



## **Audit Committee**

**Date**      **Friday 30 June 2023**

**Time**      **9.30 am**

**Venue**     **Committee Room 2, County Hall, Durham**

---

### **Business**

#### **Part A**

#### **Items which are open to the Public and Press**

1. Apologies for absence
2. Minutes of the meeting held on 23 May 2023 (Pages 3 - 8)
3. Declarations of interest, if any
4. Annual Review of the System of Internal Audit 2022/23 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 9 - 22)
5. Annual Internal Audit Opinion and Internal Audit Report 2022/23 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 23 - 52)
6. Protecting the Public Purse Annual Report 2022/23 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 53 - 82)
7. Draft Annual Governance Statement 2022/23 - Report of the Corporate Director of Resources (Pages 83 - 126)
8. Draft Statement of Accounts for the year ended 31 March 2023 - Report of the Corporate Director of Resources (Pages 127 - 394)
9. Compliance with CIPFA Financial Management Code - Report of the Corporate Director of Resources (Pages 395 - 430)

10. Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023 - Report of the Corporate Director of Resources (Pages 431 - 444)
11. Compliance with International Auditing Standards - Report of the Chair of the Audit Committee (Pages 445 - 458)
12. Such other business as in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
13. 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)**

14. Protecting the Public Purse - Annual Report 2022/23 - Report of the Chief Internal Auditor and Corporate Fraud Manager (Pages 459 - 464)
15. 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  
22 June 2023

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

Councillor A Watson (Chair)  
Councillor L Fenwick (Vice-Chair)

Councillors A Hanson, P Heaviside, A Jackson, B Kellett,  
D Oliver, R Ormerod and T Smith

**Co-opted Members:**

Mr C Robinson and Mr I Rudd

---

**Contact: Jo March**

**Tel: 03000 269709**

---

## DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in **Committee Room 1A , County Hall, Durham** on **Tuesday 23 May 2023 at 9.30 am**

### **Present:**

**Councillor A Watson (Chair)**

### **Members of the Committee:**

Councillors L Fenwick (Vice-Chair), P Heaviside, M Johnson, B Kellett, R Ormerod and T Smith

### **Co-opted Members:**

Mr C Robinson and Mr I Rudd

### **Also Present:**

Councillor D Oliver

### **1 Apologies for absence**

An apology for absence was received from Councillor Mike McGaun.

### **2 Minutes**

The minutes of the meeting held on 28 February 2023 were agreed as a correct record and signed by the Chair.

### **3 Declarations of interest**

There were no declarations of interest.

### **4 Health, Safety and Wellbeing Performance Report Quarter 4 2022/2023**

The Committee considered a report of the Corporate Director of Regeneration Economy and Growth which provided an update on the Council's Health, Safety and Wellbeing (HSW) performance for Quarter four 2022/23 (for copy see file of minutes).

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

- Quarter 4 incidents in numbers;
- Audits and Inspections;
- Fire Incidents and Inspections;
- Occupational Health Service;
- Employee Health and Wellbeing
- Open Water Safety;
- Potentially Violent Persons Register;
- Corporate Risks that may impact on Health and Safety.

In response to a query from Mr I Rudd regarding statutory health surveillance, the Corporate Health and Safety Manager advised that health surveillance was dictated by legislation and was statutory to provide health assessments with clinical nurses in Occupation Health. He added that employees were required to attend appointments within a specific time frame set by legislation if there were work related risks and advised that chase up procedures were in place and the information was retained on employee records.

Mr C Robinson referred to the corporate risks that may have an impact on Health and Safety and asked if there were specific actions required that was related to the Health and Safety element within individual risks. The Principal Risk and Governance Officer explained the treatment options and following clarification, the Head of Corporate Finance and Commercial Services suggested that targeted focus on risks that were specifically related to the Health and Safety function be reported in future Health, Safety and Wellbeing Performance updates.

**Resolved:**

That the report be agreed.

**5 Annual Governance Statement for the year ending 31 March 2022: Actions Update**

The Committee received a report from the Corporate Director of Resources which provided an update on the progress being made in relation to the actions arising from the Council's Annual Governance Statement (AGS) for the year ended 31 March 2022, building on the update that was provided to Audit Committee on 28 November 2022 (for copy see file of minutes).

**Resolved:**

That the report be noted.

**6 Auditor's Annual Report - year ending 31 March 2022**

The Committee received a report from the External Auditor which summarised the work undertaken for the year ended 31 March 2022 (for copy see file of minutes).

Mr C Waddell, Mazars confirmed that the external audit opinion was completed in March 2023. It was noted that no significant weaknesses were identified in the council's arrangements.

Referring to the wider reporting responsibilities, Mr C Waddell advised that the assurance statement was submitted to the National Audit Office (NAO) in April 2023. The Audit instruction had not yet been issued by the NAO, however Durham County Council had been identified as a sample component and the audit certificate would be issued when that work had been completed.

It was noted that additional work had been undertaken in relation to Housing Benefit and Teachers Pension assurance and additional fees had been agreed previously in relation to extra work around Value for Money and Infrastructure Assets.

**Resolved:**

That the report be noted.

**7 Internal Audit Progress Update Report - Period ended 31 March 2023**

The Committee received a report from the Corporate Director of Resources which provided an update on the work that had been carried out by Internal Audit during the period 1 April 2022 to 31 March 2023, as part of the Internal Audit Plan for 2022/23 (for copy see file of minutes).

**Resolved:**

That the report be noted.

**8 Internal Audit Strategy, Charter and Plan 2023/24**

The Committee considered a report from the Chief Internal Auditor and Corporate Fraud Manager which provided the Internal Audit Strategy, Charter and Plan for the period 1 April 2023 to 31 March 2024 for approval (for copy see file of minutes).

Mr I Rudd referred to the schedule of activities and suggested that it would be useful to show comparative figures on days allocated to each activity from previous years in future reports. He asked if there were any particular changes or topics of focus for next year. The Chief Internal Auditor and Corporate Fraud Manager advised that previous audit provision to Town and Parish Councils had discontinued from 31 March 2023 and there were emerging areas around Social Care and Home to School Transport with detail discussed with service areas which was reported to the Audit Committee in February 2023.

Responding to a query from Councillor R Ormerod regarding the national auditor shortage and whether there were additional increases in costs, the Head of Corporate Finance and Commercial Services advised that the Internal Audit function now had a full complement of staff and the apprenticeship scheme continues to provide our own auditors instead of going outside the organisation. Discussions were also taking place for the audit and accountancy function to work closer together which would help support the audit function in the future. The Chief Internal Auditor and Corporate Fraud Manager added that she had considered offering market supplements due to the difficulty in recruitment earlier in the year, however that would have impacted the budget and additional cost implications. The audit apprentice had successfully been appointed to the new audit assistants post and two new audit apprentices were currently advertised to start in September 2023 with no impact on the allocated staffing budget.

Regarding a question on the audit scope post Covid from Mr C Robinson, the Chief Internal Auditor and Corporate Fraud Manager advised that the team already worked agile pre Covid and the service did not experience the same level of disruption as other services. In relation to the audit scope, there was additional work around Covid grant investigations and extra resources had been allocated to catch up with the delivery of the school audit programme. The Head of Corporate Finance and Commercial Services added that during Covid, focus was very different with allocated funds to local authorities to help manage recovery and advised that business was back to normal. He referred to agile working and was unsure whether that would produce different risks in the future in terms of fraud work which would continue to be monitored.

**Resolved:**

- (i) That the Internal Audit Strategy be approved;
- (ii) That the Internal Audit Charter be approved;
- (iii) That the Internal Audit Plan for the period 1 April 2023 to 31 March 2024 be approved.

## **9 Transformation Update and Approach to Value for Money**

The Committee were provided with a presentation from the Head of Corporate Affairs that detailed the council's approach to planning, performance, delivering major projects and change to help secure Value for Money (for copy of slides, see file of minutes).

The Head of Corporate Affairs gave the presentation and highlighted the following areas:-

- Transformation background and interlinking elements;
- Progress against original programme and benefits delivered;

- Current Approach to Strategic Planning and Value for Money;
- Council Plan Objectives and Major Strategies;
- Performance Framework;
- Workforce Transformation – Projects, Priorities and Initiatives;
- Major Projects Assurance;
- Business Intelligence.

Mr C Robinson thanked the Head of Corporate Affairs for the detailed presentation, and the strategic core summary that showed the work across the whole authority. He added that it was good to see a focus on the delivery of ongoing service and Value for Money monitoring which provided assurance in conjunction with the external audit opinion.

Responding to a query from the Chair regarding savings, the Head of Corporate Affairs advised that resource management was transactional in nature and when better managed in conjunction with self-service systems, the use of technology and a more modern approach had helped to achieve savings. The Head of Corporate Finance and Commercial Services added that Business Support was the last function during austerity to be unitised and bring people together to offer a more effective and efficient service across a range of services. It was noted that Section 106 funds and infrastructure requirements were considered by a Member Working Group and funds transferred to the capital programme which was monitored through the capital programme monitoring arrangements.

Regarding a query on the implementation of the Business Intelligence System, the Head of Corporate Affairs advised that they were working in partnership to build the infrastructure and IT servers that would gradually migrate data to the new systems and a dashboard for Managers was currently being developed. It was noted that implementation of all the systems would take several years and those providing the larger return on investment would be prioritised. The Head of Corporate Finance and Commercial Services added that they would be working together to reposition the financial systems so that financial data, HR systems and performance data were available on the same dashboards.

**Resolved:**

That the presentation be noted.

**10 Exclusion of the Public**

**Resolved:**

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

## **11 Internal Audit Progress Report - Period Ended 31 March 2023**

The Committee received a report of the Corporate Director of Resources which presented the appendices referenced in the Internal Audit progress report in Part A of the agenda (for copy see file of minutes).

**Resolved:**

That Appendix 6 of the report be noted.



**Audit Committee**

30 June 2023

**Annual Review of the System of Internal Audit 2022/2023****Report of Paul Darby, Corporate Director of Resources****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 This report sets out the outcome of the annual review of the effectiveness of the internal audit service. In undertaking the review, a number of key elements were assessed in order to inform a judgement over whether the service is fulfilling its responsibilities. This included:
  - (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 Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2022/23 which demonstrated that the service was **conforming** with the requirements.
- 5 It is a requirement for the service to be externally assessed once every five years. The last external assessment, carried out by the Chartered Institute of Public and Finance and Accountancy (CIPFA), in February 2022, concluded that 'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY

CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note’.

- 6 Further to the onset of the COVID-19 pandemic in March 2020, in conjunction with staffing recruitment and retention challenges, it was considered unrealistic at the start of the Internal Audit Year for a detailed 12-month Internal Audit Plan to be compiled due to the need to direct available resources to continue to deliver outstanding client reviews to support the annual assurance opinions for the Internal Audit Year 2021/22, along with continuing to provide assurance work relating to COVID related payments.
- 7 Therefore, an emergent Internal Audit Plan for the period from April 2022 to March 2023 which consisted of an initial six-month plan for the period 01 April 2022 to 30 September 2022 and an indicative plan for the second six-month period, from 01 October 2022 to 31 March 2023 was provided to the Audit Committee in February 2023. It is considered that the 2022/23 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.
- 8 The plan was based on reasonable estimates of available resources and incorporated management requests and referrals, and it was acknowledged that the Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. The final Internal Audit Plan for 2022/23 was presented to Audit Committee for review and approval on 01 July 2022 and was reassessed in September 2022 to take account of current working arrangements, government legislation and available staffing resources.
- 9 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.
- 10 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. Performance is monitored throughout the year and although the number of productive days available during the year was below the profiled target, this was a result of ongoing recruitment and retention issues which resulted in only 88% of the planned staffing level being in post through the year. In addition to this, there has also been a long-term sickness absence within the service.

- 11 As a result of the challenges facing the service, it was necessary to reprioritise activities to be delivered within the 2022/23 plan, though importantly this did not require the Chief Internal Auditor and Corporate Fraud Manager to provide any formal Limitation on the Opinion to be provided.
- 12 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.
- 13 The service has delivered a reasonable plan of work 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**

- 14 Members are asked to:
  - (a) Note the findings and conclusions of the 2022/23 review of the effectiveness of the system of Internal Audit contained within this report.

## Background

- 15 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.’*
- 16 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’.*
- 17 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.
- 18 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

- 19 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 areas 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.

- 20 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.
- 21 At the start of 2022/23, the team comprised of 17 approved posts (15.35FTE) as well as the Interim Chief Internal Auditor and Corporate Fraud Manager and one apprentice post. This team delivered work for the Council as well as work for a range of external clients including the Pension Fund, Durham Constabulary, County Durham and Darlington Fire and Rescue Authority, New College Durham, Durham and Mountsett Crematoria, Peterlee Town Council, Spennymoor Town Council, Great Aycliffe Town Council, Horden Parish Council, Shotton Parish Council, Monk Hesleden Parish Council and Trimdon Parish Council.
- 22 During the year, three employees retired from the service; namely, one Audit Manager, one Principal Auditor and a part time Senior Auditor. In addition, two full time Senior Auditors left the employment of the council for promotion opportunities available at other neighbouring local authorities.
- 23 A replacement Audit Manager commenced employment in May 2023 and one part time Senior Auditor agreed to continue to work additional hours during 2022/23 to support the delivery of the Internal Audit Plan.
- 24 Following various recruitment campaigns taking place throughout the year, one Senior Auditor commenced employment in April 2022 and another Senior Auditor joined the service in November 2022. At the end of the 2022/23 Audit Year, one Senior Auditor post remained vacant on the staffing establishment and had been re-advertised due to the candidate who was previously selected for the post not taking up the appointment.
- 25 The service has continued to face staffing and operational challenges throughout the year and following the above recruitments taking place, a change to the establishment structure took place during quarter three of the Audit Year, which resulted in one Principal Auditor post and 1.5 Senior Auditor posts being removed from the establishment. These posts were replaced with one Graduate Trainee ICT Auditor post and two Audit Assistant posts and all the new postholders commenced employment after the end of the 2022/23 Audit Year.
- 26 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.

- 27 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

- 28 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 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.
- 29 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 2022/23 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.
- 30 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.

- 31 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).
- 32 During the year, one auditor further progressed their IIA studies and all other employees hold at least one relevant 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.
- 33 The following information about qualifications and experience of employees available for audit work as at 31 March 2023 demonstrates the experience and qualification mix.

***Experience 2022/23***

<b>Auditing Experience</b>	<b>No</b>	<b>%</b>	<b>Public Sector Auditing</b>	<b>%</b>
Up to 1 Year	1	6.7	1	6.7
1 to 5 Years	1	6.7	1	6.7
5 to 10 Years	1	6.7	1	6.7
Over 10 Years	12	80	12	80
<b>Total Employees</b>	<b>15</b>	<b>100</b>	<b>15</b>	<b>100</b>

***Qualifications***

Accountants (CCAB)	4
Institute of Internal Auditors	2
Institute of Internal Auditors – Training	1
Certified Information System Auditor	1
Association of Accounting Technicians	6
Association of Accounting Technicians – Training	1
<b>Total</b>	<b>15</b>

- 34 The level of experience of audit employees and skills level available remained high based on the substantial number of employees with over 10 years' experience and competencies in specific areas.
- 35 At 31 March 2023, the Service had three vacant posts.

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

- 36 Internal Audit has completed a self-assessment against the key elements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2022/23 which demonstrated that the service was conforming with the requirements.
- 37 It is a requirement for the service to be externally assessed once every five years. The last external assessment carried out by the Chartered Institute of Public and Finance and Accountancy (CIPFA) in February 2022 concluded that 'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.
- 38 The service must be externally assessed once every five years, with the next external review being due in the Internal Audit Year 2026/27.
- 39 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.
- 40 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 an 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.
- 41 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

- 42 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 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.



- 43 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 Council’s overall objectives.
- 44 It is considered that the 2022/23 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 referrals. An emergent Internal Audit Plan was provided to the Audit Committee in February 2022 and the final internal Audit Plan for 2022/23 was presented to Audit Committee on 24 May 2022.

Performance Measures

- 45 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.
- 46 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 are used for benchmarking to assess effectiveness. Comparative figures are used to consider areas for closer review.
- 47 Key performance measures for the Section over the last 12 months are:

<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target</b>	<b>Actual as at 31 March 2023</b>
<b><i>Efficiency Measure - to provide maximum assurance to inform the annual assurance opinion</i></b>			
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 <sup>st</sup> March.	90%	80%
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure	100%	96% (72 out of 75)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response	100%	96% (73 out of 76)

<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target</b>	<b>Actual as at 31 March 2023</b>
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100%	100%
<b><i>Quality Measure – To ensure the service is effective and adding value</i></b>			
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95%	100%
Post Audit Customer Surveys	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100%	98% (64 out of 65) Av. score of 4.7
Customers providing feedback responses	% of customers returning satisfaction returns	70%	83%

- 48 Throughout the year the service faced ongoing staffing shortages and operational challenges which have continued to impact on the delivery of the overall plan. These challenges have included vacant posts (resulting in only 88% of the planned staffing level being in post through the year). Over and above this, there has also been a long-term sickness absence, of a Senior Auditor, from late September 2022 to early March 2023.
- 49 This has resulted in a reduction in the number of productive days available during 2022/23, which were originally estimated to be 3,241, however, as at 31 March 2023, the service had delivered 2,595 productive days, representing 80% of the total estimated planned days for the year. The target to the end of March was for 90% to have been delivered, therefore performance was below the profiled target.
- 50 This was a result of the challenges facing the service which included vacant posts on the staffing establishment which resulted in only 88% of the planned staffing level being in post through the year.
- 51 As such, the service regularly reviewed the content of the plan to ensure that the audits included in the plan are prioritised on a risk basis and to ensure that all key financial systems and high-risk areas of activity are reviewed on an annual basis. As at 31 March, approximately 79% of the audits in the revised plan had been delivered and the Chief Internal Auditor is able to issue an assurance opinion on the adequacy of the internal control environment in place.

- 52 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. The issuing of final reports is a measure of the receipt of the requirement management responses to audit recommendations raised and agreed, to the issuing of final reports to the relevant individuals.
- 53 Performance for the issuing of reports fell slightly short of the profiled target as a result of the ongoing recruitment and retention challenges posed throughout the year, coupled with an Audit Manager's sickness absence which resulted in three reports been issued later than the target timescales.
- 54 Progress reports were issued to Corporate Directors within the required timescales and in turn, quarterly progress reports are presented to Audit Committee.
- 55 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.
- 56 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

- 57 The process for monitoring the implementation of recommendations continues to work well 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.
- 58 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/Senior Officer Group. This process has ensured that time is targeted on key issues and that appropriate support and advice is offered at the right time.
- 59 The Audit Committee is provided with regular updates from the Service 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 2022/23.

### Audit Committee

- 60 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.
- 61 Further to the Local Government elections, new Audit Committee Members were elected in May 2021. As part of the Member induction, Members received comprehensive training on the role of Audit Committee members in June 2021 and they also received Risk Management training in July 2021. The arrangements for the Audit Committee remained the same during 2022/23. A review of the effectiveness of Audit Committee will be carried out during 2023.
- 62 Audit Committee request reports from management in response to issues raised in within Internal Audit reports, demonstrating the positive steps being taken by the Committee to seek assurance over actions being taken to respond to concerns.

### Summary and Key Priorities

- 63 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 delivered a reasonable 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:** Tracy Henderson

Tel: 03000 269668

---

---

## **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 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**

The report presents the internal audit services 16.35 FTE (18 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 2022 which delivered a positive outcome.

## **Procurement**

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

## Audit Committee

30 June 2023

### Annual Internal Audit Opinion and Report 2022 / 2023



## Report of Paul Darby, Corporate Director of Resources

### 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, risk management and corporate governance arrangements in place during the year.
- 2 Members are also presented with the Annual Internal Audit Report for 2022 / 2023.

### Executive Summary

- 3 The Public Sector Internal Audit Standards (PSIAS), established in 2013 (revised in 2016 and 2017), states 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 An overall opinion is the professional judgement of the Head of Internal Audit Services based primarily on the results of individual internal audit engagements and supported by incorporating other reliable assurance information.
- 5 Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control operating across the Council in 2022/2023.

- 6 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. Despite the financial challenges the Council continues to face and the ever increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive. This is supported by the improvements made over recent years particularly within key financial systems where significant improvements have been made in recent years.
- 7 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.
- 8 Despite the challenges faced, the Council has continued to progress a number of significant developments and projects which include the replacement of a significant IT system in Adults Social Care and various commercial investment and regeneration projects. It has actively provided information, and support to County Durham residents dealing with the economic impact of the cost of living crisis.
- 9 The Council's Company governance arrangements where the Council has a significant interest or control in a company have also continued to progress through a corporate group. During the year the Group has considered the Council's strategic approach to, and structure of, its Companies and joint venture arrangements. Updates on the Group's work are periodically presented to the Corporate Management Team, which considered proposals to amend the governance arrangements to ensure appropriate member oversight of Council companies in their capacity as shareholder.
- 10 Reviews undertaken during 2022/23 have largely resulted in substantial audit opinions being issued, particularly for the key financial systems, which is positive. Some reviews have however referred to unsatisfactory compliance with the Council's Policies and Procedures in some instances and identified weaknesses with regards to the management oversight over the operational working practices in place in some areas. It is recognised that the Council is on a continuing never ending journey in terms of strengthening its governance arrangements and internal controls. Internal audit contributes where it can to assist the organisation achieve its objectives and continually add value.



- 11 During the year internal audit issued only one 'Limited' assurance opinion which related to a school, a reduction on the previous year when there were five limited assurance opinions issued. 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.
- 12 In determining the annual assurance opinion, consideration has been given to the organisations risk management and governance arrangements, as well as to the findings contained within the Annual Protecting the Public Purse report which is being reported to this Committee meeting as a separately agenda item.

### **Recommendation**

- 13 Members are asked to:
  - (a) note the content of the Annual Internal Audit Report for 2022/2023 at Appendix 2;
  - (b) note the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's governance, risk management and internal control environment for 2022/2023.

## Background

- 14 The Public Sector Internal Audit Standards (PSIAS) established in 2013 (revised in 2016 and 2017) are the agreed professional standards for internal audit in local government. PSIAS was the Code under which the Internal Audit Service operated during 2022/2023. 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.
- 15 The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
- 16 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.
- 17 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.
- 18 No system of internal control can provide absolute assurance against material misstatement or loss, nor can internal audit give absolute assurance.

---

**Contact:** Tracy Henderson

Tel: 03000 269668

---

---

## **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 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 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**

**2022 / 2023**

## **CONTENTS**

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

## **APPENDICES**

Appendix A: Performance Indicators

Appendix B: Key Advice and Consultancy Work

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

Appendix D: Assurance Opinion Methodology

Appendix E: Summary of Assurance Work 2022/2023

## **1. Introduction and Background**

- 1.1 This report summarises the work carried out by internal audit during the financial year 2022/2023 and provides assurance on the effectiveness of the Council's internal control environment, risk management and corporate governance arrangements in place during the year.
- 1.2 The requirement for an internal audit function is contained within 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 Internal Audit within the public sector in the United Kingdom has been governed by the Public Sector Internal Audit Standards (PSIAS) since 1<sup>st</sup> April 2013 (revised 2016 and 2017) and sets out 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 framework of governance, risk management and control (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 2022/2023 which incorporates the outcomes of the self assessment completed in February 2023 and the external quality assessment carried out by CIPFA in February 2022 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. During the year, Audit services are also provided to a number of external clients including Durham's Police and Crime Commissioner and Durham Constabulary, Durham and Darlington Fire and Rescue Authority, Peterlee Town Council, Spennymoor Town Council, Shotton Parish Council, Horden Parish Council, Monk Hesleden Parish Council, Trimdon Parish Council, Great Aycliffe Town Council, New College Durham 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 2022/2023**

#### ***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 2022/2023 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 The total number of productive days available during 2022/23 was originally estimated to be 3,241. As at 31 March 2023, the service had delivered 2,595 productive days, representing 80% of the total estimated planned days for the year. The target to the end of March was for 90% to have been delivered, therefore performance was below the profiled target.

4.5 Throughout the year the service faced ongoing staffing shortages and operational challenges, which have continued to impact on the delivery of the overall plan. These challenges have included vacant posts (resulting in only 88% of the planned staffing level being in post through the year). Over and above this, there has also been a long-term sickness absence, of a Senior Auditor, from late September 2022 to early March 2023. As at 31 March, approximately 79% of the audits in the revised plan had been delivered.

4.6 As a result of the challenges facing the service, the service regularly reviews the content of the plan to ensure that the audits included in the plan are prioritised on a risk basis and to ensure that all key financial systems and high risk areas of activity are reviewed on an annual basis to ensure that the Chief Internal Auditor is able to provide an annual opinion on the adequacy of the internal control environment in place.

4.7 The PSIAS requires that the Council completes an annual review of the effectiveness of internal audit and that once every five years an External

Assessment must be completed, the outcome of which are reported to Audit Committee.

- 4.8 In February 2023, a self-assessment by the Chief Internal Auditor and Corporate Fraud Manager was carried against the key elements of the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2022/23 which established that the service continues to confirm to the demonstrated that the service was **conforming** with the requirements.
- 4.9 The last external assessment, carried out by the Chartered Institute of Public and Finance and Accountancy (CIPFA) in February 2022, concluded that 'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.

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

- 4.10 All areas of improvement which were identified by CIPFA in the last external quality assessment carried out in February 2022 have been considered and actioned as required, in accordance with the agreed timescales.
- 4.11 Furthermore, improvements identified during the self-assessment carried out by the Chief Internal Auditor and Corporate Fraud Manager in February 2023 have also been made.
- 4.12 A summary of the main improvements made to the service as a result of these reviews are highlighted below:

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

On 1 April 2022 audit responsibilities were reallocated across 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.

- PSIAS Ref 2010 - Establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

The annual Internal Audit planning process involves reviewing the organisation's risk registers to identify strategic and operational risks, as

well carrying out horizon scanning of the the organisation's macro environment to consider the inclusion of relevant emerging issues which may arise.

Once approved, the Internal Audit Plan is reviewed throughout the year and where required, changes are made to planned activities to ensure the audit plan is risk based and is consistent with the Council's objectives.

- PSIAS Ref 2030 – To ensure the that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

The service has continued to face staffing challenges throughout the year which resulted in changes been made to the staffing establishment. This involved the removal of one Principal Auditor post and 1.5 Senior Auditor posts, which were replaced with one Graduate Trainee ICT Auditor post and two Audit Assistant posts.

These changes were made following consideration of the requirements outlined within the Workforce Development Plan for the service which was finalised in September 2022.

- 4.13 The Corporate Fraud Team influences pro-active fraud work and promotes the counter fraud strategy across the organisation. Improvements have also been made during the year to improve the joint working relationships between Internal Audit and Corporate Fraud Teams to ensure that where required, improvements are made to the organisations control framework on a timely basis.

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

### ***Assurance Work***

- 5.1 Our work programme for the financial year 2022/2023 included work carried out between April 2022 and March 2023.
- 5.2 A summary of assurance work completed during the year is attached at Appendix E.

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

- 5.3 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).

- 5.4 Through our advice and consultancy work we are able to add value proactively and reactively.
- 5.5 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.
- 5.6 A summary of key advice and consultancy work completed during the year is attached at Appendix B.

## **6. Key Areas for Opinion**

- 6.1 The four main areas of the control environment considered when determining our assurance opinion are:
- Overall Control Environment
  - Financial Management
  - Risk Management
  - Corporate Governance
- 6.2 Assurance has been provided through the review of key financial systems during the year. It is acknowledged that whilst overall assurance in relation to key financial systems remains positive, testing of the control environment in operation during the year still highlighted some weaknesses in controls.
- 6.3 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.
- 6.4 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.
- 6.5 Key issues arising from audit work where controls have improved or further improvements have been identified are summarised in Appendix C.
- 6.6 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 2023 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)	9	8	1 (11%)	1	0
Chief Executive (CE)	1	1	0 (0%)	0	0
Children and Young People's Service (CYPS)	71	69	2 (3%)	2	0
Neighbourhoods and Climate Change	56	56	0 (0%)	0	0
Regeneration, Economy and Growth (REG)	27	27	0 (0%)	0	0
Resources (RES)	213	209	4 (2%)	4	0
<b>TOTAL</b>	<b>377</b>	<b>370</b>	<b>7 (2%)</b>	<b>7</b>	<b>0</b>

6.7 The % of audit recommendations implemented by service managers within agreed target dates remains high and the Council out performs many of its benchmarked comparators. This statistic stands at 98% before revised targets are incorporated, this increases to 100% if revised to include revised target dates.

## 7. Audit Opinion Statement

- 7.1 The Council has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
- 7.2 Internal Audit is required to provide an opinion on the Council's control environment, risk management and corporate governance arrangements in place during the year.
- 7.3 The Chief Internal Auditor and Corporate Fraud Manager is able to confirm that there has not been any impairments to the Internal Audit Service's independence and objectivity during the year.

7.4 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.

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

- All of the work undertaken by Internal Audit and the Corporate Fraud Teams 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.

7.6 Based on the work undertaken, we are able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control operating across the Council in 2022/2023.

7.7 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.

7.8 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.

<b>Assurance Level</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Substantial	35	61	44	22	26	51
Moderate	34	67	46	20	8	21
Limited	22	10	7	3	5	1
<b>Total</b>	<b>91</b>	<b>138</b>	<b>97</b>	<b>45</b>	<b>39</b>	<b>73</b>

Note: For comparison purposes previous year reported figures include school based reviews which, because of COVID, were not undertaken for the majority of 2020/21 and 2021/22

- 7.8 The adequacy and effectiveness of key financial controls is a consideration in our opinion. Good progress continues to be made in making improvements to a number of key financial systems which has provided a better operational platform for effective financial risk management and resulted in substantial assurance opinions being issued during 2022/23.
- 7.9 Policies and procedures are now in place for the majority of 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.
- 7.10 A number of internal audit reviews and fraud referrals made during the year identified unsatisfactory compliance with the Council's Policies and Procedures. It is recognised that the Council continues to be on a journey and it is evident that there is a clear direction and drive from the organisation to change the culture and behaviours. It is important that internal audit contributes where it can to assist the organisation achieve its objectives and continually add value.
- 7.11 The Annual Internal Audit Report 2019/2020 identified that further work would be required in relation to the effectiveness of the Council's Company governance arrangements and improvements continued to be made during 2022/23 through a corporate group, and where the Council has a significant interest or control in a company. The Chief Internal Auditor and Corporate Fraud Manager attends these meetings.
- 7.12 One Limited Assurance report was issued in 2022/23 which related to a School, which is a reduction on the previous years. 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 progress updates and a follow up audit approximately six months after the final report has been issued and are reported to Audit Committee/ the relevant Governing Body on an exception basis.
- 7.13 It is especially pleasing to note that service groupings continue to value the work of internal audit and particularly around involving us in advice and consultancy work both 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 in the implementation of



new IT software in Adult and Health 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.

7.14 Where internal audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regard to timely and realistic implementation dates for actions being agreed.

## PERFORMANCE INDICATORS

## Appendix A

<b>Efficiency</b>			
<b>Objective: to provide maximum assurance to inform the annual audit opinion</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target (Frequency of Measurement)</b>	<b>Actual as at 31/03/2023</b>
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 <sup>st</sup> March.	90% (Annually)	80%
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview	100% (Quarterly)	96% (72 out of 75)
Timeliness of Final Reports	% of final reports issued within 10 calendar days of receipt of management response	100% (Quarterly)	96% (73 out of 76)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)	100%
<b>Quality</b>			
<b>Objective: To ensure that the service is effective and adding value</b>			
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target (Frequency of Measurement)</b>	<b>Actual as at 31/03/2023</b>
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Annually)	100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service satisfactory or above (3 out of 5) where 1 is poor and 5 is very good	100% (Quarterly)	98% (64 out of 65) Average score 4.7
Customers providing feedback responses	% of Customer returning satisfaction returns	70% (Quarterly)	83%

## **KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2022/2023**

### **COVID Related Activity**

In response to the considerable impact on the Council resulting from the COVID 19 pandemic, Internal Audit has continued to provide ongoing support throughout the year on a range of different COVID related activities, including an evaluation of the control framework in place on the management of the risks associated with COVID 19 related expenditure and continued with supporting the Corporate Fraud Team with investigations.

