GBP	2,282,166	USD	-3,040,000		-44
3 to 6 months	GBP	1,649,515	EUR	-1,917,000		-6
3 to 6 months	GBP	4,146,683	EUR	-4,778,000	21	
3 to 6 months	GBP	8,225,859	EUR	-9,466,000	52	
3 to 6 months	GBP	7,956,675	USD	-10,496,000		-74
3 to 6 months	GBP	7,120,239	EUR	-8,278,000		-28
3 to 6 months	GBP	2,398,312	USD	-3,174,000		-30
3 to 6 months	GBP	5,643,589	EUR	-6,563,000		-24
3 to 6 months	EUR	1,636,000	GBP	-1,396,198	17	
3 to 6 months	EUR	1,201,000	GBP	-1,024,933	12	
3 to 6 months	EUR	5,150,000	GBP	-4,445,392	2	
3 to 6 months	USD	4,636,000	GBP	-3,548,732		-2
1 to 3 months	EUR	40,560,857	GBP	-34,727,395		-329
1 to 3 months	EUR	2,037,142	GBP	-1,744,160		-17
1 to 3 months	GBP	2,921,869	AUD	-5,466,156		-50

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	17,123,018	AUD	-32,033,296		-295
1 to 3 months	GBP	2,382,240	DKK	-20,717,388		-18
1 to 3 months	GBP	1,999,463	JPY	-290,518,952		-20
1 to 3 months	GBP	14,610,374	JPY	-2,122,865,411		-147
1 to 3 months	GBP	1,029,231	JPY	-149,545,732		-10
1 to 3 months	GBP	1,373,031	SEK	-16,767,597		-17
1 to 3 months	GBP	110,594	USD	-146,578		-1
1 to 3 months	GBP	60,670,273	USD	-80,410,438		-784
1 to 3 months	GBP	186,789	USD	-247,564		-2
1 to 3 months	GBP	132,414	USD	-175,497		-2
					4,798	-3,450
Net forward foreign currency contracts at 31 March 2019						1,348

ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock are as follows:

<u>2019-20</u>		Expires	Product Description	Currency	Market Value at 31 March 20 £000	£000
Assets						
Overseas equity	1 to 3 months		EURO STOXX 50 JUN 20	EUR	339	
Overseas equity	1 to 3 months		CBOE VIX MAY 20	USD	907	
Overseas fixed interest	1 to 3 months		US 10YR NOTE JUN 20		1,646	
			19/6/2020	USD		
Overseas equity	0 to 1 month		CBOE VIX APR 20	USD	<u>2,928</u>	
Total assets						5,820
Liabilities						
Overseas equity	3 to 6 months		CBOE VIX AUG 20	USD	-269	
Overseas equity	3 to 6 months		CBOE VIX JUL 20	USD	-181	
Overseas equity	1 to 3 months		S&P500 EMINI JUN 20	USD	-690	
UK equity	1 to 3 months		FTSE 100 INDEX JUN 20	GBP	-983	
Total liabilities						-2,123
Net Futures Contracts at 31 March 2020						3,697

2018-19		Expires	Product Description	Currency	Market Value at 31 March 19	
					£000	£000
Assets						
Overseas fixed interest	1 to 3 months	US 10YR NOTE JUN 19 19/6/2019	USD	285		
Overseas fixed interest	1 to 3 months	US 5YR NOTE JUN 19 28/6/2019	USD	550		
Overseas equity	0 to 1 month	BIST 30 FUTURES APR 19	TRY	276		
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 19	EUR	46		
Overseas equity	1 to 3 months	TOPIX INDEX JUN 19	JPY	145		
Total assets						1,302
Liabilities						
Overseas equity	1 to 3 months	WIG20(PLN20) INDEX JUN	PLN	-18		
Overseas equity	1 to 3 months	S&P500 EMINI JUN 19	USD	-394		
UK equity	1 to 3 months	FTSE 100 INDEX JUN 19	GBP	-131		
Total liabilities						-543
Net Futures Contracts at 31 March 2019						759

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

2019-20

Type	Expires	Product Description	Currency	Market Value at 31 March 20 £000
Assets				
Overseas equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 C @ 3550.000	EUR	12
Overseas equity	1 to 3 months	NASDAQ 100 INDEX ND 01-JAN-2050 19/6/2020 P @ 7200.000	USD	732
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 4000.000	EUR	11
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 2900.000	EUR	1032
Total assets				1,787
Liabilities				
Overseas equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2125.000	EUR	-182
Overseas equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2450.000	EUR	-662
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 3050.000	EUR	-681
Overseas equity	0 to 1 month	SPX VOLATILITY INDEX UX 01-JAN-2050 15/4/2020 C @ 37.500	USD	-1384
Overseas equity	1 to 3 months	SPX VOLATILITY INDEX UX 01-JAN-2050 20/5/2020 C @ 45.000	USD	-311
Total liabilities				-3,220
Net Options at 31 March 2020				-1,433

2018-19

Type	Expires	Product Description	Currency	Market Value at 31 March 19 £000
Assets				
Overseas fixed interest	1 to 3 months	GBP C USD P @1.350000 EO	GBP	177
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 20/12/2019 C @ 3350.000	EUR	775
Total assets				952
Liabilities				
Net Options at 31 March 2019				952

Investments Exceeding 5% of Net Assets

The investments in the following table individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March:

Investments Exceeding 5% of the Market Value of the Fund

At 31 March 2019		Name of Fund	Investment Manager	At 31 March 2020	
£m	%			£m	%
566.36	18.99	BNYM Long Term Global Equity	BNYM	-	-
487.45	16.35	AAM L and P World Equity	Aberdeen Standard	-	-
-	-	GLOBAL EQUITY ALPHA A ACC	BCPP	976.64	35.05
401.46	13.46	Diversified Yield Plus	AB	391.52	14.05

16. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2018-19			2019-20		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets					
348,884			276,336		
575,582			624,790		
-			3,696		
1,962,121			1,807,754		
7,052			15,898		
	279			252	
	40,910			52,716	
	36,933			32,720	
	29,495			11,349	
	10,259			9,537	
2,893,639	117,876	-	2,728,474	106,574	-
Financial liabilities					
-3,993			-16,378		
		-25,483			-32,423
-3,993	-	-25,483	-16,378	-	-32,423
2,889,646	117,876	-25,483	2,712,096	106,574	-32,423
2,982,039			2,786,247		
Net Assets at 31 March			Net Assets at 31 March		

Net Gains and Losses on Financial Instruments

31 March 2019 £000		31 March 2020 £000
	Financial Assets	
198,275	Fair Value through profit and loss	-173,923
-	Loans and receivables	-
993	Financial assets measured at amortised cost	-12,374
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
<u>199,268</u>	Total	<u>-186,297</u>

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, exchange traded derivatives and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted property funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2020 and 31 March 2019, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	2,526,250	9,125	193,099	2,728,474
Loans and receivables	106,574			106,574
Total Financial Assets	2,632,824	9,125	193,099	2,835,048
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-5,343	-11,035		-16,378
Financial Liabilities at amortised cost	-32,423			-32,423
Total Financial Liabilities	-37,766	-11,035	-	-48,801
Net Financial Assets	2,595,058	-1,910	193,099	2,786,247

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	2,716,801	5,809	171,029	2,893,639
Financial assets at amortised cost	117,876	-	-	117,876
Total Financial Assets	2,834,677	5,809	171,029	3,011,515
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-2,663	-1,330		-3,993
Financial Liabilities at amortised cost	-25,483			-25,483
Total Financial Liabilities	-28,146	-1,330	-	-29,476
Net Financial Assets	2,806,531	4,479	171,029	2,982,039

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- i. **Market Risk** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **Credit Risk** - the possibility that other parties may fail to pay amounts due to the Fund;

- iii. **Liquidity Risk** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

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

i. Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The

objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2019/20 reporting period. The analysis assumed that all other variables remain the same.

Manager	Asset type	Asset value at 31 March 2020 £000	Potential market movements %	Value on increase £000	Value on decrease £000
AB	Broad Bonds	391,518	7.0%	418,924	364,112
BlackRock	DAA	349,557	11.9%	391,154	307,960
CBRE	Unlisted property	186,497	14.2%	212,980	160,014
CBRE	Listed property	32,952	25.6%	41,388	24,516
Mondrian	Emerging market equity	181,549	30.3%	236,558	126,540
RLAM	UK Index Linked Gilts	586,424	9.4%	641,548	531,300
BCPP	Unquoted UK Equity	833	0.0%	833	833
BCPP	Global equity	976,643	22.6%	1,197,364	755,922
BCPP	Private Equity	2,907	36.5%	3,968	1,846
BCPP	Infrastructure	3,696	17.0%	4,324	3,068
	Loans	252	0.0%	252	252
	Cash	85,436	0.0%	85,436	85,436
	Net derivative assets	-480	0.0%	-480	-480
	Net investment balances	-13,649	0.0%	-13,649	-13,649
Total change in net investment assets available		2,784,135		3,220,600	2,347,670

Manager	Asset type	Asset value at 31 March 2019 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	487,448	19.2%	581,038	393,858
AB	Broad Bonds	401,460	8.0%	433,577	369,343
BNYM	Global equity	566,360	19.2%	675,101	457,619
BlackRock	DAA	464,634	9.7%	509,703	419,565
CBRE	Unlisted property	171,029	13.9%	194,802	147,256
CBRE	Listed property	40,214	22.2%	49,142	31,286
Mondrian	Emerging market equity	212,439	25.4%	266,399	158,479
RLAM	UK Index Linked Gilts	542,170	9.2%	592,050	492,290
BCPP	Unquoted UK Equity	833	0.0%	833	833
	Loans	279	0.0%	279	279
	Cash	77,843	0.0%	77,843	77,843
	Net derivative assets	3,059	0.0%	3,059	3,059
	Net investment balances	11,009	0.0%	11,009	11,009
Total change in net investment assets available		2,978,777		3,394,835	2,562,719

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual

interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2020 and the effect of a +/- 25 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2020 £000	Change in year in the net assets available to pay benefits	
		+25 BPS £000	-25 BPS £000
Cash and cash equivalents	85,436	214	-214
Fixed interest securities	63,884	160	-160
Total change in net investment assets available	149,320	374	-374

Asset type	Asset Values at 31 March 2019 £000	Change in year in the net assets available to pay benefits	
		+25 BPS £000	-25 BPS £000
Cash and cash equivalents	77,843	195	-195
Fixed interest securities	33,412	84	-84
Total change in net investment assets available	111,255	279	-279

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a

broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 20	increase	decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	391,518	391,518	391,518
BlackRock	DAA	5%	10%	349,557	351,305	347,809
CBRE	Global Property	15%	10%	219,449	222,741	216,157
Mondrian	Emerging market equity	100%	15%	181,549	208,781	154,317
RLAM	UK Index Linked Gilts	0%	0%	586,424	586,424	586,424
BCPP	Unquoted UK Equities	0%	0%	833	833	833
BCPP	Global Equity	86%	10%	976,643	1,060,634	892,652
BCPP	Private Equity	100%	10%	2,907	3,198	2,616
BCPP	Infrastructure	100%	10%	3,696	4,066	3,326
	Loans	0%	0%	252	252	252
	Cash	21%	10%	85,436	87,230	83,642
	Net derivative assets	0%	0%	-480	-480	-480
	Net investment balances	0%	0%	-13,649	-13,649	-13,649
Total change in net investment assets available				2,784,135	2,902,853	2,665,417

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 19	increase	decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	86%	15%	487,448	550,329	424,567
AB	Broad Bonds	0%	0%	401,460	401,460	401,460
BlackRock	DAA	5%	10%	566,360	569,192	563,528
BNYM	Global Equity	94%	15%	464,634	530,147	399,121
CBRE	Global Property	18%	10%	211,243	215,045	207,441
Mondrian	Emerging market equity	100%	15%	212,439	244,305	180,573
RLAM	UK Index Linked Gilts	0%	0%	542,170	542,170	542,170
BCPP	Unquoted UK Equities	0%	0%	833	833	833
	Loans	0%	0%	279	279	279
	Cash	11%	10%	77,843	78,699	76,987
	Net derivative assets	0%	0%	3,059	3,059	3,059
	Net investment balances	0%	0%	11,009	11,009	11,009
Total change in net investment assets available				2,978,777	3,146,527	2,811,027

ii. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2020, this level of exposure to the Custodian is 1.9% of the total value of the portfolio (1.4% as at 31 March 2019).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £32.720m as at 31 March 2020 (£36.933m as at 31 March 2019). This was held with the following institutions:

	Rating as at 31 March 2020	Balances as at 31 March 2020 £000	Rating as at 31 March 2019	Balances as at 31 March 2019 £000
Bank Deposit Accounts				
Handelsbanken	F1+	3,025	F1+	3,129
Fixed Term Deposits				
Bank of Scotland	F1	4,929	F1	5,230
Close Brothers	F1	2,464	F1	1,307
Goldman Sachs			F1	1,307
Santander UK Plc	F1	4,929	F1	5,885
Landesbank Hessen-Thuringen				
Girozentrale (Helaba)	F1+	1,232		
UK Local Authorities	N/A	13,862	N/A	19,944
Unrated Building Societies	N/A	2,156		
Income Bond				
National Savings & Investments	N/A	123	N/A	131
Other				
Money Market Funds	N/A	-	N/A	-
Total		32,720		36,933

iii. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

18. Analysis of Debtors

2018-19 £000		2019-20 £000
	Included in the Net Assets Statement as:	
208	Long Term Assets	-
29,495	Other Investment Assets	11,349
10,051	Current Assets	9,537
39,754		20,886

All of the £20.886m is due to be received within 12 months after the year end.

19. Analysis of Creditors

2018-19 £000		2019-20 £000
	Included in the Net Assets Statement as:	
-18,486	Investment Liabilities - Other balances	-24,998
-6,997	Current Liabilities	-7,425
-25,483		-32,423

All of the £32.423m is expected to be paid by the Pension Fund within 12 months after the year end.

20. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Utmost (formerly Equitable Life), Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2019 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2020 £000
Utmost (formally Equitable Life)	1,596	10	356	190	1,440
Prudential	6,874	1,681	673	-138	7,744
Standard Life	1,712	174	181	-104	1,601
Total	10,182	1,865	1,210	-52	10,785

* Purchases represent the amounts paid to AVC providers in 2019/20

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

21. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

- Employer related
- Member related
- Key management personnel

a) Employer Related

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2018/19	2019/20
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£99.068m	£106.030m
Debtors	Amounts due in respect of employers and employee contributions	£7.770m	£8.020m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.608m	£1.830m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.608m	£1.830m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.200m	Loans outstanding £0.185m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £36.119m Interest = £0.262m	Balance = £38.895m Interest = £0.319m

b) Member Related

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

As at 31 March 2020 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; 1 further Member was a deferred member of the Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected Members are no longer allowed to be active members of the Pension Fund.

c) Key Management Personnel

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

There were no material related party transactions between any officers or their families and the Pension Fund.

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Corporate Finance and Commercial Services, the Finance Manager - Revenue, Pensions and Technical and the Pensions Manager. The proportion of employee benefits earned by key management personnel relating to the Pension Fund is set out below:

2018-19		2019-20
£000		£000
87	Short-term benefits	103
23	Post-employment benefits	15
110		118

22. Contingent Assets

a) Pension Contributions On Equal Pay Payments

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their equal pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain, and therefore it is not possible to estimate the value of any future contributions. However, the level of contributions likely to be received by the Pension Fund are unlikely to have a material effect on the Pension Fund Accounts.

b) Foreign Income Dividends (FIDs)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain, therefore it is not possible to estimate the value of any reclaims.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) Withholding Tax (WHT) Claims

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the

grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain, therefore it is not possible to estimate the value of these claims.

23. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2019.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 17.9% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 18 years from 1 April 2020, is 21.8% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2019	Valuation as at 31 March 2016
Financial Assumptions		
Discount rate for periods in service	4.25% pa	4.5% pa
Discount rate for periods after leaving service	4.25% pa	4.5% pa
Rate of revaluation of pension accounts	2.1% pa	2.0% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.1% pa	2.0% pa
- post 1988 Guaranteed Minimum Pensions	1.9% pa	1.8% pa
Pensionable pay increase	3.1% pa	3.5% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women
Post-retirement mortality assumption - future improvements	CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5%	CMI 2014 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that total cash received is 85% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

24. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 23 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19

basis to be prepared at triennial valuations only, the most recent being as at 31 March 2019.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2016 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2016 £m
Fair value of net assets	2,982	2,321
Actuarial present value of the promised retirement benefits	4,512	3,365
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,044

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2019 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	2.4	3.4
CPI Inflation *	2.2	1.8
Rate of increase to pensions in payment	2.2	1.8
Rate of increase to deferred pensions *	2.2	1.8
Rate of general increase in salaries **	3.2	3.3

* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

25. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council's website at durham.gov.uk.

The purpose of the Funding Strategy Statement is to:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the

- regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and
 - takes a prudent longer-term view of funding the Fund's liabilities.

The intention is for this Strategy to apply comprehensively for the Fund as a whole to reflect its best interests, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

Investment Strategy Statement

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document can be found on the council's website at durham.gov.uk.

Annual Governance Statement 2019/20

INTRODUCTION

1. This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its Local Code of Corporate Governance for the year ended 31 March 2020.

COVID19 PANDEMIC

2. The initial surge in COVID-19 cases in the UK happened in early March 2020, the final month of the period to which the AGS relates, while the review of effectiveness and AGS preparation were underway. When the UK government published the [coronavirus action plan](#), much of the Council's resources were directed towards the pandemic response. This statement includes a description of how the Council's governance systems were deployed and adapted.

CONTEXT

3. Summarised information relating to the constitution, structure, budget and services provided by Durham County Council, along with key statistical information about County Durham can be found on the [About Us](#) page on the Council's website.

SCOPE OF RESPONSIBILITY

4. Durham County Council (the council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
5. The Accounts and Audit (England) Regulations 2015 require the council to prepare an AGS, which must accompany the Statement of Accounts. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
6. In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
7. In May 2019, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – "Delivering Good Governance in Local Government".

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

8. The governance framework comprises the systems, processes, culture and values by which the council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
9. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
10. The governance framework has been in place across the council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

11. The key elements of the council's governance arrangements are detailed in the council's Local Code of Corporate Governance. This sets out the key documents and processes that determine the way the council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
12. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the council in May 2020.
13. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [County Durham Vision 2035](#). The Head of Strategy is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.
14. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2019/20.

REVIEW OF EFFECTIVENESS

15. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and by comments made by the external auditors and other review agencies and inspectorates.
16. Maintaining the effectiveness of the corporate governance framework involves the key member and officer roles outlined below, namely:
- The Executive
 - Chief Financial Officer
 - Monitoring Officer
 - Overview and Scrutiny Committee
 - Standards Committee
 - Audit Committee
17. The Council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:
- The Corporate Director Resources co-ordinates and oversees the Council's corporate assurance arrangements by:
 - Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements.
 - Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
 - External Audit provides an independent opinion on whether the AGS is materially accurate.
18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which will be incorporated in the Annual Internal Audit Report to the Audit Committee in June 2020. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in seven cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements.
19. Based on the work undertaken during the year, internal audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020.
20. This opinion is however qualified, in light of the current COVID-19 pandemic and the impact of this on the Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is

also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control that have been put in place.

21. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2019/20 is included in **appendix A**. An update on improvements identified in the 2018/19 Annual Governance Statement is included in **appendix B**.
22. The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out in **appendix D**, aligned to the principles of good governance.

CONCLUSION

23. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2019/20 were fit for purpose in accordance with the governance framework. Through the review of governance arrangements, and the work of both internal and external audit, we have identified five actions as part of ongoing improvements to further strengthen governance arrangements in 2020/21. These are shown in **appendix C**.

APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed:

Simon Henig
Leader of Durham County Council

Terry Collins
Chief Executive

John Hewitt
Corporate Director of Resources

APPENDIX A: Governance Arrangements during 2019/20

A full description of the Council's governance arrangements is set out in the [Local Code of Corporate Governance](#). Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2019/20.

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

Behaving with integrity

1. The [register of gifts, interests and hospitality for members](#) is available online. Staff declarations are maintained and monitored by their Head of Service.
2. In January 2020, the Council agreed to a [members' allowance scheme for 2020/21](#), taking into account the views of the independent remuneration panel, which the Council is required by law to establish and maintain.

Demonstrating strong commitment to ethical values

3. The annual report of the [Standards Committee, which is responsible for promoting and maintaining high standards of conduct by councillors](#), was presented to Council in January 2020. The [Work Programme 2020/21](#) was approved in March 2020.
4. In September 2019, the Standards Committee agreed that proposed changes to the [Code of Our Values, Behaviours and Conduct](#) be considered by the Constitution Working Group and by full Council. The amendments provide clarification on employees' obligations in relation to [gifts and hospitality](#).
5. A quarterly customer feedback report is presented to the Overview and Scrutiny Management Board, summarising performance in dealing with corporate and statutory complaints, and identifying actions to improve service provision.
6. Cabinet approved the introduction of the [WASPI Concessionary Travel Scheme](#) to assist approximately 35,000 women across County Durham who have been most impacted by the changes to the Government's State Pension Age.

Respecting the rule of law

7. The [Environment, Health & Consumer Protection enforcement policy](#) sets out the standards and guidance applied by officers authorised to act on behalf of the Council in its role as regulator and enforcement agency. Officers must have regard to codes of conduct, legislation and other statutory provisions, and adhere to the 'principles of good regulation' when exercising regulatory functions to improve outcomes without imposing unnecessary burdens on individuals and businesses.

8. Through the [Counter Fraud & Corruption Strategy](#), the Council is committed to a zero-tolerance approach to fraud and corruption against the Council and its partners. The Counter Fraud team vigorously pursues all reports of fraud, for example, council tax reduction scheme fraud, false insurance claims and blue badge misuse, with successful prosecutions featuring in the [news pages](#) of the Council's website. Their achievements were recognised at the Fighting Fraud and Crime Locally conference in London in March 2019 where they won the Acknowledge Award. The award recognised their zero-tolerance approach to fraud, and the collaborative work with internal and external stakeholders under the 'Durham Partnerships', with innovative projects and promoting best practice with the use of technology, to proactively target fraud risk areas. The team was also a finalist in the IRRV Excellence Awards in Counter Fraud category. Since 2015, the team has uncovered or intercepted over £7.9m of fraud, investigating over 3,500 cases across the authority, handling a diverse range of investigations.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

9. The Council seeks to make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes, with a presumption for openness and, where relevant, giving reasons for keeping any decision confidential. Clear reasoning and evidence are provided for decisions, being explicit about the criteria, rationale and considerations used, to ensure that the impact and consequences of those decisions are clear. These commitments are demonstrated, for example, by the decision made by Cabinet on the [Leisure Transformation Programme](#), which set out the case for change for the Council's leisure centre offer, including building new leisure centre facilities, refreshing existing buildings and progressing towards an extensive new programme of activities and amenities.

Engaging comprehensively with institutional stakeholders

10. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in County. The Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment.

Examples of partnership working are included in regular 'Council Activity Reports' to Cabinet: -

- (a) The council, with its partners, works hard to promote County Durham as a place for businesses to grow and invest, and provides and supports several key [strategic employment sites](#), which continue to grow and flourish.
 - (b) Working with its partners to support people across the county, some of whom are in work but on a low income, who are struggling to pay their rent, mortgage or household bills. Specific initiatives include the [Welfare Assistance Scheme](#).
 - (c) County Durham has seen continued growth and investment in cultural, sporting and heritage activity during the past few years thanks to support from the county council and its partners, including the [#Durham19](#) campaign.
11. The Aykley Heads Redevelopment Plan is supported by a number of regional organisations including the North East Local Enterprise Partnership and North East

England Chamber of Commerce, as well as Durham University. In the attached [video](#), organisations and key business leaders in the area explain why this development is important for the future of Durham.

12. [DurhamWorks](#) is a partnership programme between the Council and seven other organisations, working together to support young people into education, training or employment. The programme has been granted a further £12 million of EU funding and extended to 2021 having so far signed up 7,300 young people, 3,600 of those having progressed into some form of employment, education or training. [DurhamWorks](#) also supports local employers. Business advisors are on hand to offer tailored support and advice, including financial support to small or medium sized businesses looking to take on a young person.
13. In May 2019, Cabinet refreshed the [SEND Strategy](#) for supporting work across local partners for children, young people and young adults with Special Educational Needs and Disabilities (SEND).

Engaging with individual citizens and service users effectively

14. The Consultation Officer Group supports the Council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
15. The [Statement of Community Involvement](#) describes how we will involve communities, businesses and organisations in the preparation of the County Durham Plan (Local Plan) and on planning application decisions. It also sets out our advice on how town and parish councils and Neighbourhood Forums should seek to involve and consult on the preparation of Neighbourhood Plans.
16. As the new proposed savings for 2020/21 are not expected to impact upon front line service provision, the focus of the consultation on [Medium Term Financial Plan 2020/21 to 2023/24](#) has been to utilise the extensive exercises that were recently carried out as part of the development of the County Durham Vision 2035 to inform the proposed investment priorities.
17. Public consultation exercises were undertaken during the year on a range of issues, including the new Durham History Centre, how to tackle climate change, how we spend our money to help children with special educational needs or a disability, and on proposals to increase the council tax premium charge for long term empty properties. The full list can be found on the [Consultations](#) pages of the website.
18. The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities. Fourteen [Area Action Partnerships \(AAPs\)](#) are fully engaged with the community in identifying and addressing local priorities, and utilising locality budgets to drive improvements to the local area.

The Council receives regular updates from AAPs for example, [Weardale AAP](#) (projects delivered), [Derwent Valley AAP](#) (priorities, action plans and forthcoming Projects) and [East Durham AAP](#) (participatory budgeting, Youth Forum and Cyber Crime Project, ATOMS Education Project and Social Isolation).

19. The Council is continuing to build on progress in attracting inward investment and Development in the County through the new [durham powered by people](#) campaign, which engaged with a range of stakeholders across the business community to support economic growth across the county.
20. [Durham County News](#), the Council's magazine for residents is issued to every household in the County four times a year in line with the [recommended code of practice for local authority publicity](#).
21. To supports the delivery of the Children and Young People's Strategy 2019-2022, Cabinet [agreed to the implementation of recommendations](#) that will enhance engagement with children and young people, including annual elections to appoint CYP representatives to a new County Durham Youth Council.

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

Defining outcomes

22. The Council conducts a number of strategic assessments of need, which have been brought together into an [Integrated Needs Assessment](#) (INA). This brings together the evidence base and a wide range of strategic assessments to inform strategic planning across the council and by the county's thematic partnerships. The [INA](#) provides links to data, analysis, external frameworks, local profiles, strategies and plans relevant to life in County Durham. An online data mapping site is being developed.
23. The [County Durham Vision 2035](#) was agreed by the County Durham Partnership and Cabinet in September 2019. This vision will be delivered through an integrated framework of partnership and organisational plans and strategies across the County Durham Partnership. A Strategic Partnership Governance Review is currently taking place to ensure the governance arrangements are fit for purpose and will be completed by May 2020. The vision had been built following extensive public consultation, where residents, businesses, partners and visitors were asked what they would like to see in the future for the county. Building on the success of the last ten years the new vision would replace the current 'Altogether Better' vision from 2009.
24. The Vision was launched by [County Durham Partnership](#) on 25/10/19.
25. The vision is structured around three externally focused results-based ambitions of 'more and better jobs', 'long and independent lives' and 'connected communities.'
 - (a) The More and Better Jobs ambition has a wide-ranging focus which includes not only development of the economy and creating jobs, but also working with young people and adults to help them into work, through good quality education and training.
 - (b) The Long and Independent Lives ambition focuses strongly on the health and wellbeing of the local population, including ensuring that all of our children and young people get the best start in life, and services for children with special educational needs and disabilities (SEND) are improved. The ambition has a strong focus on improving mental as well as physical wellbeing.
 - (c) The Connected Communities ambition focuses on making life better in local communities across the County. On how we ensure that children and young people have safe lives in safe communities where people support each other, and have access to high quality housing, good transport links and vibrant town and village

centres. As it is a broad ambition, performance reporting is split into two areas of focus: safer communities, and sustainable communities.