### **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 across the organisation, as well as for some school. Such work adds value by ensuring no grant is lost through claw back or reputational damage that may impact on future external funding opportunities.

#### **Business Energy Efficiency Project (BEEP)**

The Business Energy Efficiency Project (BEEP) is an ERDF funded scheme to enable the provision of professional advice and grant funding to assist qualifying businesses in improving their energy efficiency performance.

The work carried out involved reviewing a sample of claims to determine whether the evidence available met the requirements of the funding scheme and provided support to Neighbourhoods and Climate Change with regards to the control improvements required .

#### **Payroll System (ResourceLink)**

Attending meetings to provide advice and support on the ongoing development of the Payroll System.

#### **SSID Replacement - Azeus**

Assisting the Adult and Health Services with advice and guidance in terms of the required controls following system implementation. Work continues with 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.

### **RIPA Officers Group**

The service is represented on the corporate RIPA Officers Group to ensure robust working relationships are in place with other DCC Officer and to provide counter fraud guidance with regards to in place across the council.

## **KEY CONTROL ISSUES**

### **Key Financial Systems including COVID Related Activity**

Internal Audit has undertaken range of COVID related activities during the year to provide an evaluation of the control framework in place on the management of risks associated with COVID 19 related activity and in supporting the Corporate Fraud Team with investigations.

### **Limited Assurance Opinions**

During the year one limited assurance opinion was delivered for a school, for which an agreed action plan has been developed and work is in the process of being implemented. A follow up work is planned to be completed in the coming months.

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 November 2022 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.

## Assurance Opinion Methodology

## Appendix D

### Findings

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

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

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

## Appendix 2

### 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
	<b>IMPACT</b>		

### Priority of our recommendations

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

<b>High</b>	Action required, that is considered <b>imperative</b> , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
<b>Medium</b>	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
<b>Best Practice</b>	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:

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

## Summary of Assurance Work 2022 / 2023

## Appendix E

Service Grouping	Service	Audit Activity	Assurance Opinion
Adult and Health Services	Adult Care	Workforce Development Fund	Substantial
Adult and Health Services	Adult Care	Hawthorn House – Financial Systems Review)	Substantial
Adult and Health Services	Adult Care	Personalisation – Virtual Budgets	Substantial
Adult and Health Services	Public Health	Real Time Data Surveillance System (Suicide Early Alert)	Substantial
Chief Executive	Corporate Affairs	Equality, Diversity and Community Cohesion	Moderate
Chief Executive	Corporate Affairs	Data Quality	Moderate
Children & Young People's Services	Children's Social Care	Youth Justice Management Information System (Childview)	Substantial
Children & Young People's Services	Children's Social Care	Moorside Children's Home	Substantial
Children & Young People's Services	Children's Social Care	New Lea Children's Home	Substantial
Children & Young People's Services	Children's Social Care	Hickstead Children's Home	Substantial
Children & Young People's Services	Children's Social Care	Hickstead Children's Home	Moderate
Children & Young People's Services	Education and Skills	Durham Learn	Moderate
Neighbourhoods and Climate Change	Community Protection Services	Online Licence Applications	Substantial
Neighbourhoods and Climate Change	Partnerships and Community Engagement	COVID-19 Area Budgets	Substantial
Neighbourhoods and Climate Change	Environment	Durham Crematorium	Substantial
Neighbourhoods and Climate Change	Environment	Mountsett Crematorium	Substantial
Regeneration, Economy and Growth	Corporate Property and Land	Potentially Violent Persons Register	Moderate
Regeneration, Economy and Growth	Corporate Property and Land	The Sands – Contract Management	Substantial



Appendix 2

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Regeneration, Economy and Growth	Corporate Property and Land	Asset Valuation	Substantial
Regeneration, Economy and Growth	Culture, Sport and Tourism	Peterlee Leisure Centre	Substantial
Regeneration, Economy and Growth	Culture, Sport and Tourism	Seaham Leisure Centre	Substantial
Regeneration, Economy and Growth	Planning and Housing	Local Lettings Agency Governance	Substantial
Regeneration, Economy and Growth	Planning and Housing	Planning Applications	Substantial
Resources	Transactional and Customer Services	Business Rates – Overarching Report	Moderate
Resources	Transactional and Customer Services	Business Rates – Liability	Substantial
Resources	Transactional and Customer Services	Creditors - Processing of Payments through ContrOCC	Substantial
Resources	Transactional and Customer Services	Debtors (Refunds)	Substantial
Resources	Transactional and Customer Services	Debtors (Direct Debits)	Substantial
Resources	Transactional and Customer Services	Cash Management	Moderate
Resources	Transactional and Customer Services	Cash Management – Crook CAP	Substantial
Resources	Transactional and Customer Services	COVID-19 Small Business Rates Relief	Moderate
Resources	Transactional and Customer Services	COVID-19 Retail, Hospitality and Leisure Grant Fund	Moderate
Resources	Transactional and Customer Services	Housing Benefit Award Accuracy Initiative	Substantial
Resources	Corporate Finance and Commercial Services	Short Term Investment	Substantial

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Resources	Corporate Finance and Commercial Services	Bank Reconciliation Process	Substantial
Resources	Corporate Finance and Commercial Services	Banking Arrangements	Substantial
Resources	Digital Services	Business Continuity for ICT	Moderate
Resources	HR and Employee Services	Payroll - MyView – Establishment Changes	Substantial
Resources	HR and Employee Services	Payroll - Preparation - Corrections	Substantial
Resources	Procurement, Sales and Business Services	Creditors	Moderate
Resources	Procurement, Sales and Business Services	Contract Procedure Rules (CPRs)	Moderate
Resources	Pension Fund	Pension Fund: ICT Controls, Data Quality and Performance	Substantial
Resources	Pension Fund	Pension Fund: Benefit Calculations	Substantial
Resources	Pension Fund	Pension Fund: Bank Reconciliation	Substantial
Resources	Pension Fund	Pension Fund: Admission Bodies and Funding Risks	Substantial
<b>School Audit Reviews</b>			
Children & Young People's Services	Primary Schools	Lumley Junior School	Substantial
Children & Young People's Services	Primary Schools	Lumley Infants and Nursery School	Substantial
Children & Young People's Services	Primary Schools	Nettleworth Primary School	Substantial
Children & Young People's Services	Primary Schools	Cothelstone Primary School	Substantial
Children & Young People's Services	Primary Schools	Catchgate Primary School	Substantial
Children & Young People's Services	Primary Schools	Burnhopefield Primary School	Substantial
Children & Young People's Services	Primary Schools	Leadgate Primary School	Limited
Children & Young People's Services	Primary Schools	Delves Lane Primary School	Moderate
Children & Young People's Services	Primary Schools	Consett Junior School	Substantial
Children & Young People's Services	Primary Schools	Crook Primary School	Moderate

<b>Service Grouping</b>	<b>Service</b>	<b>Audit Activity</b>	<b>Assurance Opinion</b>
Children & Young People's Services	Primary Schools	Stanley Crook Primary School	Substantial
Children & Young People's Services	Primary Schools	Willington Primary School	Moderate
Children & Young People's Services	Primary Schools	Byers Green Primary School	Moderate
Children & Young People's Services	Primary Schools	Toft Hill Primary School	Substantial
Children & Young People's Services	Primary Schools	Cockton Hill Junior School	Moderate
Children & Young People's Services	Primary Schools	Cockfield Primary School	Moderate
Children & Young People's Services	Primary Schools	Pittington Primary School	Moderate
Children & Young People's Services	Primary Schools	Ludworth Primary School	Substantial
Children & Young People's Services	Primary Schools	West Rainton Primary School	Moderate
Children & Young People's Services	Primary Schools	Neville's Cross Primary School	Moderate
Children & Young People's Services	Primary Schools	Belmont Cheveley Park Primary School	Substantial
Children & Young People's Services	Primary Schools	Acre Rigg Infant School	Substantial
Children & Young People's Services	Primary Schools	Sedgefield Primary School	Substantial
Children & Young People's Services	Primary Schools	Benfieldside Primary School	Substantial
Children & Young People's Services	Primary Schools	Belmont CE Controlled Primary School	Moderate
Children & Young People's Services	Primary Schools	Shincliffe CE Controlled Primary School	Substantial
Children & Young People's Services	Primary Schools	Bowes Hutchinson's C. E. (Aided) Primary School	Substantial
Children & Young People's Services	Primary Schools	Prince Bishops Community Primary	Substantial

This page is intentionally left blank

**Audit Committee**

**30 June 2023**

**Protecting the Public Purse - Annual Report 2022 / 2023**



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

**Electoral division(s) affected:**

Countywide.

**Purpose of the Report**

- 1 To present the Annual Protecting the Public Purse Report, which informs Members of the work that has been carried out by the Corporate Fraud Team during the period 1 April 2022 to 31 March 2023.

**Executive Summary**

- 2 The report provides Members with an overview of the progress that has been made by the Corporate Fraud Team during 2022/23 and up to 31 March 2023 and provides as update on:
  - (a) The Corporate Fraud Team and their role in the council;
  - (b) A summary of the Counter Fraud and Corruption Strategy and how it is delivered;
  - (c) A summary of the team's performance across 2022/23; and
  - (d) A forward look into 2023/24 highlighting the teams' operational priorities and work plan for the current year.
  
- 3 The appendices attached to this report are summarised below. Appendix 5 marked with an asterisk is 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 2022/2023
  - (b) Appendix 3 – Corporate Fraud Team Performance Management Framework 2023/24
  - (c) Appendix 4 – Corporate Fraud Team Operational Plan 2023/24

- (d) Appendix 5\* – Summary of potential internal corporate fraud and ongoing investigations.

## **Recommendations**

- 4 Members are asked to note the contents of the Annual Protecting the Public Purse Report 2022/23 including:
  - (a) The work carried out by the Corporate Fraud Team over the last year.
  - (b) The numbers and values of fraud identified in 2022/23 (Appendix 2):
  - (c) Performance Management Framework 2023/24 (Appendix 3) and Corporate Fraud Team Operational Plan 2023/24 (Appendix 4)

## Background

- 5 The Corporate Fraud Team sit within the councils Internal Audit, Risk and Corporate Fraud service and are responsible for investigating cases of suspected internal and external fraud, as well as assisting with counter fraud activities across the council.
- 6 The work of the team includes investigations into potential:
  - Council tax reduction fraud – including single person discount fraud and other council tax frauds;
  - Business rates fraud;
  - Employee fraud;
  - Fraud in our schools;
  - Fraud and abuse of the Blue Badge scheme;
  - Direct payment fraud;
  - Insurance fraud;
  - Grant fraud including assisting teams with post assurance and pre-payment checks where required; and
  - Procurement fraud.
- 7 The team also investigate potential tenancy fraud for Believe Housing, Gentoo Homes, and Livin' Housing and investigate potential right to buy and right to acquire fraud through verification checks for Bernicia Homes, Karbon Homes and Gentoo Homes.
- 8 The team works closely with colleagues in People and Talent Management to review and support disciplinary investigations and employee complaints.
- 9 The team also work closely with partners in central government and local law enforcement to coordinate a comprehensive counter fraud response for the council.
- 10 The team consists of five Corporate Fraud Investigators, a Corporate Fraud Assistant and a Fraud Apprentice, supporting a Fraud Manager reporting to the Chief Internal Auditor and Corporate Fraud Manager.
- 11 The latest Counter Fraud and Corruption Strategy was published in November 2022 and sets out a framework of how we respond to this threat and further improve our counter fraud work.

### Our Strategic Objective

To ensure the proper use and protection of public funds and assets.

To achieve this, our Counter Fraud and Corruption Strategy set's 5 pillars of activity

Our key pillars of activity				
Govern	Acknowledge	Prevent	Pursue	Protect
Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.	Acknowledging and understanding fraud risks and committing support and resource to tackling fraud to maintain a robust anti-fraud response.	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.	Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability to investigate fraudsters, and a supportive local enforcement response.	Protecting against serious and organised crime, individuals from becoming victims of crime and against the harm that fraud can do to the community. Protecting public funds and the council from fraud and cybercrime.

We will deliver this by:			
Counter Fraud Awareness and Education	Measuring our impact and managing our risk	Tackling the threat	Strong partnership working

Underpinned by the council's core values:

Outcome Focused	People Focused	Empowering	Innovative
-----------------	----------------	------------	------------

### Overview of Activity in 2022/23

- 12 2022/23 was a year of good operational performance. The team received 871 referrals, 70% of which related to Durham County Council alleged frauds.
- 13 In 2022/23 the team:
- Confirmed 137 cases of fraud, representing a 65% increase on 2021/22;
  - Received 257 referrals from our registered social landlord partners, generating £84,205 of income;



- Through our strategic partnerships with our Registered Social Landlords, we have been able to make over £2million of savings that would have potentially been lost through fraud;
- 10 cases of tenancy fraud were confirmed such as cases of subletting, succession fraud and application / allocation fraud identifying nearly £350,000 in savings;
- 168 anti-money laundering investigations were completed for applicants of the 'Right to Buy' scheme;
- The 2022/23 National Fraud Initiative (NFI) exercise saw a 27% decrease in matches from the last exercise, reflecting the improvements in our systems to protect against the threat of fraud;
- Almost 100 cases of fraudulent applications for single person discount on Council Tax were investigated identifying over £40,000 in overpayments;
- Referrals concerning Council Tax support increased from 102 in 2021/22 to 222 in 2022/23. This resulted in the confirmed fraud also increasing from 7 to 22;
- 18 investigations concerning council employees were investigated, with almost half being referred using the whistleblowing process;
- Over 1,300 requests for information were received and actioned by Durham Police throughout 2022/23;
- 17 cases were recommended for sanctions. These range from disciplinary action, warning letters, the offer of a caution and criminal proceedings;
- The Corporate Fraud Team has continued to promote Fraud Awareness through various channels and delivered face to face awareness sessions to over 100 people; and
- 4 investigators were accepted onto the Government Counter Fraud Profession after successfully completing a dedicated Level 4 apprenticeship in Investigation.

## **Performance Analysis - Governance and Acknowledge**

- 14 In 2022 the Counter Fraud and Corruption Strategy together with its four companion documents, the Confidential Reporting Code, Fraud Response Plan, Anti-Money Laundering Policy, and Fraud Sanction

Policy were all reviewed and updated. These were presented to Audit Committee in Autumn 2022. The Counter Fraud arrangements referenced in the Annual Governance Statement have been reviewed and updated to reflect this.

- 15 The Counter Fraud and Corruption Strategy introduced the five new 'pillars of activity' that frame how we respond to the threat of Fraud and Corruption in the 2020's. The Strategy was launched during Fraud Awareness Week in November 2022, which was supported by a week of communications to the staff and public on various fraud trends, how we respond to them and how to be vigilant against them.
- 16 A review was completed on our public internet and intranet pages and our fraud transparency data has been updated including our privacy notices which now reflect the data matching and the Northeast Fraud Hub projects.
- 17 We have started developing a new Fraud Awareness Programme which includes the implementation of a corporate e-learning fraud awareness module with an intention for this to be included as mandatory in induction programmes as well as a review into our current training material and process for alerting all relevant service areas to specific fraud risks that we are made aware of.
- 18 A new Fraud Awareness package has been developed for the Registered Social Landlords to who we provide Fraud Investigation Services for. This has been delivered to over 100 members of staff for Believe housing to date with other sessions scheduled with other providers in 2023-24.
- 19 The Corporate Fraud Team works closely with the National Anti-Fraud Network (NAFN) data and Intelligence Services and continue to report cases of our own fraud through them to other local authorities. We have also received several warnings regarding a range of frauds and scams which were communicated to the relevant service areas and through social media to warn our customers.
- 20 Four of our investigators have completed the Level 4 Counter Fraud Professional investigator training resulting in them now being accepted onto the Government Counter Fraud Profession. This not only gives greater recognition and professional credibility to the team but joins us to an active community of fraud specialists across the public sector.
- 21 The next step for 2023 is to gain collective membership for the whole team which will involve a formal assessment by the Public Sector Fraud Authority on how we operate based on the Government Functional Standard model for investigators. Collective membership will provide pathways for individual capability building and career development,

providing us with standards, guidance, and tools to continuously improve knowledge, skills, and experience.

- 22 The Corporate Fraud team has continued to work closely with Internal Audit and other internal partners such as our strategic managers, HR, finance, legal and Policy makers to ensure new and existing systems remain fraud proofed.
- 23 Closer working with the Internal Audit team has ensured that controls are evaluated, and risks are tackled with some emphasis on fraud prevention and detection throughout this process.
- 24 Our Corporate Fraud Key Performance Indicators and performance measurement has been reviewed and updated. Progress on achieving these will be monitored monthly and quarterly reports produced to track progress against the delivery against targets.

## Prevent

- 25 The 12-month pilot phase for the Northeast Regional Fraud Hub started in October 2022, following approval from the Cabinet Office Digital Economy Act (DEA) review board. Part 5 of the DEA provides data sharing powers to public bodies to manage and control debt and combat fraud against the public sector.
- 26 Durham is the lead authority for the Fraud Hub which 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. Phase one of the pilot (first 6 months) gave all three authorities access to a shared data warehouse where cross boundary intelligence checks can be conducted.

**Fraud Hub Case Study**

A male was claiming single person discount for Council Tax at an address in Durham for several years. The Fraud Hub washed all Single Person Discount records against payroll data from each authority and asked mismatches to be identified.

The Durham address that this male was receiving discount for was matched to a payroll record in Newcastle City Council, but the mismatch was that the name of the person on the payroll record was female.

Further investigation found that the female working for Newcastle City Council was the long-term partner of the male claiming council tax discount in Durham and had been caught in a fraudulent double council tax reduction, having lived together since they purchased the house.

- 27 Phase two of the pilot started in April which saw the first data matching exercise to pro-actively look for embedded fraud that we may not normally have found. This involves comparing records held by one body against those held by another. Using a technique known as data mining, we look to classify, cluster and segment the data and automatically find

associations and rules that may signify interesting patterns, some of which may relate to fraud.

- 28 The Corporate Fraud Team have acted as lead coordinator for this year's National Fraud Initiative (NFI). The NFI is a data matching exercise conducted by the Cabinet Office every two years to detect fraud and erroneous payments from the public purse.
- 29 The main results of the NFI 2022/23 were released between January and April 2023, and produced a total of 84 separate reports, containing 19,341 individual data matches for review by the Council. The Corporate Fraud Team has an action plan to make sure DCC reviews and investigates the results to identify fraud and error and recover any overpaid monies. Results are investigated by service areas, internal audit, and corporate fraud, depending on the report types.
- 30 As of 31 March 2023, 14 reports / 3,336 matches have been closed and outcomes reported, and 846 errors identified with savings of £5,263. There are reports that have been investigated and closed in bulk, but these do not show as individual matches closed and are not included within the 3,336. The exercise is still ongoing with outstanding reports with Covid Grants, Payroll and Creditors.
- 31 The outcomes to date once again show that our own controls seem to be effective, with very few matches having positive outcomes, in that we are already aware and have actioned any error or that the match is incorrect. The outcomes have continued to decrease year on year, with a 27% decrease in matches from the last exercise.

**Council Tax Fraud Case Study**

A case that recently attracted local media interest concerned a Durham resident, who was awarded a council tax reduction in 2018. This followed an application advising the Council he was claiming employment and support allowance.

In 2022, a referral was received from the benefits examinations team concerning this resident following a match identified from the National Fraud Initiative that they may be in employment. Further enquiries were made with HMRC confirming he was a self-employed taxi driver who had submitted tax returns every year from 2014 – 2021 showing annual net profits.

Checks with his bank showed significant savings in excess of £100,000 which were not previously declared in respect of his claim.

A total overpayment of council tax reduction of £5,106 was identified which has now been repaid following a court summons being issued. He appeared before magistrates and was also asked to pay costs.

- 32 The National Fraud Initiative was also carried out by DCC on behalf of Durham Constabulary, County Durham & Darlington Fire & Rescue Authority and the North-East Combined Authority.

- 33 We have continued to be a member of the Northeast Tenancy Fraud Forum and lead / chair the Northeast Counter Fraud Group. Both are forums for discussion and knowledge sharing on a range of activities.

## **Pursue**

- 34 The Corporate Fraud Team received 871 referrals in 2022/23. This was lower than what was received during 2021/22 however, we are now only accepting referrals from external sources that specifically refer to fraud. The external referrals have now dropped from 231 to 26. Zero referrals in both years were accepted.
- 35 70% of referrals received referred to fraud concerning Council funds or assets. 257 of the referrals received concerned 'Right to Buy' verifications or cases of suspected tenancy fraud from our Registered Social Landlord (RSL) partners.
- 36 47% of referrals for DCC investigations were retained, the biggest rejections being from referrals from the public concerning suspected Council Tax fraud. Acceptance on referrals from RSL's is higher as they are generally discussed as part of their service level agreement first although some tenancy fraud allegations received from members of the public have been rejected due to lack of supporting evidence.
- 37 147 frauds were recorded in 2022/23 which is slightly lower than the 170 in 2021/22. However, in 2022/23 we have stopped classifying right to buy verification checks where we have lost contact with the customer as fraud. 51 cases from this category were classified as fraud in the 2021/22 figures.
- 38 137 frauds refer to DCC investigations compared to 87 in 2021/22. We have seen increases in all areas of Council Tax support, Business rates, housing benefit and employee fraud. Our biggest decrease is in funding and grant related investigations, mainly attributed to the legacy investigations for Covid-19 grants progressing to closure
- 39 Sanctions are now recorded as cases when the investigation has been concluded and a Sanction has been recommended as per our Sanctions Policy. 17 sanctions have been recommended in 2022/23 which is an increase from 2022. Two cases of serious financial fraud have been referred to Durham Constabularies Economic Crime Team and two other cases of proven fraud have been prosecuted.
- 40 The team received 18 referrals concerning employees, 7 of these were using the confidential reporting code (whistleblowing) route. A summary of cases of potential internal fraud and on-going investigations from 2022/23 can be found at appendix 2.

#### Employed Fraud Case Study

An agency worker for Durham County Councils Highway services was required to provide weekly timesheets for hours worked for the agency and the Council for payment.

Concerns were raised when timesheets were submitted and signed by the agency workers line manager during a period when his manager was on annual leave. His signature appeared forged, so a referral was made to the Corporate Fraud Team to investigate.

Further investigations found 3 timesheets had been submitted containing £1,889 of fraudulently claimed wages. The case was referred for prosecution and a summons to appear at court was issued. Following his convictions, a warrant was issued for his arrest, and he was eventually arrested and bailed before magistrates.

He pleaded guilty and was ordered to pay £2,180.

- 41 The continuation of the Blue Badge Enforcement Group (BBEG) continues to be a success with an increase in Blue Badge investigations this year and sanctions. This group is attended by Parking Services, Adult Health Services, and the Corporate Fraud Team to tackle fraud and misuse as a joined-up authority and promotes a zero-tolerance approach throughout the county.

#### Blue Badge Enforcement Case Study

Two people have recently been fined for wrongly parking in a disabled bay in the same street. The council took legal action after a civil enforcement officer observed two separate incidents where a blue badge on display in a vehicle did not belong to any of the drivers or passengers.

The blue badges were confiscated and returned to the holders who were spoken to by the Corporate Fraud Team and confirmed they were not present in the vehicle when they were being used.

In the first case, a 62-year-old female pleaded guilty to mis-using a blue disability badge and was ordered to pay a £40 fine, £445 costs, and a £18 vicm surcharge.

In the second case, a 22-year-old male pleaded guilty to mis-using a blue disability badge and was ordered to pay a £40 fine, £445 costs, and a £18 vicm surcharge.

- 42 Strategic Partnerships are continuing with both Believe Housing Group, Livin Housing, and Gentoo Homes for the Corporate Fraud Team to deliver Tenancy Fraud work.
- 43 These Partnerships returned £84,205 in 2022/23 which is slightly below our target of £90,000. This can be attributed to the reduction in right to buy / acquire applications following the current economic position on mortgage interest rates and the current cost of living crisis which is seeing people saving less and spending more.
- 44 A new price model has been introduced for our Strategic Partnership work which will be introduced to those coming to the end of their current agreements in 2023. Gentoo Homes is already on our new model which will be reviewed every 12 months.

- 45 The new model covers not only our investigation costs but our membership to NAFN, which is used as a third-party broker for checks carried out for most social housing Investigations. We have also invested in software to make analysing bank statements a lot less time consuming which will be used in right to buy / acquire applications and will also be funded through these strategic partnerships.

## **Protect**

- 46 We continue to work closely with Durham Constabulary on re-active and pro-active intelligence development and investigations. The Corporate Fraud Team action an average of 30 intelligence checks per week for the Police and these numbers will be recorded in 2023-24 as part of our performance data.
- 47 We continue to play an active role in supporting Durham Constabulary's Serious and Organised Crime disruption team, with our officer who has been involved in this work for the past three years receiving a Superintendents Commendation for her contributions to date
- 48 A representative from the team also attend's and contributes to the Disruption panel meetings and work alongside other council teams on regional projects.
- 49 The partnership work with Durham Constabulary also allows for data matching to be done from specific council datasets against police OCG data. The partnership has also allowed for direct access to Police intelligence systems to assist with Corporate Fraud investigations.
- 50 The Corporate Fraud Team has recently started upload intelligence reports onto the Intelligence Database which is organised by the Northeast Trading Standards Association (NETSA) and is used by 12 Trading Standards and Neighbourhood teams throughout the Northeast.
- 51 During Fraud Awareness week in October, we issued several articles via our local communications team internally and via social media to promote the support available to victims of fraud. During 2023-24 the Corporate Fraud team will support Action Frauds Victims Code and look at how we can do more to help vulnerable victims in the community report and receive support if they have been a victim of fraud.

## **Forward Look**

- 52 In 2023/24 we will introduce a revised framework to measure the performance of the corporate fraud team. This framework

- Uses 3 key performance indicators to measure our strategic objective.
- Several performance indicators are used to track the delivery and management of our operational priorities.
- Will continue to develop quarterly performance reports to track progress in meeting our key performance indicators.
- Will be reviewed in 2024/25, with a view to continuously improve.

53 A full breakdown of this Corporate Fraud Team Performance Framework for 2023/2024 is at Appendix 4.

### **Corporate Fraud Team Operational Objectives**

54 The Corporate Fraud Teams operational objectives are set around three themes – Investigations, Partnerships and People.

Operational Priority One
<b><i>Deliver a professional corporate fraud investigation service for Durham County Council</i></b>
<p>We will do this by:</p> <ul style="list-style-type: none"> <li>• Ensuring referrals are managed and dealt with in a timely manner</li> <li>• Investigations are progressed without prejudice, in accordance with all current legislation, policy and guidance and in a timely manner.</li> <li>• Investigations are concluded appropriately, and outcomes recorded.</li> </ul>

Operational Priority Two
<b><i>Deliver a professional and cost-effective fraud investigation service to external clients</i></b>
<p>We will do this by:</p> <ul style="list-style-type: none"> <li>• Delivering a quality service to the customer, ensuring value for money, quality, and professionalism in every area of our work agreed in the relevant SLA.</li> <li>• Ensure investigations are delivered without prejudice in accordance with relevant statutory and regulatory requirements related to the delivery of this service.</li> <li>• Invoices for services rendered are issued in a timely manner and recorded.</li> </ul>



Operational Priority Three
<i>To enhance our capability and credibility by recruiting and retaining talented investigators and enabling them with the right skills, data, and technology to operate and develop professionally and effectively.</i>
<p>We will do this by:</p> <ul style="list-style-type: none"> <li>• Developing a team charter to ensure our investigators display the highest standards of professionalism, objectivity, fairness, expertise, integrity, and vision.</li> <li>• Closely monitor continued professional development un line with the Government Counter Fraud Profession 'Investigator standard.</li> </ul>

55 All objectives are SMART, with one and two designed to track performance against our core functions and three ensuring we have the best resources available to do it.

### Background papers

- None.

### Other useful documents

- None.

---

<b>Contact:</b>	Tracy Henderson	Tel: 03000 269668
	Paul Gibbon	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. In 2022/23 the Corporate Fraud Team have recovered or intercepted over £1.5 million of potential fraud. 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  
2022 -2023**

**Fraud Investigations for Durham County Council**

Fraud Type	Referrals Total	Referrals Accepted	Referrals Rejected	Investigations Closed	Frauds No.	Prosecutions No.	Outcomes	
							Sanctions No.	Value (£)
Blue Badge	42	34	8	19	3	-	4	£4,002
Council Tax	72	45	27	34	16	-	0	£19,059
CTRS	222	79	143	76	22	1	4	£61,663
Data Breach	2	2	0	2	0	-	2	-
Direct Payments	8	6	2	4	0	-	-	-
Employee	19	18	1	19	3	-	3	£61,130
Funding /Grant*	10	9	1	33	21	1	3	£120,158
Housing Benefit	6	0	6	22	0	-	0	£72,774
Insurance	8	8	0	17	3	-	0	£76,109
Irregularity	9	8	1	5	4	-	0	£1,100,310
NNDR	27	8	19	7	0	-	0	£4774
Procurement	1	1	0	1	1	-	1	£489
Schools	4	4	0	2	1	-	0	£2867
SPD	159	99	60	125	65	-	0	£40,234
External	26	0	26	-	-	-	0	-
<b>Totals</b>	<b>614</b>	<b>320</b>	<b>294</b>	<b>366</b>	<b>137</b>	<b>0</b>	<b>17</b>	<b>£1,563,569</b>

### Fraud Investigations and Verification work for Registered Social landlords

Fraud Type	Referrals Total	Referrals Accepted	Referrals Rejected	Investigations Closed	Frauds No.	Prosecutions No.	Outcomes	
							Sanctions No.	Value (£)
Right to Buy	151	150	1	168	0	-	-	£1,930,714
Tenancy	106	86	20	86	10	-	-	£353,848
<b>Totals</b>	<b>257</b>	<b>236</b>	<b>21</b>	<b>254</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>£2,284,562</b>

Notes:

\*25 of the 33 Funding / grant investigations that were closed related to COVID grants.

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.

### Corporate Fraud Team Performance Indicators 2023 – 2024

For 2023/24, there are 3 Key Performance Indicators to measure our main strategic objective and several performance indicators to track our operational objectives.

Our Operational objectives are set around three themes - Investigations, Partnerships and People.