26. [Children and Young People's Services Commissioning Plan 2019-21](#)
27. On 11/9/19, Cabinet agreed the draft updated Poverty Action Strategy and Poverty Action Plan, through which the council and its partners aim to address and alleviate poverty in the county.
28. [The County Durham Strategic Partnership Approach to Early Help for Children, Young People and Families](#) sets out our partnership vision, priorities and approach for providing effective, targeted and coordinated 'early help' in County Durham in order to address inequalities, promote opportunity and secure better outcomes for children, young people and their families. The strategy focuses on supporting family and community resilience. The strategy also outlines the collective responsibility across key partners for identifying children and young people who require additional help and support.
29. In July 2019, the [Youth Justice Plan 2019-2021, incorporating a review of performance and activity for 2018-2019, and improvement plans, staffing and budgets for 2019-2020](#), was presented to Council.
30. County Durham Housing Strategy 2019 to 2024. In July 2019, Cabinet adopted the [Housing Strategy](#), the aims of which are better housing support for residents and the [Homelessness Strategy](#), which aims to prevent homelessness by providing housing advice, assistance and support for older and vulnerable people.

Sustainable economic, social and environmental benefits

31. Despite this very challenging financial period, the scale and sustained level of government spending cuts and the impact on the council's finances, this report includes some very positive outcomes for the people of County Durham including: -
 - (a) significant one-off investment in a broad range of priority front line services;
 - (b) continued support to protect low income working age households through the continuation of the existing Council Tax Reduction Scheme;
 - (c) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people;
 - (d) significant capital investment in leisure provision, town centres and infrastructure, including new transport schemes.
32. In February 2019, the Council declared a Climate Change Emergency, and set targets to reduce its own carbon emissions and make County Durham carbon neutral by 2050. Response to consultation demonstrated that residents supported and wanted to be actively involved in taking forward the [Climate Change Emergency Response Plan](#), which was approved by Cabinet in February 2020. In July 2019, Cabinet was updated on the successful completion of the six-year, invest-to-save [Street Lighting Energy Reduction Project](#), which has been the biggest single contributor to the Council's reduction in carbon emissions. A 69% reduction in annual energy consumption was achieved, saving 8,413 tonnes in carbon emissions.

33. The [County Council of Durham Roads and Street Works Permit Scheme](#) aims to reduce disruption caused by street works in County Durham by enabling our highways team to manage the number and duration of works taking place on the county's roads at any one time. This would help to minimise disruption, which in turn would support economic growth and reduce carbon emissions.

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

Determining and planning interventions

34. The Council ensures that decision makers receive objective and rigorous analysis of a variety of options, indicating how intended outcomes would be achieved and highlighting associated risks, to secure best value regardless of the service delivery method. Two examples are the [Cabinet reports](#) in January 2019 on: -
- (a) The County Durham Plan Pre-Submission Draft; and
 - (b) Durham History Centre – Next Steps.
 - (c) [Review of School Provision – Wolsingham School & Sixth Form](#)
 - (d) [Mainstream Primary and Secondary Formula Funding 2020-21](#)
 - (e) [Options for the future of the two schools that constitute the Durham Federation](#)
35. In February 2020, in response to a request for analysis and insight into the impact of welfare reform and austerity, Cabinet considered a report which provided key messages and selected analyses for County Durham for the Index of Deprivation 2019 from the Ministry of Housing, Communities and Local Government. Members were concerned with the increased levels of deprivation, and wider analysis will be undertaken of the impact on vulnerable residents, including struggling families and children living in poverty, and communities.
36. A range of controls have been implemented for the Council's commercial companies and joint venture arrangements, appropriate to the specific entity, to ensure that effective governance arrangements are established and maintained. Examples include: -
- (a) Contributing to the attainment of the company's business objectives by providing strategic and financial guidance to ensure that the company's financial commitments are met, to ensure the sound financial management and control of the Company's business, and to support future growth of the company.
 - (b) Provision of a Finance Director or Chief Financial Officer.
 - (c) Requiring annual reports on operations and performance to be brought to the Council, as a shareholder, through Corporate Management Team and, where considered necessary, Cabinet.
 - (d) Financial management support to ensure that annual accounts are prepared and submitted appropriately with HMRC and Companies House, and that they are independently audited.
37. The [Medium Term Financial Plan 2020/21 to 2023/24 \(MTFP\)](#) was approved by the Council in February 2020. This provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money (VFM). The key risk facing the Council continues to be the challenge of managing unprecedented budget reductions in the current period of economic austerity. To meet this challenge, a

comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and [MTFP](#).

Optimising achievement of intended outcomes

38. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and the £15.7m of savings proposed for MTFP(10) period results in the council having saved £250 million since 2011/12. The Council's strategy since 2010/11 has been to protect front line services as far as possible and the 2020/21 proposals are in line with this strategy both in terms of savings being realised and additional investment. To ensure that front line services can be protected wherever possible, the [Transformation Programme](#) seeks to ensure that all options are explored. The Council has maintained prudent levels of reserves enabling us to meet unanticipated expenditure as necessary whilst still achieving planned savings targets and meeting service level expectations.
39. To ensure that attention remains focused on Council priorities, an approach to performance management was developed that answers key performance questions rather than rely on performance indicators. [Quarterly reports](#) are concise, using a dashboard style with shorter narrative, and attention is moving towards analysing and developing insights from the performance data.
- (a) In relation to the *More and Better Jobs* ambition, we are continuing to invest, building on our growing tourism and cultural activity, creating new infrastructure and developing new business parks with the potential to create thousands of jobs. We are developing focused improvement plans, reviewing educational provision across the county (including elective home education), offering intensive support to young people not in education, employment and training, and addressing inequality across employment through our work to become a Disability Confident Leader.
 - (b) In relation to our *Long and Independent Lives* ambition, we continue to support people to stop smoking, reduce exposure to second-hand smoke and promote campaigns such as Stoptober. Our partnership approach to help people achieve a healthy weight focuses on the Best Start in Life, the physical and food environments, with actions to increase physical activity in schools, promote active travel and improve the regulation of hot food takeaways. We have established a workforce leads network to ensure a consistent approach to mental health training across partners and are developing a tailored approach to mental health awareness across small-to-medium sized businesses. We are working closely with the CCG and health providers to monitor key areas of work, including waiting times for therapeutic services and have allocated additional resource to our SEND Casework Team, which continues to experience high demand.
 - (c) In relation to our *Connected Communities* ambition, we are using focused improvement plans, initiatives and interventions to mitigate against the challenges we face in relation to violence against the person, shoplifting, criminal damage and arson, of which County Durham is recording high levels. For example, two dedicated neighbourhood wardens now patrol Durham City centre, we are putting in place a multi-agency training programme in relation to licensing, have implemented a plan for student fresher week in relation to water safety and started planning for the 2020 cold-water shock campaign.
40. The [Transformation Programme](#) reports to a Transformation Board, consisting of Cabinet members and the Corporate Management Team, chaired by the Leader of the

Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.

41. In September 2018, Cabinet approved a report, which considered the next steps in delivering the Aykley Heads Strategic Employment site to ensure the proposed 6,000 jobs are secured for the benefit of County Durham's economy. The report also proposed a strategy for the development of the site in a flexible manner, enabling a responsive approach to opportunities and changes within the marketplace.
42. In October 2019, Cabinet approved the establishment of an Internal Enforcement Agent Service for the collection of council tax, business rates, parking fines and fixed penalty notices, commercial rents, sundry debt and housing benefit overpayments. Benefits include a more joined-up, streamlined and flexible approach to debt recovery and management, more direct control over the standards of behaviour and the actions taken by the service, ensuring that the Council's values and behaviours are embedded within the service.
43. Cabinet approved a report on the governance structure of the newly-established [Local Lettings Agency](#), which will support Housing and Homelessness Strategies. Delegated authority was given to the Corporate Director for Regeneration and Local Services to lease properties from landlords on an individual basis for use in discharging the Council's duties under the Homelessness Reduction Act.

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

Developing the Council's capacity

44. Inspiring Places, which is part of our [Transformation Programme](#), seeks to provide different types of flexible work spaces. Work areas will be paper-lite, which means digital records will replace paper records, where appropriate. Desk-based employees have access to software that allows them secure, remote access to the Council's computer systems, including from home.
45. Work is well underway to transform office accommodation at each of the Council's sites, leading to a more productive and creative workforce and reduced travelling times. Modern, open plan spaces allow more flexibility, with printers, recycling bins and stationery being centralised on each floor. New technology, such as video conferencing and mobile working, is increasingly being used.
46. The Council's Inspire Programme seeks to enable flexible working through digital and mobile technology, make our workspaces more cost effective and productive, and support collaboration between teams across the organisation. Several projects supporting these aims are either nearing completion or are well underway: -
 - (a) A reform of business support services seeks to increase the use of digital solutions to create a more consistent service, improved management information and less labour-intensive administrative processes.
 - (b) A major upgrade to the email, calendar and related systems will deliver numerous benefits, including increased storage capacity, online collaborative working, reduced paper usage and improved data security.
 - (c) A comprehensive development plan for the ResourceLink computer system sets out priorities for streamlining and digitising transactional HR and payroll processes,

leading to a reduction in back office administrative tasks. Employees have improved access to personal information, reducing the need for printing and posting documents.

- (d) The Council has commenced a programme examining how we can use business intelligence technologies and invest in skills to further automate processes, make more strategic use of our data and improve our analytical capacity.

47. The new [Digital Strategy](#) sets out the Council's digital ambitions for the County. It provides a framework within which these ambitions can be delivered and aligns to the interlocking objectives of the revised Council Vision and the Transformation Programme. The new strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities.
48. The latest version of Office 365 has been rolled out across the council, offering a number of new tools that proved invaluable, especially during the lockdown period of the response to COVID19: -
- Virtual meetings hosted with online agendas and papers.
 - Greater collaboration enabled through storing, sharing and even simultaneous co-authoring of documents.
 - Communications between staff enhanced through functions that show colleagues' availability, and enable instant messaging, screen-sharing and continuous connectivity through a range of devices.
 - Sharing of information, posts and conversations in public and private online spaces.
49. The Council approved a proposal by the Chief Executive to [restructure the corporate management team](#), ensuring leadership is aligned to the council's strategic priorities and that appropriate resources are in place to deliver the wider partnership vision for the county. Two posts were deleted, Corporate Director of Regeneration and Local Services and Director of Transformation and Partnerships, with the creation of two posts of Corporate Director, Regeneration, Economy and Growth and Corporate Director, Neighbourhoods and Climate Change.
50. In relation to the Transformation and Partnerships service grouping, Transformation and Strategy services were realigned to the Resources Service Grouping. The Communications and Marketing service grouping was realigned directly to the Chief Executive. The Partnerships and Community Engagement service will be realigned to the new Director of Neighbourhoods and Climate Change but in the interim, the head of service reported to the Corporate Director of Adults and Health.
51. As part of the development of a Health and Social Care Plan for County Durham, the Council approved the establishment of a Head of Integrated Strategic Commissioning within Adult and Health Services, to be jointly funded by the Council and the respective Clinical Commissioning Groups.
52. The Overview and Scrutiny Management Board, supported by its five committees, makes decision-making processes transparent, accountable and inclusive and seeks to improve services for people by being responsive to their needs. Where appropriate, members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#).
53. Overview and Scrutiny arrangements have been enhanced following Government Guidance issued last year. This work has included further developing member training,

updating member role descriptors, improving our liaison and reporting links between NECA/Regional Scrutiny and COSMB and also additional reporting is being introduced to Council.

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

54. The [Transformation Programme](#) report to Cabinet in October 2017 confirmed that, following a restructure of the Corporate Management Team, a restructure of the Council's Extended Management Team (EMT) (heads of service) was completed in June 2017. The new EMT gives additional focus to the digitisation of process and ICT systems management, strengthens our capacity to lead organisational change and manage our people and gives additional focus to our work to support looked after children.
55. The Durham Learning and Development system hosts our new Performance and Development Review scheme, which was launched for leaders and managers, then rolled out to core employees from July 2019. The Durham Leadership Way programme outlines the expectations of leaders and managers together with a development and support offer. The Durham Leadership and Management Development Programme includes several mandatory courses, including coaching as a management style and mental health awareness for managers. Other courses are linked to corporate priorities, management skills and your personal development.
56. The Council's Apprenticeship Strategy 2019 to 2022 is being delivered through the People and Talent Management service, which is working with service managers and maintained schools to identify opportunities for new and existing employees to support workforce development and planning. By March 2020, there were 226 apprentices across a range of occupational areas and levels, and 280 employees were upskilling through an apprenticeship.
57. The Council is committed to continually reviewing the development needs of members and officers and continues to be a member of the North East Public Service Academy, which promotes excellence in learning across the public sector.
58. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme. An intranet page has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.
59. The Valuing our Employees Framework, which was developed in consultation with employees, was rolled out with the aim of creating a supportive working culture. The framework includes a range of initiatives about employee engagement, recognition, benefits, ideas and innovation.
60. The Council successfully achieved the gold National Better Health at Work award for its work on improving employee health and wellbeing, including awareness training for managers and training for mental health first aiders.

61. The Inspiring People Awards (formerly Great Staff, Great Stuff) reflect the aspirations of our Inspire [Transformation Programme](#). The scheme culminates in a celebration of the very best of our employees, teams and projects – those who are making a massive difference to residents and communities or who are delivering innovative projects and solutions to help both the council and our customers.

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

Managing risk

62. Risk management continues to be embedded in decision making and key business processes and the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, underpins this. The Audit Committee has gained assurance that the Council's strategic risks are being effectively managed through reports issued in [July](#) and [November 2019](#), and [February 2020](#). In July 2019, the Council received a [report from the Chairman of the Audit Committee](#) on its work between September 2018 and August 2019, and how the Committee continues to provide for good governance across the Council.