Performance against these targets is shown in the table below:

	<b>Strategic Objectives</b>		<b>Frequency</b>
	<b>To ensure the proper use and protection of public funds and assets.</b>	<b>Target</b>	<b>Frequency</b>
Prevent financial losses through the Council with having a Corporate Fraud Function	Total amount of fraud value or financial savings for DCC  Measures the effectiveness of the Fraud Team and the value for money investing in a Counter Fraud function	£500,000	Annual
Monitor income	Measures the value of the partnerships and in investing our resources away from DCC Fraud Risks  Includes non-partnership income from POCA / Investigations Costs / Administrative Penalties and other financial penalties.  Measures that the Counter Fraud Team are maximising the redress, sanctions and legislation that is available.	£80,000	Annual
Prosecutions & Sanctions	Measures how many criminal investigation recommendations, with a team intention to pursue criminal investigations.  Measures the value of the team having the skills, knowledge, and training/qualifications to progress such criminal outcomes	10	Annual

	Operational Objectives		Frequency
<b>Investigations</b>	<b>Deliver a professional Corporate Fraud Investigation service for Durham County Council.</b>		<b>Monitored / reported</b>
	<i>Referrals are managed and dealt with in a timely manner</i>		
Total number of referrals	Measures the effectiveness of the Fraud Communication Plan and delivery of Fraud Awareness, to make sure we have accessible reporting channels both externally and internally	500+	Monitored Monthly/ Reported Quarterly
Total number of Whistle Blowing referrals	Measures the effectiveness of the Whistle Blowing Policy and Publicity, so that people can feel confident and blow the whistle	No target Ongoing review	Monitored Monthly/ Reported Quarterly
Source of referral	Measures the effectiveness of the Fraud Communication Plan and delivery of Fraud Awareness and that we have accessible reporting channels  Measures which internal service areas report fraud and any targeted fraud awareness	No target Ongoing review	Monitored Monthly/ Reported Quarterly
Sifted referrals	Referrals sifted within 10 working days of date of referral  Focuses workloads on our counter fraud plans, fraud risks and allocated resources, making sure referrals are reviewed efficiently	90%	Monitored Monthly/ Reported Quarterly
Accepted referrals	Referrals allocated within 10 working days of date of sift  Focuses workloads on our counter fraud plans, fraud risks and allocated resources, making sure referrals are allocated efficiently	90%	Monitored Monthly/ Reported Quarterly
Rejected referrals	Measures the reasoning why the referral was rejected, to show if fraud awareness or training are needed	No target Ongoing review	Monthly Quarterly Annual

	Operational Objectives		Frequency
	Measures the number of rejected referrals that could not be investigated and/or that are for other law enforcement agencies, so these are forward to the correct law enforcement agency to be dealt with.		
	<b><i>Investigations are progressed in a timely manner in line with current legislation, policy, and guidance.</i></b>		
Total number of Investigations	Demonstrates the volume of work for the Corporate Fraud Team with the number of investigations closed  Measure's workloads, resources and demonstrates if the number of accepted investigations is manageable	No target  Ongoing review  Could include target to focus on workloads  Reactive v Proactive	Monitored Monthly/ Reported Quarterly
Types of Investigations	Measures the fraud risks that are investigated to help inform our Corporate Strategic Fraud Risk, Fraud Planning, and the overall Assurance Opinion  Measures which internal service areas are at most risk so that we can focus awareness and support.  Measures the number of investigations against the number of allocated days for reactive investigations in Galileo for specific fraud risks	No target  Ongoing review	Monitored Monthly/ Reported Quarterly
Investigations started	Allocated investigations started within 10 working days of date allocated  Measures Investigators workloads and to assist those investigations are dealt with effectively and efficiently to help protect the public purse/ financial savings for the authority	90%	Monitored Monthly/ Reported Quarterly



**Appendix 3**

	<b>Operational Objectives</b>		<b>Frequency</b>
Investigations not yet started	<p>Allocated investigations not started within 10 working days of date allocated</p> <p>Focuses workloads on our counter fraud plans, fraud risks and allocated resources, making sure investigations are investigated efficiently</p> <p>Measure’s workloads, resources and demonstrates if the number of fraud reports and accepted referrals are manageable</p>	90%	Monitored Monthly/ Reported Quarterly
Ongoing investigations	<p>Ongoing Investigations progressed/reviewed within 20 working days</p> <p>Measures investigators compliance to legislation, policy and guidance.</p> <p>Measures delay on inactivity that could hinder outcomes with breaches of legislation</p> <p>Measures Investigators competencies, training requirements and continued professional development.</p>	90%	Monitored Monthly/ Reported Quarterly
<b><i>Investigations are concluded appropriately, and outcomes recorded.</i></b>			
Total number of closures	<p>Investigations closed correctly</p> <p>Measures that all investigations have been closed correctly, so that the outcomes are accurate which then helps inform our Fraud Strategy, Plans and Counter Fraud Governance arrangements and Overall Assurance Opinion</p> <p>Measures Investigators competencies and training requirements</p>	100%	Monitored Monthly/ Reported Quarterly
Actual Value of Frauds	<p>Actual amount of fraud value or financial savings for DCC is recorded correctly</p> <p>Measures the effectiveness of the Fraud Team and the value for money investing in a Counter Fraud function</p>	100%	Monitored Monthly/ Reported Quarterly

	Operational Objectives		Frequency
	Cost of the Fraud Team against the total amount of fraud value or financial savings for DCC as included within our Values & Measurement		
Types of Prosecutions & Sanctions	<p>Measures how many criminal investigation outcomes, with a team objective/fraud model to pursue criminal investigations</p> <p>Measures the fraud risk outcomes that are investigated to help inform our Corporate Strategic Fraud Risk, Fraud Planning, and the overall Assurance Opinion</p> <p>Measures which fraud risks pose a greater threat and how effective our counter fraud policies and any areas to focus</p> <p>Measures the value of the team having the skills, knowledge, and training/qualifications to progress such criminal outcomes</p>	<p>No target</p> <p>Ongoing review</p>	<p>Monitored Monthly/ Reported Quarterly</p>
No Fraud	<p>Measures the number of investigations that resulted in no fraud and includes the reason</p> <p>Measure's resources/investigations are dealt with effectively and efficiently to help protect the public purse/ financial savings for the authority</p> <p>Measures Investigators competencies and training requirements</p> <p>Focuses our workloads on our counter fraud plans, fraud risks and allocated resources</p>	<p>No target</p> <p>Ongoing review</p>	<p>Monitored Monthly/ Reported Quarterly</p>
<b>Partnerships</b>	<b>Deliver a professional and cost-effective fraud investigation service to clients.</b>		
Number of Social Housing Properties Recovered and/or Applications Prevented	<p>Measures the total number of properties recovered or prevented for both fraud and compliance</p> <p>Measures the number of days allocated under the Partnership against the success / results</p> <p>These will differ depending on each SLA</p>	As per tasking from provider.	<p>Monitored Monthly/ Reported Quarterly</p>

	Operational Objectives		Frequency
Allocated resource (time spent)	<p>Measures the number of days allocated under the Partnerships against the success / results and resources for the Fraud Team in Galileo</p> <p>Broken down between each separate SLA</p> <p>Calculate RTBA cases time against the volume of closures and income charged</p> <p>Measures the value of the partnerships and in CFT investing our resources away from DCC Fraud Risks</p>	<p>Targeted days as agreed in SLA's</p> <p>Ongoing review</p>	<p>Monitored Monthly/ Reported Quarterly</p>
Breakdown of income	<p>Measures the value of the partnerships and in CFT investing our resources away from DCC Fraud Risks</p> <p>Measures each partnership for value for money</p> <p>Linked to the KPI – this is the breakdown to show the £80K target</p>	<p>No target</p> <p>Ongoing review</p>	<p>Monitored Monthly/ Reported Quarterly</p>
<b>People</b>	<p><b>To enhance our capability and credibility by recruiting and retaining talented investigators and enabling them with the right skills, data, and technology to operate and develop professionally and effectively.</b></p>		
Professional standards	<p>Developing a team charter to ensure our investigators display the highest standards of professionalism, objectivity, fairness, expertise, integrity, and vision.</p> <p>To be able to conduct professional and competent investigations to a standard that informs robust process and decision making,</p> <p>Skilled at understanding core business process affected by the matter under investigation and that fraud often stretches across organisational boundaries.</p> <p>Recognise that investigators have different knowledge, experience and skills and to utilise this as a team.</p>	<p>No target</p> <p>Ongoing review</p>	<p>Monitored Monthly/ Reported Quarterly</p>

	Operational Objectives		Frequency
Continuous professional development	Give opportunities to staff to help develop and improve their professional practice  Encourage self-assessment for personal development in PDR's and record progress on GCFP Professional skills platform.	No Target  Ongoing review	Monitored Monthly/ Reported Quarterly

### Our Counter Fraud Operational plan 2023-24

The Counter Fraud Operational plan details the key activities we will be undertaking during 2023-24 alongside our operational priorities.

Task	Responsibility	Planned Completion Date	Actual Completion Date	Comments / Deliverables
1) Annual review and publication of all five Counter Fraud policies	Fraud Manager / Chief Internal Auditor & Corporate Fraud Manager	31/03/2024		Policies are: <ol style="list-style-type: none"> <li>1. Confidential Reporting Code</li> <li>2. Counter Fraud &amp; Corruption Strategy</li> <li>3. Fraud Response Plan</li> <li>4. Money Laundering Policy</li> <li>5. Fraud Sanction Policy</li> </ol>
2) Annual review of Counter Fraud pages on the Internet and Intranet	Fraud Manager	31/03/2024		<ol style="list-style-type: none"> <li>1. Review and make any appropriate amendments</li> <li>2. Link in with Fraud Communication Strategy</li> </ol>
3) Annual submission of Fraud Transparency data	Fraud Manager	01/11/2023		<ol style="list-style-type: none"> <li>1. Finalise data</li> <li>2. Upload onto website</li> </ol>

Task	Responsibility	Planned Completion Date	Actual Completion Date	Comments / Deliverables
4) Implementation of a Fraud Awareness programme	Fraud Manager / Corporate Fraud Team	31/03/2024		To include: <ol style="list-style-type: none"> <li>1. Develop a programme of fraud awareness</li> <li>2. Service fraud awareness delivered to high-risk areas</li> <li>3. Implementation of a corporate e-learning fraud awareness training system</li> <li>4. Introduce a process to alert all relevant service areas of fraud risks alerts</li> <li>5. Review fraud awareness at induction within recruitment and selection</li> </ol>
5) To continue to develop the use of data analytics using both CFS and IDEA and the benefits applied to finding more fraud – dovetailed to Fraud Data Hub pilot.	Fraud Manager / Corporate Fraud Team	31/03/2024		<ol style="list-style-type: none"> <li>1. Data Analytical tests created</li> </ol>
6) To complete the Northeast Data Hub pilot with Gateshead and Newcastle	Fraud Manager / Corporate Fraud Investigator	31/03/2024		Potential uses of hub: <ol style="list-style-type: none"> <li>1. Data Matching – NFI replica</li> <li>2. Data Matching – Other</li> <li>3. Intelligence – Internal</li> <li>4. Intelligence – Cross boundary</li> <li>5. Verification Vetting</li> <li>6. RSLs data to be included</li> </ol>

Task	Responsibility	Planned Completion Date	Actual Completion Date	Comments / Deliverables
7) To monitor and manage the current Tenancy Fraud SLAs, making sure they are Value for Money and Successful	Fraud Manager / Corporate Fraud Team	31/03/2024		Current partnerships are with:  1. Livin Housing 2. Believe Housing 3. Gentoo Homes
8) To monitor and manage all RTB verification SLAs, making sure they are Value for Money and Successful	Fraud Manager / Corporate Fraud Team	31/03/2024		Current partnerships are with:  1. Karbon Homes 2. Bernicia 3. Livin Housing 4. Gentoo
9) To develop further Strategic Commercial Partnerships/ Activity	Fraud Manager	31/03/2024		To review:  1. Believe Housing RTB verification 2. Karbon Homes Tenancy Fraud 3. Bernicia Tenancy Fraud 4. Durham Key Options 5. Fraud Services for other LA's 6. Succession Tenancy Fraud verification
10) Protecting the Public Purse Reports presented to Audit Committee bi-annually	Fraud Manager	31/03/2024		Audit Committee:  1. Full Report for 2022/23 (June 2023) 2. Update Report for 2023/24 (Nov 2023)

Task	Responsibility	Planned Completion Date	Actual Completion Date	Comments / Deliverables
11) National Fraud Initiative 2022/23	Fraud Manager / Corporate Fraud Investigator / Corporate Fraud Team	01/11/2023		<ol style="list-style-type: none"> <li>1. Complete sifting of results and collating feedback from other service areas.</li> <li>2. Complete feedback report for Chief Internal Auditor and Corporate Fraud Manager.</li> </ol>
12) Progress the Fraud Risk Survey and further develop an Operational Fraud Risk Register  To include a Fraud Loss Measurement and Fraud Cost Exercise	Fraud Manager / Principal Risk Officer	31/03/2024		<ol style="list-style-type: none"> <li>1. Survey to all HoS Service Fraud Risks</li> <li>2. Create an Organisational Fraud Risk Register</li> <li>3. Work with service areas on the fraud risks</li> <li>4. Fraud Champion in each area</li> <li>5. Regular monitoring of fraud risks</li> </ol>
13) Continue to be involved and develop the Regional and National Fraud groups, profiling Durham County Council Corporate Fraud Team	Fraud Manager	31/03/2024		<ol style="list-style-type: none"> <li>1. Northeast Counter Fraud Group (NECFG) – Chair and Secretariat</li> <li>2. Northeast Tenancy Fraud Forum (NETFF) – Joint Chair</li> <li>3. Fighting Fraud and Corruption Locally (FFCL) - Regional Rep and Operational Board member</li> <li>4. National Investigation Officers Group (NIOG) – Steering Group Member</li> </ol>
14) Review and implement the Fraud Communication Strategy into 2022/23	Fraud Manager / Comms Team	31/03/2024		<ol style="list-style-type: none"> <li>1. Separate document for the actions and timelines</li> <li>2. Ongoing strategy/plan</li> <li>3. Constant review and regular meetings</li> </ol>



Task	Responsibility	Planned Completion Date	Actual Completion Date	Comments / Deliverables
15) Implement the new Fraud Performance Framework and monitor the team performance	Fraud Manager	31/03/2024		<ol style="list-style-type: none"> <li>1. 3 KPI's</li> <li>2. 4 Operational Priorities</li> <li>3. Reviewed and monitored through quarterly reports to RMT.</li> </ol>
16) To continue to progress and monitor the Counter Fraud Apprenticeships	Fraud Manager / Chief Internal Auditor and Corporate Fraud Manager	31/03/2024		<ol style="list-style-type: none"> <li>1. Recruit a new Corporate Fraud Apprentice for 2023 intake onto CIPFA Level 4 training.</li> <li>2. Manage, mentor and develop across the year.</li> </ol>
17) To review Procurement Fraud & Grant Fraud Risks and introduce a fraud plan to tackle these areas	Fraud Manager / Corporate Fraud Team / Procurement Service	31/03/2024		<ol style="list-style-type: none"> <li>1. Lessons learned report following several investigations working closely with Audit Team.</li> <li>2. Procurement checklist to be reviewed with service area and agree fraud risks, controls, and any actions</li> <li>3. Similar approach with grants</li> </ol>
18) To further develop the Financial Investigators Role and embed this within the Team	Fraud Manager / Corporate Fraud Investigator / Corporate Fraud Team	31/03/2024		<ol style="list-style-type: none"> <li>1. Temporary contract for FI extended to 03/24</li> <li>2. Investigator to follow Financial Intelligence Officer training pathway</li> <li>3. To progress to full FI training.</li> </ol>
19) To apply for collective membership to the Government Counter Fraud Profession.	Fraud Manager	31/03/2024		<ol style="list-style-type: none"> <li>1. Benchmark new standards as an organisation based on Government Functional Standard.</li> <li>2. Benchmark new standards individually</li> <li>3. Review gaps and agree how to fill these</li> <li>4. Link with PSFA for assessment.</li> </ol>

Task	Responsibility	Planned Completion Date	Actual Completion Date	Comments / Deliverables
20) To review and develop the Corporate Fraud Team Procedure Manual, a new Prosecution File, and the effective Team Working Practices with CFS	Fraud Manager / Corporate Fraud Team	31/03/2024		<ol style="list-style-type: none"> <li>1. Implement both into CFS and procedure folder etc</li> <li>2. Linked to System Development Plan</li> </ol>
21) Procure and launch replacement Fraud case management system for the Corporate Fraud Team.	Fraud Manager / Chief Internal Auditor and Corporate Fraud Manager / Corporate Fraud Team	31/10/2024 (Estimated)		<ol style="list-style-type: none"> <li>1. Work with procurement and ICT services to obtain a MVP or more developed system for managing fraud cases following CIVICA contract ending in 23/24.</li> <li>2. Also look to incorporate data warehouse and data matching software to continue to be the lead LA for the Fraud Data Hub.</li> </ol>

**Audit Committee**

**30 June 2023**

**Annual Governance  
Statement for the year April  
2022 – March 2023**

**Ordinary Decision**



---

**Report of Corporate Management Team**

**Paul Darby, Corporate Director of Resources**

**Councillor Richard Bell, Deputy Leader and Cabinet member for  
Finance**

**Electoral division affected:**

None

**Purpose of the Report**

- 1 To seek approval of the Annual Governance Statement (AGS) for 2022/23, attached in appendix 2.

**Executive summary**

- 2 The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts.
- 3 The AGS demonstrates the Council's compliance with the principles of good governance, and the review of effectiveness for 2022/23 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 eleven actions, listed in appendix C of the AGS, should be included in the plan of improvements to strengthen governance arrangements during 2023/24.

**Recommendation**

- 5 Audit Committee is requested to approve the AGS as attached at appendix 2.

## **Background**

- 6 The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement (AGS), which must accompany the Statement of Accounts.
- 7 The Corporate Director of Resources is responsible for co-ordinating and overseeing the Council's corporate assurance arrangements and prepares the AGS to demonstrate the Council's compliance with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts. The AGS is included in appendix 2.

## **Outcome of the Review**

- 8 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 2022/23 were fit for purpose in accordance with the governance framework.
- 9 The review also concluded that eleven actions, listed in appendix C of the AGS, should be included in the plan of improvements to strengthen governance arrangements during 2023/24.
- 10 Mazars, the Council's external auditor, will review the draft AGS as part of their audit of the Statement of Accounts and in considering the Council's arrangements for securing Value for Money.

## **Author**

Kevin Roberts

Tel: 03000 269657

---

## **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. 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**

None

### **Crime and Disorder**

None

### **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, but the procurement function helps meet several core principles of the CIPFA / SOLACE guidance by, for example, minimising fraud, corruption and non-compliance with legislation and good practice, thereby helping to secure value for money and effective service delivery.

---

## Appendix 2: Annual Governance Statement 2022/23

---

### 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 2023.

### CONTEXT

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

### SCOPE OF RESPONSIBILITY

3. Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
4. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
6. In January 2023, the Council approved, adopted and published on its website, a revised [Local Code of Corporate Governance](#), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – "Delivering Good Governance in Local Government".

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2023 and up to the date of approval of the Statement of Accounts.

## THE GOVERNANCE FRAMEWORK

10. The key elements of the Council's governance arrangements are detailed in the Council's [Local Code of Corporate Governance](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA / SOLACE Framework.
11. The Chief Executive, Chief Financial Officer and Head of Legal and Democratic Services meet as statutory officers twice a month to discuss matters relevant to their statutory functions and governance of the Council generally.
12. The Constitution Working Group, which consists of the lead members of each political group and the Chair of Corporate Overview and Scrutiny Management Board, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in [March 2023](#).
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 Democratic Services Manager is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.



14. The following sections provide 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 2022/23.

## 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 of 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 the Council's compliance 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 review was also informed by a statement provided by each Corporate Director commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

19. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit Committee in June 2023. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance.
20. We are satisfied that, whilst recruitment and retention challenges have had an impact in reducing the overall number of individual assurance audits delivered than would normally be expected, in prioritising audit activity to areas of key risk and when taken together with work other sources of assurance being identified from within services themselves, 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 2022/2023. The level and nature of internal audit work undertaken has therefore not required the Chief Internal Auditor and Corporate Fraud Manager to provide a formal Limitation on the Opinion to be delivered and as such 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.
21. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2022/23 is included in **appendix A**. An update on improvements identified in the 2021/22 Annual Governance Statement is included in **appendix B**.

## CONCLUSION

22. 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 2022/23 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 eleven actions as part of ongoing improvements to further strengthen governance arrangements in 2023/24. These are shown in **appendix C**.

## **APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

Signed:

Amanda Hopgood  
Leader of Durham County Council

John Hewitt  
Chief Executive

Paul Darby  
Corporate Director of Resources

## **APPENDIX A: Governance Arrangements during 2022/23**

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 2022/23.

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

#### **Behaving with integrity**

1. The [Code of Our Values Behaviour and Conduct](#) explains our values, sets out the responsibilities we all have and the standards of behaviour that are expected of us. In April 2021, the process for declaring personal interests, [gifts and hospitality](#) was digitised so that heads of service receive notifications of declarations, which are recorded on the employee's personal file.
2. Our core values have been invaluable in shaping the response to Covid-19 and addressing the drivers of poverty, including food and energy inflation: -
  - (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.
3. The [register of gifts, interests and hospitality for members](#) is available online. Staff declarations are monitored by their Head of Service. The Monitoring Officer also maintains quarterly oversight of the Register of Officers Gifts and Hospitality and presents an annual report to the Corporate Management Team.
4. The Contract Procedure Rules set out how contracts for goods, works, services and utilities should be put in place and managed, and specify record keeping and reporting requirements related to procurement activity.
5. In January 2022, the Council agreed to a [members' allowances scheme for 2022-2023](#), taking into account the views of the independent remuneration panel, which the Council is required by law to establish and maintain. The Council is also required in accordance with the Local Authorities ([Councillors' allowances](#)) (England) Regulations 2003 to publish the sum paid to each Member in respect of Basic Allowance, Special Responsibility Allowance, Dependants' Carers' Allowance, Travelling and Subsistence Allowance and Co-optees Allowances.

## Demonstrating strong commitment to ethical values

6. In December 2022, the [Standards Committee](#) considered a report of the Head of Legal and Democratic Services, which provided details of the Local Government Association's report, 'Debate Not Hate: The Impact of Abuse on Local Democracy'. In January 2023, the [Council](#) agreed to sign the [Debate not Hate](#) statement and the Debate Not Hate Campaign has been added to the Standards Committee [Work Programme 2023/24](#).
7. The [2021/22 annual report of the Standards Committee](#), which is responsible for promoting and maintaining high standards of conduct by councillors, was presented to Council in September 2022.
8. Guidance on how to [make a complaint](#) is available on the Council's website. Quarterly customer feedback reports are presented to the [Corporate Overview and Scrutiny Management Board](#), summarising performance in dealing with corporate and statutory complaints, and identifying actions to improve service provision.
9. The Committee receives a quarterly report on [national issues](#) relating to ethical governance relevant to the work of the Committee and considers whether to make recommendations in response so that the Council maintains best practice and learns lessons from experiences elsewhere.
10. An update on complaints against councillors, considered in accordance with the council's Local Assessment Procedure, is presented quarterly to [Standards Committee](#).
11. The [Slavery and human trafficking statement 2021-22](#) explains how the Council aims to understand and address all potential modern slavery and human trafficking risks related to its business. It outlines the steps in place to ensure modern slavery or human trafficking does not occur in the Council's own business, and the preventative measures to ensure this extends to any of its supply chains. This statement is subject to continual annual review and is published on the Council's website.

## Respecting the rule of law

12. 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.
13. The Council has a [Counter Fraud & Corruption Strategy](#), through which it is committed to a zero-tolerance approach to fraud and corruption against the Council and its partners. The Corporate Fraud team examines all reports of fraud,

vigorously pursuing sanctions and prosecutions and, where possible, publicising successful cases. The [Protecting the Public Purse Annual Report 2022/2023](#) gives an account of the team's work between 1 April 2022 and 31 March 2023 and the Update Activity Report gives an account of their work between 1 April 2022 and 30 September 2022. Since its' creation in 2015, the team has uncovered or intercepted over £14.8m of fraud, investigating over 4,500 cases across the authority, handling a diverse range of investigations.

14. [Selective licensing](#) of privately rented properties, which aims to drive up standards and thereby improve communities, came into effect in April 2022 until March 2027. The Council will have powers to regulate landlords and managing agents in areas that suffer from low housing demand or high levels of anti-social behaviour or deprivation.
15. In September 2022, Corporate Overview and Scrutiny Management Board were presented with a report on the [Annual Review of the Council's use of powers under the Regulation of Investigatory Powers Act 2000](#).
16. In September 2022, the Pension Fund Committee considered the [Procedure for Reporting Breaches](#) in relation to the Durham County Council Pension Fund and authorised the Corporate Director of Resources to finalise and implement the procedure, taking into account any comments from the Pension Fund Committee and Local Pension Board.
17. The Cabinet considered a report in [May 2022](#), which reviewed enforcement activities under the Children and Young Persons (Protection from Tobacco) Act 1991, the Anti-Social Behaviour Act 2003, and the Licensing Act 2003 for the period April 2021 to March 2022 and sought approval of a new enforcement programme for 2022/23.

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

### Openness

18. 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 decisions made by Cabinet in [March 2022](#) and [April 2022](#) in relation to reports on,
  - (a) Review of Durham Light Infantry (DLI) Collection and Archive and the potential future use of the former DLI Museum and Art Gallery and Grounds at Aykley Heads; and
  - (b) Review of Durham County Council Headquarters.

19. Lists of key decisions to be considered by the Council's Executive were submitted to Corporate Overview and Scrutiny Management Board in [June 2022](#), [September 2022](#), [October 2022](#), [December 2022 and January 2023](#), as required by the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

### Engaging comprehensively with institutional stakeholders

20. The Leader of the Council is the chair of the County Durham Partnership including: the board and forum, which bring together the board and local communities; five partnerships (Health and Wellbeing Board, Safe Durham Partnership, Economic Partnership, Environment and Climate Change Partnership and County Durham Together Partnership); Durham Safeguarding Children Partnership; Durham Safeguarding Adult Partnership; Better Together Voluntary and Community Sector Forum; and all Area Action Partnerships.

Examples of partnership working can be found in the following reports: -

- (a) County Durham Partnership updates to Cabinet in [June 2022](#), [November 2022](#) and [March 2023](#).
- (b) [Review of the Mental Health Strategic Partnership and the governance of Mental Health and Wellbeing across County Durham](#)
- (c) [Adopt Coast to Coast](#)
- (d) [Future Adult Social Care Reform Assurance](#)
- (e) [Storm Arwen review](#)
- (f) [Health and Care Integration](#)
- (g) [Border to Coast Pensions Partnership Governance Arrangements](#)
- (h) [County Durham Pound Project Update](#)
- (i) [Family Hubs and Start for Life Programme](#)
- (j) [UK Shared Prosperity Fund Update](#)

21. 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. In January 2023, [Cabinet](#) considered a report of the Chief Executive, which provided a summary of the discussions with Government and the LA6 Councils relating to devolution in County Durham; and information relating the opportunities and impact of a devolution deal on County Durham.

22. The Consultation Officer Group supports the Council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.

23. The [Statement of Community Involvement](#) 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.

24. Following the Covid19 pandemic and the removal of legislation permitting virtual committee meetings, the Council reverted to face-to-face meetings from 1 March 2022.
25. The [framework for good workforce mental health in County Durham Businesses](#) supports small and medium sized businesses and voluntary and community sector organisations, which are less likely to have equitable access to good quality training and support for owners and employees. Also, the negative impact of poor mental health and wellbeing in these workplaces is likely to be bigger in terms of staff absence and reduced productivity.

### Engaging with individual citizens and service users effectively

26. Consultation on the [Medium Term Financial Plan 2023/24 to 2026/27](#) in October and November 2022 involved residents and partners and considered proposals to balance the council's budget for the next financial year (2023/24) that were published in the Cabinet report in October 2022. Presentations were made to the 14 Area Action Partnership Boards, and officers attended meetings of the County Durham Partnership, County Durham Association of Local Councils (CDALC) and the Youth Council and met with Trade Unions representatives during the period of the consultation.
27. In March 2023, an update was given to Health and Wellbeing Board on the findings from the independent consultant on the review of the council's [community engagement function](#) and our approach to a public county wide consultation.
28. Public consultation exercises were undertaken during the year on a range of issues, including Pharmaceutical Needs Assessment, our Physical Activities Strategy, Veterans Health Needs Assessment, Growing Up in County Durham Strategy, Anti-Social Behaviour Strategy, Regeneration projects in Bishop Auckland and Horden, Supplementary Planning Documents that support our County Durham Plan, the Inclusive Economic Strategy, Leisure Transformation, Public Space Protection Orders, our Customer Services Review and Poverty Action Plan. The full list can be found on the [Consultations](#) pages of the website.
29. 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.
30. Through our Integrated Customer Service initiative and Unified Communications Strategy, we continue to drive improvements across customer services to enhance the customer experience and reduce complaints. Automatic Call Distributor technology prompts telephone callers to 'describe in a few words' why they are calling and connects the person to the correct agent or department as well as offering a text message with a link to the appropriate information on the corporate website. The system also enables a holistic view of demand and performance statistics for all telephony contact, which is reported quarterly through Corporate Overview and Scrutiny Management Board.



31. The following reports evidence the methods used by the Council to communicate with citizens and service users to provide feedback, publish information and to collect and evaluate their views, experiences and future needs: -
- (a) Questions from the public received by the County Council at its meetings in [June 2022](#), [July 2022](#), [October 2022](#), and [December 2022](#).
  - (b) Updates in relation to petitions received by the Council reported to Corporate Overview and Scrutiny Management Board (COSMB) at its meetings in [September 2022](#) and [December 2022](#).
  - (c) Customer Feedback Report, Year End update, 2021/22 ([COSMB, July 2022](#)).
  - (d) Adults and Health Services Annual Statutory Representations Report 2020/21 ([COSMB, October 2022](#)).
  - (e) Presentation by the Director of Public Health on various public health campaigns ([Health and Wellbeing Board, January 2023](#)).
32. [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](#).
33. Following the publication of the government Living with Covid guidance, the County Durham health protection governance arrangements were reviewed to align the robust Covid-19 assurance arrangements with wider health protection governance, capturing the learning and the successful approaches and interdependencies established during the Covid-19 response. The Health Protection Assurance and Development Partnership membership and Terms of Reference were revised accordingly.

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

#### Defining outcomes

34. 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. 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.
35. In February 2022, Cabinet approved the updated [Tenancy Strategy 2022 - 2027](#), which sets out the Council's expectations to the registered providers of social housing operating within the County regarding the types of tenancy they should offer to their tenants.
36. Despite this very challenging financial period and the significant base budget pressures faced by the Council, the [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24](#) report includes some very positive outcomes for the people of County Durham including: -
- (a) continued support to protect the 54,700 working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme, where 80% of eligible households will continue to be awarded 100% relief against their Council Tax payments and where those left with a bill will receive up to £50 for pensioners and up to £110 for working age claimants of additional support next year,
  - (b) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide,
  - (c) significant investment in capital expenditure including investment in school provision, in our town centres and infrastructure, including new transport schemes and maintenance of our highways and pavements. In total, additional capital investment of £121.9 million is recommended in this report.
37. In May 2023, the Health and Wellbeing Board endorsed the [Final Joint Local Health and Wellbeing Strategy 2023-2028](#), which is a legal requirement under the Health and Social Care Act 2012, to ensure health and social care agencies work together to agree services and initiatives which should be prioritised.
38. There are clear links between the Financial Management Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes.
39. In April 2022, Cabinet adopted the [Special Educational Needs and Disability \(SEND\) Strategy](#) for the period 2022-24. At the heart of our approach to the strategy, which was developed through extensive stakeholder engagement and public consultation, is a vision for children and young people with special educational needs and disabilities that is the same as for all children and young people in County Durham: that they are safe and part of their community, have the best start in life, have good physical and mental health, and gain the education, skills, and experiences to prepare them for adulthood.

40. Other strategies and plans setting out the Council's intended outcomes include: -

- (a) [Anti-Social Behaviour Strategy 2022-2025](#)
- (b) [Care Leavers Strategy and Action Plan January 2022 – December 2024](#)
- (c) [Climate Emergency Response Plan 2022-24](#)
- (d) [Growing Up in County Durham Strategy 2023-25](#)
- (e) [Inclusive Economic Strategy](#)
- (f) [Final Joint Local Health and Wellbeing Strategy 2023-2028](#)
- (g) [Poverty Strategy and Action Plan 2022-2026](#) (following a consultation exercise undertaken April to August 2022)
- (h) [Road Safety Strategy 2022-2032](#)
- (i) [Sufficiency and Commissioning Strategy for Looked After Children and Care Leavers 2022-2024](#)
- (j) [Youth Justice Plan 2022 - 2023](#)

### Sustainable economic, social and environmental benefits

41. In [April 2022](#), Cabinet declared an ecological emergency for County Durham. Accordingly, actions to address the ecological emergency will be reflected in future MTFP planning cycles and other projects and programmes. In December 2022, the Cabinet considered a report which outlined an initial strategy and action plan for Council activities in response to the declaration of an ecological emergency made in April 2022.
42. Through its [Accessibility Statement](#), the Council endeavours to make the full range of services available on our website accessible to everyone, regardless of their skill or technology. Also included is an account of the Council's level of the compliance with the Web Content Accessibility Guidelines and plans to remedy non-accessible content. There is also a link to the enforcement procedure.
43. In November 2021, the Health and Wellbeing Board was presented with an overview of the work being undertaken to mitigate against COVID-19 vaccine inequality in underrepresented groups across County Durham.
44. The [Gender Pay Gap Report](#) and [Public Sector Equality Duty Report](#) set out Durham County Council's data, analysis and plans for long term improvements.
45. In October 2021, Cabinet endorsed the [Armed Forces Covenant](#), which is a promise by the nation, ensuring that serving and former armed forces personnel and their families are treated fairly and will not be disadvantaged in accessing public services by their military service.
46. In December 2022, the Pension Fund Committee considered a report that provided an update on the approach to Responsible Investment at Border to Coast Pension Partnership. As required by law, the Fund's Investment Strategy Statement includes details of how environmental, social and governance issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.