63. The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. The arrangements for managing the risk of such events are explained, and a copy of the latest Community Risk Register can be found, on the [Local Resilience Forum](#) web page. One of the intended outcomes of the Council's [Transformation Programme](#) is to help make communities become more self-reliant and resilient, so the Council's website includes advice for [business and care services on planning for emergency situations](#).

64. The referendum result in June 2016, in which the United Kingdom (UK) voted to leave the European Union (EU), created national uncertainty for the economy, safety and welfare and was compounded by protracted negotiations to secure a withdrawal agreement. An EU Exit Working Task & Finish Group was established, chaired by the Director of Transformation and Partnerships with representatives from all service groupings, reporting to Corporate Management Team. Taking account of a range of guidance from the government and professional bodies, the Group worked with key partners including the Local Resilience Forum, as well as key suppliers and service providers, to identify and minimise the impacts on council services and service users.

65. Several challenges and uncertainties lie ahead, and these are being monitored through the Council's strategic risk management reporting arrangements: -

- (a) The financial outlook for the council and the whole of local government remains extremely challenging.
- (b) The implications of the UK leaving the European Union, including the position of EU citizens living in the UK and UK nationals living in the EU.
- (c) Capacity issues caused by nationwide hard-to-recruit posts in children's social care.
- (d) Funding pressures in adult social care.
- (e) Recovery from the effects of the COVID-19 pandemic.

Managing performance

66. The [County Durham Partnership](#), which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners. Its' role includes monitoring performance towards implementing [County Durham Vision 2035](#), and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
67. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through [quarterly performance reporting](#) and through performance clinics between the Chief Executive, individual Corporate Directors and the Director of Transformation and Partnerships during the year.
68. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the [County Durham Vision 2035](#) and the [Council Plan](#). The format of performance reports has been realigned to the ambitions in the new Council vision. We are developing online (near) real-time performance dashboards using business intelligence and reporting services tools to provide more immediate views and visualisations of performance as part of a business intelligence programme. Examples available in children's social care and customer services.
69. The Quality Improvement Board is chaired by the Corporate Director of Children and Young People's Services and meets monthly to provide strategic oversight and lead improvements in quality.
70. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the [annual report](#), decisions and actions of the Police and Crime Commissioner. An update on activity from the Panel is presented to each meeting of the Council's [Safer and Stronger Communities Overview and Scrutiny Committee](#).

Robust internal control

71. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective. Internal audit progress updates were provided to Audit Committee in [May](#), [September](#) and [November 2019](#), and in [February 2020](#).
72. Updated versions of the [Counter Fraud & Corruption Strategy and Fraud Response Plan](#), and the [Anti-Money Laundering Policy](#) were presented to Audit Committee in June and July 2018.

Managing data

73. The designated Senior Information Risk Officer is the Corporate Director of Resources, and the designated Data Protection Officer is the Strategic Manager, Executive Support. The council has an Information Governance Group, with representatives from all services, which meets regularly and formulates regulatory responses to the

Information Commissioner's Office and handles day-to-day management issues around information governance.

Strong public financial management

74. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer (Local Government Act 1972) to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the Corporate Management Team (CMT) and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications.

75. In February 2020, an update was given to Audit Committee on the Council's [accounting policies](#) to be applied in the preparation of the 2019/20 Statement of Accounts. The following reports provide assurance that the Council's financial management supports both long-term achievement of outcomes and short-term financial and operational performance: -

- (a) [Treasury Management Outturn 2018/19](#)
- (b) [Final Outturn for the General Fund and Collection Fund 2018/19](#)
- (c) [Update on the delivery of the Medium Term Financial Plan 8](#)
- (d) [Update on the delivery of the Medium Term Financial Plan 9](#)
- (e) [Report under Section 25 of Local Government Act 2003 - Reserves](#)
- (f) [Pension Fund Annual External Audit Letter 2018/19](#)

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

Implementing good practice in transparency

76. The Council is committed to being open and transparent about how it works and how decisions are made. In line with the Local Government Transparency Code, information is published on a [transparency and accountability web page](#) about how money is spent, how services are purchased, land and assets owned, structures and salaries, and fraud. As required by law, the sum paid to each county councillor is also published. The Council has also been publishing open datasets through the Data Mill North website.

77. Reports about complaints against members are included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information).

Implementing good practices in reporting

78. The Local Code of Corporate Governance is reviewed annually before being considered for approval by the Audit Committee and County Council.

79. The [Statement of Accounts 2018/19](#), incorporating the Annual Governance Statement, was approved by the Audit Committee in July 2019, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate.

80. The Council's commitment to regular reporting to stakeholders on performance, value for money and stewardship of resources is evidenced throughout this statement. Other examples include: -

- (a) [Annual report of the Director of Public Health 2019](#)
- (b) [Health and Wellbeing Board Annual Report 2018/19](#)
- (c) [Local Safeguarding Children Board Annual Report 2018/19](#)
- (d) [Corporate Parenting Panel Annual Report 2018-19](#)
- (e) [Transport Asset Management Plan Annual Update](#)
- (f) [Protecting the Public Purse Annual Report 2019/20](#)

Assurance and effective accountability

81. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in June 2020. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.

82. Revised versions of the [Internal Audit Strategy, Charter and Plan for 2019/20](#) were approved by Audit Committee in May 2019.

83. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services: -

- (a) The [External Audit Annual Letter 2018/19](#) summarises the work undertaken for Durham County Council and Durham County Council Pension Fund for the year.
- (b) The [Audit Completion Report \(Statement of Accounts\)](#) summarises the external auditor's conclusions for the year ended 31 March 2019.
- (c) The [External Audit, Audit Strategy Memorandum, February 2020](#) sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2020.
- (d) External Audit Progress reports in [November 2019](#) and [February 2020](#).
- (e) The [Audit Completion Report \(Pension Fund\)](#) summarises the external auditor's conclusions for the year ended 31 March 2019.

84. In May 2019, Audit Committee approved revised [Terms of Reference](#) incorporating the Chartered Institute of Public Finance and Accountancy's model Terms of Reference defined in the Practical Guidance for Local Authorities 2018. The Committee also completed a core knowledge and [self-assessment](#) against the good practice for Audit Committees in Local Authorities guidance, and no significant gaps were identified.

85. In June 2019, the Audit Committee approved responses to a range of [questions from the External Auditor](#) to provide evidence of how management and those charged with governance are discharging their responsibilities, to discharge their duties under International Standards for Auditing.

86. Aycliffe Secure Centre, which offers specialist secure accommodation for young people, was given an outstanding review by Ofsted. Inspectors reported the centre as 'outstanding' in all four areas it assessed, building on its 'good' rating at Ofsted's last two visits.

87. Three Council teams were shortlisted in the prestigious Local Government Chronicle Awards, which celebrate excellence in local government. Our Corporate Parenting Panel is nominated in the Children's Services category; our economic investment in Durham is competing in the Driving Growth category; and our Durham Resilience Project, which works to improve mental health in schools, will represent us in the Public Health category.

APPENDIX B: Update on improvements identified in the 2018/19 Annual Governance Statement

Following the production of the Annual Governance Statement for 2018/19, nine improvement actions were identified for 2019/20.

No.	Actions to be taken	Lead Officer
1	Implement an action plan to enable approval of the County Durham Plan (CDP) within the statutory requirements and the anticipated National Planning Policy Framework (brought forward).	Corporate Director, Regeneration and Local Services, March 2020
<p><u>Update:</u> Status: Substantially complete The hearing sessions for the Examination in Public of the County Durham Plan were held from October to December 2019. The Inspector's interim report is expected in the spring where several modifications to the Plan will be recommended. These will then be consulted on and the final Plan is expected to be adopted in the Summer/Autumn 2020. The action plan has been implemented and has successfully brought the Plan to this point. Future timescales are now at the discretion of the Inspector. Therefore, although the Plan has not yet been adopted the action plan has served its purpose.</p>		
2	Develop a new council vision and a new Council Plan to replace the Council Plan 2016-19 (brought forward).	Head of Strategy, October 2019
<p><u>Update:</u> Status: Substantially complete County Durham Vision 2035 was approved by Council on 23 October 2019 and launched by the County Durham Partnership on 25 October 2019.</p>		
3	MTFP and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved (brought forward).	Corporate Director, Children and Young People Services, March 2020
<p><u>Update:</u> Status: In progress, carry forward to 2020/21 The review is in progress and monitoring will be carried forward to 2020/21.</p>		
4	Develop revised Children's Performance Management Framework.	Head of Strategy/ Strategic Manager Safeguarding Professional Practice (CYPS), June 2019
<p><u>Update:</u> Status: Complete The revised Children's Performance Management Framework is complete and continues to drive improvement within the service.</p>		
5	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model. Establish a combined and integrated management board with direct service delivery of NHS community and adult social care services being overseen by a	Head of Planning and Assets (ReaL), March 2020

No.	Actions to be taken	Lead Officer
	Chief Officer on behalf of all partners (paragraphs 10, 53 to 55 – managing performance).	
<p>Update: Status: In progress, carry forward to 2020/21 An appointment was made to a newly created post of Head of Corporate Property and Land, and management of the Council's estate has been unitised under this service. A new Corporate Landlord Service Delivery Model is being implemented during 2020/21.</p>		
6	Prepare evidence base around major economic challenges that will influence the NE Local Industrial Strategy with a view to supporting the implementation of corporate priorities and the development of County Durham Industrial Strategy.	Business Durham (Real), March 2020
<p>Update: Status: Complete An evidence base has been prepared which is current and is being used to inform discussions with the NELEP regarding the North East Local Industrial Strategy, and the development of a County Durham Industrial Strategy.</p>		
7	Undertake a review of governance arrangements of the County Durham Partnership.	Head of Partnerships and Community Engagement, December 2019
<p>Update: Status: In progress, carry forward to 2020/21 The strategic governance review of the County Durham Partnership will be complete for May 2020 and presented to the County Durham Partnership for approval.</p>		
8	Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels	Head of Education and Skills, March 2020
<p>Update: Status: In progress, carry forward to 2020/21 The recommendations from a public consultation on proposals for reviewing nine priority service areas were approved in January 2020 by Cabinet, who also agreed the financial strategy to reduce expenditure by £1.5 million per year and spend within grant available over the next five years. Work is currently underway to identify financial savings targets for each area of the HNB budget</p>		
9	Review the arrangements in place to ensure the Council is discharging its sufficiency duty in relation to Looked After Children and responding to gaps in provision	Corporate Director, Children and Young People Services, April 2020
<p>Update: Status: Complete The Council's duty will be met through the Placement Sufficiency Strategy 2020 - 2025 supported by the Placement Resource Panel, the Fostering to Adopt initiative and Foster Xtra initiative.</p>		

APPENDIX C: Proposed Governance Improvements required during 2020/21

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2020/21. These are shown in the table below.

No.	Actions to be taken	Lead Officer & Timescale
1	Brought forward from 2019/20 MTFP and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved (brought forward).	Corporate Director, Children and Young People Services March 2021
Links to the Local Code of Corporate Governance (ref): Optimising the achievement of intended outcomes with robust mechanisms for making decisions, which are reviewed continually (4.34).		
2	Brought forward from 2019/20 Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Head of Planning and Assets (Real) March 2021
Links to the Local Code of Corporate Governance (ref): Developing the Council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38).		
3	Brought forward from 2019/20 Undertake a review of governance arrangements of the County Durham Partnership.	Head of Partnerships and Community Engagement May 2020
Links to the Local Code of Corporate Governance (ref): Engaging effectively with institutional stakeholders and developing formal and informal partnerships (4.21).		
4	Brought forward from 2019/20 Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels.	Head of Education and Skills March 2021
Links to the Local Code of Corporate Governance (ref): Improving the use of its resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)		
5	The governance surrounding the Council's companies require refinement and efforts have begun to ensure all necessary documentation is in place and that key officers are aware of their roles and responsibilities with regards to the companies they are involved with.	Head of Legal and Democratic Services March 2021
Links to the Local Code of Corporate Governance (ref): Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements (3.14)		

APPENDIX D: COVID-19 Implications for Governance

The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out below, aligned to the principles of good governance. As the impact of the pandemic is still changing, we will assess the impact on the Council's Local Code of Corporate Governance in the period between approving this draft AGS and approving the final AGS. Any temporary changes that have occurred which are considered a material change to current governance arrangements will be reflected in the final AGS for approval. In particular, any changes to the decision-making process which have resulted in greater delegation of decisions to executive management due to the difficulties in undertaking member committee meetings.

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

1. Our core values have been invaluable in shaping the response: -
 - (a) We will work together to achieve the best for people.
 - (b) We put people and communities at the heart of everything we do and value our employees.
 - (c) We value, trust and support each other.
 - (d) We embrace change and look for better ways to deliver services.

Ensuring openness and comprehensive stakeholder engagement

2. Working with strategic partners through the Local Resilience Forum on collective capacity and capability, protection from the virus, managing deaths and planning for the future.
3. Management of the crisis has been overseen at a corporate and cross-agency regional level:
 - Regional command and control arrangements have been established. These are being led by NHS England and based upon the established North East Pandemic Influenza Framework which includes coronavirus. Well established close working arrangements are in place between Durham County Council and PHE for health protection outbreaks and will continue during this outbreak.
 - County Durham and Darlington Local Resilience Forum (LRF) is also working with Northumbria LRF and Cleveland LRF to co-ordinate activities across the region to ensure effective planning across all agencies for Covid-19. Each LRF has set up a Strategic Co-ordinating Group, known as a Gold Command Group, and they are also meeting as a cross region group.
 - Our leadership team continues to meet daily (virtually) to provide direction to the council's response, with regular input from Cabinet.
 - COVID-19 planning meetings have been taking place since January 2020.

Academy School

Academy Schools are directly funded by Government and are independent of the council's control.

Accounting Period

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting Standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains or Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated). A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

Agency Services

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work. Also known as 'Third Party Payments'.

Annual Governance Statement

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the council.

Amortisation

Amortisation is the equivalent of depreciation, for intangible assets.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Assets

An item having a monetary value to the council, e.g. property, investments or cash.