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

### Determining interventions

47. The Council continues to ensure that decision makers receive an objective and rigorous analysis of options, highlighting risks and considering feedback from service users and relevant stakeholders. An example is the Durham County Council Headquarters Alternative Options Assessment, reported to [Cabinet, April 2022](#).
48. The [County Durham Commissioning and Delivery Plan 2020-2025](#) update report was presented to Health and Wellbeing Board on 24 November 2021. The Plan is administered by the County Durham Care Partnership Executive (of which the council is a partner) and helps shape commissioning decisions through understanding the needs of communities and individuals, so that collective resources and staff can be used to meet those needs. The Council submitted its Cost of Care and draft Market Sustainability Plan (MSP) to Department of Health and Social Care (DHSC) in October 2022, as required by national guidance. Work is continuing with the markets in scope, including older persons care homes and domiciliary home care, to complete and submit a final MSP in late March 2023 as specified by DHSC. The Integrated Commissioning service has continued to strengthen its approach to governance in terms of provider support, including formal recruitment and training approaches through the Durham Care Academy; the establishment of a care home provider panel with a range of provider representatives; and widened scope of provider forums to include system issues relevant to local markets.

### Planning interventions

49. Following a change in administration in May 2021, a new Council Plan was considered by Cabinet in April 2022 and approved by Council in June 2022. A [refreshed version of the plan](#) covering the four-year period 2023 – 2027 was approved by Council in February 2023. The Council Plan is the primary corporate planning document for the county council and details the Council's contribution towards achieving the objectives set out in the [Vision for County Durham 2035](#) together with its own objectives and change agenda. The Council Plan aligns to both the council's Medium-Term Financial Plan and the County Durham Plan, which is a spatial representation of our ambitions contained within the Council Plan around housing, jobs and the environment until 2035, as well as the transport, schools and infrastructure to support it. The Council Plan is underpinned by a series of corporate strategies and service planning arrangements providing more detailed information on the actions being undertaken to deliver on our priorities and to avoid duplication.

50. The Corporate Director of Resources delivered a presentation to Audit Committee on the council's approach to planning, performance, major projects, and change. It was noted that, as a result of the Transformation Programme 2017 – 2022, the Council has: -
- become renowned for our skilled and flexible workforce and our employee engagement,
  - helped communities to become more self-reliant and resilient,
  - moved partnership working from good to great, and
  - redesigned our services to better meet customer's needs at reduced cost to the Council.

In the 2024/25 planning cycle, the aim is to deliver increased value for money by further strengthening the alignment of the processes for service planning, financial planning, performance management and service development.

51. The [Medium Term Financial Plan 2023/24 to 2026/27 \(MTFP13\)](#), which was approved by the Council in February 2023, 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. Prior to being approved by Council, the MTFP13 underwent scrutiny and challenge by [Corporate Overview and Scrutiny Management Board](#). In addition, the [Adults Wellbeing and Health OSC](#) and [Children and Young Peoples OSC](#) established working groups to identify potential efficiencies and income generation initiatives as part of the process.
52. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT). The drivers for the council's financial strategy, which were agreed by Cabinet on 28 June 2010 for MTFP1, and still underpin the strategy in MTFP13: -
- (a) set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
  - (b) fund agreed priorities, ensuring that service and financial planning are fully aligned with council plans;
  - (c) deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
  - (d) strengthen the council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes; and
  - (e) ensure the council can continue to demonstrate value for money in the delivery of its priorities.
53. [Quarterly performance reports](#), which answer key performance questions rather than rely on performance indicators, have been aligned to the new [Council Plan](#) and [County Durham Vision 2035](#).

54. In November 2022, the Health and Wellbeing Board received a report on the [Better Care Fund Plan 2022-23 \(BCF\)](#). The BCF is one of the government's national initiatives for driving health and social care integration and requires Clinical Commissioning Groups and local government to agree a joint plan for using pooled budgets to support integration.
55. In [June 2022](#), Cabinet considered a report, which provided an overview of the guidance and bidding requirements to access Round 2 of the Levelling Up Fund and sought approval for the submission of five proposals across County Durham for the parliamentary constituencies of City of Durham, Easington, North Durham, North West Durham and Sedgfield.
56. In [July 2022](#), Cabinet considered a report, which provided an update on the approach and progress made so far in the development of an Investment Plan for the UK Shared Prosperity Fund, and sought approval for the submission of the UKSPF Investment Plan for Durham.

### Optimising achievement of intended outcomes

57. The Council has established a Shareholder Working Group comprising the Leader, Deputy Leader and relevant portfolio holders, the Chief Financial Officer and Monitoring Officer and Head of Finance to oversee performance and proposals in relation to the Council's companies. Shareholder decisions rest with Cabinet or the relevant Corporate Director in accordance with the Officer Scheme of Delegation within the Constitution. The Company Governance Group supports the work of the Shareholder Working Group with the oversight of the Council's companies' governance arrangements, including consideration of the strategic approach to, and structure of, its' companies and joint venture arrangements. The Group seeks to ensure that officers who work with, or who are appointed as, directors of Council companies understand their roles and responsibilities, identify and manage conflicts of interests, and provide resilience in the Council's resourcing of companies. Company governance training is included in the Council's Workforce Learning and Development Plan. Updates on the Group's work are periodically presented to the Corporate Management Team.
58. The following reports outline measures taken by the Council to optimise the achievement of outcomes included in the Council Plan: -
- (a) Climate Emergency Response Plan 2022-24 Update, [Health and Wellbeing Board, September 2022](#) (OUR ENVIRONMENT)
  - (b) Finance Durham – the First Five Years, [Cabinet, November 2022](#) (OUR ECONOMY)
  - (c) Humanitarian Support in County Durham, [Cabinet, October 2022](#) (OUR PEOPLE)
  - (d) Local Council Tax Reduction Scheme 2023/24, [County Council, October 2022](#) (OUR ECONOMY)
  - (e) Scope 3 Emissions, [Environment and Sustainable Communities Overview and Scrutiny Committee, May 2022](#) (OUR ENVIRONMENT)



- (f) Supporting Solutions Update, [Corporate Parenting Panel, September 2022](#) (OUR PEOPLE)
- (g) Unaccompanied Asylum-Seeking Children, [Corporate Parenting Panel, October 2022](#) (OUR PEOPLE)

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

### Developing the Council's capacity

59. The Council's Digital Strategy 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. Projects supporting these aims that have been completed during the last year include: -

- (a) The council's device replacement programme which ensures staff are equipped with the necessary technology to allow them to work virtually and in office, including access collaboration and communication applications, and the implementation of telephony software.
- (b) Mobile working projects to support employees in a range of front line and roles.

60. The [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. The strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities. Projects supporting delivery of Digital Strategy outcomes that have been completed in the last year include: -

- (a) Digital Customer
  - i. Website improvements: Accessibility, digital channel shift / Customer Relationship Management
  - ii. Contact Centre: conversational AI (artificial intelligence), chatbots
  - iii. Digital Durham: Better broadband programmes
- (b) Digital Organisation
  - i. Hybrid Working: Technology support, remote access projects
  - ii. Service Desk: Incident management, self-service/self-help
  - iii. Applications Review to establish direction for provision of major applications
  - iv. Office 365: Expanded suite of productivity applications
  - v. Hosting Review to set direction for provision of data centre, hosted and cloud services
  - vi. Commercial Services Review to ensure services to external bodies are appropriate, profitable and sustainable

- vii. MTFP Financial review to set budgets and achieve efficiencies
- viii. Capital Schemes totalling over £4million to ensure that digital infrastructures remain fit for purpose
- ix. Cyber Security Framework to provide a blueprint and associated policies for the secure provision of ICT services.

(c) Digital Communities

- i. Digital Inclusion Strategy development
- ii. Support to Poverty Action Steering Group
- iii. Support to develop digital themes with the Inclusive Economic Strategy

61. The Community Assets Steering Group was re-established to develop a new policy and process to oversee new and existing asset transfers, which were previously managed under the Durham Ask programme.
62. Following a cyber self-assessment and analysis of our current position and market conditions, options for appropriate cyber insurance cover continue to be explored. Market conditions are currently unfavourable due to several recent global hacks and continued uncertainty following Russia's invasion of Ukraine. Local authorities are regarded as high-risk with only a limited number of companies willing to provide insurance on a case-by-case basis, subject to a detailed assessment of our risks and mitigations. Costs have increased significantly, cover is limited if available, and insurance brokers have advised to invest the money that was earmarked for premiums in to improving defences. During the year, resilience was enhanced through a review of our current programme, the development of the Council's corporate [Cyber Security Strategy](#) and framework in addition to the delivery of a mandatory programme of cyber-security training and awareness for relevant employees. To further reduce the risk of a cyber-attack, our remote access policy was changed recently to reduce the number of countries from which staff can connect to DCC systems, applications and electronic resources. We continue to monitor and respond to the changing cyber-security landscape and emerging threats.
63. In December 2022, the Council received a report of the Chief Executive regarding the decision of the Chief Officer Appointments Committee to create a new Head of Service role, [Head of Corporate Affairs](#), which would report directly to the Chief Executive. The postholder will lead on the council's management of corporate affairs and provide support to the Chief Executive and Corporate Management Team to deliver the strategic priorities of the council. This new post includes responsibility for corporate communications and media as well as corporate strategy, planning and performance.
64. The following reports set out measures taken by the Council to develop the capabilities of members and senior management to enable a successful response to change and risks: -
- (a) Counter Terrorism - Prevent Awareness Session, [Safer and Stronger Overview and Scrutiny Committee, April 2022](#)



- (b) Impact of the Education White Paper – Opportunity for all: Strong schools with great teachers, [Children and Young People's Overview and Scrutiny Committee, May 2022](#)

65. In October 2022, the Corporate Parenting Panel received a report, which provided information on the role of Independent Visitors (IV) who are trained volunteers who provide trusted and consistent relationships to children and young people looked after. At the end of August 2022 there had been 93 referrals to the service for a match, with 70 matches being made and 37 matches concluded. The service aims to meet the National Independent Visitor Service target of 10% of children in care being matched by June 2024. The service requires that students who volunteer must be able to commit to the role for at least one year and preferably two years in order to provide continuity.

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

66. The Corporate 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 and consultation responses both within the Council and with key partners, which are outlined in the [Overview and Scrutiny Annual Report](#) and the [Overview and Scrutiny Six-Monthly Update](#).

Examples include: -

- (a) The Inclusive Economic Strategy (E&E OSC<sup>1</sup>)
- (b) Ecological Emergency Review and Declaration (ESC OSC<sup>2</sup>)
- (c) Leisure Transformation Programme (ESC OSC and E&E OSC)
- (d) Climate Emergency Response Plan (CERP) (ESC OSC)
- (e) Durham County Council Allotments Policy (ESC OSC)
- (f) Library Transformation (ESC OSC)
- (g) Developing a new Special Educational Needs and Disabilities Strategy (CYP OSC<sup>3</sup>)
- (h) County Durham Children, Young People and Families Strategy (CYP OSC)
- (i) Contextualised Safeguarding (CYP OSC and SSC OSC<sup>4</sup>)
- (j) Safer Durham Partnership ASB Strategy (SSC OSC)
- (k) County Durham and Darlington Fire and Rescue Service Community Risk Management Plan
- (l) Pharmaceutical Needs Assessment (AWH OSC<sup>5</sup>)
- (m) Access to Primary Care in County Durham (AWH OSC)
- (n) Quality Accounts for County Durham and Darlington NHS Foundation Trust; North East Ambulance Service NHS Foundation Trust and Tees, Esk and Wear Valleys NHS Foundation Trust (AWH OSC)
- (o) Oral Health Strategy (AWH OSC)
- (p) Joint Health and Wellbeing Strategy (AWH OSC and CYP OSC).

---

<sup>1</sup> Economy and Enterprise Overview and Scrutiny Committee

<sup>2</sup> Environment and Sustainable Communities Overview and Scrutiny Committee

<sup>3</sup> Children and Young People's Overview and Scrutiny Committee

<sup>4</sup> Safer and Stronger Communities Overview and Scrutiny Committee

<sup>5</sup> Adults, Wellbeing and Health Overview and Scrutiny Committee

67. A refresh of the Corporate Overview and Scrutiny Management Board [work programme 2022/23](#) was agreed in June 2022.
68. The Durham Learning and Development system hosts our Performance and Development Review scheme, which was launched for leaders, managers and core employees in 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 personal development. During 2022/23, managers attended mandatory training throughout the year to develop their skills as part of the corporate learning programme. Senior leadership development programmes were relaunched for Corporate Management Team, Extended Management Team and strategic managers.
69. Employees' needs, in terms of training, development, health and wellbeing, are delivered through our Workforce Strategy and the Health, Safety and Wellbeing Strategy. Workforce Plans are being developed for all service areas to support current and future workforce challenges. In addition, the feedback and high-level results from the 2022 Working Well Survey will help inform key corporate actions and themes for the Council to address as well as service specific actions.
70. A revised Health, Safety and Wellbeing Strategy for 2022-2025 was introduced following consultation and agreement by Corporate Management Team in August 2022. The revised strategy now focuses on six key areas which are control, compliance, culture, cooperation, competence, and communication. A series of key milestones for each of the indicators has been attributed and will be implemented and monitored through the Corporate Health and Safety Group on a quarterly basis. The second employee working well survey was undertaken to collect information about the views of employees on workplace wellbeing issues. The Council also signed up to the workplace menopause pledge which supports the Menopause Workplace Pledge campaign. In doing so, the Council has committed to recognising that the menopause can be an issue in the workplace that needs support, talking openly, positively and respectfully about the menopause and actively supporting and informing employees affected.
71. The Council continues to support employees through the change process with, for example, confidential counselling services through the Employee Assistance Programme. A Wellbeing Portal has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.
72. The Council achieved the Maintaining Excellence Better Health at Work Award and surveyed staff to inform future health and wellbeing campaigns.
73. The Council's [Apprenticeship Strategy 2022 - 2025](#) was approved by Cabinet in April 2022. Apprenticeship recruitment continues to support and grow our own approach to meet future skills requirements.

74. A report to Cabinet in June 2021 outlined a delegated decision taken by the Corporate Director of Adult and Health Services, to commission [Designated Settings](#) within care homes to provide a safe alternative for people who are temporarily unable to return to their usual place of residence due to their covid status. This arrangement was extended for 2022/23, given the ongoing need to protect residents and uncertainty on Covid levels, but it is expected to be stood down for 2023/24.
75. The Council has a Member Development Programme, which provides training on specific roles (e.g., Chair, Vice-Chair, Committee positions) and responsibilities, and the opportunity to have an annual development conversation, which identifies personal learning and development opportunities. Members also have access to well-being support through the Employee Assistance Scheme. Where appropriate, risk assessments are completed for individual Members to reflect health and wellbeing needs or risks to their personal safety.
76. A portal on the Durham Learning and Development system brings together valuable resources and information for managers. Induction for new managers includes, mandatory training, links to policies, useful documentation and guidance, briefings and useful contacts.
77. Following the cessation of Covid Plan B measures in February 2022, a hybrid working model continues to operate, which minimises the potential number of employees in the workplace at any one time, whilst also supporting our future direction of travel to work more flexibly and smarter as an organisation.

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

### **Managing risk**

78. 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 [September 2022](#), [November 2022](#) and [February 2023](#). In September 2022, the Council received a report from the [Report of the Audit Committee](#) on its work between September 2021 and August 2022, and how the Committee continues to provide for good governance across the Council.
79. The Council is jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and the Covid-19 pandemic) through the County Durham and Darlington Local Resilience Forum. The [strategic risk management progress report](#) to Audit Committee in February 2023 gave an account of work by the Council and its' partners to scale up preparedness for, and protection from, a potential terrorist attack and to ensure that the council will be able to meet the new requirements of Martyn's Law, which

follows campaigning after the Manchester Arena terror attack in May 2017 and is expected to come into force in August 2023.

80. The Pension Fund Committee has gained assurance that pension fund risks are being effectively managed through a report issued in [June 2022](#).
81. The Council's insurance policy has been enhanced to provide additional cover for third party computer fraud and network security. The Corporate Insurance Team is working to ensure that the Tree Management Policy meets the requirements of the insurance policy. Insurance-related challenges include increasing costs of cover linked to inflation and projected property portfolio increases of 20%.
82. 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) Capacity issues caused by nationwide labour shortages.
  - (c) Funding pressures in adult social care.
  - (d) The Council's role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).
  - (e) Potential disruption to the Council's and partners' urgent and emergency care services due to backlogs caused by Covid, increased demand and staff capacity issues.
  - (f) Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.

### Managing performance

83. 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.
84. 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 and Corporate Directors during the year.
85. 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.

86. 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.
87. 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.
88. 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 2022](#), [September 2022](#), [November 2022](#) and [February 2023](#).

### Robust internal control

89. The Internal Audit service has continued to face ongoing recruitment and retention challenges throughout 2022/23 year which impacted on the delivery of the overall plan. As such, the service regularly reviewed the content of the plan to ensure that the work carried out was prioritised on a risk basis and to ensure that all key financial systems and high-risk areas of activity are reviewed on an annual basis. The recruitment and retention challenges resulted in changes being made to the service structure taking place in January 2023.
90. Revised versions of the [Internal Audit Strategy, Charter and Plan 2022/23](#) were approved by Audit Committee in May 2022.
91. The Council's [Counter Fraud & Corruption Strategy](#) and companion documents, the Fraud Response Plan, Sanctions Policy, Confidential Reporting Code (Whistleblowing) and the [Anti-Money Laundering Policy](#) have all been reviewed and presented to Audit Committee in 2021/2022. A comprehensive communications and awareness plan to help launch these is planned throughout 2023.
92. The Corporate Fraud Team received Cabinet Office approval to progress a Northeast Fraud Hub Pilot with Gateshead and Newcastle Councils. The Hub uses Part 5 of the Digital Economy Act to share data and fraud intelligence to increase our capability to uncover potential and actual fraud across the region. The Cabinet Office have acknowledged that it would be beneficial for as many local authorities to be part of the Hub and have suggested that if the pilot is successful then the concept could be used nationally as a model of best practice.

## Managing data

93. 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.
94. A mandatory data protection e-learning training module was issued in 2021/22 for completion by all relevant employees. A mandatory freedom of information awareness e-learning training module is available for completion by all relevant employees.

## Strong public financial management

95. The Council has appointed the Corporate Director of 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.
96. The Government's responses to the recommendations made in the [Redmond review](#) into the oversight of local audit and the transparency of local authority financial reporting are reported regularly to Members of the Audit Committee.
97. 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) [Update on Progress towards achieving MTFP \(12\) savings](#)
  - (b) [Mid-Year Review Report on Treasury Management for the period to 30 September 2022](#)
  - (c) [Forecast of Revenue and Capital Outturn 2022/23](#)
  - (d) [Forecast of Revenue and Capital Outturn 2022/23 – Period to 31 December 2022 and Update on Progress towards achieving MTFP \(12\) savings](#)
  - (e) [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue Budget 2023/24](#)
  - (f) [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24](#)
98. Following the Government's publication in May 2022 of [statutory guidance](#) in relation to special severance payments, the Council's decision-making process for authorising such payments was reviewed and updated to ensure that the Council complies with the statutory guidance. The changes will be reflected in the annual review of the Constitution being considered by the Council in May 2023.



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

### Implementing good practice in transparency

99. 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.
100. 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). The Committee receives a quarterly report on national issues relating to ethical governance relevant to the work of the Committee and considers whether to make recommendations in response so that the Council maintains best practice and learns lessons from experiences elsewhere.

### Implementing good practices in reporting

101. 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 of reports to relevant committees include: -
- (a) [Annual Performance Update](#) (Health and Wellbeing Board, July 2022)
  - (b) [Annual Report of Durham County Council's Fostering Service](#) (Corporate Parenting Panel, September 2022)
  - (c) [Annual Report on the Adoption Service 2021/2022](#) (Corporate Parenting Panel, December 2022)
  - (d) [Annual Summary Report of the Children Looked After Strategic Partnership \(Corporate Parenting Panel, December 2022\)](#)
  - (e) [Corporate Parenting Panel Annual Report 2021-22](#) (County Council, September 2022)
  - (f) [County Durham Plan Annual Monitoring Report 2021/22](#) (Cabinet, December 2022)
  - (g) [Director of Public Health Annual Report 2022](#) (County Council, December 2022)
  - (h) [Domestic Abuse and Sexual Violence Executive Group Annual Report 2021/22](#) (Safer and Stronger Communities Overview and Scrutiny Committee, November 2022)
  - (i) [Durham Safeguarding Adults Partnership Annual Report 2021/22](#) (Health and Wellbeing Board, January 2023)
  - (j) [Durham Safeguarding Children Partnership Annual Report 2020/21](#) (Health and Wellbeing Board, January 2023)
  - (k) [Health and Wellbeing Board Annual Report 2021/22](#) (Cabinet, October 2022)

- (l) [Health Protection Assurance Annual Report](#) (Cabinet, May 2022)
  - (m) [Virtual School Annual Report Summary](#) (Corporate Parenting Panel, January 2023)
102. The [Local Code of Corporate Governance](#) is reviewed annually before being considered for approval by the Audit Committee and County Council.
103. The [Statement of Accounts for the year ended 31 March 2022](#), incorporating the [Annual Governance Statement for 2021/22](#), was approved by the Audit Committee in November 2022, 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.
104. In February 2023, the External Auditor presented Audit Committee with the [Audit Planning Update and Progress Report](#), which covered the 2020/21, 2021/22 and 2022/23 audits. The report notes that the Council's 2021/22 opinion was successfully delivered by the publishing date despite uncertainties concerning the valuation of infrastructure assets, and significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.
105. The Council endeavours to publish financial statements in a timely manner and in accordance with financial reporting standards. Examples include: -
- (a) [Compliance with CIPFA Financial Management Code](#)
  - (b) [Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2022](#)
  - (c) [Audit Completion Report 2021/220/21 - Pension Fund](#)
  - (d) [Treasury Management Final Outturn 2021/22](#)
  - (e) [Final Outturn for the General Fund and Collection Fund 2021/22](#)
  - (f) [Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23](#)
  - (g) [Agreement of Accounting Policies for Application in the 2022/23 Financial Statements](#)
  - (h) [Budget 2023/24 – Report under Section 25 of Local Government Act 2003](#)
106. In February 2023, Audit Committee was provided with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (item f, above). The report highlighted a mid-year update to the Code, due to exceptional circumstances, by the CIPFA/LASAAC Code Board, which is overseen by the Financial Reporting Advisory Board. The amendment relaxed the reporting requirements for infrastructure assets temporarily, until the 2024/25 financial year. The Council has chosen to apply this relief and, as required by the Code, will provide the rationale for this decision in the Statement of Accounts.



107. Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme governed by regulations made under the Public Service Pensions Act 2013 and administered by Durham County Council. The Pension Fund Annual Report and Accounts for the year ended 31 March 2021, which contains the Pension Fund audited statement of accounts, was authorised by the responsible financial officer on 30 September 2021 and published on the council's website on 28 October 2021. The [Pension Fund Accounts for the year ended 31 March 2022](#) were received by the Pension Fund Committee in December 2022. The Pension Fund's [Annual Report](#) includes a Governance Compliance Statement which sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State and the provisions of regulation 55 of the Local Government Pension Scheme Regulations 2013.

### Assurance and effective accountability

108. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2023. 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.

109. 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.

110. An external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and the CIPFA\* Local Government Application Note during 2021/22 was carried out by CIPFA. The opinion delivered concluded that the Internal Audit Service fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Some improvement opportunities have been identified and an action plan has been developed to address these.

\* Chartered Institute of Public and Finance and Accountancy.

111. 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 [Audit Completion Report 2021/22 - Durham County Council](#) summarises the external auditor's conclusions for the year ended 31 March 2022.
- (b) External Audit Progress reports in [September 2022](#) and [February 2023](#).
- (c) The [Audit Completion Report 2021/22 - Pension Fund](#) summarises the external auditor's conclusions for the year ended 31 March 2022.

112. Regulatory inspections

- (a) Each Children's home is inspected by the regulator, Ofsted - [Regulation 44 Visits and Regulatory Body Ratings of Children's Residential Homes.](#)
- (b) [Inspecting Local Authority Children's Services Update.](#)
- (c) [The Approach to Wellbeing Recommendations arising from the final evaluation.](#)

## **APPENDIX B: Update on improvements identified in the 2021/22 Annual Governance Statement**

Following the production of the Annual Governance Statement for 2021/22, seven improvement actions were identified for 2022/23. Progress against each action is shown in the table below.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
1	Brought forward Implement the actions identified in the Children's Social Care Services improvement plan agreed with Ofsted.	The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).	Head of Children's Social Care	March 2023	<p><b>The action is complete.</b></p> <p>We have clarified the response required and reported this to Ofsted as part of our Action Plan. All actions identified in the improvement plan have been completed or incorporated into the new Improvement Plan being developed by Children and Young Peoples Services in response to the most recent ILACS Inspection in May 2022, when the Council was judged to be 'good' for overall effectiveness with 'outstanding' leadership.</p> <p>The actions are being progressed by CYPS and Commissioning Teams with regular updates on progress, which show improvements have been and continue to be made.</p>
2	Brought forward Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a	D3.1 Optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning	March 2023	<p><b>This action has been carried forward to 2023/24 with a revised timescale of March 2025.</b></p> <p>The Government announced a far-reaching reform of social care funding in Spring 2022. Following the update provided on this action in May 2022, full details were received by local authorities (LAs). The reforms set out changes to the way individuals pay for care, i.e., the 'care cap', and linked initiatives to move towards a Fair Cost of Care (FCOC) for older persons care homes. LAs were required to carry out cost exercises with their local markets using set national parameters and provide both these and a detailed Market Sustainability Plan (MSP) to the Department of Health &amp; Social</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
	sustainable and high-quality care market.				<p>Care (DHSC). However, the 2022 Autumn Statement both delayed the charging reforms to late 2025 and reprofiled national funding allocated to LAs for those markets in scope for FCOC and wider adult and children's social care services. DCC completed and submitted FCOC market exercises in Autumn 2022 and a comprehensive MSP in March 2023, as required by DHSC. In terms of sustainability issues, these national requirements effectively cover the same areas of the planned review we had already anticipated carrying out; therefore, a decision was made to avoid duplication and concentrate fully on the FCOC exercise and MSP. These are now complete. Integrated Commissioning have also completed modelling on care home activity and housing stock as part of the above work.</p> <p>Commissioners have also recently successfully negotiated a two-year fee uplift agreement with local older persons care homes, following an extended period where contracts had not been signed. As part of this agreement, it has been agreed with the market that the Council will build on the successful FCOC and MSP work locally to take forward further market shaping during 2023-24 and 2024-25.</p>
3	<p>Brought forward</p> <p>Deliver the actions set out within the Looked After Children Placement Sufficiency Strategy to ensure best outcomes and cost-effective placement costs to address escalating budget</p>	<p>Developing the Council's capacity: improve the use of resources to ensure that they are allocated in a way that realises</p>	<p>Head of Children's Social Care and Head of Integrated Commissioning</p>	<p>March 2023</p>	<p><b>The action plan is substantially complete and four remaining actions of the original 26 have been incorporated into a new strategy.</b></p> <p>The Looked After Children Placement Sufficiency Strategy action plan has been superseded by the new <a href="#">Sufficiency and Commissioning Strategy for Looked After Children and Care Leavers 2022-2024</a>, which was approved by Cabinet in January 2023.</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
	pressures within Children's Social Care.	outcomes effectively and efficiently (4.38)			<p>The original plan contained 26 actions over a three-year period (2020-2023), each aligned to one of four objectives relating to in-house foster carers (9), adopters (2), residential homes (11) and care leavers (4). As of 31 March 2023, 18 actions were complete, six were incorporated into the new strategy, and two have been removed as they are no longer considered fit for purpose. The new strategy includes two new objectives, Unaccompanied Asylum-Seeking Children and Short breaks.</p> <p>During 2022/23, the <b>Fostering Service</b> recruited 11 new foster carer households, against a target of 35. When taking into account the number of foster carer de-registrations (30) there has been a loss of 19 foster carer households during the year, in comparison with 29 households (net) recruited during 2021/22. The reduction in the number of foster carers recruited is due to a number of aspects, including operating in a highly competitive market with Independent Fostering Agencies, the cost-of-living crisis and the loss of a Marketing Officer that worked within the Fostering Team who directly managed advertising campaigns and provided additional capacity. The marketing and recruitment campaign continues to focus on sibling groups, children with a disability, teenagers and unaccompanied asylum-seeking children. Work is ongoing to develop a new website which provides a 'one-stop-shop' for prospective foster carers and it is anticipated that this will be live later in the year. The Mockingbird Model has launched its first set of hub carers during the year, which has enhanced support to foster carers and improved the stability of children's foster homes. A second hub is due to be rolled out over the next 3 months. The Payment for Skills Review has been concluded, which seeks to improve our sufficiency of foster carers through the review of payments and incentives to carers. This will be launched in April 2023. Durham continues</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
					<p>to work regionally as part of Tyne Tees Independent Fostering Agency Solution, with the contract opened on a monthly basis, to enable new IFAs to join.</p> <p>The <b>Adopt</b> Coast to Coast Regional Adoption Agency (RAA) continues to operate across the Durham, Sunderland and Cumbria area, however from April 2023 Cumbria will move away from the arrangement. The practice around early linking and matching continues to be monitored to ensure children do not wait longer than necessary. There is evidence that Link Maker is enabling matches across the spokes. The number of prospective adoptive households approved by the Durham spoke remains good. Adoption approvals in 2022/23 are 38 in comparison with 40 in 2021/22.</p> <p>During 2022/23 we have continued to make good progress in the development of new smaller children's <b>residential homes</b>. A home for one child / young person has been established (Hudson House - Coxhoe) which is currently going through a registration process with Ofsted. We are in the process of opening another children's home which will accommodate up to two children / young people (Elderhurst – Meadowfield). This home has been subject to an extensive refurbishment programme which has now been completed and is due to open over the next two months. We continue to progress with the development of an Edge of Care home in Seaham. The purchase price has been agreed and the fire service have agreed the sale of the building. Following a change of planning use, it is anticipated that the new home will open later in 2023. DfE funding of £256,020 has also been secured to support the development costs of this new home. A number of different properties had been previously identified for the re-provided home (Tow Law), but unfortunately offers had to be withdrawn</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
					<p>due to complications encountered i.e. issues identified in the survey, challenge from members or the police. A property has since been identified which we will purchase over the coming weeks. This property will provide a home for up to two children / young people (Lincoln House – Castleside), which we aim to open later in the financial year. We are working in partnership with the registered social landlord, Livin Homes, to develop a short-term / emergency home for one young person. A property has been identified and a lease is being developed. It is anticipated that the home will open later in 2023.</p> <p>Recommendations from the Children’s Home LEAN Review (which considered the end-to-end process of setting up homes) were approved at CMT and Cabinet. This resulted in the delegated limit for children’s home property purchases being increased to £500K, enabling the Council to purchase properties without a change of planning use in place (subject to due diligence) and sets out a clear process for developing children’s homes with all supporting teams/services clear about the importance of the new homes and the need to prioritise this area of work (where possible).</p> <p>The Staying Close Pilot Programme was rolled out during 2022/23 using funding secured from the DfE and to date has supported four young people. The Staying Close Programme focuses on our young people in children’s home provision, providing ongoing, consistent, familiar support from their residential staff, when they leave their children’s home as care leavers. The programme aims to deliver a series of improved outcomes for young people, including, accommodation stability, reduction in eviction, improved emotional wellbeing and mental health. Young people who will be supported through year 2 are being considered.</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
					<p>In relation to <b>care leavers</b>, the Supported Living Preferred Provider Panel has been recommissioned for a further 12 months, until September 2023, when we will then consider the new regulatory framework for supported accommodation providers prior to recommissioning. We will work closely with providers to prepare them and to understand any emerging gaps within the provider marketplace. We meet frequently with supported accommodation providers as part of a provider engagement forum. One action, <i>review the marketing and recruitment strategy for supported lodging provision</i>, has been re-profiled to June 2023. Additional capacity is now in place to drive this work forward.</p>



No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
4	Change our social care model and ensure that people have access to robust advice and information to enable them to live healthy and independent lives in their community and to prevent delaying the need for formal service provision (Our People)	Engaging with individual citizens and service users effectively: effective communication methods to collect and evaluate the views, experiences and future needs (4.23)	Head of Adult Care	2022	<p><b>This action is complete.</b></p> <p>Our 'front of house' service remains highly effective at signposting and re-directing people to available support in their community. 35% of all calls are resolved without the need for a formal referral for full assessment.</p> <p>Following completion of baseline review, a project is now being developed to take forward the recommendations to consolidate our Locate and FIS directories and review the supporting governance to ensure we have vibrant and community focused assets.</p> <p>Our locality social work teams have strengthened links with the Wellbeing for Life service and Health Facilitators work as part of a network of Community Connectors to advise and signpost people to use the assets available in their local communities.</p> <p>Integrated Commissioning Service have also developed an Integrated Involvement Strategy which includes our shared vision for integration, involvement, and co-production. Working with the North East regional ADASS People with Lived Experience Group, we are developing more effective methods of engaging with users of our services and our citizens to ensure that their experiences shape our service improvement work.</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
5	Review of the Council's community engagement functions, including the work of area action partnerships (Our Communities)	Engaging with institutional stakeholders: engage & develop formal/informal partnerships to ensure that the purpose, objectives & intended relationship outcomes are clear (4.21)	Head of Partnerships and Community Engagement	2023	<p><b>The action is complete.</b></p> <p>Independent consultants ERS have completed a review of the Council's community engagement functions including engagement and consultation with staff, elected members and key partners. The final report, including findings and recommendations, was reported to Community Engagement Review Steering Group on 10th January 2023.</p> <p>A consultation period will now take place, followed by a report to Cabinet in June 2023 to propose a way forward, including any potential changes to the organisational structure and service delivery model.</p>
6	Implement a new performance management framework for Adult and Health Services, to enable more timely analysis of data, improved business intelligence and real time presentation of data (Our Council)	Managing performance: service delivery is effectively monitored (4.52)	Head of Adult Care	2022	<p><b>This action is complete.</b></p> <p>The new Adult and Health Services performance management framework has been in place since Spring 2022. This involves bi-monthly cycles of performance clinics with operational teams and strategic managers, Head of Adult and Social Care, the Corporate Director of Adult and Health Services and Corporate Management Team. Throughout these cycles, performance is discussed within the context of demand, complexity and other pressures and significant issues are escalated for oversight, assurance and support. The rollout is complete and will be reviewed and refreshed regularly as the Care Quality Commission inspection framework emerges and wider health and social care integration takes place.</p>

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale	Update
7	Undertake a corporate peer challenge with the Local Government Association to help us identify strengths and areas for improvement within the council (Our Council)	Assurance and effective accountability: welcome peer challenge, reviews & inspections from regulatory bodies and ensure that recommendations are implemented (4.67)	Head of Corporate Affairs	December, 2023	<p><b>This action is postponed.</b></p> <p>A corporate peer challenge working group had been established and some work undertaken to prepare for a Peer Review, with meetings having been held with the lead officer from the Local Government Association. The corporate peer challenge was scheduled to take place in February 2023 but has now been postponed due to the work underway to plan for savings should the Councils current MTFP projections prove correct, given the uncertainty surrounding local government funding and the implications for the Council. It is intended to defer undertaking the peer challenge at this stage and discussions are underway to find a mutually convenient time for the Council and the LGA to undertake the review.</p>

### **APPENDIX C: Proposed Governance Improvements required during 2023/24**

As a result of the review of governance arrangements, and the work of both internal and external audit, eleven improvement actions have been identified to further strengthen governance arrangements in 2023/24. These are shown in the table below.

<b>No.</b>	<b>Action</b>	<b>Links to the Local Code of Corporate Governance (ref)</b>	<b>Lead Officer</b>	<b>Timescale</b>
1	Brought forward Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a sustainable and high-quality care market.	Optimising achievement of intended outcomes: optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning	March 2025
2	Develop a new corporate cyber recovery plan for key digital services with prioritised recovery targets and business continuity plans to further strengthen the Council's resilience to a successful cyber-attack.	Developing the Council's capacity: ensures the continuing effectiveness of its operations, performance, and use of assets (4.37)	Head of Digital Services	March 2024
3	Implement our Poverty Strategy and Action Plan to help protect residents most at risk of poverty and exclusion, increase equality of opportunity and ensure fewer people are affected by poverty and deprivation (Our Economy).	Sustainable economic, social, and environmental benefits: ensure fair treatment and fair access to services and opportunities (4.29)	Head of Transactional and Customer Services	March 2026

No.	Action	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
4	Deliver Actions from the Growing up in County Durham Strategy 2023-25, including working with the strengths and opportunities in local communities to develop a network of family hubs which can support the delivery of a range of local community support and services to children, young people and families (Our People).	Planning interventions: arrangements for planning the interventions for the achievement of intended outcomes (4.33)	Corporate Director Children and Young Peoples Services	March 2025
5	Through the Health, Safety and Wellbeing (HSW) Strategy, deliver the HSW programme to support the development of a positive culture and to ensure that our employees and those who may be affected by what we do, go home safe and well every day.	Developing the capability of the Council's leadership and others: maintain effective arrangements to meet employees' needs of training, development, health, and wellbeing (4.46)	Head of Corporate Property and Land	March 2024
6	Develop a digital skills programme and invest in smarter working (Our Council).	Developing the Council's capacity: improve the management of resources to ensure that they are allocated and utilised in a way that realises outcomes effectively and efficiently (4.38)	Head of Digital Services / Head of Human Resources & Employee Services	March 2024
7	Develop & implement the Workforce Development Offer and programmes for 2023/24, including utilising opportunities to upskill the workforce.	Developing the Council's capacity: maintain an effective workforce plan, through the Workforce Strategy, to enhance the strategic allocation of resources (4.39)	Head of Human Resources & Employee Services	March 2024

No.	Action	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
8	Increase self-service of management and performance data by developing a range of business intelligence products (Our Council).	Developing the Council's capacity: improve the management of resources to ensure that they are allocated and utilised in a way that realises outcomes effectively and efficiently (4.38)	Head of Corporate Affairs	March 2024
9	Implement the Council's response to the Community Engagement and Funding processes review (Our Council).	Engaging with institutional stakeholders: engage & develop formal/informal partnerships to ensure that the purpose, objectives & intended relationship outcomes are clear (4.21)	Head of Partnerships and Community Engagement	March 2024
10	Further strengthen the alignment of the processes for service planning, financial planning, performance management and service development to deliver increased value for money.	Planning interventions: arrangements for planning the interventions for the achievement of its intended outcomes (4.33)	Head of Corporate Affairs	March 2024
11	Review and refresh the DCC Workforce Strategy	Developing the Council's capacity: maintain an effective workforce plan, through the Workforce Strategy, to enhance the strategic allocation of resources (4.39)	Head of Human Resources & Employee Services	March 2024

**Audit Committee**

**30 June 2023**

**Statement of Accounts for the year  
ended 31 March 2023**

**Ordinary Decision**



---

**Report of Paul Darby, 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 2023 and raise (where applicable) 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 2023 was authorised by the responsible financial officer (the Corporate Director of Resources) on 31 May 2023 in accordance with statutory deadlines. The statement of accounts was published on the council's website the same day.
- 3 Statute requires that the public inspection period must comprise a single period of 30 working days which must commence on or before the first working day in June (i.e., 1 June 2023). In accordance with this statutory requirement, the statement of accounts is now available for public inspection for the period covering 1 June 2023 to 12 July 2023.
- 4 The external review of the accounts by the external auditor (Mazars LLP) commences 3 July 2023. Following this review, presentation of the final (or audited) statement of accounts to Members of the Audit Committee for approval is scheduled for the 30 September 2023 meeting.

## **Recommendation**

- 5 It is recommended that Members of the Audit Committee consider the attached statement of accounts of the council for the financial year ended 31 March 2023 which have been published on the council's website in line with statutory guidance and deadlines.



## Background

- 6 The Accounts and Audit (Amendment) Regulations 2022, which stipulate a two-stage approval process for the statement of accounts, have reinstated the pre covid statutory deadlines for local authorities in respect of the 2022/23 statement of accounts.
- 7 The first statutory deadline requires 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.
- 8 The second stage identifies that on or before 30 September approval needs to be given to the audited 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 in order that the statement of accounts can then be formally published.
- 9 Where the external audit opinion has not been received by the 30 September, notice publication is required as soon as practicably possible stating that the Statement of Accounts has not been issued, giving reasons why this has not been possible. The statement of accounts must then be published as soon as reasonably practicable after the receipt of the report of the auditor's findings.
- 10 There is a statutory requirement for the council to hold a 30 working day public inspection period of the draft accounts which must commence one day after all regulation 15(2) documents have been published. The inspection period must commence no later than 1 June 2023.
- 11 For many local authorities, the 2021/22 accounts remain open (awaiting external audit completion) and they are, as a result, unable to produce unaudited statements for 2022/23 within the statutory deadline. Where this is applicable, notice publication is required advising of the reasons for the delay in the public inspection period.

- 12 The unaudited statement of accounts for Durham County Council for the financial year ended 31 March 2023 was authorised by the responsible financial officer (the Corporate Director of Resources) on 31 May 2023 and published the same day, in line with the statutory deadline of 31 May 2023.
- 13 The statement of accounts is now subject to audit by the Councils appointed external auditors, Mazars LLP. The audit of the accounts will commence on 3 July 2023. Upon completion of the audit, the Auditor's reports will be presented to the Audit Committee and incorporated into the published version of the document.
- 14 Subject to completion of the external audit, the final statement of accounts for 2022/23 is scheduled to be presented for approval at the Audit Committee meeting in September 2023.
- 15 The public inspection period commenced 1 June 2023 and will remain open until (and including) 12 July 2023, in line with current regulations.

## **Statement of Accounts**

- 16 The statement of accounts for the financial year 2022/23 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, the Accounts and Audit (Amendment) Regulations 2022 and the 'Code of Practice on Local Authority Accounting 2022/23' (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 assist Members in their reading and interpretation of the statement content, Appendix 2 to this report briefly explains the purpose of each section within the statement.

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

- 19 Page numbers used in this report refer to the page numbers in the statement of accounts document, not those used in the full pack of reports for Audit Committee.
- 20 There are four core statements to provide fundamental information on the financial activities and position of the council:
- (a) Comprehensive Income and Expenditure Statement (page 42)
  - (b) Movement in Reserves Statement (page 43)
  - (c) Balance Sheet (page 44) and
  - (d) Cash Flow Statement (page 45).
- 21 The statement of accounts also includes the accounts of the Collection Fund (commencing on page 151) and Durham County Council Pension Fund (from page 163) as the council is the administering authority for those funds.
- 22 The financial position of the council remains healthy. The statement of accounts shows that the council's net worth was £913.85 million at 31 March 2023. This represents an increase of £826.65 million during 2022/23, which is mainly due to a technical accounting entry in relation to a decrease in the estimated pension liability which is calculated by the Pension Fund's Actuary. Other minor changes relate to an increase in Long Term Borrowing to fund capital commitments (taking into consideration securing cost certainty and favourable borrowing rates) and an increase in short term debtors.
- 23 The council's usable reserves have decreased during 2022/23, summary details being:
- (a) After taking into account transfers from the MTFP Support Reserve at year end, the general reserve has increased by £0.119 million to £26.017 million in line with the council's general reserve policy of maintaining a general reserve of between 5% and 7.5% of net revenue expenditure. This reserve is held to cushion the impact of uneven cash flows, unexpected events, or emergencies.
  - (b) Earmarked reserves (including schools and cash limit) have decreased by a net £44.808 million to £224.997 million (16.6%). Earmarked reserves are held for specific future purposes, some are held as a corporate earmarked reserve; some relate to grant funding received in advance of

expenditure being defrayed or held on behalf of third parties and others for specific service initiatives.

- 24 The Pension Fund accounts show that its net assets as at 31 March 2022 have reduced by £188.726 million to £3.411 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 Pension Fund accounts.

### **Audit of Accounts**

- 25 The audit of the statement of accounts will commence on 3 July 2023. At the end of this process the external auditor will provide two Audit Completion Reports, one for the council's accounts and a separate report for the Pension Fund accounts. These reports will detail their comments and any recommendations for improvements, based on the position at 31 March 2023.

---

**Contact: Jo McMahon Tel: 03000 261968**

---

---

## **Appendix 1: Implications**

---

### **Legal Implications**

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2022/23 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 2023

### **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	5 - 34	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	35 - 36	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	37 - 41	Once the audit is completed the External Auditor's report will be included here.
<b>Durham County Council Core Financial Statements</b>		
Comprehensive Income and Expenditure Statement (CIES)	42	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	43	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	44	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	45	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	46 -150	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	151 - 157	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.
Independent Auditor's Report to DCC Pension Fund	158 - 162	Once the audit is completed the External Auditor's report will be included here.
Durham County Council Pension Fund Accounts	163 - 208	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	209 - 243	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	244 - 259	To assist readers in understanding terminology used in the statement of accounts.

2022-23



# Statement of Accounts

## For the year ended 31 March 2023

---

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](mailto:help@durham.gov.uk)  
Telephone: 03000 260000

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



## Contents

Statement of Accounts .....	1
<b>Narrative Report</b> .....	5
1. Message from Paul Darby CPFA – Corporate Director of Resources .....	5
2. Introduction .....	8
3. An Introduction to Durham .....	9
4. An Introduction to Durham County Council .....	11
5. Financial Performance of the Council 2022/23 .....	13
6. Non-Financial Performance of the Council 2022/23 .....	18
7. Significant Issues for 2022/23 and Beyond .....	29
8. Corporate Risks .....	30
9. Summary Position .....	31
10. Receipt of Further Information .....	32
11. Explanation of Accounting Statements .....	32
<b>Statement of Responsibilities for the Statement of Accounts</b> .....	35
1. The Council's Responsibilities .....	35
2. The Corporate Director of Resources' Responsibilities .....	35
<b>Independent Auditor's Report To The Members Of Durham County Council</b> .....	37
<b>Comprehensive Income and Expenditure Statement</b> .....	42
<b>Movement in Reserves Statement</b> .....	43
<b>Balance Sheet</b> .....	44
<b>Cash Flow Statement</b> .....	45
<b>Notes to the Accounts</b> .....	46
1. Accounting Policies .....	46
2. Accounting Standards that have been issued but have not yet been adopted .....	71
3. Critical Judgements in Applying Accounting Policies .....	71
4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty .....	73
5. Material Items of Income and Expense .....	75
6. Events After the Balance Sheet Date .....	75
7. Expenditure and Funding Analysis .....	76
8. Expenditure and Income Analysed by Nature .....	79
9. Adjustments Between Accounting Basis and Funding Basis Under Regulations .....	79
10. Transfers to/from Earmarked Reserves .....	82
11. Other Operating Expenditure .....	84
12. Financing and Investment Income and Expenditure .....	84
13. Taxation and Non-Specific Grant Income .....	85
14. Property, Plant and Equipment .....	86
15. Heritage Assets .....	92
16. Investment Properties .....	93
17. Financial Instruments .....	94
18. Nature and Extent of Risks Arising from Financial Instruments .....	98
19. Inventories .....	104
20. Short Term Debtors .....	105
21. Cash and Cash Equivalents .....	105

22. Assets Held for Sale .....	105
23. Short Term Creditors .....	106
24. Provisions .....	106
25. Usable Reserves .....	107
26. Unusable Reserves .....	108
27. Cash Flow Statement – Operating Activities .....	113
28. Cash Flow Statement – Investing Activities.....	114
29. Cash Flow Statement – Financing Activities .....	114
30. Reconciliation of Liabilities Arising from Financing Activities .....	114
31. Agency Services .....	115
32. Members’ Allowances.....	115
33. Officers’ Remuneration .....	116
34. External Audit Costs .....	118
35. Dedicated Schools Grant.....	118
36. Grant Income .....	121
37. Related Parties .....	123
38. Capital Expenditure and Capital Financing .....	129
39. Leases .....	130
40. Private Finance Initiatives and Similar Contracts .....	133
41. Impairment and Revaluation Losses .....	135
42. Termination Benefits.....	136
43. Pension Schemes Accounted for as Defined Contribution Schemes .....	136
44. Defined Benefit Pension Schemes .....	137
45. Contingent Liabilities.....	145
46. Contingent Assets.....	147
47. Heritage Assets: Further Information on the Council’s Collection .....	147
48. Exceptional Items .....	149
49. Pooled Budget – Better Care Fund .....	149
50. Prior Period Adjustments (PPAs) .....	150
<b>The Collection Fund.....</b>	<b>151</b>
1. The Collection Fund .....	152
2. Council Tax.....	152
3. Business Rates (Non Domestic Rates).....	155
<b>Independent Auditor’s Report to the Members of Durham County Council Pension Fund.....</b>	<b>158</b>
<b>Durham County Council Pension Fund Accounts .....</b>	<b>163</b>
1. Fund Account .....	163
2. Net Assets Statement.....	164
<b>Notes to Durham County Council Pension Fund Accounts .....</b>	<b>165</b>
1. Fund Operation and Membership.....	165
2. Basis of Preparation .....	166
3. Accounting Standards issued but not yet adopted.....	167
4. Statement of Accounting Policies.....	167
5. Critical judgements in applying accounting policies .....	172
6. Assumptions made about the future and other major sources of estimation uncertainty .....	172
7. Events after the Reporting Period .....	173

## Contents

---

8. Contributions Receivable .....	173
9. Transfers in From Other Pension Funds .....	173
10. Benefits Payable.....	174
11. Payments To and On Account of Leavers .....	174
12. Management Expenses.....	174
13. Investment Income .....	175
14. Taxation .....	175
15. Investments .....	176
16. Financial Instruments .....	183
17. Nature and Extent of Risk Arising From Financial Instruments .....	189
18. Analysis of Debtors .....	197
19. Analysis of Creditors .....	197
20. Additional Voluntary Contributions (AVCs) .....	197
21. Related Party Transactions .....	198
22. Contingent Assets .....	201
23. Funding Arrangements .....	202
24. Actuarial Present Value of Promised Retirement Benefits.....	206
25. Funding Strategy Statement.....	207
<b>Investment Strategy Statement .....</b>	<b>208</b>
<b>Annual Governance Statement 2022/23.....</b>	<b>209</b>
1. INTRODUCTION .....	209
2. CONTEXT .....	209
3. SCOPE OF RESPONSIBILITY .....	209
4. THE PURPOSE OF THE GOVERNANCE FRAMEWORK.....	209
5. THE GOVERNANCE FRAMEWORK.....	210
6. REVIEW OF EFFECTIVENESS.....	210
7. CONCLUSION.....	212
APPROVAL OF ANNUAL GOVERNANCE STATEMENT.....	213
APPENDIX A: Governance Arrangements during 2022/23 .....	214
APPENDIX B: Update on improvements identified in the 2021/22 Annual Governance Statement .....	235
APPENDIX C: Proposed Governance Improvements required during 2023/24 .....	241
<b>Glossary of Terms used in the Accounts .....</b>	<b>244</b>

---

## Narrative Report

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

Durham County Council remains committed to the delivery of its vision and priorities which have been 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 remains uncertain. The budgetary pressures as a consequence of the legacy issues linked to COVID-19 pandemic will undoubtedly impact on the council and its communities for a number of years to come.

During 2022/23 further financial challenges, mainly resulting from the impact of the Ukraine conflict and turbulence in the financial markets across the early Autumn. These geopolitical and national policy issues have driven significant and complex price inflation fluctuations which have driven upward pressure across a range of the council's expenditure budgets.

The UK has been experiencing its highest level of inflation for nearly 40 years with Consumer Price Index inflation (CPI) in the UK economy peaking at 11.1% during the year and there have been numerous increases in bank base rates across the year – the bank base rate was 0.75% at 1 April 2022 and increased to 4.25% by 31 March 2023.

Inflationary pressures especially for energy, waste, transport and the employee pay award which resulted in a 6.6% increase in the council's pay costs compared to a budget provision of 3.25% has meant that the costs incurred in these areas have exceeded the budget provision. These budget pressures have been managed during 2022/23 via a combination of general contingencies, the Budget Support Reserve and recurrent pressures have been taken into consideration within the 2023/24 Revenue Budget and Medium Term Financial Plan (MTFP) approved by Council on 22 February 2023.

The longer-term inflationary impact on the council's finances remains difficult to gauge at this stage. The 2023/24 revenue budget and MTFP approved by Council on 22 February 2023, considered these inflationary implications however, this position will need to be kept under review. The 2023/24 pay award offer made in late February 2023 exceeds the budget provision and if agreed will result in a circa £3.711 million budget pressure in 2023/24 that will also impact on the budget setting for 2024/25. There may potentially be a further range of financing decisions required by the council throughout its current MTFP (13) period. Reserves will potentially be required to meet any shortfall in the funding.

Additionally, there remains uncertainty in terms of the quantum of recurrent funding to be available to local government particularly from 2025/26 onwards. Financial Planning strategies continue to assess the risk to the council's budgets so that strategic decisions can be made to ensure the council can set balanced budgets going forward.

By the end of 2022/23, since 2011, the council had delivered £250 million of financial savings throughout its MTFPs, with additional savings of £12.383 million approved for 2023/24 in order to balance its budgets. Across this period and through prudent financial management, the council has utilised circa £139 million of reserves to balance its budget and accommodate redundancy and early access costs as a result of a circa 3,040 reduction in the workforce across that period. It is forecast that total savings required over the period 2011/12 to 2026/27 will be £327 million.

Despite these challenges, the council continues to deliver services which are of a high standard and are well regarded. All service groupings across the council continue to work together, adopting a systemic approach to build on our achievements to date and provide the best possible services for the people of County Durham, businesses which operate here and people who visit the county.

The council's budget and MTFP for the last 14 years, has focussed on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management as well as focussing on income generation where possible. As this strategy has become increasingly more difficult to maintain over time, the council's Transformation Programme has ensured that all options are considered in order to protect front line services wherever possible.

Going forward, front line services will inevitably become progressively more impacted over the coming years if funding continues to be restricted, alongside the presence of unfunded and unavoidable base budget pressures which cannot be accommodated from council tax and business rate income. County Durham suffers from a low tax base due to lower house and property prices relative to other areas and therefore is unable to raise sufficient income from permitted and expected increases in these charges to meet its ongoing and unavoidable cost pressures.

This document presents the published accounts for Durham County Council for the year ended 31 March 2023 – 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, assurance 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.

**Paul Darby 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 2022/23;
- 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 2023 and an executive summary of the non-financial performance of the council in 2022/23. 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 2022/23 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 2022/23
- 6 Non-Financial Performance of the council 2022/23
- 7 Significant Issues for 2022/23 and Beyond
- 8 Corporate Risks
- 9 Summary Position
- 10 Receipt of Further Information
- 11 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 significant challenges. The demise of mining and heavy industry in the 1980s hit the local economy hard, seeing significant increases in unemployment, with social and economic impacts still felt today. 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. Over the last year the council and its partners have developed an Inclusive Economic Strategy, to frame future economic development and drive prosperity and growth for years to come.



The county enjoys good north-south connectivity being on the East Coast Mainline and is served by two airports and two maritime ports in the region. 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 522,100 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 years old. This has increased by circa 20.6% since 2011.
- The resident population in County Durham increased by 1.7% (8,800 people) between 2011 and 2021, compared to a 6.6% increase across England.
- The number of people aged over 65 is projected to increase by over 34% by 2043 and the number of people aged over 85, will increase by 93% over the same time period.
- The county covers an area of 862 square miles making it circa 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 is a top five UK university (Guardian 2023) and a world top 100 university (QS World Rankings 2023.)
- Durham Constabulary is ranked as good overall and outstanding at tackling organised crime and value for money for the people of County Durham and Darlington.
- There are over 250,000 households in the county with 2 in 5 living in rural areas.
- Over 15,000 homes are off the gas network.
- 35% of dwellings are in terraced properties.
- There are over 14,000 businesses registered in the county and this has increased by over 28% since 2010.
- 72.2% of our working age population are in employment.

- The number of public sector jobs in the county has declined by 17.7% since 2010 with private sector jobs increasing by 24.4% over the same period.
- Nearly 3 in 10 of our population are aged under 25.
- We have enough renewable energy based in the county to power 157,000 homes a year; that is over 65% of our homes.
- 10% of our domestic refuse goes to landfill.
- Carbon emissions throughout the county have reduced by 57% since 1990.
- There are over 19,000 fewer smokers in County Durham now than in 2012.
- Last year there were just over 27 crimes per 1,000 population.

#### **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.

The County Council has a significant role to play in improving the lives of everyone who visits, lives or works in the county. As one of the largest unitary councils in the country, with gross expenditure of more than £1 billion each year, the council is responsible for the delivery of a wide range of public services impacting across all aspects of people's lives. We are committed to growing our economy, and our new Inclusive Economic Strategy sets out how we are working with businesses and communities to provide the best opportunities for economic growth – leading to more and better jobs for local people across County Durham

Interesting facts about the council:

- It had an approved original net revenue budget requirement of £493 million in 2022/23 and a capital budget of £671 million covering the period 2022/23 to 2025/26;
- It employs around 8,741 people (excluding schools);
- 3,800 children are supported by social care;
- It is corporate parent to over 1,000 children;
- There are 3 million visits annually to our 15 leisure centres;
- 5,000 people learn to swim in our ten pools every year;
- It manages 809,000 square feet of business space;
- There are 266 schools in the county;
- There are 13,500 children with special educational needs and disabilities supported by the council;
- We inspect 5,000 food premises every year

- We carry out 15 square miles of litter picking every week;
- We organise eight major events each year;
- We maintain 2,363 miles of highways;
- There are 12,500 contacts made to our Housing Solutions service each year;
- We process 57,000 Council Tax Reduction claims each year;
- We have 39 libraries with over 200,000 members;
- We have nine parks and 12 Green Flag awards;
- We have 82,422 streetlights;
- We provide a £4.2million subsidy to bus operators to enable them to run non-profitable routes;
- Over 160 Warm Spaces are supported where people can go to get warm;
- We manage 2,191 miles of public rights of way;
- We empty one million bins every month;
- Its services are organised into five service groupings, namely: Adult and Health Services, Children and Young People's Services, Neighbourhoods and Climate Change, Regeneration, Economy and Growth and Resources;
- It is served by 126 councillors, representing 63 electoral divisions within County Durham making it the largest elected body in England outside of the UK Parliament;
- The local authority is currently led by a Joint Administration consisting of Conservative; Liberal Democrat and Independent members;
- The political groupings of the council on 31 March 2023 were as follows:
  - 55 Labour Group,
  - 22 Conservative Group,
  - 17 Liberal Democrat Group,
  - 16 Durham Group,
  - 9 DCC Independent Group,
  - 3 Spennymoor and Tudhoe Independent Group,
  - 3 Unaligned Group,
  - 1 vacancy.
- Its administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and County Hall – Durham.

The council recognises its wider its wider role in driving inclusive growth and prosperity across the North East. We are one of seven local authorities, together with Northumberland, Newcastle, Gateshead, Sunderland, North Tyneside and South Tyneside who during 2022/23 reached an agreement on a deal with the government which will unlock £4.2 billion of extra cash for the region over the next 30 years. Together with additional powers being transferred from Whitehall to local people, this will provide the

basis for locally led improvements in areas such as transport, skills, housing and economic growth.

To oversee the deal, a new democratically accountable combined authority will be established, headed by an elected 'Metro' mayor. If ultimately implemented it will be the fourth largest devolution deal in the country which reflects our collective ambition to work collaboratively with partners across the region. The deal is subject to a governance review and public consultation which took place in early in 2023, and the laying of Orders to create the new authority, with a mayoral election expected to take place in May 2024.

## **5. Financial Performance of the Council 2022/23**

### **Revenue Outturn Position**

The council's revenue outturn is shown in the table below. The original net budget requirement of £492,872 million was approved at the Council meeting on 23 February 2022. The original budget set out how the council planned to allocate its funding during the year to deliver services to the people and communities of Durham. During the financial year, amendments to the council's budget were approved by Cabinet who considered quarterly updates on the council's financial performance. Detailed quarterly reports were also considered by individual thematic Overview and Scrutiny Committees during the course of the year.

In overall terms, the outturn position was a net overspend of £5.366 million when comparing actual net expenditure to the revised budgeted/ planned net expenditure. The underspend represents 1.05% of the revised total net expenditure budget. Included in this was a net surplus for the year across service groupings (£1.120 million) which has been allocated or drawn from the individual earmarked cash limit reserves they hold to meet future service demands. This position excludes an overspend within the Children and Young People's Services of £14.252 million, where the service does not have a cash limit reserve to offset its overspend, so in line with previous practice, the overspend was financed from the General Reserve at year end.

The financial outturn resulted in a general reserve balance at 31 March 2023 (prior to any transfers) of £20.532 million. In line with the council's current reserves policy (which aims to maintain a general reserve balance of between 5% and 7.5% of the net budget requirement in the medium term), a transfer from the MTFP Support Reserve was actioned at year end, with £5.485 million transferred into the general reserve to replenish it to the policy minimum of £26 million as agreed by Council on 22 February 2023. This transfer has resulted in a reduction in the MTFP Support Reserve from £42.480 million to £36.995 million. £10.028 million of this reserve was utilised to set the 2023/24 budget, leaving £26.967 million available to support budget setting from 2024/25 onwards.