Assets Held for Sale

Long term assets that are surplus to the council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

Assets under Construction

Capital expenditure on assets, where the work is incomplete.

Associate

An associate is an organisation over which the council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

Audit of Accounts

An independent examination of the council's financial affairs.

Authorised Limit

This is the maximum limit of external borrowings or other long term liabilities.

Balance Sheet

This is a financial statement that shows the financial position of the council at a point in time, the balance sheet date, which for the council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

Bid Price

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

Billing Authority

Durham County Council is the billing authority responsible for the collection of council tax and non-domestic rates. The council tax includes amounts for precepting authorities.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

Borrowing

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the council.

Budget

The council's plans and policies for the period concerned, expressed in financial terms.

Building Schools for the Future (BSF)

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

Business Improvement District (BID)

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

Capital Adjustment Account (CAA)

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charge

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

Capital Expenditure

Expenditure on the acquisition or construction of non-current assets that have a value to the council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

Capital Financing Costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement (CFR)

This sum represents the council's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the council. This figure is then used in the calculation of the council's minimum revenue provision.

Capital Grants Unapplied

Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement (CIES) but where expenditure has not yet been incurred.

Capital Receipts

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

Carrying Amount

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

CYPS

Children and Young People's Services

Cash Flow Statement

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Collection Fund

An account kept by the council into which council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

Community Assets

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of e.g. parks, historic buildings.

Componentisation

The process by which assets are analysed into various components that have significantly different estimated lives.

Comprehensive Income and Expenditure Statement (CIES)

This statement reports the net cost of services for which the council is responsible and demonstrates how that cost has been financed.

Constitution

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

Contingency

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Asset

Potential benefits that the council may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the council may incur in the future due to something that has happened in the past.

Corporate Governance

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Council Tax Requirement

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

Creditors

Persons or bodies to whom sums are owed by the council.

CSR

Comprehensive Spending Review.

Current Service Cost

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

Current Value

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

Curtailment

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

Debtors

Persons or bodies who owe sums to the council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Defined Contribution Scheme

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

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

Depreciation

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age, and obsolescence.

Derecognition

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

Direct Revenue Financing (DRF)

The cost of capital projects that is financed directly from the annual revenue budget.

Direct Service Organisations (DSOs)

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

Earmarked Reserves

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

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

Exceptional Items

Material items deriving from events or transactions that fall within the ordinary activities of the council, but which need to be separately disclosed by virtue of their size and/or incidence to give a fair presentation of the accounts.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper

practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Finance Lease

A lease that transfers substantially all of the risks, and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

Financial Instrument

A contract that gives rise to a financial asset of one entity, and a financial liability, or equity instrument of another.

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Financial Instruments Revaluation Reserve

This reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

Financial Regulations

These are the written code of procedures approved by the council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Formula Grant

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

Foundation Schools

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

Funding Strategy Statement

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

Futures

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

GAAP

Generally Accepted Accounting Practice.

General Fund

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

Going Concern

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

Government Grants

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the council.

Group Accounts

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

Heritage Assets

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

Historical Cost

The original purchase cost of an asset.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

IAS

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ICT

Information and Communications Technology

IFRIC

Interpretations originating from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code).

Income

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in reserves or net worth.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Infrastructure Assets

A non-current asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

Intangible Assets

Intangible assets do not have physical substance but are identifiable and controlled by the council through custody or legal rights, for example software licences.

Intangible Heritage Asset

An intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

Inventory

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

Large Scale Voluntary Transfer (LSVT)

A Large Scale Voluntary Transfer involves the council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

Leasing

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee and falls within the capital system.

Levy

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

Long-Term Investments

Investments intended to be held for use on a continuing basis in the activities of the council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Market Value

The monetary value of an asset as determined by current market conditions.

MHCLG / CLG

Ministry of Housing, Communities and Local Government – the government department that directs local authorities in England.

Mid-Market Price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minimum Revenue Provision (MRP)

The minimum amount that the council must charge to the income and expenditure account to provide for the repayment of debt. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Movement in Reserves Statement

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the council analysed into 'usable' reserves and 'unusable' reserves.

MTFP

Medium Term Financial Plan.

Myners' Principles

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

National Non-Domestic Rates (NNDR)

The means by which local businesses contribute to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

Net Book Value

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

Net Cost of Service

The actual cost of a service to the council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

Net Debt

Net debt is the council's borrowings less cash and liquid resources.

Net Expenditure

The actual cost of a service to the council after taking account of all income charged for services provided.

Net Realisable Value

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non-Current Assets

Tangible or intangible assets that yield benefits to the council and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the council through custody or legal rights, for example software licences.

Non Distributed Costs

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

Non-Operational Assets

Non-operational assets are those held by the council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the council. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

Operating Lease

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

Operational Assets

Property, plant and equipment held and occupied, used or consumed by the council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Operational Boundary

This is the expected level of debt and other long term liabilities during the year.

Outturn

Actual expenditure within a particular year.

Past Service Cost

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Precept

An amount charged by another Authority to the council's Collection Fund. There are two major preceptors in Durham County Council's Collection Fund: Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

Prior Period Adjustment (PPA)

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)

A government initiative that enables local authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Property, Plant and Equipment (PPE)

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

REAL

Regeneration and Local Services.

Related Party

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Remuneration

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reporting Standards

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

Reserves

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the non-current assets held by the council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Revenue

Income arising as a result of the council's normal operating activities.

Revenue Contributions

See 'Direct Revenue Financing'

Revenue Expenditure and Income

Expenditure and income arising from the day-to-day operation of the council's services, such as salaries, wages, utility costs, repairs, and maintenance.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a non-current asset. This expenditure is charged to the relevant Service revenue account in the year. Examples of this are grants and financial assistance to others, expenditure on assets not owned by the council and amounts directed by the Government.

Revenue Support Grant (RSG)

A Government grant that can be used to finance expenditure on any service.

RICS

Royal Institution of Chartered Surveyors.

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the council and the preparation of the council's Statement of Accounts.

Service Reporting Code of Practice (SeRCOP)

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

Service Recipient

A party that has contracted with the council to obtain goods or services that are an output of the council's normal operating activities in exchange for consideration.

Specific Grant

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

Statement of Investment Principles (SIP)

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Subsidiary

An entity is a subsidiary of a reporting entity if the council is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Properties

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

T&P

Transformation and Partnerships.

Tangible Heritage Asset

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

Third Party Payments

See 'Agency Services'.

Transfer Agreement – Housing Stock Transfer

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and Believe Housing. It also contains all the necessary arrangements to enable Believe Housing to receive and manage the properties and the council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

Transfer Payments

The cost of payments to individuals for which no goods or services are received in return by the council, for example Adult Social Care direct payments or Housing Benefit payments.

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Trust Funds

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

Unit Trusts

A pooled fund in which small investors can buy and sell units. The pooled fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Unsupported (Prudential) Borrowing

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

Unusable Reserves

Unusable reserves are reserves that the council is not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Capital Receipts Reserve

Represents the resources held by the council from the sale of non-current assets that are yet to be spent on other capital projects.

Usable Reserves

Usable reserves are reserves that the council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

Useful Life

The period in which an asset is expected to be useful to the council.

Variance

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

Work-in-Progress

The value of rechargeable work that had not been recharged at the end of the financial year.

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Audit Committee

29 June 2020

Internal Audit Strategy, Charter 2020/20201 and Six-Month Internal Audit Plan up to 30 September 2020



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

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To submit the revised Internal Audit Strategy, Charter for 2020/2021 and the Six-Month Internal Audit Plan up to 30 September 2020 which are attached as Appendices 2, 3 and 4, for approval.

Executive Summary

- 2 Following the presentation of the first formal iteration of the Internal Audit Plan to the Audit Committee on 27 February 2020, the COVID-19 pandemic has resulted in a reassessment of the Internal Audit Plan as the control environment and risk profile of the Council has changed and continues to change alongside government guidance. This report sets out the proposed Six-Month Internal Audit Plan up to 30 September 2020 and includes:
 - (a) The Internal Audit Strategy (Appendix 2);
 - (b) The Internal Audit Charter (Appendix 3);
 - (c) The Six-Month Internal Audit Plan to 30 September 2020 (Appendix 4).

Recommendation

- 3 It is recommended that Members:
 - (a) Approve the Internal Audit Strategy in Appendix 2;
 - (b) Approve the Internal Audit Charter in Appendix 3;

- (c) Approve the proposed Six-Month Internal Audit Plan to 30 September 2020, as detailed in Appendix 4.

Background

- 4 From April 2013, CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS set out the standards for Internal Audit and have been adopted by the service in Durham.
- 5 The principles in the PSIAS are consistent with the previous CIPFA Code for Internal Audit that applied across Local Government. They include the need for 'risk based plans' to be developed for Internal Audit and for plans to receive input from management.
- 6 The Internal Audit Strategy, which has informed the development of the 2020/21 audit plan, has been reviewed and is included at Appendix 2.

Internal Audit Charter

- 7 The Internal Audit Charter, as set out in Appendix 3, defines the Internal Audit Service's purpose, authority and responsibility. It establishes Internal Audit's position within the organisation, including the nature of the Chief Internal Auditor and Corporate Fraud Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Audit Committee.
- 8 A set of Core Principles are set out for the service, taken as a whole these articulate internal audit effectiveness. In order to be considered effective all of the principles should be present and operating:
 - (a) Demonstrates integrity;
 - (b) Demonstrates competence and due professional care;
 - (c) Is objective and free from undue influence (independent);
 - (d) Aligns with the strategies, objectives and risks of the organisation;
 - (e) Is appropriately positioned and adequately resourced;
 - (f) Communicates effectively;
 - (g) Provides risk-based assurance;
 - (h) Is insightful, proactive and future-focused;
 - (i) Promotes organisational improvement.

Preparation of the 2020 / 2021 Audit Plan

- 9 The Emergent Internal Audit Plan was presented at the Audit Committee's meeting on 27 February 2020. As discussed in that paper, the plan has now had further refinement and discussions have taken place with Corporate Management Team prior to presenting the final version to the Committee, the COVID-19 pandemic has resulted in a reassessment of the Internal Audit Plan as the control environment and risk profile of the Council has changed and continues to change alongside government guidance. This report sets out the proposed Six-Month Internal Audit Plan up to 30 September 2020
- 10 The proposed six-month Internal Audit Plan up to 30 September 2020, attached at Appendix 4, includes provision for:
 - (a) Work started in 2019/2020 which was not complete by 31 March 2020;
 - (b) Work that was approved in the 2019/2020 audit plan but has been deferred and carried forward into 2020/2021 as previously agreed;
 - (c) Planned assurance work scheduled from the 5 year strategic audit plan;
 - (d) Annual due diligence on key systems and compliance with key corporate policies;
 - (e) Service requests identified through the consultation process with senior management;
 - (f) Grant certification work;
 - (g) Corporate provision for reactive advice and consultancy work and new emerging risks, including any reactive fraud investigations and irregularities;
 - (h) Corporate provision for planning, quality assurance and reporting;
 - (i) Follow up of agreed audit recommendations.

- 11 The detailed scope of some audit reviews included in the plan are not yet finalised, however an initial outline scope of each audit has been prepared. These will be further developed as part of the planning and preparation stage of each individual assignment in accordance with the agreed audit strategy. This ensures that audit resources assigned to individual reviews are focused upon operational risks, controls and the assurance environment expected to be in place at the time reviews are actually carried out. This is particularly important due to the extent of change management across the Council.

- 12 Operational risks are those that arise directly from the core activities of delivering services and include:
 - (a) Financial Management Risks;
 - (b) Project Risks;
 - (c) Performance Management Risks;
 - (d) Partnership Risks;
 - (e) Human Resources Risks;
 - (f) IT and Information Governance Risks;
 - (g) Procurement and Contract Risks;
 - (h) Legal Risks;
 - (i) Service Specific Risks.

- 13 In evaluating the management of these risks, Internal Audit aims to help the achievement of corporate priorities and objectives by providing assurance on:
 - (a) The adequacy of risk identification, assessment and mitigation – including the adequacy and effectiveness of the strategic risk management process;
 - (b) The adequacy and application of controls to mitigate identified risk;
 - (c) The adequacy and extent of compliance with the Council's corporate governance framework;
 - (d) The extent of compliance with relevant legislation;

- (e) The extent to which the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money;
 - (f) The quality and integrity of financial and other management information utilised within the Council.
- 14 In accordance with the Internal Audit Strategy, in consultation with Heads of Service and nominated service manager or key contact, the Service will prepare an agreed Terms of Reference prior to the start of each planned audit and where applicable a Control Risk Assessment (CRA) so as to:
- (a) Inform the scope for audit;
 - (b) Identify and agree key service/system operational objectives;
 - (c) Assess and agree key risks;
 - (d) Identify and agree expected/existing key controls;
 - (e) Identify other key sources of assurance and what assurance they provide that risks are effectively managed;
 - (f) Identify key stakeholders/contacts and circulation list for report;
 - (g) Provide a mechanism for ongoing self-assessment post audit.
- 15 The Service will make all reasonable endeavours to schedule audit work within the timing preference expressed by services, but inevitably this may not always be possible due to the practicalities of scheduling work across all service groupings to match estimated audit resources available.
- 16 Given the continuous extent of the transformation and change agenda with which the Council is faced at this time, it is particularly important that the annual audit plan is flexible and allows for the service to be proactive in supporting management in the consideration of control issues relating to new or emerging risks. As such a contingency provision is also included to respond to new and emerging risks and changes to the strategic audit plan to reflect changes in service priorities and/or risks.
- 17 Service requests are actively encouraged and will be considered in relation to the risk and the type of audit work required, e.g. control design and/or compliance assurance, grant certification work, advice and consultancy etc. and whether or not the service has the necessary skills and resources to undertake the work requested.

- 18 It is always the preference for Internal Audit to be involved in any changes to systems to advise on the appropriate controls before they are implemented rather than potentially auditing a system in retrospect that then requires any improvements.
- 19 Any proposals to amend approved plans will be discussed and agreed with Corporate Directors and any significant changes will be reported to the Audit Committee for approval.