	Original Budget 2022/23	Revised Budget	Service Groupings Net Final Outturn	Variance
	£'000	£'000	£'000	£'000
<b>Service Groupings</b>				
Adult and Health Services	136,741	137,989	136,139	-1,850
Children and Young People's Services	141,886	162,835	177,087	14,252
Neighbourhoods and Climate Change	112,985	116,184	116,783	599
Regeneration, Economy and Growth	54,934	57,778	58,476	698
Resources	25,249	25,944	25,377	-567
	<b>471,795</b>	<b>500,730</b>	<b>513,862</b>	<b>13,132</b>
<b>Corporate Finance</b>				
Contingencies	17,078	11,816	9,231	-2,585
Corporate Costs	3,816	4,188	3,861	-327
Capital charges	-61,873	-61,873	-61,873	0
Gains / losses on disposal of fixed assets	0	0	0	0
HR accrual	0	0	0	0
DSG deficit reserve adjustment	0	0	0	0
Interest and Investment income	-2,900	-2,900	-10,272	-7,372
Interest payable and similar charges	48,780	42,840	36,540	-6,300
Levies	16,176	16,185	16,172	-13
Outside Cash limit unfunded via underspend			3,886	3,886
	<b>21,077</b>	<b>10,256</b>	<b>-2,455</b>	<b>-12,711</b>
<b>Total Net Expenditure</b>	<b>492,872</b>	<b>510,986</b>	<b>511,407</b>	<b>421</b>
<b>Funded By:</b>				
Council tax	-252,142	-252,142	-252,139	3
Use of earmarked reserves	-25,072	-41,137	-32,757	8,380
Estimated net surplus (-) / deficit on				
Collection Fund	9,788	9,788	9,788	0
Business Rates	-52,873	-52,873	-52,827	46
Top up grant	-72,780	-72,780	-72,780	0
Revenue Support Grant	-29,100	-29,100	-29,101	-1
New Homes Bonus	-4,082	-4,082	-4,082	0
Section 31 Grant	-25,026	-25,026	-22,493	2,533
Section 31 Grant - Covid Additional Relief				
Fund	0	0	-4,540	-4,540
Social Care Grant	-30,955	-30,955	-30,955	0
Lower Tier Services Grant	-786	-786	-802	-16
Services Grant	-8,776	-8,776	-8,776	0
Levy Account Surplus grant	0	0	-1,068	-1,068
Transfers to/ from Cash limit		-3,117	-3,509	-392
<b>Total Funding</b>	<b>-491,804</b>	<b>-510,986</b>	<b>-506,041</b>	<b>4,945</b>
<b>Net Overspend</b>	<b>1,068</b>	<b>-0</b>	<b>5,366</b>	<b>5,366</b>
Further General Fund replenishment requirement in line with general reserves policy				119
<b>2022/23 General Fund overspend</b>				<b>5,485</b>
<b>Transfer from MTFP Reserve to replenish overspend on General Fund</b>			<b>-5,485</b>	<b>-5,485</b>

Use of Earmarked Reserves	-32,757
DSG taken to unusable reserve	48
MFTP reserve utilisation re General Fund	-5,485
<b>Revised Use of Earmarked reserves</b>	<b>-38,194</b>

Note 10 - Statement of Accounts Use of Earmarked Reserves	35,482
Use of Schools reserves	2,712
<b>Total use of Earmarked Reserves</b>	<b>38,194</b>

In the table above, Service Groupings have collectively overspent by £13.132 million. This is following the use of reserves and items deemed outside of service cash limits that have been funded corporately (including utilisation of the £10 million Budget Support Reserve for inflationary pressures around energy, waste, transport and employee pay award).

Taking the service grouping outturn and the movement within other corporate budgets (e.g., additional investment income from increased investment returns and interest rates, reduced interest payable and similar charges due to loans taken at lower interest rates and delayed borrowing), the council's budget has overspent by £5.366 million in 2022/23 representing 1.05% of the net expenditure budget of £510.986 million.

The main reasons contributing to the collective net cash limit net overspends (after excluding corporately funded items), are as follows:

- In Adult and Health Services (AHS) there was a cash limit underspend of £1.850 million. This was mainly due to the careful management and control of vacant posts and other uncommitted budgets across the service;
- In Children and Young People's Services (CYPS) there was a cash limit overspend of £14.252 million. This was primarily made up from an overspend within Children's Services relating to the cost of Children Looked After placements;
- In Neighbourhoods and Climate Change there was a cash limit overspend of £0.599 million. The main reasons being reduced subcontractor availability within Highways trading areas reducing the capacity to deliver the works programme in year/ generate income and overspends on Highways Maintenance work;
- In Regeneration, Economy and Growth there was a cash limit overspend across the service grouping of £0.698 million. The main reasons for this were as a result of temporary accommodation costs and overspends within the care connect and transport services. Savings from vacant posts and additional income across the wider service grouping have enabled a net reduction to these overspends;
- In Resources there was a cash limit underspend of £0.567 million mainly due to managed underspends on employee costs and from additional income receipts.

During the year, a review of all reserves enabled the realignment of £38.8 million between earmarked and corporate reserves to replenish and support the council in setting balanced budgets and making savings in a timely manner.

Total general, earmarked and cash limit reserves (excluding school reserves) reduced by a net £38.872 million in 2022/23, from £261.427 million at 31 March 2022 to £222.554 million at 31 March 2023.

### Capital Outturn Position

The original capital budget for 2022/23, taking into account the budgets approved by Council on 23 February 2022 and adjustments for the re-profiling of underspends from the previous year end was £267,920 million.

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. This has been particularly important throughout 2022/23 as the council has monitored the impact of the pandemic and global price rises upon the ability to deliver the capital programme effectively. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year.

The council spent £143.050 million on its capital programme in 2022/23 compared to the revised forecast capital programme spend estimate of £165.074 million – an underspend of £22.024 million or circa 13%. Total capital expenditure in 2022/23 was broadly in line with the level of capital spending achieved in 2021/22 and capital spending over the last two financial years has been significantly higher than that in the years prior to 2021/22.

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.

<b>Service Groupings</b>	<b>Revised Budget</b>	<b>Service Grouping Final Outturn</b>	<b>Variance</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adults and Health Services	100	24	-76
Children and Young People Services	18,048	16,210	-1,838
Neighbourhoods and Climate Change	57,915	46,799	-11,116
Regeneration, Economy and Growth	84,736	76,158	-8,578
Resources	4,275	3,860	-415
<b>Total</b>	<b>165,074</b>	<b>143,050</b>	<b>-22,024</b>
<b>Funded by:</b>			
Grants and Contributions	82,518	78,494	-4,024
Revenue and Reserves	7,992	14,226	6,234
Capital Receipts	74,564	50,330	-24,234
<b>Total</b>	<b>165,074</b>	<b>143,050</b>	<b>-22,024</b>

The variance between the revised capital budget and the final outturn for the year was £22.024 million. This underspend of planned expenditure has been re-profiled into and will augment the 2023/24 and future years' capital budgets together with the associated financing and therefore this does not represent a financial issue for the council.

### **Other Key Financial Items in 2022/23**

#### Material Assets and Liabilities:

- As at 31 March 2023, the council held:
  - £1,669.9 million of long term assets;
  - £459.7 million of current assets;
  - £231.3 million of current liabilities and
  - £984.4 million of long term liabilities.
- Long Term Assets have decreased slightly by £9.4 million, which is mainly due to decreases in the value of property, plant, and equipment and in long term investments.
- Current Assets have increased by £19.1 million, which is mainly due to an increase in short term debtors.
- Current Liabilities have remained relatively static with a £507,000 increase
- Long Term Liabilities have decreased by £817 million, which is mainly due to a decrease in Pension Liabilities of £829 million.
- The General Fund Medium Term Financial Plan 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23 Report, approved by Council on 23 February 2022, details the 2022/23 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 2022/23 were as follows:
  - Authorised limit for external debt of £784 million
  - Operational boundary for external debt of £729 million
- As part of the council's Treasury Management service, these indicators are monitored daily, and neither was exceeded during 2022/23 The highest level of external debt incurred by the council during the year was £468 million, significantly below both thresholds.
- The average interest rate of interest paid on external borrowing held at 31 March 2023 was 3.11% and the average rate of interest earned on cash investments held during the year was 4.01%
- The Net Debt position was £119 million at 31 March 2023 (external borrowing totalled £440 million and cash investments totalled £321 million).



## 6. Non-Financial Performance of the Council 2022/23

The cost of living crisis has impacted on both the council and its residents throughout 2022/23 with consumer price inflation peaking at 11.1%. This has impacted on the council in a number of ways:

- High inflation outstripping wage and benefit increase resulting in real terms falls in income. This is driving demand for services which support people facing financial hardship or who are in crisis as well as service provided to vulnerable people such as benefits, welfare assistance, social care and housing.
- Council service users may seek to save money, particularly around discretionary services such as leisure centres, theatre and cinema resulting in reduced income.
- Increased costs for the council, particularly premises and transport costs reflecting higher energy prices and fuel costs

The council continues to strive 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 four year, high level plan which is underpinned by service planning arrangements and links closely with both 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 contained within the council plan 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.

During 2022/23, there were five ambitions for the council. Each of these priorities, alongside the main objectives and achievements are set out below:

- **Our Economy** - Durham has a thriving and inclusive economy with more and better jobs and fewer people suffering from the hardships 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.
- We will improve employment opportunities for disabled people.

## Achievements

- Positive discussions have taken place with other neighbouring authorities and the government to reach a provisional deal to unlock billions of pounds of investment and see additional powers transferred from Whitehall to the North East.
- £25 million investment and completion of phase 1 of Jade Business Park. Creating seven new units totalling more than 14,000 sqm of industrial space to accommodate 250 jobs.
- £75 million of private sector investment in new industrial and warehousing at Connect at Integra 61 creating 640,000 sq. ft of new industrial and warehousing space and contributing to the 4,000 jobs that will be accommodated on Integra 61.
- £271 million invested in one of Europe's leading technology parks at NETPark delivered and managed by Business Durham, with 16,000 sqm of office and laboratory space supporting 650 jobs.
- Planning approval to bring forward over 800,000 square feet of development at Forrest Park in Aycliffe to potentially build eight factory units.
- Developed an Inclusive Economic Strategy for the County to support future economic growth
- Investment Plans submitted for UK Shared Prosperity Fund, Multiple Programme and the Rural England Prosperity Fund, bringing in £37.1 million to support Durham's economic growth over the next three years.
- Planning consent secured for over 400,000 sq. ft of office space at Aykley Heads site with the potential to create 4,000 jobs.
- Secured £20 million Levelling Up Fund for the Bishop Auckland Constituency Proposal. Also developed five proposals for the remaining constituencies
- Delivered a successful festivals and events programme including the Bishop Auckland and Seaham food festivals, Durham Book Festival and BRASS which were attended by over 95,000 people in 2022.
- Our Post 16 outcomes have improved steadily over time with average grades at A level above national averages from 2018.
- Over 13,500 children and young people with Special Educational Needs and Disabilities are supported to achieve good outcomes in our schools and colleges.

Almost 85% of these are supported in their local mainstream nursery, school or college.

- The Percentage of our children and young people attending an Ofsted judged 'Good or Better' school is 91.2% at Nursery and Primary, 76.9% at secondary and 96.3% at special schools.

### **Our Economy: Statistics / Challenges**

- The employment rate has been relatively stable at around 71.5% for the last two years despite the difficult economic conditions but we need to continue to attract more and better jobs in order to catch-up with the national average.
  - The economic recovery from Covid-19 has been set-back by the escalating cost of living crisis, whereby substantial price rises are affecting all parts of the economy.
  - Income levels are low in County Durham. The county is the 42nd most income-deprived out of 151 local authorities nationally. Gross disposable household income per head of population in County Durham is just over 76% of the national average.
  - The gap between the employment rate for people with a disability compared with those who are not disabled stands at 34.7 percentage points (March 2022) which is one of the highest differences in the country.
  - In 2022, 90.2% of 16-17-year-olds within County Durham were participating in education, employment or training.
  - GCSE results as measured through the average attainment 8 score for the county are below the national average.
  - 84.5% of pupils attend a school judged by Ofsted to be 'good' or 'outstanding' (as at October 2022).
  - Child poverty is increasing, by autumn 2022 around 30% of school children were claiming free school meals increasing by around a fifth in the last two years.
  - According to the latest figures (2020), an estimated 14.7% of households are in fuel poverty. This is defined as where the householder is living in a property with a fuel energy efficiency rating of band D or below; and after paying fuel costs, would be left with a disposable income which is below the poverty line.
  - Day visitors to our county spend an average of £22.97 in the local economy per day, whilst overnight visitors will spend an average of £209.61 per trip. Only 9% of visitors will stop overnight within the county.
- **Our Environment** – Durham has taken action to tackle the climate emergency, reduce the impact of pollution and waste on our economy and protect, restore and sustain our natural environment.

### **Objectives**

- Create a physical environment that will contribute to good health

- Work with others to achieve a carbon neutral county
- Reduce the impact of waste and pollution on our environment
- Protect, restore and sustain our natural environment for the benefit of future generations

## **Achievements**

- Carbon emissions across the county have reduced by 57% from the 1990 baseline.
- Securing significant funding from Government for decarbonisation projects, from building retrofits to EV charging infrastructure
- 16,000 hectares of blanket bog have been restored in County Durham, avoiding 192,000 tonnes of carbon from being emitted each year.
- We are pursuing three bids to improve sustainable transport through the reopening of rail lines at Consett, Stillington and Weardale.
- Scaling On Street Charging Initiative (SOSCI) project has installed 153 EV charge points sockets, 10 of which are rapid charge, the other 143 being 7-22 kWh fast charging, in towns, libraries, leisure centres and community centres.
- County Durham Fuel Poverty Partnership has enabled residents in County Durham to have the fourth highest uptake of energy efficiency grants nationally, working with landlords to improve quality and energy efficiency of buildings and supporting low carbon retrofit for off-gas homes.

## **Our Economy: Statistics/Challenges**

- The council is committed to exploring more sustainable transport choices and we are pursuing three bids for rail connections from Ferryhill to Teesside, Consett to Tyne and Darlington to Weardale to help realise environmental, social and economic benefits in County Durham and the wider region.
- Countywide contracts in place for waste disposal services are coming to an end.
- An Air Quality Management Area where national standards for levels of pollutants have been declared in parts of Durham City, with an action plan to improve air quality.
- The Environment Act 2021 will give the council more powers and responsibilities regarding air quality, nature conservation, waste and use of resources.
- The council is committed to examining the decline of habitats and species has declared an ecological emergency in County Durham, to be accompanied by an action plan that enables a positive response to be delivered across council services.
- We want to encourage and enable greater participation in cycling and walking across all demographic groups.
- The government's Waste and Resources Strategy may have implications for the council such as the introduction of a separate food waste collection, free garden

waste collection services, standardising domestic collection services across the country and introducing recycling targets.

- We will continue to collaborate with our partners, Northumbrian Water and the Environment Agency to carry out work to reduce the risk of flooding and its impacts on residents and businesses.
  - The tonnage of domestic household waste collected has increased significantly during the pandemic, which is affecting the proportion of waste recycled and being diverted to landfill and increased contamination issues in our recycling collections.
  - The percentage of waste going to landfill has increased during the pandemic from less than 5% to nearly 10%.
- **Our People** – Durham is a place where people will enjoy fulfilling, long and independent lives.

### **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.
- All children and young people will have a safe childhood.
- Promotion of positive behaviours.
- Better integration of health and social care services.
- Tackle the stigma and discrimination of poor mental health and build resilient communities.
- 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.
- Support people whose circumstances make them vulnerable and protect adults with care and support needs from harm.
- Protect and improve the health of the local population, tackling the leading causes of illness and death.

### **Achievements**

- Under 18 years conceptions rate has reduced from 41.3 in 2011 to 17.4 in 2021 and continues to show a positive direction of travel.
- We have helped 3,000 people to access support for drug and alcohol issues and are now above the national average for those successfully completing treatment.
- We have excellent levels of satisfaction from clients in receipt of adult social care services compared to national figures.
- We have developed a public health driven planning policy to address the proliferation in hot food takeaways that is contributing towards levels of obesity in

---

children and adults, and we are rolling out a healthy options takeaway scheme that will be provided free of charge to hot food takeaways across County Durham.

- To date (Dec 2022), we have achieved significant and sustained outcomes with 6,143 families and an additional 849 have maintained continuous employment – giving a combined total of 6,992 families turned around through our Stronger Families Programme since 2015.
- Durham County Council was highly commended in the Municipal Journal Digital Transformation Award for 2021, which recognised the introduction of the Health Call Digital Care Home system, allowing care workers to digitally share the results of their resident observations, such as blood pressure and heart rates, with health professionals.
- Durham County Council won the Local Government Chronicle Children’s Services Supportive Employer Award for 2022.
- Durham County Council has improved and expanded services to children since its last ILACS inspection from Ofsted and is now rated as ‘Good’ overall effectiveness and ‘Outstanding’ for leadership and management.
- Strong local offer for our care leavers which was confirmed by young people responding to a national benchmarking exercise. We have also opened the new care leavers hub.
- Strong adoption performance.
- Integrated Strategic Commissioning Team function for the county created, to ensure most effective use of resources, joint contract monitoring and improved quality of service provision.
- County Durham Care Academy created by the council to support and promote careers in social care, offering a range of courses from entry level right through to senior leadership and management qualifications.
- The Supporting the Provider Market programme piloted falls prevention interventions and supported wider rollout and mainstreaming of successful initiatives.
- One Touch Health system successfully rolled out to over 300 staff in County Durham Care and Support, ensuring that our care records are more secure, and data are readily accessible and reportable.
- Great North Care Record delivered, for sharing of health and social care data between professionals and patients
- Integrated pathways established with adult social care and primary and secondary care.
- Community equipment review completed, with revised and improved commissioning arrangements in place for people living in the community and care homes.
- Three of our regulated services rated by Care Quality Commission: Hawthorn House and Shared Lives are ‘Outstanding’ and Extra Care is ‘Good’
- Finalists in the LGC 2022 Awards Public Health category for the County Durham Workplace Health Programme.

- Created the Protecting Health team to protect our residents through planning, prevention and management of infectious diseases and outbreaks, maximising uptake of vaccination and immunisations and preparing and planning for seasonal risks and public health emergencies. The Protecting Health team also leads the Public Health approach to vulnerabilities, and the emerging sustainability and climate change agenda.
- We administrated the £150 council tax energy rebate payment scheme which almost 93% of residential properties were eligible to receive.

### **Our People: Statistics / Challenges**

- The impact of the pandemic is a factor that has led to male life expectancy falling by seven months and female life expectancy by six months.
- The cost-of-living crisis is disproportionately impacting people and families who are living in, or at risk of poverty.
- Smoking remains a significant cause of health inequalities and prevalence is to be reduced to 5% by 2030, meaning 49,600 must quit.
- Just under one in four children are overweight in reception year, rising to over one in three at Year 6 and to two in three in adulthood. These figures are above national levels.
- Levels of women who are still smoking in pregnancy in County Durham is significantly higher than the national average.
- Breastfeeding prevalence rates amongst new mothers remain nearly 17 percentage points behind national figures.
- Need to deliver on the Combating Drugs and Alcohol Strategy agenda to reduce harms from substances within local communities
- The numbers of children requiring the support of a social worker due to complex needs, which have increased during COVID-19. This is a national trend. It means ensuring sufficient local placement choice for our Children in Care and expanding capacity for short breaks is challenging
- The increasing numbers and complexity of children with SEND requiring wider support.
- An increase in the complexity of care and court of protection referrals.
- Increased responsibilities, changing needs and reducing government funding are placing greater pressure on our ability to support children and young people with special educational needs and disabilities.
- Mental health is a priority. Indicators are high for hospital admissions for self-harm, suicide rates and patients registered with depression.
- The risk of an outbreak of an infectious disease could have major health impacts on people (particularly those who are vulnerable).
- Life expectancy at birth is 1.7 years lower for males and 1.9 years for females in County Durham compared with the average for England.

- Healthy life expectancy, the number of years a person lives in good health, is around five years lower than national figures and there is a 10-year difference in healthy life expectancy between the most and least deprived communities in County Durham.
  - A quarter of the population in the county will be aged 65+ by 2032.
  - We need to diversify the range of older persons' housing provision to meet growing demand from an ageing population and free up larger family accommodation.
  - Alleviating a pressured social care and health environment following the pandemic, with challenges associated with workforce (recruitment and retention), service demands and a challenging economic environment.
  - Implementing social care reforms, including Liberty Protection Safeguards; greater integration with the NHS; developing effective system working with the Integrated Care Board; Care Quality Commission regulation of local authority adult social care delivery; a new national performance dataset; charging reforms (delayed until 2025).
  - Sustaining a diverse and robust care market, to meet a broad range of social care needs.
  - Maintaining effective demand management, delivery standards and risk management, which includes areas of high demand or risk, such as hospital discharge, Mental Health Act assessments and safeguarding.
  - Strengthening the voice of people with lived experience, by improving approaches to user engagement and co-designing strategies when developing services / practice.
- **Our Communities** – Durham is a great county in which to live, with flourishing communities which are connected and supportive of each other.

### **Objectives**

- 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.
- Our rural communities will be sustainable whilst maintaining those characteristics which make them distinctive.
- Narrow the inequality gap between our communities.
- We will build inclusive communities.

### **Achievements**



- The council leads on Digital Durham, a £35 million initiative to transform broadband speeds for residents and business across the North-East – and has already provided access to fibre broadband to over 105,000 properties.
- A new adult social care case management system has been implemented which will help manage customer demand more effectively.
- Since 2016, the council in collaboration with a range of partner organisations, continues to play its part in the UK's commitment to support some of the world's most vulnerable refugees.
- Roll out of programmes and training to support increased awareness of mental health issues by staff and schools.
- Implemented a Selective Licensing Scheme that covers 42% of the private rented sector across the county; approximately 29,000 properties. The scheme aims to ensure privately rented properties in a designated area are well managed and in good condition.
- Durham County Council is the only local authorities to maintain the ISO 55001 Asset Management Accreditation for Highways.
- Our refurbishment of New Elvet Bridge has been recognised within numerous national and regional awards including winning 'Most Innovative Project' at the Institution of Structural Engineer's Northern Counties Structural Awards 2021 as well as receiving a special commendation in the Large Projects category.
- In 2022/23 the council invested £3.47 million on town centre regeneration. This included purchasing derelict buildings and land and environmental improvements.
- 67 properties delivered at Oakerside Drive, Peterlee as part of the Chapter Homes Business Plan
- Through the work of our AAPs the council has allocated £59.5 million to over 10,000 community-based projects, leveraging £69.7 million of external matched funding

### **Our Communities: Statistics / Challenges**

- There has been increased demand for services provided by voluntary and community sector organisations, just as the sector loses a considerable proportion of its revenue.
- House prices have increased in recent years and there has been a drop in the number of properties in the private rented sector.
- The national issue of high street decline, with the growth of online shopping and major retailers closing stores, has affected our town centres.
- Internet sales as a percentage of total retail sales have risen nationally, from 2.5% in December 2006 to 30.2% in November 2022, posing increasing competition to high street shops and leading to major changes in our high streets and town centres.

- The highly dispersed settlement pattern in County Durham with over 300 recognised settlements, 21 of which have a population of 5,000 or more, presents a challenge for the provision of transport and public services, particularly in rural areas.
  - The county has good north-south transport links with the A1(M) and East Coast Mainline but there are opportunities to improve east-west links.
- **Our Council** – Durham County Council has a reputation for listening to its residents, being well managed and getting things done.

### **Objectives**

- Our resources will be managed effectively.
- We will create a workforce for the future.
- We will design our services with service users
- We will use data and technology more effectively.
- We will build an inclusive and welcoming employee culture.

### **Achievements**

- We have delivered £250 million overall savings from 2011/12 to 2022/23
- Over 100 council services are available digitally and more than half of residents access our services this way.
- We have started a major project to join together data from 18 of our major IT systems and lay the foundations for the council to become a more data driven organisation which will help deliver better outcomes for our residents.
- We have achieved the 'Maintaining Excellence' status in the Better Health at Work Award, helping employers regionally to address health issues within their workforce. 75 organisations are now signed up to the award programme.
- We have maintained the Disability Confident Leader status awarded by the Department for Work and Pensions, due to our commitment to being a good employer of people with a disability and support local businesses to become Disability Confident.
- We have, in partnership, developed a network of more than 150 'Warm Spaces' where people worried about their heating bills can go to get warm, stay warm and enjoy a little company.
- We have reduced carbon emissions from council operations by 57% since 2008/09.
- We continue to receive accreditations and awards for our work. For example, for our new mobile repairs app (APSE) and our E-Learning course for those issued with a littering fixed penalty notice.
- We have achieved the highest level of 'green' in the Investors in the Environment accreditation scheme. The award recognises our environmental management system, which is helping us to achieve year on year efficiencies and a pathway to

net zero. We have also won overall Outstanding Achiever award from the Investors in the Environment Programme.

- We have carried out the second in a series of planned 'working well' employee engagement surveys to assess organisational health and wellbeing as part of our workforce strategy.

### **Our Council: Statistics / Challenges**

- The council is facing significant financial pressures due to the present high levels of inflation, greater service demand, increasing costs to deliver council services and decreasing income from discretionary services
- The cost-of-living crisis has led to more households experiencing financial difficulties which is driving demand for support services to residents.
- Continuing uncertainty in terms of future funding settlements for local government and how this will be shared between local authorities makes financial planning extremely problematic.
- An increase in interest rates will lead to future increased costs of borrowing.
- Superfast broadband and the national rollout of 5G networks will enable greater digital connectivity for our residents and offer opportunities for new digital services.
- Durham County Council declared a climate emergency in 2019. Our targets are to achieve net zero as an organisation by 2030 (from a 2008/09 baseline) through offsetting and further reductions in emissions and to contribute towards and work with others to achieve a carbon neutral county by 2045.
- Workforce instability is increasing across the council, with local and national skills shortages increasing competition within the jobs market.
- Our partners, especially the Voluntary and Community Sector and some commissioned services, are also experiencing issues with recruitment and retention.
- The council has an ageing workforce. 43% of its staff are over the age of 50, which has an impact on sickness absence rates and requires effective workforce planning. In addition, an ageing population across the county is reducing the pool of young people from which we can recruit
- The most reported reason for employee sickness absence within the council is mental ill-health and fatigue.
- Society is experiencing a technological revolution where progress is accelerating, and innovations can be identified and rapidly deployed, but we are finding it difficult to recruit staff with the right skill set to keep pace
- We, together with its partners, should seek to maximise the value of every pound spent and seek to deliver social value outcomes. We will deliver social, economic

and environmental outcomes for our local communities by adopting a strategic approach during its commissioning, procurement, development and planning of projects.

- We recognise the need to manage the customer data we hold more efficiently to better understand service users, generating benefits such as predicting and managing demand, providing the services residents want and supporting better decision-making. We also need to ensure residents are confident we will look after their data appropriately

The council plan covering the 2022/23 year was approved by Council in June 2022. In future, it is refreshed on an annual basis as a rolling four-year plan going forward - presented to County Council alongside the MTFP and budget setting reports in February each year.

## **7. Significant Issues for 2022/23 and Beyond**

The council has faced significant financial challenges, mainly resulting from the impact of the Ukraine conflict and turbulence in the financial markets across the early Autumn. These geopolitical and national policy issues have driven significant and complex price inflation fluctuations which have driven upward pressure across a range of the council's expenditure budgets. Consumer Price index inflation (CPI) in the UK economy peaked at 11.1% during 2022/23 and this has driven significant upward pressure across a range of expenditure budgets.

Inflationary pressures especially for energy, waste, transport and the impact of the nationally negotiated employee pay award which resulted in 6.6% increase in the council's pay costs compared to a budget provision of 3.25% has meant that costs incurred in these areas have exceeded the budget provision. These budget pressures have been managed during 2022/23 via a combination of general contingencies, the Budget Support Reserve and recurrent pressures have been taken into consideration within the 2023/24 Revenue Budget and Medium Term Financial Plan (MTFP) approved by Council on 22 February 2023.

It remains unclear when this volatility will fully dissipate, though the Chancellor of the Exchequer has set out that he expects CPI to fall steadily during 2023/24.

The longer-term inflationary impact on the council's finances remains difficult to gauge at this stage. The 2023/24 revenue budget and MTFP approved by Council on 22 February 2023 considered these inflationary implications however, this position will need to be kept under review. The 2023/24 pay award offer made in late February 2023 exceeds the budget provision and if agreed will result in a circa £3.711 million budget pressure in 2023/24 that will impact on the budget setting for 2024/25 also. There may potentially be a

further range of financing decisions required by the council throughout its current MTFP (13) period. Reserves will potentially be required to meet any shortfall.

The report to Council on 22 February 2023 highlighted a forecast savings shortfall of £23.177 million over the 2023/24 to 2026/27 (MTFP (13)) period, with further savings becoming ever more challenging to achieve.

Additionally, there is significant uncertainty in terms of the quantum of recurrent funding to be available to local government particularly from 2025/26 onwards.

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.

## **8. Corporate Risks**

The council has an embedded process to manage any risks and assist with the achievement of its strategic objectives, alongside national and local performance targets. The Strategic Risk Register plays an integral role in the production of the Corporate Plan and is subject to review three times a year by Audit Committee, including when it approves the annual statement of accounts.

The council's key strategic risks are as follows:

- There is significant uncertainty in relation to future funding settlements from government, particularly from 2025/26 onwards which will significantly impact upon the medium-term financial plan.
- Limited product availability and price increases in the construction industry may disrupt the delivery of capital projects by the council either through external procurement routes or through the in-house construction delivery arms within both Corporate Property and Land and Highway Services.
- Potential progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken.
- Potential adverse impact of energy price increases on council finances.
- Potential disruption to the council's and partners' urgent and emergency care services due to backlogs caused by COVID-19, increased demand and staff capacity issues.
- Potential withdrawal of Covid financial support to bus operators may result in reduced public transport coverage, leading to a lack of essential transport services for users and/or calls for financial assistance from the council.

- Risk of being unable to meet the authority's statutory sufficiency duty to provide sufficient accommodation in the local authority area to meet the needs of Children Looked After and children in need.
- Risk that the council fails, in its role as a community leader, to set an example and help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).
- Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.
- 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).
- If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves.

## 9. Summary Position

The council's financial and non-financial performance in 2022/23 continues to be effective. The revenue outturn showed a £5.366 million overspend (1.05% more than the revised budget). Regular monitoring throughout the year highlighted the main pressures that have manifested in the final outturn position.

During the year, a review of all reserves enabled the realignment of £38.8 million between earmarked and corporate reserves to replenish and support the council in setting balanced budgets and making savings in a timely manner.

Total general, earmarked and cash limit reserves (excluding school reserves) reduced by a net £38.872 million in 2022/23, from £261.427 million at 31 March 2022 to £222.554 million at 31 March 2023.

The 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 2023/24 and future years.

In 2022/23 the council has again faced and dealt successfully with the significant challenges it has faced. The council is well placed to adapt to the challenges it faces and take advantage of opportunities offered as they arise. 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 2023/24.

## 10. 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.

## 11. 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 of Practice on Local Authority Accounting in the United Kingdom (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.



At the time of publication, the draft accounts are subject to change awaiting updated IAS 19 post employment benefits information from the council's actuary. An amendment to IAS 19 requires that updated actuarial assumptions are used to remeasure the interest on the net defined benefit obligation for the remainder of the reporting period after special events, such as academy transfers. The council has determined that this is material for 2022/23, as the impact on the council's net worth is estimated to be £50m. The draft accounts will be amended and republished following receipt of the updated actuarial information. The council's external auditor is aware of this matter.

## **Statement of Responsibilities for the Statement of Accounts**

### **1. 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.

### **2. 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 2023 and its expenditure and income for the year ended 31 March 2023.