Delivery of the Internal Audit Plan up to 30 September 2020

- 20 The productive audit days required to deliver the proposed six-month audit plan has been estimated to be 910 days, which are allocated as shown in the table below.

Audit days required to complete and close audit reports relating to 2019/20	255
<u>Audit Plan to September 2020</u>	
Adult and Health Services (AHS)	83
Children and Young People Service (CYPS)	75
Neighbourhoods and Climate Change (NCC)	69
Regeneration, Economy and Growth (REG)	102
Resources (RES)	237
Durham Police and Crime Commissioner / Durham Constabulary	40
Durham and Darlington Fire & Rescue Authority	20
Pension Fund	10
Peterlee Town Council	4
Spennymoor Town Council	4
Shotton Parish Council	1
Horden Parish Council	4
Durham City Charter	6
TOTAL DAYS REQUIRED	910

- 21 Monitoring of the plan will continue during the year, through quarterly progress reporting, to provide feedback on delivery and to discuss any new or emerging risks.

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Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

All Corporate Directors and Heads of Service.

Equality and Diversity / Public Sector Equality Duty

There are no equality and diversity / public sector equality duty implications as a result of this report.

Climate Change

There are no climate change implications as a result of this report.

Human Rights

There are no human rights implications as a result of this report.

Crime and Disorder

There are no crime and disorder implications as a result of this report.

Staffing

There are no staffing implications as a result of this report.

Accommodation

There are no accommodation implications as a result of this report.

Risk

The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit Committee. Where progress has not been made, further action is agreed and overseen by the Audit Committee to ensure action is taken.

Procurement

There are no procurement implications as a result of this report.

DURHAM COUNTY COUNCIL



Internal Audit Strategy

1. Introduction

- 1.1 The Internal Audit Strategy for 2020/2021 focuses on the delivery of the assurance opinion and the Internal Audit plan to support this opinion. This strategy reflects Internal Audit's contribution to the Council's current 'Altogether' agenda and fully supports the Council's ambitions as set out in the Sustainable Community Strategy. The Internal Audit Strategy incorporates best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA) and Chartered Institute of Internal Audit (CIIA).
- 1.2 The requirement for an Internal Audit function for local authorities is within section 151 of the Local Government Act 1972 and authority has been delegated to the Corporate Director, Resources to fulfil this function. Part 2, Regulation 5 of the Accounts and Audit Regulations 2015 requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
- 1.3 The mission of the Internal Audit service is 'to enhance and protect Durham County Council's organisational values by providing risk-based and objective assurance, advice and insight'.
- 1.4 The assurance is provided through three elements:
 - Internal Control;
 - Governance and
 - Risk Management
- 1.5 The Terms of Reference of Internal Audit are contained within the Audit Charter. The measures in place to deliver these are set out below.

2. Strategy Statements

- 2.1 There are overarching strategies to support the delivery of all of our services, these include:
- 2.2 We aim to deliver work of the highest quality, to the appropriate audience and at the most appropriate time.

- 2.3 We support and promote the Council's vision, ambitions, values and objectives in all of the work Internal Audit carries out. It is our ambition to ensure that the delivery of our service is influenced by and positively contributes to these developments together with the growing need for wider ranging assurances in all aspects of the Council's operations. We will also continue to consider and review the impact of organisational change on the Council's governance, internal controls and risks.
- 2.4 We will plan, organise and control the delivery of our service in line with professional standards (Public Sector Internal Audit Standards). We work to add value through providing reliable, objective assurance and insight on the effectiveness and efficiency of governance, risk management and internal control processes. We continually aim to challenge and inspire colleagues to improve.
- 2.5 We will create and communicate high quality information about the effective operation of management's control over risks and we will use our combined experience and knowledge to provide helpful and practical insight and recommendations, we know we can be a catalyst for improving the Council's effectiveness and efficiency based on analysis and assessments of data and business processes. The internal audit team has a comprehensive set of procedures and templates that are regularly reviewed and approved to ensure a consistent approach to our work. All audit work is reviewed to ensure it is evidenced based, independent, technically compliant, risk based, timely, has impact and is practical. We employ quality controls, quality monitoring and quality reviews of our work.
- 2.6 We identify the audit resources with the appropriate skill set to deliver the audit service, which meets the required professional standards. We are committed to integrity, accountability and high levels of customer care. We provide assistance with training and continuous professional development. The Council and the Internal Audit team subscribe to a number of professional support forums. The Chief Internal Auditor and Corporate Fraud Manager is chair of the Local Authority Chief Internal Auditor Network (LACAN), is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA) Internal Audit Special Interest Group, CIPFA Audit Groups both North East and North West and the North East Heads of Internal Audit Group in order to utilise the peer support that these groups provide. We also have in place a Quality Assurance Improvement Plan (QAIP) as required by PSIAS.

2.7 We will strive to raise the profile of Internal Audit in a positive way at all times. The ways that we do this include:

- Professional advice and support to Members, Corporate Directors, Heads of Service and all employees.
- Delivery of our principal service including high quality audit reports (drafts and final) and Committee reports.
- Issuing Client Satisfaction Questionnaires for all work that we undertake whilst analysing and understanding the responses and acting on the messages conveyed to us.
- Maintaining good client relations and to this end:
 - Attend all Service Grouping management teams on at least a quarterly basis.
 - Provide time within the Internal Audit Plan for advice and consultancy with respect to internal controls for all of our clients.
 - Detailed Terms of Reference are prepared for each audit based on close liaison with clients.
 - Provide all Corporate Directors with quarterly and annual reports on the activity within their Service Groupings.
 - Provide a training module on internal control, risk management and fraud awareness currently through the 'Durham Managers' programme.

2.8 We aim to support good value for money in all that we do. Our work is designed to help in the promotion of continuous performance and internal control improvement through the issue of reports containing relevant and valued recommendations and action plans. We support effective financial management, help prevent fraud and corruption and undertake investigations where it is felt appropriate to do so. The service also participates in benchmarking to measure our performance and value for money against peer organisations.

2.9 We plan, record and monitor the time spent on all audit activities to manage our staffing resources efficiently and economically.

3. Delivery of the Service

3.1 The Chief Internal Auditor and Corporate Fraud Manager is responsible for the Internal Audit Service and delivering of the Audit Plan in accordance with the Terms of Reference detailed in the Audit Charter.

3.2 The Internal Audit Service will be delivered on the basis of a five year risk based Strategic Audit Plan which is approved annually by the Audit Committee and is based on risks identified by the Chief Internal Auditor and Corporate Fraud Manager in consultation with Service Groupings. The Chief Internal Auditor and Corporate Fraud Manager maintains a continuous review of the risks and issues affecting the Council and thus the Audit Plan using the following:

- Review of Council's priorities and objectives;
- Continuous assessment of risk identified by the strategic risk register and senior managers;
- Issues arising from changes in legislation;
- The implications of external inspection reports.

3.3 The Audit Plan must balance the needs to:

- Provide assurance on the effectiveness of internal controls operating within the Council
- Adequately review the assurance provided by key financial systems for management and the external auditor to place reliance on.
- Allow for the Internal Audit Service to offer advice and guidance on control issues to the Council's managers
- Investigate all suspected or detected frauds or irregularities.
- Provide time to allow Internal Audit to carry out appropriate unplanned work requested by managers.

3.4 The Chief Internal Auditor and Corporate Fraud Manager will assess the services resource requirements and formulate the Internal Audit Plan. The staffing structure of Internal Audit comprises a mix of professional, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the service. These resources will be met internally within the Council supplemented by appropriately qualified external resources should there be the requirement.

4. Review of the Strategy

4.1 The strategy will be reviewed annually by the Audit Committee alongside the Annual Internal Audit Plan and Internal Audit Charter.



INTERNAL AUDIT CHARTER

June 2020

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1. Introduction

- 1.1 The purpose of this Charter is to establish the terms of reference for the Durham County Council Internal Audit Service and outline how the service will be delivered and developed through its Audit Strategy. It sets out the purpose, authority and responsibility of Internal Audit.

2. Statutory Basis

- 2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (England) 2015, which state that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note (LGAN), which came into effect April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies as set out in the Accounts and Audit Regulations 2015. The PSIAS were updated on 1 April 2017 and the charter has been updated to reflect these changes.
- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include, ‘compliance with the statutory requirements for accounts and internal audit’.
- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:
- Ensure an effective internal audit function is resourced and maintained
 - Ensure that the authority has but in place effective arrangements for internal audit of the control environment
 - Support internal audit arrangements and
 - Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively
- 2.4 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.
- 2.5 As required by the PSIAS, this Charter defines the group or body determined to fulfil the roles and responsibilities of the ‘board ‘and ‘senior management’ for the purpose of internal audit activity, as referred to in the individual standards. These definitions are set out in Appendix C.

3. Definition

- 3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4. Mission

- 4.1 The mission of the Internal Audit Service is 'to enhance and protect Durham County Council's organisational values by providing risk-based and objective assurance, advice and insight'.

5. Code of Ethics

- 5.1 Internal Auditors in the UK public sector organisations must conform to the Code of Ethics (the Code) as set out in the PSIAS. The Code applies to both individuals and entities that provide internal auditing services.

- 5.2 The Code consists of 4 principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct. The 4 principles are integrity, objectivity, confidentiality and competency.

- 5.3 Internal auditors must also have regard to the Committee on Standards in Public Life, "Seven Principles of Public Life", those being:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

6. Strategic Aims

- 6.1 The overall strategy supports the Council achieve its aims and objectives through the provision of a high quality internal audit service that gives management reasonable assurance on the effectiveness of the Council's internal control environment and acts as an agent for change by making recommendations for continual improvement.

6.2 The service aims to be flexible, pragmatic and to work in collaboration with management to suit organisational needs. Through a risk based approach to audit planning, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk.

7. Objectives of Internal Audit

7.1 The service's primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Council's risk management, control and governance environment to the Corporate Management Team and the Audit Committee.

7.2 The provision of the annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit regulations 2015. The annual opinion will be included within the Council's Annual Governance Statement that forms part of the Council's published annual Statement of Accounts.

7.3 To determine the audit opinion the internal audit service will review, appraise and report upon:

- The adequacy of risk identification, assessment and mitigation
- The adequacy and application of controls to mitigate identified risk
- The adequacy and extent of compliance with the Council's corporate governance framework
- The extent of compliance with relevant legislation
- The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- The quality and integrity of financial and other management information utilised within the organisation

7.4 When presenting the annual audit opinion the Chief Internal Auditor and Corporate Fraud Manager will:

- Disclose any qualification to that opinion, together with the reasons for that qualification
- Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken to the work that was planned and summarise the performance of the internal audit service
- Present a statement on conformance with the PSIAS and the results of a Quality Assurance and Improvement Programme (QAIP) required by the PSIAS.

7.5 Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.
- Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.
- Supporting the Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council's Constitution.
- Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture across the Council, through the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and Anti-Money Laundering policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focussed and to continually add value to the organisation.

8. Outcomes of Internal Audit

8.1 The main outcome is the provision of independent assurance to "those charged with governance", which within Durham County Council is the Audit Committee, on the effectiveness or otherwise of the Council's risk management, control and governance arrangements and in so doing we contribute to:

- Improved identification and management of risks contributing to improved performance management and the successful achievement of the Council's vision and priorities.
- Improved corporate governance through helping to support compliance with relevant legislation, the Council's policies, plans and procedures.
- Improved accountability, safeguarding of Council assets and interests and use of public resources.
- Improved quality and reliability of financial and other management information used to support informed decisions.

9. Independence, Objectivity and Authority

- 9.1 To be effective Internal Audit must operate independently and in an unbiased manner and have unrestricted access to all information deemed necessary in the course of its work.
- 9.2 The Chief Internal Auditor and Corporate Fraud Manager has direct and unrestricted access to any employee or elected member including the Chief Executive, the Leader of the Council, Corporate Management Team and the Audit Committee.
- 9.3 For day to day operational activities the Chief Internal Auditor and Corporate Fraud Manager reports to the Corporate Director of Resources but maintains independence by reporting in their own name on functionality of the audit service direct to the Audit Committee.
- 9.4 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to all records, assets, elected members, personnel and premises, including those of partner organisations or external contractors conducting business on behalf of or in partnership with the Council, in order to obtain such information and explanations as it considers necessary to fulfil its responsibilities.
- 9.5 Internal Audit will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of the necessary independent and objective standards.
- 9.6 Objectivity is maintained by ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of any of activities audited.
- 9.7 Internal auditors will not be allocated to assurance reviews in areas where they have had a responsibility for, or have undertaken any significant advice and consultancy work, within the previous two years.
- 9.8 As the Chief Internal Auditor and Corporate Fraud Manager also has responsibility for corporate risk management, counter fraud and insurance services, arrangements will be made for any audit work to be carried out in these areas by a suitably experienced and qualified auditor. In these cases the Chief Internal Auditor and Corporate Fraud Manager will remove themselves from the review process of these audits and all findings and draft reports will be shared at their conclusion with both the Chief Internal Auditor and Corporate Fraud Manager and the Corporate Director, Resources in order to apply the necessary safeguards as set out in PSIAS standard 1112 where the Chief Audit Executive has roles beyond Internal Auditing.

10. Scope of Audit Work

10.1 Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.

10.2 In addition to the regular review of all key systems of internal control which forms the majority of assurance work, Internal Audit will:

- Respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
- Promote the development and effective implementation of Control and Risk Self Assessments (CRSA) as outlined within the Audit Approach Section of this Charter.
- Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
- Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of this work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over Internal Audit's independence and objectivity. Any significant advice and consultancy work that may be considered to impact on the independence of the Internal Audit Service will be reported to the Audit Committee for approval.
- Be alert in all its work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring
- Review controls where a potential fraud has been detected/reported to provide assurance that the alleged fraudulent activity is unable to continue and to prevent a reoccurrence.
- Determine the most appropriate course of action by which fraud and irregularities should be investigated in accordance with the Council's Counter Fraud and Corruption Policy.

10.3 It must be noted that whilst Internal Audit will promote the Council's Counter Fraud Policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. Internal Audit cannot guarantee that fraud or corruption will be detected in its work. Managing the risk of fraud and corruption is the responsibility of all service managers.

11. Strategic Audit Planning

- 11.1 The level of internal audit resources required to examine all of the Council's activities exceeds those available each year. It is, therefore, essential that the work of internal audit is properly planned to ensure that sufficient work is undertaken each year to draw reasonable conclusion and assurance on the effectiveness of the Council's risk management, control and governance arrangements.
- 11.2 Strategic planning processes aim to provide a reasonable level of independent review of the Council's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to the Council's objectives and risks.
- 11.3 The starting point for strategic planning is maintaining an understanding of the Council's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.
- 11.4 In consultation with service managers internal audit will
- Consider the Council's risk across two categories:
 - a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Council and should be included in Corporate and Service Strategic Risk Registers
 - b. **Operational Risks** - these are the risks that arise directly from the core activities of delivering services that may not always be documented
 - Identify key service delivery activities, and their objectives in supporting the delivery of Council's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
 - Review the Council's assurance arrangements in place to clearly map out an integrated assurance framework of all known sources of assurance, independent or otherwise, and identify any gaps and duplication
 - Assess the reliability of other assurance sources
 - Regularly carry out risk assessments of each key service activity, and key systems that support the delivery of service objectives, to determine the priorities for reviewing operational risks.

- 11.5 Strategic risk registers will inform but not drive the internal planning process and internal audit will audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.
- 11.6 Assurance on the strategic risk of fraud and corruption will be provided each year with some specific targeted fraud prevention and detection reviews as part of a risk assessed counter fraud programme of work.
- 11.7 Internal Audit will aim to review operational risks relating to key service activities and key systems within a five year rolling programme, dependent on an audit assessment of known risks and the reliability of other assurance sources. Some key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial systems, may be subject to annual review. The timing of reviews will be agreed in consultation with management wherever possible.

12. Annual Audit Plans

- 12.1 Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and operational risks to enable an annual opinion on the entire control environment to be given.
- 12.2 The preparation of the annual plan will also consider any strategic objectives of the service in relation to delivering any commitments under Service Level Agreements or undertaking certain reviews at particular frequencies to fulfil statutory requirements.
- 12.3 In addition to risk based assurance reviews, the annual audit plan will also include provision for advice and consultancy. This provision covers time set aside for reactive and proactive value added work and includes:
- Proactive, responsive and innovative solutions to problems and opportunities to help the organisation achieve its business objectives
 - Timely response to ad hoc requests for advice on the identification, assessment and mitigation of risks through effective controls
 - Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks
 - Planned involvement in new initiatives or working groups established to help identify and assess risk and design suitable controls
 - Undertaking VFM reviews.
 - Investigation of irregularities and suspected fraud and corruption
 - Grant certification work requiring independent assurance that grant terms and conditions have been met.

- 12.4 The level of audit resources required to deliver, at the very least, both a minimum level of independent assurance and adequate provision for advice and consultancy will be considered by the Chief Internal Auditor and Corporate Fraud Manager. Minimum assurance levels will be informed by the maturity of the Council's risk management arrangements and the reliance that can be placed on other assurance sources. Any concerns the Chief Internal Auditor and Corporate Fraud Manager has over the quantity and quality of skills available to deliver the required level of assurance, or to add value through its advice and consultancy work, will be referred to the Section 151 Officer (Chief Financial Officer) and the Audit Committee for consideration.
- 12.5 Strategic and annual plans will be considered by the Corporate Management Team and approved and monitored by the Audit Committee.

13. Audit Approach

- 13.1 Internal Audit will adopt a risk based approach to all assurance work as outlined below:

Strategic Risk

- 13.2 Reviews of strategic risks will provide assurance that:

- Risk management processes, defined by the Council's risk management strategy and policy, are in place and are operating as intended
- Managers are responding to risks adequately and effectively so that those risks are reduced to an acceptable level
- The controls that managers have in place are successful in managing those risks

Operational Risk

- 13.3 Reviews of key service delivery activities and key systems will provide assurance on the effectiveness of

- Compliance with corporate governance arrangements
- Risk identification, assessment and business continuity
- The control environment to manage identified risks and to ensure that the Council's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money, including
- Information governance (quality and integrity of financial and other management information and how it is used and communicated)

- 13.4 Internal Audit will adopt a risk based approach to evaluate the effectiveness of controls designed to mitigate risks through substantive testing and/or compliance testing. Compliance testing will confirm if a control actually exists and substantive testing will provide assurance that the control is effective and / or is consistently applied. The level of testing will be relative to the impact and likelihood of the risk occurring due to a control weakness.
- 13.5 Internal Audit will work with service managers to help embed effective risk management by supporting them to carry out a control and risk assessment (CRA) of operational risks for each audit area subject to review in advance of each assurance audit.
- 13.6 Internal Audit will agree the objectives and risks associated with each key system or service delivery area to be reviewed with the relevant service manager/key contact prior to the start of any audit to ensure that the scope and objectives of each review are focused on providing assurance on the high or significant risks identified through the CRA. Terms of reference will be issued to key contacts to formally agree the scope of each review, identified keys risks, potential impact and expected key controls.
- 13.7 The key contact is the person who is authorised by the head of service to agree resultant draft reports and the implementation of any proposed audit recommendations.
- 13.8 Terms of Reference will confirm the scope of each review and the audit approach to be applied. The latter may vary due to the nature of the risk upon which assurance is required and the extent of reliance on other assurances sources.

14. Audit Reporting

- 14.1 All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.
- 14.2 The reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.
- 14.3 Towards the end of an audit an exit meeting with the key contact will be arranged to share and discuss initial audit findings. If this is not practical, an informal draft report will be issued to the key contact which will set out initial findings.
- 14.4 The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in audit findings so that these can be resolved before a formal draft report is issued.
- 14.5 Draft reports will ask the key contact to provide a management response to the recommendations made and agree target implementation dates and responsible officers.

- 14.6 To assist managers in their response, the importance of findings/recommendations are categorised as High, Medium or Best Practice. Details of how the importance of audit findings is assessed leading to these recommendation rankings are given in Appendix A.
- 14.7 It is the responsibility of managers to address audit findings and implement audit recommendations or other agreed appropriate action, or accept the risk resulting from not taking action.
- 14.8 An overall opinion will be provided on each assurance audit review to help inform the overall opinion required to support the Council's Annual Governance Statement.
- 14.9 The determination of the audit assurance opinion is derived from the overall level of assurance on the effectiveness of controls operating in each specific area reviewed and is informed by the risk identified through recommendation rankings. Where a Limited Assurance opinion is given the control framework in place is considered to be ineffective and requires improvement to maintain an acceptable level of control. Further details of how assurance opinions are derived are given in Appendix A.
- 14.10 Management responses to recommendations made in draft reports will be incorporated into audit reports that will then be reissued as finals. Copies of all final reports are shared with the Council's External Auditor on request.
- 14.11 The CRA will be updated with any further expected controls identified through the audit process and details of actual controls in place, and issued to key contacts as part of the reporting process. If controls are considered to be inadequate, recommended action to improve controls will also be entered to provide services managers with a form of operational risk register that, in the absence of a more formal approach to operational risk management, can then be used by service managers to regularly review identified risks and the control framework put in place to mitigate those risks, i.e. provide a basis for regular Control Risk Self-Assessment (CRSA). It is recommended that the CRSA is reviewed by service managers at least annually.
- 14.12 Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation.
- 14.13 Internal Audit will follow-up progress made by managers in responding to draft reports and on the implementation of all high and medium priority recommendations agreed in final reports.

- 14.14 Progress on the response to draft reports issued and the implementation of agreed recommendations will be reported to Audit Committee. Any significant recommendations overdue will be reported to Committee on an exception basis each quarter. In accordance with the Committee's request, where any significant recommendations remain overdue the following quarter the responsible manager will be asked to attend Audit Committee to provide an explanation for the delay.
- 14.15 Management is required to provide a response to draft reports issued within 20 working days. If a response has not been received within this timescale the following escalation process will then be invoked:
- A reminder will be sent to the key contact, and copied into the relevant head of service, requesting a response within the next 10 days
 - If a response is still not forthcoming, a second reminder will be issued direct to the head of service, advising that if a response is not received within the next 5 days the matter will be reported to the relevant Corporate Director
 - All draft reports remaining outstanding at the end of each quarter will be reported to the Audit Committee.
- 14.16 Audit and Fraud Managers will report quarterly to Service Grouping Management Teams on progress made on delivering the agreed annual plan, unplanned work carried out and any proposed amendments to the plan, overdue responses to draft reports, any significant issues arising from audit work and progress made by managers in implementing audit recommendations.
- 14.17 To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits resulting in a limited assurance opinion.
- 14.18 Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within six months of issue to verify that the recommendations have been made in line with the agreed actions. A revised assurance opinion will then be given.

14.19 In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit Committee by:

Reporting a draft annual risk based audit plan for approval

Presenting Quarterly Internal Audit Progress reports:

- To consider progress made in delivering the agreed annual plan
- To inform Members of significant issues arising from audit assurance work and the impact this may have if control weaknesses identified are not addressed
- To inform Members of other audit work carried out or planned
- To consider progress made by managers in the implementation of audit recommendations drawing attention to significant risks not being effectively managed

Presenting an Annual Audit Report to:

- Compare actual activity with planned work and performance targets
- Provide an overall opinion on the control environment
- Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- Demonstrate the extent of compliance with the PSIAS and the results of the Quality Assurance and Improvement Programme, including internal and any external assessments carried out.
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

15. Responsibilities of Managers

15.1 Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.

15.2 Internal Audit will strive to build effective working relationships with all stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.

15.3 A key relationship is with managers across the organisations. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.

- 15.4 Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that employees are aware of the processes and procedures required to operate the control systems in place.
- 15.5 It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- 15.6 Internal Audit will endeavour to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- 15.7 Managers are encouraged to maximise the effectiveness of the outcome of internal audit work by:
- Commenting on, and inputting to, strategic and annual audit plans.
 - Working with audit staff in the development of a control and risk assessment (CRA) for the service activity or system as part of the preparation and planning stage of each assurance review.
 - Agreeing terms of reference, informed by the CRA where applicable, for each audit assignment to ensure attention is focused on areas of greatest risk or concern.
 - Giving information and explanations that are sought during audit reviews.
 - Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
 - Giving early notification of plans for change, including potential new initiatives, operational systems and processes.
 - Ensuring key contacts provide responses to draft audit reports within the required timescales.
 - Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
 - Notifying internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources.
 - Pending investigation and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
 - Acting in line with the Council's disciplinary procedures.

16. Relationship with the Audit Committee

- 16.1 The Council has adopted best practice in implementing an Audit Committee. This committee is independent of both the Executive and Scrutiny function, and reports directly to the Council on matters it feels are relevant. Terms of Reference, reflecting best practice, have been agreed.
- 16.2 The existence of an independent and effective Audit Committee helps to convey to employees and the public the importance Members and Officers attach to risk management, corporate governance and internal control.
- 16.3 The Audit Committee is not just the concern of auditors as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's priorities, aims and objectives and ensure excellent use of resources.
- 16.4 Internal Audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Council's risk management and corporate governance arrangements.
- 16.5 It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit Committee is to review the functionality and effectiveness of Internal Audit.

17. Audit Resources, Skills and Service Quality

- 17.1 In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.
- 17.2 The service is required to operate in compliance with both the PSIAS and the LGAN. Policies and standard working practices have been put in place to ensure all audit staff understand and comply with the PSIAS/LGAN.
- 17.3 An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a quality assurance and improvement programme.
- 17.4 A quality assurance framework, detailing the policies, procedures and working practices under which the service operates has been defined and documented in an Audit Manual.

- 17.5 The Chief Internal Auditor and Corporate Fraud Manager is responsible for providing periodically a self-assessment on the effectiveness of the internal audit service and compliance with agreed procedures to ensure professional standards are maintained. Any areas of non-compliance with the standards and or the LGAN will be reported as part of the Annual Audit Report to Corporate Management Team and the Audit Committee.
- 17.6 In accordance with the PSIAS, an external assessment will be carried out at least every five years. The results of this external assessment will also be reported to the Corporate Management Team and the Audit Committee.
- 17.7 The service is provided by Durham County Council's in house internal audit team, supported in specialist areas as and when considered necessary by a third party partner. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.
- 17.8 The Chief Internal Auditor and Corporate Fraud Manager ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff. Any concerns that the Chief Internal Auditor and Corporate Fraud Manager has regarding resources available to deliver the service in accordance with the PSIAS will be reported to the Corporate Director, Resources and the Audit Committee.
- 17.9 Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme and supplemented by regular audit skills assessments and post audit reviews. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development to all staff.
- 17.10 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network (FAN), County Chief Internal Auditor Network, the Institute of Internal Auditors and through regular liaison with external audit.
- 17.11 The service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.
- 17.12 In this regard the service considers trends and emerging issues that could impact the organisation.
- 17.13 A suite of performance indicators (PIs) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PIs and targets will be reviewed annually.

17.14 In accordance with the requirements of the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the internal audit service is undertaken by the Audit Committee. This will be informed by a review of the service carried out by the Corporate Director Resources and from consideration of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAS. By reviewing the service the Audit Committee is able to gain assurance that the service maintains its independence and objectivity, that it is effective and conforms to the expected professional quality standards so that it can place reliance on its work and the annual audit opinion.

17.15 The outcome from the annual effectiveness review is reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.

18. Approval and Review

18.1 The Chief Internal Auditor and Corporate Fraud Manager will review this Charter annually to ensure that it is kept up to date and fit for purpose. The Charter is endorsed by the Corporate Management Team and approved by the Audit Committee. Any amendments will be reported to the Audit Committee for approval. A copy of the Charter will be made available on the Council's intranet.

19. Key Contact

Name:

Tel:

Mobile:

Email:

Address

20. Other Related Documents

Other related documents that should be read in conjunction with this Charter are:

- Public Sector Internal Audit Standards
- CIPFA's Local Government Application Note
- The Council's Risk Management Strategy
- The Council's Constitution – Financial Procedure Rules
- The Council's Constitution – Local Code of Corporate Governance
- The Council's Constitution – Codes of Conduct
- The Council's Counter Fraud and Corruption Strategy and Fraud Response Plan
- The Council's Confidential Reporting Code (Whistle Blowing Policy)

ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS

APPENDIX A

Findings

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

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

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

Overall Finding Rating

This grid is used to determine the overall finding rating.