Paul Darby  
Corporate Director of Resources  
31 May 2023

**Certificate of Chairman**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**Independent Auditor's Report To The Members Of Durham County Council**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**



## Comprehensive Income and Expenditure Statement

2021-22			Note	2022-23		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
328,650	-200,036	128,614	Adult and Health Services	345,591	-200,589	145,002
589,364	-373,139	216,225	Children and Young People's Services	567,085	-386,433	180,652
140,076	-17,579	122,497	Neighbourhoods and Climate Change	164,215	-39,790	124,425
148,173	-61,147	87,026	Regeneration, Economy and Growth	215,321	-81,817	133,504
200,112	-162,092	38,020	Resources	194,402	-152,461	41,941
12,811	-25,356	-12,545	Corporate Costs	10,785	-5,435	5,350
<b>1,419,186</b>	<b>-839,349</b>	<b>579,837</b>	<b>Cost of Services</b>	<b>1,497,399</b>	<b>-866,525</b>	<b>630,874</b>
56,200	-5,879	50,321	Other Operating Expenditure	48,407	-75,517	-27,110
51,707	-12,983	38,724	Financing and Investment Income and Expenditure	54,435	-18,636	35,799
-	-515,138	-515,138	Taxation and Non Specific Grant Income	-	-538,118	-538,118
		<b>153,744</b>	<b>Surplus (-) or Deficit on Provision of Services</b>			<b>101,445</b>
			<b>Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services</b>			
		81,088	Surplus (-) or deficit on revaluation of PPE / Heritage assets	14,15		-15,381
		4,188	Impairment losses on non-current assets charged to revaluation reserve	14		6,626
		-2,925	Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income	17		887
		-292,690	Remeasurements of the net defined benefit liability	26,44		-920,230
		<b>-210,339</b>	<b>Other Comprehensive Income (-) and Expenditure</b>			<b>-928,098</b>
		<b>-56,595</b>	<b>Total Comprehensive Income (-) and Expenditure</b>			<b>-826,653</b>

## Movement in Reserves Statement

2022/23:

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 1 April 2022 brought forward</b>	25,898	269,805	13	295,716	-208,514	87,202
<b>Movement in Reserves during 2022-23</b>						
Total Comprehensive Income and Expenditure	-101,445	-	-	-101,445	928,098	826,653
Adjustments between accounting basis and funding basis under regulations (Note 9)	59,813	-	27,977	87,790	-87,790	-
<b>Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves</b>	<b>-41,632</b>	<b>-</b>	<b>27,977</b>	<b>-13,655</b>	<b>840,308</b>	<b>826,653</b>
Transfer of Dedicated Schools Grant Reserve balances to DSG Adjustment Account (Notes 10 and 26)	-	-3,057	-	-3,057	3,057	-
Transfers to / from Earmarked Reserves (Note 10)	41,751	-41,751	-	-	-	-
<b>Balance at 31 March 2023 carried forward</b>	<b>26,017</b>	<b>224,997</b>	<b>27,990</b>	<b>279,004</b>	<b>634,851</b>	<b>913,855</b>

2021/22:

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>Balance at 1 April 2021 brought forward</b>	26,153	280,830	8	306,991	-276,384	30,607
<b>Movement in Reserves during 2021-22</b>						
Total Comprehensive Income and Expenditure	-153,744	-	-	-153,744	210,339	56,595
Adjustments between accounting basis and funding basis under regulations (Note 9)	142,464	-	5	142,469	-142,469	-
<b>Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves</b>	<b>-11,280</b>	<b>-</b>	<b>5</b>	<b>-11,275</b>	<b>67,870</b>	<b>56,595</b>
Transfers to / from Earmarked Reserves (Note 10)	11,025	-11,025	-	-	-	-
<b>Balance at 31 March 2022 carried forward</b>	<b>25,898</b>	<b>269,805</b>	<b>13</b>	<b>295,716</b>	<b>-208,514</b>	<b>87,202</b>

**Balance Sheet**

31 March 2022 £000		Notes	31 March 2023 £000
1,616,923	Property, Plant and Equipment	14	1,610,494
16,241	Heritage Assets	15, 47	14,907
6,070	Investment Property	16	5,820
6,221	Intangible Assets		6,391
17,696	Long Term Investments	17	16,499
16,221	Long Term Debtors	17	15,818
<b>1,679,372</b>	<b>Long Term Assets</b>		<b>1,669,929</b>
2,540	Assets held for sale	22	2,070
307,063	Short Term Investments	17	308,480
6,323	Inventories	19	6,462
87,644	Short Term Debtors	20	105,015
36,965	Cash and Cash Equivalents	21	37,691
<b>440,535</b>	<b>Current Assets</b>		<b>459,718</b>
-13,840	Short Term Borrowing	17	-26,649
-194,827	Short Term Creditors	23	-175,978
-2,121	Provisions	24	-2,081
-20,066	Capital Grants Receipts in Advance	36	-26,653
<b>-230,854</b>	<b>Current Liabilities</b>		<b>-231,361</b>
-13,491	Provisions	24	-15,587
-407,959	Long Term Borrowing	17	-416,632
-5,268	Capital Grants Receipts in Advance	36	-6,902
-1,299,720	Other Long Term Liabilities - Pensions	44	-470,420
-75,413	Other Long Term Liabilities - Other	39, 40	-74,890
<b>-1,801,851</b>	<b>Long Term Liabilities</b>		<b>-984,431</b>
<b>87,202</b>	<b>Net Assets</b>		<b>913,855</b>
295,716	Usable Reserves	25	279,003
-208,514	Unusable Reserves	26	634,852
<b>87,202</b>	<b>Total Reserves</b>		<b>913,855</b>

## Cash Flow Statement

2021-22 £000		Notes	2022-23 £000
153,744	Net surplus (-) or deficit on the provision of services		101,445
-215,884	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	27	-129,402
5,872	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	75,446
-56,268	Net Cash flows from Operating Activities		47,489
132,884	Investing Activities	28	-23,645
-73,455	Financing Activities	29	-24,570
3,161	Net increase (-) or decrease in cash and cash equivalents		-726
40,126	Cash and cash equivalents at 1 April	21	36,965
<b>36,965</b>	<b>Cash and cash equivalents at 31 March</b>	<b>21</b>	<b>37,691</b>

## Notes to the Accounts

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 2022/23 financial year and its position at the year-end of 31 March 2023. 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 2022/23 (the Code), 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 local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting.

#### 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, which are determined as set out in the Pension Fund accounting policies later in this document.

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. An amendment to IAS 19 requires that updated actuarial assumptions are used to remeasure the interest on the

net defined benefit obligation (asset) for the remainder of the reporting period after special events, such as academy transfers (settlements). The council applies this where material.

- 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.

### **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. The council does not hold any financial assets that are measured at FVPL.

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 Other Comprehensive Income (FVOCI)**

The council treats assets as fair value through other comprehensive income when they are held for strategic economic development purposes rather than trading. This protects council taxpayers from movements in the value of shareholdings until such times as the shares are sold or released.

At initial recognition, an authority may make an irrevocable election to present in other comprehensive income and expenditure subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. The council has chosen to apply this policy to all such equity instruments that it holds, to designate them as assets held at fair value through other comprehensive income.

### **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 2022/23 (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 (excluding Highways Infrastructure Assets)**

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. See accounting policy 1.22 for specific provisions regarding Highways Infrastructure Assets.

#### **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.

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:

- 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 (excluding Highways Infrastructure Assets – see policy 1.22) – 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 2022/23 were either carried out by council staff or by suitably qualified external consultants. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions or market conditions 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.

## **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.
- 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. The value of capital 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.

Where a local authority maintained school converts to academy status, the carrying amount of the asset is removed from the Balance Sheet and recorded in the Comprehensive Income and Expenditure Statement as a loss on disposal at the completion of the statutory process.



## **1.22. Highways Infrastructure Assets**

Highways infrastructure assets include carriageways, footways and cycle tracks, structures (e.g. bridges), street lighting, street furniture (e.g. illuminated traffic signals, bollards), traffic management systems and land which together form a single integrated network.

### **Recognition**

Expenditure on the acquisition or replacement of components of the network is capitalised on an accrual basis, provided that it is probable that the future economic benefits associated with the item will flow to the authority and the cost of the item can be measured reliably.

### **Measurement**

Highways infrastructure assets are generally measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April 1994, which was deemed at that time to be historical cost.

### **Impairment**

Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount.

### **Depreciation**

Depreciation is provided on the parts of the highways infrastructure assets that are subject to deterioration or depletion and by the systematic allocation of their depreciable amounts over their useful lives. Depreciation is charged on a straight-line basis.

Annual depreciation is the depreciation amount allocated each year.

Useful lives of the various parts of the highways network are assessed by the council's Highways Assets Senior Engineer using industry standards where applicable as follows:

- Carriageways – useful life of 40 years
- Footways and cycle tracks – useful life of 25 years
- Structures (bridges, tunnels) – useful life of 100 years
- Street lighting – useful life of 40 years
- Street furniture (bus shelters) – useful life of 25 years
- Street furniture (other assets) – useful life of 40 years
- Traffic management systems – useful life of 20 years

## Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet 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).

The written-off amounts of disposals are 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 transferred to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### 1.23. 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.

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.

### **1.24. 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.

### **1.25. Contingent Liabilities**

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

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

### **1.26. Contingent Assets**

A contingent asset arises where an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **1.27. Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund

balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

### **1.28. Revenue Expenditure Funded from Capital under Statue (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.

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

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

### **1.30. Schools**

In line with accounting standards on group accounts and consolidation, all maintained schools in the county are now considered to be entities controlled by the council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the council's single entity accounts. The council has the following types of maintained schools under its control:

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

Schools Non-Current 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.

### **1.31. Collection Fund Statement**

#### **Council Tax Income**

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

#### **Business Rates Income**

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

## **2. Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

No standards introduced by the 2023/24 Code are relevant for disclosure in the council's 2022/23 financial statements.

## **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.

### **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 £5.804m, but this does not include assets relating to Sedgefield Community College and the Academy at Shotton Hall. Further details can be found in Note 40a.

### **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	115	4	8	138
b)	Voluntary Controlled (VC)	-	12	-	-	12
b)	Voluntary Aided (VA)	-	8	-	-	8
c)	Foundation	-	-	1	-	1
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	<b>Maintained Schools</b>	<b>11</b>	<b>136</b>	<b>5</b>	<b>9</b>	<b>161</b>
e)	Academies	-	75	26	2	103
	<b>Total</b>	<b>11</b>	<b>211</b>	<b>31</b>	<b>11</b>	<b>264</b>

- a) All Community schools are owned by the council and the land and buildings used by the schools are included on the council's Balance Sheet.
- b) Legal ownership of Voluntary Controlled and Voluntary Aided school land and buildings usually rests with a charity, normally a religious body and schools are granted a licence to use the land and buildings. 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. By applying certain criteria, 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 2022/23.

## 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 2023 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 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>The PPE carrying value (not including infrastructure assets) at 31 March 2023 was £1.167 billion</p> <p>Accumulated depreciation (not including infrastructure assets) totalled £88m as at 31 March 2023 and a change in methodology resulting in a 1%</p>



Item	Uncertainties	Effect if actual results differ from assumptions
		<p>movement would only change the Balance Sheet by £0.880m</p> <p>The PPE carrying value for Infrastructure assets was £558 million with accumulated depreciation of £26.5m. A change in methodology resulting in a 1% movement would change the Balance Sheet by £0.265m.</p>
Property, plant and equipment	<p>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>	<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 (not including infrastructure assets) would equate to £11.668m change in carrying value.</p> <p>A 1% change in infrastructure asset valuation would equate to £5.583m change in carrying value</p>
Net Pensions Liability	<p>At 31 March 2023, the council had a net pensions liability of £470.420m. Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the council with</p>	<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 funded benefits of £41.690m.</p> <p>In order to understand the magnitude of the possible volatility in the Balance Sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful</p>

Item	Uncertainties	Effect if actual results differ from assumptions
	expert advice about the assumptions to be applied.	to understand how sensitive the results are to key assumptions. IAS19 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 2023 the council had a balance of debtors of £133.916m. A review of significant balances suggested that an impairment of doubtful debts of 26.4% (£35.420m) was appropriate. In the current economic climate however, it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate and bad debt provision was made for an additional 1% of outstanding debt, this would result in an additional charge of £1.339m

## 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 2022/23.

## 6. Events After the Balance Sheet Date

### Non-adjusting Event - Academy Schools

Seven local authority schools will convert to Academy Status during 2023/24. These conversions are non-adjusting events in 2022/23. This change in status will lead to the removal of these schools from the Balance Sheet in 2023/24 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 £59.086 million, which is the carrying value of the assets in the Balance Sheet.

## 7. Expenditure and Funding Analysis

### 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.

2021-22				2022-23		
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
122,942	5,672	128,614	Adult and Health Services	139,931	5,071	145,002
114,501	101,724	216,225	Children and Young People's Services	142,518	38,134	180,652
88,990	33,507	122,497	Neighbourhoods and Climate Change	91,591	32,834	124,425
42,355	44,671	87,026	Regeneration, Economy and Growth	52,235	81,269	133,504
23,386	14,634	38,020	Resources	30,857	11,084	41,941
2,941	-15,486	-12,545	Corporate Costs	8,091	-2,741	5,350
<b>395,115</b>	<b>184,722</b>	<b>579,837</b>	<b>Net Cost of Services</b>	<b>465,223</b>	<b>165,651</b>	<b>630,874</b>
-439,618	13,525	-426,093	Other Income and Expenditure	-459,659	-69,770	-529,429
55,783	-55,783	-	Adjustments between Funding and Accounting basis outside the CIES	36,068	-36,068	-
<b>11,280</b>	<b>142,464</b>	<b>153,744</b>	<b>Surplus (-) or Deficit</b>	<b>41,632</b>	<b>59,813</b>	<b>101,445</b>
-306,983			Opening General Fund Balance (including earmarked reserves) at 1 April	-295,703		
-			Transfer of Dedicated Schools Grant Reserve to DSG Adjustment Account (Notes 10 and 26)	3,057		
11,280			Surplus (-) or Deficit on General Fund Balance in year	41,632		
<b>-295,703</b>			<b>Closing General Fund Balance (including earmarked reserves) at 31 March</b>	<b>-251,014</b>		

## 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.

2021-22				2022-23				
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
166	5,537	-31	5,672	Adult and Health Services	239	5,099	-267	5,071
84,198	21,220	-3,694	101,724	Children and Young People's Services	16,246	19,877	2,012	38,135
25,963	7,627	-83	33,507	Neighbourhoods and Climate Change	25,764	7,478	-408	32,834
36,199	8,507	-35	44,671	Regeneration, Economy and Growth	73,056	8,571	-358	81,269
5,015	9,718	-99	14,634	Resources	3,041	8,550	-507	11,084
-	-15,486	-	-15,486	Corporate Costs	-	-2,741	-	-2,741
<b>151,541</b>	<b>37,123</b>	<b>-3,942</b>	<b>184,722</b>	<b>Net Cost of Services</b>	<b>118,346</b>	<b>46,834</b>	<b>472</b>	<b>165,652</b>
-17,535	31,060	-	13,525	Other Income and Expenditure from the Funding Analysis	-103,960	34,190	-	-69,770
-42,070	-	-13,713	-55,783	Adjustments between Funding and Accounting basis outside the CIES	-31,422	-	-4,647	-36,069
<b>91,936</b>	<b>68,183</b>	<b>-17,655</b>	<b>142,464</b>	<b>Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit</b>	<b>-17,036</b>	<b>81,024</b>	<b>-4,175</b>	<b>59,813</b>

### Adjustments for capital purposes

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

revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

### Net Change for the Pensions Adjustments

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

- **For services** this represents the removal of the employer pension contributions made by the 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:

2021-22		2022-23
£000		£000
-39,670	Adult and Health Services	-46,802
-18,138	Children and Young People's Services	-24,949
-15,181	Neighbourhoods and Climate Change	-18,946
-35,114	Regeneration, Economy and Growth	-49,201
-10,056	Resources	-10,811
-146	Corporate Costs	-131
<u>-118,305</u>	<b>Total</b>	<u>-150,840</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.

2021-22		2022-23
£000		£000
	<b>Expenditure</b>	
571,414	Employee benefits expenses	600,654
707,315	Other service expenditure	780,740
174,191	Depreciation, amortisation and other capital charges	150,359
29,742	Precepts and levies	30,369
26,458	Amounts of non-current assets written off on disposal	18,033
17,974	Interest payable	20,086
<u>1,527,094</u>	Total Expenditure	<u>1,600,241</u>
	<b>Income</b>	
-128,037	Fees, charges and other service income	-162,573
-5,879	Capital receipts	-75,517
-304,819	Council Tax and non domestic rates	-316,791
-912,754	Grants and contributions	-923,409
-21,861	Other income	-20,506
<u>-1,373,350</u>	Total Income	<u>-1,498,796</u>
<u><b>153,744</b></u>	<b>Surplus (-) or Deficit on Provision of Services</b>	<u><b>101,445</b></u>

## 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.

**2022-23:**

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<b>Adjustments to Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-81,024	-	81,024
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	-1,134	-	1,134
• Council Tax and NDR (transfers to or from Collection Fund)	7,126	-	-7,126
• Holiday pay (transferred to the Accumulated Absences Account)	-472	-	472
• Dedicated Schools Grant deficit (transferred to the DSG Adjustment Account)	-1,345	-	1,345
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
○ Depreciation and amortisation of non-current assets	-62,763	-	62,763
○ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-51,454	-	51,454
○ Amounts of non-current assets written off on disposal or sale	-17,961	-	17,961
○ Revenue expenditure funded from capital under statute	-36,142	-	36,142
○ Capital grants and contributions credited to the CI&E Statement	78,493	-	-78,493
<b>Total Adjustments to Revenue Resources</b>	<b>-166,676</b>	<b>-</b>	<b>166,676</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	75,446	-75,446	-
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)	17,195	-	-17,195
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	14,227	-	-14,227
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>106,863</b>	<b>-75,441</b>	<b>-31,422</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	48,074	-48,074
Cash payments in relation to deferred capital receipts	-	-610	610
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>47,464</b>	<b>-47,464</b>
<b>Total Adjustments</b>	<b>-59,813</b>	<b>-27,977</b>	<b>87,790</b>

**2021-22:**

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<b><u>Adjustments to Revenue Resources</u></b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions Costs (transferred to (or from) the Pensions Reserve)	-68,183	-	68,183
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	14,365	-	-14,365
• Holiday pay (transferred to the Accumulated Absences Account)	3,943	-	-3,943
• Dedicated Schools Grant deficit (transferred to the DSG Adjustment Account)	-796	-	796
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
◦ Depreciation and amortisation of non-current assets	-53,080	-	53,080
◦ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-84,599	-	84,599
◦ Amounts of non-current assets written off on disposal or sale	-26,451	-	26,451
◦ Revenue expenditure funded from capital under statute	-36,513	-	36,513
◦ Capital grants and contributions credited to the CI&E Statement	60,763	-	-60,763
<b>Total Adjustments to Revenue Resources</b>	<b>-190,407</b>	<b>-</b>	<b>190,407</b>
<b><u>Adjustments between Revenue and Capital Resources</u></b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,872	-4,085	-1,787
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	15,791	-	-15,791
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	26,279	-	-26,279
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>47,942</b>	<b>-4,085</b>	<b>-43,857</b>
<b><u>Adjustments to Capital Resources</u></b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	4,563	-4,563
Cash payments in relation to deferred capital receipts	-	-483	483
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>4,080</b>	<b>-4,080</b>
<b>Total Adjustments</b>	<b>-142,465</b>	<b>-5</b>	<b>142,470</b>



## 10. Transfers to/from Earmarked Reserves

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

	31 March 2021	2021-22 Out	Transfers In	31 March 2022	2022-23 Out	Transfers In	31 March 2023
	£000	£000	£000	£000	£000	£000	£000
<b>Adult and Health Services</b>							
Social Care Reserve	24,521	-4,276	2,394	22,639	-3,786	4,941	23,794
Public Health Reserve	7,332	-3,166	2,371	6,537	-2,102	1,785	6,220
Regional Public Health Reserves	2,293	-53	3,096	5,336	-5,336	-	-
<b>Children and Young People's Services</b>							
Children's Services Reserve	2,635	-1,029	2,355	3,961	-2,306	3,897	5,552
DSG Reserve	4,124	-1,067	-	3,057	-3,057	-	-
Education Reserve	14,944	-910	2,663	16,697	-3,293	4,982	18,386
Balances held by schools under a scheme of delegation	31,174	-	45	31,219	-2,756	-	28,463
<b>Neighbourhoods and Climate Change</b>							
Community Protection Reserve	1,147	-217	2,635	3,565	-917	723	3,371
Environmental Services Reserve	4,837	-907	956	4,886	-2,938	1,143	3,091
North Pennines AONB Partnership Reserve	1,127	-	496	1,623	-	529	2,152
Partnerships and Community Engagement Reserve	6,485	-1,567	5,895	10,813	-3,064	5,410	13,159
Technical Services Reserve	2,044	-674	40	1,410	-184	636	1,862
<b>Regeneration, Economy and Growth</b>							
Business Growth Fund Reserve	604	-150	-	454	-	150	604
Corporate Property and Land Reserve	1,913	-1,183	2,033	2,763	-1,265	1,291	2,789
Culture and Sport Reserve	15,290	-3,810	7,747	19,227	-12,437	1,470	8,260
Economic Development Reserve	5,899	-3,131	867	3,635	-2,239	2,965	4,361
Employability and Training Reserve	276	-	47	323	-78	64	309
Funding and Programmes Management Reserve	541	-11	52	582	-237	73	418
Grant Reserve	86	-	-	86	-	-	86
Housing Regeneration Reserve	473	-221	3	255	-19	-	236
Housing Solutions Reserve	3,522	-322	1,546	4,746	-1,404	538	3,880
Match Fund Programme Reserve	843	-238	-	605	-	-	605
Operational Reserve	430	-149	-	281	-74	-	207
Planning Reserve	168	-	79	247	-412	604	439
Town and Villages Regeneration Reserve	24,084	-5,637	-	18,447	-17,761	-	686
Transport Reserve	1,195	-201	500	1,494	-963	2,179	2,710
<b>Resources</b>							
Corporate Reserve	679	-457	336	558	-477	481	562
Council Tax Hardship Reserve	2,820	-	591	3,411	-2,069	-	1,342
COVID-19 Support Grants Reserve	4,873	-4,428	382	827	-227	20	620
Customer Services Reserve	250	-	-	250	-11	-	239
DWP Grant Reserve	1,895	-217	2,900	4,578	-2,317	35	2,296
Elections Reserve	1,713	-622	-	1,091	-	117	1,208
Financial Services Reserve	93	-	151	244	-244	-	-
Grant Reserve	154	-	-	154	-	130	284
Housing Benefit Subsidy Reserve	-	-	1,962	1,962	-1,962	-	-
Human Resources Reserve	392	-149	154	397	-193	93	297
ICT Reserves	1,166	-501	591	1,256	-285	-	971
Internal Audit and Corporate Fraud Reserve	125	-	72	197	-73	125	249
Legal Reserves	535	-55	229	709	-421	100	388
Operational Reserve	199	-102	-	97	-97	-	-
Operations and Data Reserves	38	-	2	40	-30	40	50
Registrars Trading Reserve	150	-150	-	-	-	-	-
Revenue and Benefits Reserve	906	-642	592	856	-417	89	528
System Development Reserve	308	-111	-	197	-	-	197
Transformation Reserve	967	-764	383	586	-586	853	853

	31 March 2021	2021-22 Out	Transfers In	31 March 2022	2022-23 Out	Transfers In	31 March 2023
	£000	£000	£000	£000	£000	£000	£000
<b>Corporate</b>							
Budget Support Reserve	-	-	10,000	10,000	-10,000	-	-
Business Support Reserve	1,948	-938	613	1,623	-848	475	1,250
Cabinet Priorities Reserve	-	-	10,000	10,000	-12,709	3,464	755
Capital Reserve	273	-273	-	-	-	642	642
Collection Fund Deficit Reserve	24,863	-24,863	9,166	9,166	-8,984	4,540	4,722
Commercialisation Support Reserve	10,096	-4,872	410	5,634	-27	3,500	9,107
Equal Pay Reserve	9,479	-	-	9,479	-5,000	-	4,479
ER/VR Reserve	3,993	-	2,051	6,044	-3,190	7,500	10,354
Feasibility Study Reserve	500	-	-	500	-	-	500
Inspire Programme Reserve	246	-125	-	121	-121	-	-
Insurance Reserve	9,564	-4,564	-	5,000	-205	1,170	5,965
Levelling Up Feasibility Reserve	1,000	-150	-	850	-757	-	93
Local Taxation Income Guarantee Grant Reserve	1,224	-514	-	710	-355	-	355
MTFP Reserve	16,440	-3,778	2,500	15,162	-5,484	27,318	36,996
Office Accommodation Capital Reserve	1,945	-1,945	-	-	-	-	-
Recovery Support Reserve	8,236	-6,582	-	1,654	-2,147	493	-
<b>Cash Limit Reserves</b>	<b>15,773</b>	<b>-7,691</b>	<b>3,482</b>	<b>11,564</b>	<b>-21,082</b>	<b>17,573</b>	<b>8,055</b>
<b>Total Earmarked Reserves</b>	<b>280,830</b>	<b>-93,412</b>	<b>82,387</b>	<b>269,805</b>	<b>-146,946</b>	<b>102,138</b>	<b>224,997</b>

The significant earmarked reserves at 31 March 2023, 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 Reserves:** mainly represents sums set aside to meet future costs associated with the decommissioning and recommissioning of various Public Health programmes.

**Children's Services Reserve:** mainly related to grant funding carried forward for use in future years against schemes supporting Children's Services.

**Education Reserves:** sums set aside to cover future liabilities associated with maintained schools converting to academy status and PFI schools, as well as grant funding carried forward for use in future years against Education-related schemes.

See Note 26 unusable reserves for further information on the movement of the Dedicated Schools Grant (DSG) reserves and the unusable DSG adjustment account.

**Balances Held by Schools:** surplus or deficit balances of locally managed schools, which are committed to be spent on the education service.

**Partnerships and Community Engagement Reserve:** to provide resources to support a range of partnership and community programmes.

**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 be utilised to support budgets where inflation costs significantly exceed original budgets set.

**Cabinet Priorities Reserve:** to be utilised to fund the one off priorities agreed by Cabinet.

**Collection Fund Deficit Reserve:** in 2020/21 to 2022/23, businesses were able to access significant business rate reductions linked to COVID-19. The council was compensated by government for this loss of income via a Section 31 grant. The sums are held in the reserve for application in line with the timing of the impact of the Collection Fund deficit on the general fund.

**Commercialisation Support Reserve:** to provide resources to enable the council to improve value for money in the context of its commercialisation agenda.

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

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

**MTFP Reserve:** to enable the council to protect frontline services for a period and ensure that the council is able to plan effectively and consult fully on future years' savings plans.

**Cash Limit Reserves:** to carry forward underspends to meet future service demands.

## 11. Other Operating Expenditure

2021-22 £000		2022-23 £000
13,734	Parish council precepts	14,197
16,008	Levies	16,172
-	Payments to the Government Housing Capital Receipts Pool	5
20,579	Losses / - Gains on the disposal of non-current assets	-57,485
<u>50,321</u>	<b>Total</b>	<u>-27,111</u>

## 12. Financing and Investment Income and Expenditure

2021-22 £000		2022-23 £000
17,974	Interest payable and similar charges	20,086
31,060	Pensions net interest on the net defined benefit liability	34,190
-4,238	Interest receivable and similar income	-10,586
-134	Impairment of Financial Investments	-92
356	Income and expenditure in relation to investment properties and changes in their fair value	-2,312
-6,294	Other investment income	-5,487
<u>38,724</u>	<b>Total</b>	<u>35,799</u>

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

<b>2021-22</b>		<b>2022-23</b>
<b>£000</b>		<b>£000</b>
-254,906	Council tax income *	-266,305
-49,913	Non domestic rates	-50,486
-169,398	Non-ringfenced government grants	-174,597
-40,921	Capital grants and contributions	-46,730
<u>-515,138</u>	<b>Total</b>	<u>-538,118</u>

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

## 14. Property, Plant and Equipment

### Movement on Balance 2022/23:

	Operational			Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>						
At 1 April 2022	1,041,064	78,805	1,625	38,623	21,371	1,181,488
Additions	41,650	13,483	39	199	20,819	76,190
Revaluation increases/(decreases)	-20,372	-	-	420	-	-19,952
Derecognition - disposals	-65,407	-3,789	-	-1,110	-	-70,306
Assets reclassified (to)/from Held for Sale	-	-	-	-579	-	-579
Other reclassifications	7,938	-	27	-2,271	-5,694	-
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2023</b>	<b>1,004,873</b>	<b>88,499</b>	<b>1,691</b>	<b>35,282</b>	<b>36,496</b>	<b>1,166,841</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 April 2022	-41,683	-44,324	-88	-12	-	-86,107
Depreciation charge	-23,703	-10,520	-	-6	-	-34,229
Depreciation written out on revaluation	27,981	-	-	66	-	28,047
Impairment losses/(reversals)	-48,453	-1	-	-	-	-48,454
Derecognition - disposals	49,504	3,148	-	-	-	52,652
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-
Other movements in cost or valuation	53	-	-	-53	-	-
<b>At 31 March 2023</b>	<b>-36,301</b>	<b>-51,697</b>	<b>-88</b>	<b>-5</b>	<b>-</b>	<b>-88,091</b>
<b>Net Book Value</b>						
At 31 March 2023	968,572	36,802	1,603	35,277	36,496	1,078,750
At 31 March 2022	999,381	34,481	1,537	38,611	21,371	1,095,381
The Revaluations / Impairments above:						
Revaluation increases/(decreases)	-20,372	-	-	420	-	-19,952
Depreciation written out	27,981	-	-	66	-	28,047
Impairment losses/(reversals)	-48,453	-1	-	-	-	-48,454
	<b>-40,844</b>	<b>-1</b>	<b>-</b>	<b>486</b>	<b>-</b>	<b>-40,359</b>
Are recognised as follows:						
Revaluation / depreciation in the Revaluation Reserve	13,917	-	-	687	-	14,604
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-6,308	-	-	-201	-	-6,509
Impairment losses in the Revaluation Reserve	-6,626	-	-	-	-	-6,626
Impairment losses in the Surplus/Deficit on the Provision of Services	-41,827	-1	-	-	-	-41,828
	<b>-40,844</b>	<b>-1</b>	<b>-</b>	<b>486</b>	<b>-</b>	<b>-40,359</b>

## Comparative Movements in 2021/22

	Operational			Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
<b>Cost or valuation</b>						
At 1 April 2021	1,206,221	72,312	1,465	37,892	41,674	1,359,564
Additions	32,844	12,887	10	564	28,811	75,116
Revaluation increases/(decreases)	-211,855	-	-	3,735	-	-208,120
Derecognition - disposals	-35,078	-6,394	-8	-727	-	-42,207
Assets reclassified (to)/from Held for Sale	-	-	-	-2,865	-	-2,865
Other reclassifications	48,932	-	158	24	-49,114	-
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2022</b>	<b>1,041,064</b>	<b>78,805</b>	<b>1,625</b>	<b>38,623</b>	<b>21,371</b>	<b>1,181,488</b>
<b>Accumulated Depreciation and Impairment</b>						
At 1 April 2021	-69,194	-40,926	-88	-11	-	-110,219
Depreciation charge	-23,572	-9,605	-	-13	-	-33,190
Depreciation written out on revaluation	46,924	-	-	11	-	46,935
Impairment losses/(reversals)	-5,655	-	-	-	-	-5,655
Derecognition - disposals	9,814	6,207	-	-	-	16,021
Assets reclassified (to)/from Held for Sale	-	-	-	1	-	1
Other reclassifications	-	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-	-
<b>At 31 March 2022</b>	<b>-41,683</b>	<b>-44,324</b>	<b>-88</b>	<b>-12</b>	<b>-</b>	<b>-86,107</b>
<b>Net Book Value</b>						
At 31 March 2022	999,381	34,481	1,537	38,611	21,371	1,095,381
At 31 March 2021	1,137,027	31,386	1,377	37,881	41,674	1,249,345
The Revaluations / Impairments above:						
Revaluation increases/(decreases)	-211,855	-	-	3,735	-	-208,120
Depreciation written out	46,924	-	-	11	-	46,935
Impairment losses/(reversals)	-5,655	-	-	-	-	-5,655
	<b>-170,586</b>	<b>-</b>	<b>-</b>	<b>3,747</b>	<b>-</b>	<b>-166,839</b>
Are recognised as follows:						
Revaluation / depreciation in the Revaluation Reserve	-84,777	-	-	3,683	-	-81,094
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-80,154	-	-	64	-	-80,090
Impairment losses in the Revaluation Reserve	-4,188	-	-	-	-	-4,188
Impairment losses in the Surplus/Deficit on the Provision of Services	-1,467	-	-	-	-	-1,467
	<b>-170,586</b>	<b>-</b>	<b>-</b>	<b>3,747</b>	<b>-</b>	<b>-166,839</b>

## Highways Infrastructure Assets

In accordance with the temporary relief offered by the update to the Code on infrastructure assets this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

The council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

Movement on balances:

2021-22 £000		2022-23 £000
	<b>Net Book Value (Modified Historical Cost)</b>	
505,151	At 1 April	521,543
34,637	Additions	36,722
-230	Derecognition	-
-18,015	Depreciation	-26,521
<u>521,543</u>	<b>Net Book Value At 31 March</b>	<u>531,744</u>

Reconciliation to the Balance Sheet:

31/03/2022 £000		31/03/2023 £000
	<b>Net Book Value</b>	
521,543	Infrastructure Assets	531,744
1,095,381	Other PPE Assets	1,078,750
<u>1,616,924</u>	<b>Total PPE Assets</b>	<u>1,610,494</u>

The council has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

## 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:
  - Structures – 100 years
  - Carriageways – 40 years
  - Street Lighting – 40 years
  - Street Furniture – other assets – 40 years
  - Street Furniture – Bus shelters – 25 years
  - Footways and Cycleways – 25 years
  - Traffic Management – 20 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

## Revaluations

Valuations as at 1 April 2022 have been carried out by RICS Chartered Surveyors and Registered Valuers under the direction and supervision of the Head of Corporate Property and Land. The valuations covered a range of assets, but focussed on assets in the Resources, Culture Sport & Tourism and Environmental Services – Leisure & Sport 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 2022.