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

Priority of recommendations

The definition of the priority of recommendations arising from each overall finding as follows;

High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment.

Overall Assurance Opinion

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

Substantial Assurance	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

PERFORMANCE INDICATORS

APPENDIX B

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Efficiency		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 st March.	90% (Monthly)
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview Average time taken is also reported for information	100% (Monthly)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response Average time taken is also reported for information	100% (Monthly)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)
Quality		
KPI	Measure of Assessment	Target & (Frequency of Measurement)
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Monthly)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)

Public Sector Internal Audit Standards

Definition of the terms 'Board' and 'Senior Management' for the purpose of Internal Audit Activity

Standard		Reference to board or senior management	Proposed body/group to fulfil role	
Ref	Title		Senior Management	Board
1000	Purpose, authority and responsibility	Senior Management and the board must approve the Internal Audit Charter	Corporate Management Team (CMT)	The Audit Committee
1110	Organisational Independence	<p>The Chief Audit Executive (CAE) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The CAE must confirm to the board at least annually the organisational independence of the Internal Audit activity.</p> <p>The CAE must report functionality to the board. The CAE must also establish effective communication with, and have free and unfettered access to the Chief Executive and the Chair of the Audit Committee.</p> <p>Functionality includes:</p> <ul style="list-style-type: none"> • Approving the Internal Audit Charter • Approving the Risk Based Internal Audit Plan • *Approving the internal audit budget and resource plan 		<p>The Audit Committee</p> <p>The Audit Committee with the exception of those functions marked with an* which are the responsibility of the Corporate Director, Resources who has delegated authority from Council to maintain an effective internal service.</p> <p>Note</p>

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		<ul style="list-style-type: none"> • Receiving communications for the CAE on the internal audit activity's performance relative to its plan and other matters • *Approving decisions regarding the appointment and removal of the CAE • *Approving the remuneration of the CAE and • Making appropriate enquiries of management and the CAE to determine whether there are inappropriate enquires of management and CAE to determine whether there are inappropriate scope or resources limitations 		<p>The public sector interpretation with the PSIAS acknowledges that in the UK public sector the board would not generally approve the CAE's remuneration.</p> <p><i>"The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee "</i></p>
1130. C2	Impairment to Independence or Objectivity	Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement		The Audit Committee
1312	Quality Assurance and Improvement Programme (QAIP)	External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team form outside the organisation. The CAE must discuss with the board :		The Audit Committee
		<ul style="list-style-type: none"> • The form of external assessments 		

DEFINITIONS UNDER PSIAS

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		<ul style="list-style-type: none"> The qualifications and independence of the external assessor or assessment, including any potential conflict of interests <p>NB The Public Sector requirement of this standard states,</p> <p>“The CAE must agree the scope of external assessments with an appropriate sponsor e.g. the Accounting/Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team”</p>		
1320	Reporting the results of QAIP	The CAE must communicate the results of the quality assurance and improvement programme to senior management and the board .	CMT	The Audit Committee
1322	Disclosure of Non - Conformance	Instances of non-conformance with the definition of Internal Auditing , the Code of Ethics or the standards impacts the overall scope or operation of the Internal Audit Activity, must be reported to the board by the CAE. More significant deviations must be considered for inclusion in the annual governance statement		The Audit Committee

DEFINITIONS UNDER PSIAS

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2020	Communications and Approval	<p>The CAE must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.</p> <p>Where the CAE believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.</p>	CMT	The Audit Committee
2060	Reporting to Senior Management and the Board	The CAE must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must include significant risk exposures and control issues, including fraud risks governance issues and other matters needed or requested by senior management and the board.	CMT	The Audit Committee
2600	Communicating the Acceptance of Risk	When the CAE concludes that management has accepted a low level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with senior management . If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board .	CMT	The Audit Committee

NB. The role of Chief Audit Executive referred to in the Standards is that undertaken by the Chief Internal Auditor and Corporate Fraud Manager.

DURHAM COUNTY COUNCIL - 6 MONTH INTERNAL AUDIT PLAN 2020 / 2021

Service Grouping	Audit Activity	Audit Type	Days
Adult and Health Services	Post Contract Arrangements	Assurance	15.0
Adult and Health Services	Direct Payments	Assurance	15.0
Adult and Health Services	Integration of Health and Care in County Durham	Advice and Consultancy	2.0
Adult and Health Services	Continuing Health Care	Assurance	20.0
Adult and Health Services	Section 117 Process	Assurance	10.0
Adult and Health Services	Adaptations - Funded through Disabled Facilities Grant (DFG)	Assurance	10.0
Adult and Health Services	Care Academy Governance	Advice & Consultancy	5.0
Adult and Health Services	Pharmoutcomes - Data Matching	Advice & Consultancy	6.0
Adult and Health Services	Commissioning of Learning Disability Services	Assurance	1.0
Adult and Health Services	Direct Payments - Review of Audit Risk Tool and E Wallet Arrangements	Advice & Consultancy	2.0
Chief Executive	Policy on Advertising and Sponsorship	Advice & Consultancy	3.0
Children and Young People's Services	Troubled Families Programme	Grant Certification	5.0
Children and Young People's Services	Adoption Payments	Assurance	15.0
Children and Young People's Services	Special Guardianship and Child Arrangement Orders	Assurance	10.0
Children and Young People's Services	Placement Resource Panel (PRP) Arrangements	Advice & Consultancy	5.0
Children and Young People's Services	Placement Resource Panel (PRP) Arrangements	Assurance	10.0
Children and Young People's Services	Academy Transfer Arrangements	Assurance	10.0
Children and Young People's Services	In & Out of County Placements	Assurance	10.0
Children and Young People's Services	Home to School Transport	Advice & Consultancy	10.0
Children and Young People's Services	Independent Fostering Services	Assurance	10.0
Children and Young People's Services	Caldicott Compliance	Assurance	1.0
Children and Young People's Services	Arrangements for the allocation of Pupil Premium Funding and its application in schools	Assurance	15.0
Neighbourhoods and Climate Change	Local Transport Capital Block Funding for NECA	Grant Certification	4.0
Neighbourhoods and Climate Change	COVID-19 Area Budgets	Assurance	10.0
Neighbourhoods and Climate Change	Pest Control	Assurance	10.0
Neighbourhoods and Climate Change	Fees and Charges	Assurance	10.0
Neighbourhoods and Climate Change	Civil Penalties	Assurance	10.0
Neighbourhoods and Climate Change	Plant Returns	Assurance	10.0
Neighbourhoods and Climate Change	Trade Waste	Assurance	15.0
Neighbourhoods and Climate Change	InnovateUK	Grant Certification	2.0
Neighbourhoods and Climate Change	Community Grants Sample	Assurance	1.0
Neighbourhoods and Climate Change	Fuel Stocks and Stores	Assurance	5.0
Neighbourhoods and Climate Change	Highway Maintenance Capital Programme	Advice & Consultancy	1.0
Regeneration, Economy and Growth	Bishop Auckland Heritage Action Zone	Grant Certification	2.0
Regeneration, Economy and Growth	Disabled Facilities Grant	Grant Certification	6.0

Service Grouping	Audit Activity	Audit Type	Days
Regeneration, Economy and Growth	Rebus (Claim 1)	Grant Certification	5.0
Regeneration, Economy and Growth	Local Transport Capital Block Funding	Grant Certification	3.0
Regeneration, Economy and Growth	Bus Subsidy Ring Fenced Grant	Grant Certification	5.0
Regeneration, Economy and Growth	Stephanie (Claim 1)	Grant Certification	5.0
Regeneration, Economy and Growth	Atlantic Geoparks (Claim 1)	Grant Certification	5.0
Regeneration, Economy and Growth	Carbon Connects (Claim 1)	Grant Certification	5.0
Regeneration, Economy and Growth	SMEPower (Claim 1)	Grant Certification	5.0
Regeneration, Economy and Growth	Local Growth Fund - Durham City Incubator (Salvus House)	Grant Certification	5.0
Regeneration, Economy and Growth	Section 106	Assurance	10.0
Regeneration, Economy and Growth	Property Reuse Loans	Advice & Consultancy	7.0
Regeneration, Economy and Growth	Asset Valuation - Pre Valuation Data Quality Checks	Assurance	7.5
Regeneration, Economy and Growth	County Durham Growth Fund	Assurance	5.0
Regeneration, Economy and Growth	Competition Line UK Income Share Agreement	Assurance	7.0
Regeneration, Economy and Growth	On Street and Off Street Parking	Assurance	10.0
Regeneration, Economy and Growth	Utility Bills - Contract Management	Assurance	10.0
Regeneration, Economy and Growth	North Pennines AONB Partnership - Atlantic Geoparks 1	Grant Certification	2.0
Regeneration, Economy and Growth	Management of Gym Memberships	Advice & Consultancy	2.0
Regeneration, Economy and Growth	Accommodation - Contract Management	Assurance	10.0
Regeneration, Economy and Growth	Assets of Community Value	Advice & Consultancy	2.0
Resources	COVID-19 Council Tax Reduction Hardship Scheme	Assurance	10.0
Resources	COVID-19 Small Business Rates Relief	Assurance	10.0
Resources	COVID-19 Business Rates 5% discretionary scheme	Advice and Consultancy	5.0
Resources	Police and Crime Panel Grant	Grant Certification	2.0
Resources	Local Transport Revenue Block Funding (Blue Badge New Criteria Implementation)	Grant Certification	3.0
Resources	COVID-19 Retail, Hospitality and Leisure Grant Fund	Assurance	10.0
Resources	Revenues & Benefits Reconciliations	Assurance	10.0
Resources	Procurement Cards - Projects	Assurance	10.0
Resources	Creditors - Supplier Masterfile	Assurance	15.0
Resources	Creditors - Processing of Payments through Azeus	Assurance	10.0
Resources	COVID-19 Expenditure Analysis	Assurance	10.0
Resources	Cash Management	Assurance	10.0
Resources	Short Term Investments	Key System	10.0
Resources	Bank Reconciliation	Key System	5.0
Resources	Journal Transfers	Key System	5.0
Resources	MTFP Arrangements	Assurance	10.0
Resources	Leases	Assurance	15.0
Resources	Finance Durham	Assurance	10.0
Resources	Recruitment and Selection: Identification Verification	Assurance	10.0
Resources	Fee Recovery	Advice and Consultancy	10.0

Service Grouping	Audit Activity	Audit Type	Days
Resources	COVID-19 Procurement Analysis	Assurance	10.0
Resources	Section 256 agreements	Grant Certification	10.0
Resources	Better Care Fund and Improved BCF	Grant Certification	5.0
Resources	Backup Procedures	Assurance	10.0
Resources	Software Licence Compliance	Assurance	10.0
Resources	Digital Durham	Grant Certification	2.0
Resources	IT Asset Management	Assurance	10.0
Resources	Welfare Rights	Follow Up	3.0
Resources	Capital Accounting	Assurance	8.5
Resources	Creditor Payments	Assurance	0.5
Resources	Creditor Payments - Extended Testing (Exceptions)	Assurance	10.0
Resources	Creditor Payments - Extended Testing (Manually scanned invoices paid late)	Assurance	10.0
Resources	Creditor Payments - Extended Testing (Holds cleared but invoices not paid)	Assurance	10.0
Resources	Creditor Payments - Extended Testing (Unpaid invoices more than 30 days old)	Assurance	10.0
Resources	Creditors - Receipting of goods	Assurance	2.0
Resources	Payroll: Access to Data - Records	Assurance	2.0
Resources	Payroll - Mileage Expenses	Advice & Consultancy	1.0
Resources	Pension Fund: Benefit Calculations	Assurance	1.0
Resources	Debtors	Assurance	0.5
Resources	Debtors - Extended Testing (Credit Notes)	Assurance	25.0
Resources	Debtors - Extended Testing (Write Offs)	Assurance	15.0
Resources	Debtors - Extended Testing (VAT Analysis)	Assurance	15.0
Resources	Debtors - Extended Testing (Outstanding Balances)	Assurance	10.0
Resources	Cash Management	Assurance	0.5
Resources	Cash Management - Crook CAP	Assurance	4.0
Resources	Cash Management - Bishop Auckland Registrars	Assurance	1.0
Resources	Budgetary Control and Financial Reporting	Assurance	2.0
Resources	Review of Commercial Services	Assurance	7.0
Resources	Fuel Cards	Assurance	5.0
Resources	GDPR Compliance - Data Breaches	Assurance	1.0
Resources	Agency System	Assurance	2.0
Resources	Disciplinary Policy	Assurance	2.0
Resources	Contract Management	Assurance	5.0
Resources	Freedom of Information	Assurance	5.0
Resources	Deputy and Appointee Team - Compliance with Office of Public Guardianship Standards	Assurance	2.0
Resources	Scheme of Delegation	Assurance	10.0
Resources	Vulnerability Management	Assurance	2.0
Resources	ICT Purchasing	Assurance	7.0
Resources	IT Governance	Assurance	4.0

Service Grouping	Audit Activity	Audit Type	Days
Pension Fund	Pension Fund: Bank Reconciliation	Assurance	5.0
Pension Fund	Pension Fund: Payroll Review	Assurance	5.0
Pension Fund	Contributions	Assurance	11.0
Pension Fund	Governance Arrangements	Assurance	4.0
Durham and Darlington Fire and Rescue Service	All activities	Assurance	20.0
Horden Parish Council	Annual Report / Review Preparation	Assurance	4.0
Durham City Charter	Durham City Charter - Review of Accounts	Assurance	6.0
Peterlee Town Council	Annual Report / Review Preparation	Assurance	4.0
Durham Police and Crime Commissioner / Constabulary	All activities	Assurance	40.0
Shotton Parish Council	Annual Report / Review Preparation	Assurance	1.0
Spennymoor Town Council	Annual Report / Review Preparation	Assurance	4.0

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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