The significant assumptions applied in estimating the values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the council to deliver services, but the property is of a specialist nature in that there is little or no market evidence to support value;
- Existing Use Value has been used where the asset is used by the council to deliver services but is not specialised and there is market evidence to support value;
- the condition and state of repair of the assets is acceptable for the purpose for which they are used. Given that the council has a regular maintenance programme for its assets, there will be no significant deterioration within the estimated life expectancy of each asset;
- the council has good title to each asset with no adverse or restrictive covenants which could affect the use or the asset;
- the assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulation;
- the current use will continue for the foreseeable future and the use will remain viable;



- the existing use has planning permission;
- the assets are not affected by any ground conditions / stability or contamination which would materially prejudice the valuation;
- the assets are free from contamination and deleterious or hazardous substances;
- no allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses;
- the assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose; and
- an assumption that the transaction takes place in the principal market, or in the absence of the principal market, the most advantageous market for the asset is used for assets valued at fair value.

An annual review of market conditions was undertaken by the council's valuer at 31 March 2023, to ensure that the value of assets was not materially misstated. The conclusion was that changes in market conditions during the year meant that the value of some assets had changed significantly. It was decided that for all assets on these sites it was appropriate to carry out a full revaluation. Other assets, where valuation changes were minimal, were left unchanged.

	Land & Buildings	Vehicles, plant, furniture and equipment	Community Assets	Surplus Assets	Total
	£000	£000	£000	£000	£000
Carried at historical cost	42,882	88,498	1,556	223	133,159
Valued at current value as at:					
31 March 2023	473,363	-	-	34,843	508,206
31 March 2022	272,529	-	5	213	272,746
31 March 2021	63,540	-	-	-	63,540
31 March 2020	68,068	-	30	-	68,098
31 March 2019	84,492	-	101	-	84,592
	1,004,874	88,498	1,692	35,278	1,130,341

The UK economy has experienced a period of extreme turbulence from March 2020 following the onset of the COVID-19 pandemic which resulted in lockdown measures being introduced, and a widespread shutdown of large parts of the global economy. Despite this, the economy rose by 5.5% in 2021 due to consumer spending and uptake in investment reflecting the highest growth rate in four decades but the rate of growth has once again slowed during 2022.

At the end of March 2023, the UK Consumer Price Index (CPI), sat at 10.1%, which is still near the 40 year high of 11.1% (September 2022). Whilst inflation is slowing, it must be remembered that this does not mean prices are falling, just that the rate of increase is reducing, and the current 10.1% is still far in excess of the Bank of England target of 2%.

To combat inflation, the Bank of England raised interest rates to 4.25%, the highest rate in 14 years. This period of unusually high inflation and interest rates has potential implications for the statement of accounts under the provisions of the existing accounting standards.

Due to a range of external factors creating uncertainty within the economic environment, changes within the land market are difficult to predict.

Different sectors within the developed land market are experiencing differences in demand linked to the changes in consumer habits, for example the logistics market has got stronger through increased demand for online shopping however the traditional retail market has slumped. Land for office accommodation is currently appearing to be in less demand than pre-COVID due to the change to hybrid working arrangements leading to businesses requiring less office space, however the long-term requirement for office accommodation is still largely unknown with some business making the decision to go back to largely traditional office-based arrangements.

Consequently, predicting market trends for land values is difficult due to the significant uncertainties in key variables leading to increases and decreases across the market.

### **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 2023 (£35.843m) 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 2023 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £24.982 million in future years. Similar commitments at 31 March 2022 were £31.826 million. The commitments at 31 March 2023 are:

• Leisure Centre Transformation & Decarbonisation schemes	£10.233m
• Digital Durham	£3.973m
• Green Homes & Social Housing Decarbonisation schemes	£2.917m
• NETPark Phase 3	£2.877m
• The Story (Durham History Centre)	£2.401m
• Bishop Auckland Bus Station & Car Park	£1.449m
• Belmont New School	£0.874m
• Bishop Auckland Infrastructure – Heritage Sites	£0.658m

## 15. Heritage Assets

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

	Museum Collection and Artefacts £000	Artwork, Public Art and Sculptures £000	Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
<b>Cost or valuation</b>					
At 1 April 2022	9,798	659	4,626	1,158	16,241
Additions	-	-	115	-	115
Revaluations	-	-	-1,449	-	-1,449
<b>At 31 March 2023</b>	<b>9,798</b>	<b>659</b>	<b>3,292</b>	<b>1,158</b>	<b>14,907</b>
<b>Cost or valuation</b>					
At 1 April 2021	9,045	659	4,312	1,158	15,174
Additions	753	-	314	-	1,067
Revaluations	-	-	-	-	-
<b>At 31 March 2022</b>	<b>9,798</b>	<b>659</b>	<b>4,626</b>	<b>1,158</b>	<b>16,241</b>

## Museum Collections and Artefacts

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

### Artwork, including Public Art and Sculptures

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

### Monuments, Statues and Historic Buildings

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

### Civic Regalia and Silverware

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

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

## 16. Investment Properties

The following 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:

2021-22 £000		2022-23 £000
-2,535	Rental Income from Investment Property	-2,562
-	Direct Operating Expenses arising from Investment property	-
<u>-2,535</u>	<b>Net (-) Gain / Loss</b>	<u>-2,562</u>

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

2021-22 £000		2022-23 £000
6,170	Balance at start of the year	6,070
	Additions:	
-	Enhancements	-
2,706	Revaluations	-250
-	Disposals	-
-2,806	Net gains / (-) losses from fair value adjustments	-
	Transfers:	
-	(-)To / from Property, Plant and Equipment	-
<u>6,070</u>	<b>Balance at end of the year</b>	<u>5,820</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 2023 (£5.820m) 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**

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### **Financial Assets**

A financial asset is a right to future economic benefits controlled by the council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the council.

The financial assets held by the council during the year are accounted for under the following three classifications:

- Financial assets held at amortised cost - these are assets where cash payments are receivable on specified dates. The amount in the Balance Sheet represents the outstanding balance owed (which for a loan will include principal and accrued interest receivable) net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.
- Fair Value Through Other Comprehensive Income (FVOCI) – these assets are measured and carried at fair value. All gains and losses due to changes in fair value are accounted for through the Financial Instruments Revaluation Reserve.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value are recognised in the CIES as they occur.

In addition, to balance to asset and liability totals in the Balance Sheet, these notes include the value of financial assets that the council considers are outside the scope of the above classes. These include capital transactions that are covered by Statutory Regulations, the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 S25 and also tax-based debtors.

## Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the council. The majority of the council's financial liabilities held during the year are measured at amortised cost, while others are tax based creditors that are considered outside of the scope.

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 2022 £000	31 March 2023 £000
	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000		
Amortised cost	2,548	2,340	11,796	12,724	344,029	346,171	60,767	72,255	419,140	433,490
Fair value through other comprehensive income - designated equity instruments	10,743	9,856	-	-	-	-	-	-	10,743	9,856
<b>Total financial assets</b>	13,291	12,196	11,796	12,724	344,029	346,171	60,767	72,255	429,883	443,346
Outside of the Scope	4,405	4,303	4,426	3,094	-	-	26,877	32,761	35,707	40,158
<b>Total</b>	17,696	16,499	16,221	15,818	344,029	346,171	87,644	105,016	465,590	483,504

The current investments include cash and cash equivalent balances.

## Financial Liabilities

	Long-term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors		31 March 2022 £000	31 March 2023 £000
	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000	31 March 2022 £000	31 March 2023 £000		
Amortised cost	- 407,959	- 416,632	- 75,413	- 74,890	- 13,840	- 26,649	- 166,118	- 139,625	- 663,330	- 657,796
<b>Total financial liabilities</b>	- 407,959	- 416,632	- 75,413	- 74,890	- 13,840	- 26,649	- 166,118	- 139,625	- 663,330	- 657,796
Outside of the Scope	-	-	-	-	-	-	- 28,709	- 36,353	- 28,709	- 36,353
<b>Total</b>	- 407,959	- 416,632	- 75,413	- 74,890	- 13,840	- 26,649	- 194,827	- 175,978	- 692,039	- 694,149

## 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.

## 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:

2021-22		2022-23	
Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000
Net gains / losses on:			
-134	-	-92	-
-	-2,963	-	-887
-134	-2,963	-92	-887
<b>Total net gains/losses</b>			
-2,439	-	-10,071	-
17,974	-	18,808	-

## Fair Value of Financial Assets and Financial Liabilities

### Fair Value Through Profit or Loss

The council has no assets that fall in this category. This follows a decision to reclassify a number of its investments in equity instruments, that fall under the definition of Fair Value Through Profit or Loss, as Fair Value through Other Comprehensive Income as these investments are held for strategic economic development purposes and not for trading. This decision protects council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

### Amortised Cost

These are carried at cost as this is a fair approximation of their value, as reflected in the following table:

31 March 2022		31 March 2023	
Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
291,063	291,063	308,480	308,480
2,548	2,548	2,340	2,340
60,767	60,767	72,255	72,255
11,796	11,796	12,724	12,724
366,174	366,174	395,799	395,799

The short term investments included here exclude cash and cash equivalents that are detailed in Note 21.

## Fair Value Through Other Comprehensive Income

31 March 2022	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2023
<b>£000</b>				<b>£000</b>
10,629	Newcastle International Airport Ltd	Level 3	Inputs other than quoted prices in active markets that are observable for the asset	9,742
-	Durham Tees Valley Airport Ltd	Level 3		-
114	Atom Bank	Level 3		114
<u>10,743</u>	<b>Total</b>			<u>9,856</u>

These are investments in equity instruments that the council elected to treat as Fair Value Through Other Comprehensive Income rather than Fair Value Through Profit or Loss at the inception of the IFRS 9 Financial Instruments accounting standard on 1st April 2018.

The reason for this election was that the investments are held for strategic economic development purposes rather than trading. This decision protects council taxpayers from movements in the value of these shareholdings until such time as the shares are sold or released.

The shares in these companies are not traded in an active market and the total fair value of £9.856m has been calculated using valuation techniques that are not based on observable current market transactions or available market data.

No dividend was received for the year ended 31 December 2022 (£nil was received for the year ended 31 December 2021).

## Financial Liabilities

Financial liabilities are carried on the Balance Sheet at amortised cost (in long term liabilities with accrued interest in current 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 all loans, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- 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.

Values have been calculated using a financial model 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 values calculated are as follows:

<b>31 March 2022</b>			<b>31 March 2023</b>	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
-308,969	-317,280	PWLB borrowing	-347,785	-286,592
-109,017	-131,016	Non-PWLB borrowing	-91,866	-73,437
-159,564	-159,564	Short term creditors	-132,242	-132,242
-5,162	-5,162	Short term finance lease liability	-5,770	-5,770
-41,908	-41,908	Long term finance lease liability	-42,998	-42,998
-34,897	-34,897	PFI liability	-33,504	-33,504
<b>-659,516</b>	<b>-689,825</b>	<b>Total Liabilities</b>	<b>-654,165</b>	<b>-574,543</b>

Although the Balance Sheet values for the above balances include interest accrued for borrowing, the carrying amounts shown above exclude these amounts.

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 £313.79m on 31 March 2023.

### 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**

An Expected Credit Loss (ECL) is the probability-weighted estimate of credit losses (i.e., the present value of all cash shortfalls) over the expected life of a Financial Instrument. An assessment of these losses must be made at each Balance Sheet date and these are shown as impairment losses in the Income, Expense, Gains and Losses table.

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 which is the council's maximum exposure to credit loss against the loan. Due to major curtailments in the airport operations because of the Covid-19 pandemic the council has agreed to modify the terms of these loans. The current assumption is that six interest payments will be missed and that repayments will start again in full in 2023/24 with the missed payments being recouped over a 3-year period from 2027/28.

Under the loan agreement the council is entitled to compound interest for any late payments, and this has been factored into the repayments the airport will make once the catch-up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.519m (£0.684m in 2021/22) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected

lifetime loss provision of £0.228m (£0.156m in 2021/22) in the event all repayments are not made or further delayed at some time in the future.

The council has previously provided cash flow support to care providers to enable them to continue providing their services to the council. A provision for the likelihood that these payments will not be repaid was made in 2020/21. No further provisions have been made in 2022/23.

For the council's treasury management investments with banks and financial institutions the council's treasury management advisors provided a credit risk assessment that helped in determining whether credit risk had increased since the investments were initially recognised. Based on this assessment a loss allowance for each investment has been recalculated as at 31 March 2023. The result is that the calculated allowance required on 31 March 2023 has increased to £0.054m (£0.052m at 31 March 2022).

A summary of the credit quality of the council's investments at 31 March 2023 is shown as follows:

	Lowest long term rating	Balance at 31 March 2023	Historical rate of default	Estimated maximum exposure to default at 31 March 2023
		£000	%	£000
<b>Deposits with banks and financial institutions</b>				
Local Authorities	AA	8,923	0.00	-
Banks (less than 1 year)	AA	15,906	0.02	-
Banks (less than 1 year)	AA-	58,002	0.02	7
Banks (less than 1 year)	A+	223,091	0.05	39
Banks (less than 1 year)	A	8,923	0.05	-
Banks (less than 1 year)	A-	31,232	0.05	7
Building Societies (less than 1 year)	A	-	0.05	-
		<u>346,077</u>		<u>53</u>

The council's maximum exposure to credit loss from these deposits is the full balance at 31 March 2023.

## Comparative credit quality of the council's investments at 31 March 2022:

	Lowest long term rating	Balance at 31 March 2022	Historical rate of default	Estimated maximum exposure to default at 31 March 2022
		£000	%	£000
<b>Deposits with banks and financial institutions</b>				
Local Authorities	AA	51,828	0.00	-
Banks (less than 1 year)	AA	43,193	0.02	2
Banks (less than 1 year)	A+	43,922	0.05	13
Banks (less than 1 year)	A	141,430	0.05	27
Banks (less than 1 year)	A-	21,961	0.05	4
Building Societies (less than 1 year)	A	17,569	0.05	2
Building Societies (less than 1 year)	A-	21,961	0.05	4
		<u>341,864</u>		<u>52</u>

Other 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 council does not generally allow credit for customers, although £26.820m of the £51.713m balance of Other Debtors (Note 20) is past its due date for payment and the council has made an impairment allowance totalling £11.407m to allow for expected credit losses. The balance that is past its due date for payment can be analysed by age as follows:

31 March 2022		31 March 2023
£000		£000
9,622	Less than three months	10,359
3,251	Between three and six months	4,192
2,827	Between six months and one year	4,743
6,405	More than one year	7,526
<u>22,106</u>	<b>Total</b>	<u>26,820</u>

For other financial instruments, whose carrying amount best represents the maximum exposure to credit risk, no expected credit losses have been calculated.

### 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 2023 was £1.214m (£1.734m at 31 March 2022).

## **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 2022		31 March 2023	
£000		£000	
13,840	Less than one year	23,631	
20,004	Between one and two years	32,473	
32,516	Between two and five years	13,579	
93,923	Between five and ten years	76,263	
20,006	Between ten and fifteen years	44,310	
25,000	Between fifteen and twenty years	49,516	
13,000	Between twenty and twenty five years	13,000	
203,509	More than twenty five years	190,509	
<b>421,798</b>	<b>Total Short and Long Term Borrowing</b>	<b>443,281</b>	

## Market Risk

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

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

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

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Treasury Management team monitors the market and forecasts interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

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

According to the council's assessment strategy, at 31 March 2023, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £24.015m 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.

## 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
<b>Year to 31 March 2023</b>				
Consumable Stores	4,884	15,430	-15,194	5,120
Maintenance Materials	542	225	-307	460
Client Services Work in Progress	-	-	-	-
Rechargeable Works	896	833	-847	882
<b>Total</b>	<b>6,322</b>	<b>16,488</b>	<b>-16,348</b>	<b>6,462</b>
<b>Year to 31 March 2022</b>				
Consumable Stores	4,428	10,096	-9,640	4,884
Maintenance Materials	400	243	-101	542
Client Services Work in Progress	-	-	-	-
Rechargeable Works	741	619	-464	896
<b>Total</b>	<b>5,569</b>	<b>10,958</b>	<b>-10,205</b>	<b>6,322</b>

## 20. Short Term Debtors

31 March 2022		31 March 2023
£000		£000
10,734	Central government bodies	29,504
7,806	Other local authorities	8,886
5,082	NHS bodies	5,201
	Other entities and individuals:	
33,444	Council Tax	35,526
2,892	Non-Domestic Rates	3,086
53,450	Other	51,713
	Less Impairment Allowance:	
-20,940	Council Tax	-21,761
-2,154	Non-Domestic Rates	-2,252
-8,464	Other	-11,407
<u>81,850</u>		<u>98,496</u>
5,794	Payments in advance	6,519
<u>87,644</u>	<b>Total Debtors</b>	<u>105,015</u>

## 21. Cash and Cash Equivalents

2021-22		2022-23
£000		£000
1,678	Cash at bank	314
-	Overdraft	-5,307
35,287	Cash held on demand (call accounts)	42,684
<u>36,965</u>	<b>Cash and Cash Equivalents balance</b>	<u>37,691</u>

## 22. Assets Held for Sale

2021-22		2022-23
£000		£000
-	<b>Balance outstanding at start of year</b>	2,540
	Assets newly classified as held for sale:	
2,864	Property, Plant and Equipment	579
-59	Revaluations	-661
	Assets declassified as Held for Sale:	
-	Property, Plant and Equipment	-
-265	Assets sold	-388
<u>2,540</u>	<b>Balance outstanding at year-end</b>	<u>2,070</u>



## 23. Short Term Creditors

31 March 2022		31 March 2023
£000		£000
-82,196	Central government bodies	-32,909
-1,072	Other local authorities	-1,477
-990	NHS bodies	-7,017
	Other entities and individuals:	
-12,627	Accumulated Absences Account	-13,099
-6,554	Short term finance lease and PFI liabilities	-7,383
-6,049	Collection Fund prepayments	-5,716
-15,022	Section 106 agreements	-17,790
-6,664	Pension Fund	-6,661
-47,461	Other	-67,684
<u>-178,635</u>		<u>-159,736</u>
-16,192	Receipts in Advance	-16,242
<u>-194,827</u>	<b>Total Creditors</b>	<u>-175,978</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 2023 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 2022/23.

## 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 the future. 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 2022/23 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.

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
<b>Balance at 1 April 2022</b>	8,239	67	7,306	15,612
Additional provisions made in 2022/23	2,777	-	7,019	9,796
Amounts used in 2022/23	-1,294	-	-5,247	-6,541
Unused amounts reversed in 2022/23	-1,198	-	-	-1,198
<b>Balance at 31 March 2023</b>	<b>8,524</b>	<b>67</b>	<b>9,078</b>	<b>17,669</b>
<b>As shown in Balance Sheet</b>				
Long Term Provisions	6,697	-	8,891	15,588
Short Term Provisions	1,827	67	187	2,081
<b>Balance at 31 March 2023</b>	<b>8,524</b>	<b>67</b>	<b>9,078</b>	<b>17,669</b>

## 25. Usable Reserves

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

31 March 2022 £000		31 March 2023 £000
13	Usable Capital Receipts Reserve	27,989
25,898	General Fund Balance	26,017
269,805	Earmarked Reserves	224,997
<u>295,716</u>	<b>Total</b>	<u>279,003</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 2022 £000		31 March 2023 £000
486,119	Revaluation Reserve	476,425
10,465	Financial Instruments Revaluation Reserve	9,578
636,820	Capital Adjustment Account	644,938
-1,064	Financial Instruments Adjustment Account	-2,198
1,889	Deferred Capital Receipts	1,280
-12,627	Accumulated Absences Account	-13,099
-1,309,626	Pensions Reserve	-470,420
-11,647	Collection Fund Adjustment Account	-4,521
-8,843	DSG Deficit Adjustment Account	-7,131
<u>-208,514</u>	<b>Total</b>	<u>634,852</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.

2021-22 £000		2022-23 £000
593,414	<b>Balance at 1 April</b>	486,119
67,822	Upward revaluation of assets	105,212
-153,098	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-96,458
-85,276	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	8,754
-10,919	Difference between fair value depreciation and historical cost depreciation	-10,138
-11,100	Accumulated gains on assets sold or scrapped	-8,310
-22,019	Amount written off to the Capital Adjustment Account	-18,448
486,119	<b>Balance at 31 March</b>	476,425

### 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.

2021-22 £000		2022-23 £000
7,539	<b>Balance at 1 April</b>	10,464
2,925	Upward or downward revaluation of investments not credited to the Surplus/Deficit on the Provision of Services	-886
10,464	<b>Balance at 31 March</b>	9,578

### 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.

2021-22 £000		2022-23 £000
708,047	<b>Balance at 1 April</b>	636,821
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-51,260	Charges for depreciation and impairment of non-current assets	-60,749
-81,800	Revaluation losses on Property, Plant and Equipment	-51,204
-1,811	Amortisation of intangible assets	-2,013
-36,512	Revenue expenditure funded from capital under statute	-36,143
-26,451	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	-17,961
<u>-197,834</u>		<u>-168,070</u>
22,019	Adjusting amounts written out of the Revaluation Reserve	18,448
<u>-175,815</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>-149,622</u>
	Capital financing applied in the year:	
7,363	Use of Capital Receipts Reserve to finance new capital expenditure	50,329
-2,800	Write down of capital loan repaid in year as a capital receipt	-2,256
60,763	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	78,494
15,791	Statutory provision for the financing of capital investment charged against the General Fund	17,195
26,279	Capital expenditure charged against the General Fund	14,227
<u>107,396</u>		<u>157,989</u>
<u>-2,807</u>	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<u>-250</u>
<u>636,821</u>	<b>Balance at 31 March</b>	<u>644,938</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.

2021-22 £000		2022-23 £000
585	<b>Balance at 1 April</b>	1,889
1,787	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
-483	Transfer to the Capital Receipts Reserve upon receipt of cash	-609
<u>1,889</u>	<b>Balance at 31 March</b>	<u>1,280</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.

The number of days untaken leave that could be carried forward from 2022/23 in to 2023/24 financial year returned to the pre-covid pandemic limit of a maximum of 5 days (pro rata for part-time staff) (11 days for 2021/22 financial year). Unlike last financial year however, this had to be taken by 30 April 2023. This has led to a significant reduction in the non-teaching element for the account (-£3.27m), accompanied by a similar increase in the teaching staff element, due to the timing of Easter holidays (£3.74m), resulting in an overall increase in the account for the year of just £0.47m.

2021-22 £000		2022-23 £000
-16,569	<b>Balance at 1 April</b>	-12,627
16,569	Settlement or cancellation of accrual made at the end of the preceding year	12,627
-12,627	Amounts accrued at the end of the current year	-13,099
3,942	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	-472
<u>-12,627</u>	<b>Balance at 31 March</b>	<u>-13,099</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.

2021-22 £000		2022-23 £000
-1,534,133	<b>Balance at 1 April</b>	-1,309,626
292,690	Remeasurements of the net defined benefit liability	920,230
-133,570	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	-150,920
65,387	Employer's pensions contributions and direct payments to pensioners payable in the year	69,896
<u>-1,309,626</u>	<b>Balance at 31 March</b>	<u>-470,420</u>

### Collection Fund Adjustment Account

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

2021-22 £000		2022-23 £000
-26,012	<b>Balance at 1 April</b>	-11,647
14,365	Amount by which council tax and non-domestic rates income credited to the CIES is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	7,126
<u>-11,647</u>	<b>Balance at 31 March</b>	<u>-4,521</u>

### Dedicated Schools Grant Adjustment Account

The Dedicated Schools Grant Adjustment Account is a statutorily ring-fenced unusable reserve required by School and Early Years Finance (England) Regulations 2020. The regulations have been extended for three years by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2022.

The regulations require that, where an authority has a deficit in respect of its schools' budget for a financial year beginning on 1 April 2020 and ending 31 March 2026, the authority:

- a. must not charge to a revenue account an amount in respect of that deficit; and
- b. must charge the amount of the deficit, to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools' budget.

An adjustment has been made in 2022/23 to transfer in the opening balances in respect of the schools' and early years DSG earmarked reserves, to present the net deficit across the schools' budget as required by the regulations.

2021-22 £000		2022-23 £000
-8,047	<b>Balance at 1 April</b>	-8,843
-	Transfer of DSG Schools and Early Years block balances at 1 April from Dedicated Schools Grant earmarked reserve	3,057
-8,047	<b>Restated Balance at 1 April</b>	-5,786
-796	In year DSG deficit	-1,345
-8,843	<b>Balance at 31 March</b>	-7,131

## 27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2021-22 £000		2022-23 £000
17,974	Interest paid	18,808
-2,439	Interest received	-10,071
-1,802	Dividends received	-538

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

2021-22 £000		2022-23 £000
-51,260	Depreciation	-60,749
-81,800	Impairment and downward revaluation	-51,204
-1,811	Amortisation	-2,013
-3,942	Transfer to/from Accumulated Absences account	472
-925	Increase/decrease in the provision for bad debts	-2,943
-29,389	Increase/decrease in creditors	10,258
-20,832	Increase/decrease in debtors	20,217
754	Increase/decrease in inventory	139
-68,183	Pension liability	-81,024
-26,451	Carrying amount of non-current assets sold	-17,961
67,954	Other non-cash items	55,406
-215,885		-129,402

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

2021-22 £000		2022-23 £000
5,872	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	75,446
5,872	<b>Net cash flows from investing activities</b>	75,446



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

2021-22 £000		2022-23 £000
105,808	Purchase of property, plant and equipment, investment property and intangible assets	105,950
348,589	Purchase of short-term (not considered to be cash equivalents) and long-term investments	550,764
6,295	Other payments for investing activities - external trading	5,488
-5,872	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-75,446
-271,777	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-549,657
-50,159	Other receipts from investing activities (inc. external trading)	-60,744
<u>132,884</u>	<b>Net cash flows from investing activities</b>	<u>-23,645</u>

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

2021-22 £000		2022-23 £000
-55,013	Cash receipts of short-term and long-term borrowing	-50,000
-26,596	Other receipts from financing activities	-11,398
7,707	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	8,495
447	Repayments of short-term and long-term borrowing	28,333
-	Other payments for financing activities	-
<u>-73,455</u>	<b>Net cash flows from financing activities</b>	<u>-24,570</u>

**30. Reconciliation of Liabilities Arising from Financing Activities**

2022/23:

	1 April 2022	Financing cash flows	Changes which are not financing cash flows		31 March 2023
	£000	£000	Acquisition	Other	£000
	(restated)*		£000	£000	
Long term borrowings	-407,960	-50,000	-	41,328	-416,632
Short term borrowings	-13,839	28,333	-	-41,143	-26,649
Lease liabilities	-47,069	7,103	-8,801	-	-48,767
On balance sheet PFI liabilities	-34,899	1,392	-	-	-33,507
Total liabilities from financing activities	<u>-503,767</u>	<u>-13,172</u>	<u>-8,801</u>	<u>185</u>	<u>-525,555</u>

\*Adjustment of Non Cash flow item between long and short term borrowings.

2021/22:

	1 April 2021	Financing cash flows	Changes which are not financing cash flows		31 March 2022
	£000	£000	Acquisition £000	Other £000	£000
	(restated)*			(restated)*	(restated)*
Long term borrowings	-363,643	-55,013	-	10,696	-407,960
Short term borrowings	-3,461	447	-	-10,825	-13,839
Lease liabilities	-44,887	6,493	-5,968	-2,707	-47,069
On balance sheet PFI liabilities	-36,113	1,214	-	-	-34,899
Total liabilities from financing activities	-448,104	-46,859	-5,968	-2,836	-503,767

\*Adjustment of Non Cash flow item between long and short term borrowings.

### 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 2022/23 £10.899 (£9.102m in 2021/22) 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 increase in Agency Services from 2021/22 to 2022/23 is due to an increase in services provided to Academies, Colleges, County Durham and Darlington Fire & Rescue Authority, Chapter Homes, Forrest Park, and Crematoriums which net off against a decrease in services provided to, County Durham Housing Group, The Northeast Combined Authority Durham Police, Crime and Victims' Commissioner, Other Local Authorities and Schools outside of DCC.

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.

2021-22 £000	2022-23 £000
1,668 Basic Allowance	1,675
275 Special Responsibility Allowance	278
3 Broadband Allowance	4
16 Expenses	27
<b>1,962 Total</b>	<b>1,984</b>

### 33. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances £	Expenses Allowances £	Pensions Contribution £	Total £
Chief Executive - John Hewitt	2022-23	206,693	64	38,238	244,995
	2021-22	102,384	-	18,941	121,325
Chief Executive (interim) - John Hewitt (01/01/21 - 21/09/21)	2021-22	102,384	-	18,941	121,325
Corporate Director - Resources - Paul Darby	2022-23	156,884	-	29,024	185,908
	2021-22	64,566	-	11,945	76,511
Corporate Director (interim) - Resources - Paul Darby (01/01/21 - 24/10/21)	2021-22	90,393	-	16,723	107,116
Corporate Director - Children and Young Peoples - John Pearce	2022-23	156,884	-	26,490	183,374
	2021-22	154,959	-	26,134	181,093
Corporate Director - Adult and Health Services - Jane Robinson	2022-23	156,884	-	29,024	185,908
	2021-22	154,959	-	28,667	183,626
Corporate Director - Regeneration, Economy and Growth - (01/04/22 - 17/05/22, 09/09/22 - 31/03/23)	2022-23	147,505	2,382	16,236	166,123
	2021-22	155,007	280	28,667	183,954
Corporate Director - Regeneration, Economy and Growth - (18/05/22 - 08/09/22)	2022-23	48,678	-	9,057	57,735
Corporate Director - Neighbourhood and Climate Change - Alan Patrickson	2022-23	156,884	-	27,422	184,306
	2021-22	154,959	-	27,333	182,292
Head of Legal and Democratic Services (Monitoring Officer)	2022-23	123,678	-	22,880	146,558
	2021-22	121,753	-	22,524	144,277

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 354 'Other Staff' in 2022/23 there are 12 employees paid on Leadership Teacher grades and 33 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	2021-22 Number of Employees			2022-23 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	131	84	215	131	155	286
£55,000 - £59,999	73	35	108	103	48	151
£60,000 - £64,999	54	52	106	49	52	101
£65,000 - £69,999	39	40	79	40	39	79
£70,000 - £74,999	30	6	36	30	17	47
£75,000 - £79,999	7	3	10	12	3	15
£80,000 - £84,999	3	4	7	4	6	10
£85,000 - £89,999	4	3	7	6	12	18
£90,000 - £94,999	3	1	4	1	3	4
£95,000 - £99,999	-	3	3	2	1	3
£100,000 - £104,999	2	-	2	1	-	1
£105,000 - £109,999	-	5	5	-	6	6
£110,000 - £114,999	1	2	3	-	1	1
£115,000 - £119,999	2	1	3	1	1	2
£120,000 - £124,999	-	8	8	3	3	6
£125,000 - £129,999	-	-	-	-	3	3
£130,000 - £134,999	-	-	-	-	1	1
£135,000 - £139,999	-	1	1	-	-	-
£140,000 - £144,999	-	1	1	-	2	2
£145,000 - £149,999	-	-	-	-	-	-
£150,000 - £154,999	-	-	-	-	1	1
	<u>349</u>	<u>249</u>	<u>598</u>	<u>383</u>	<u>354</u>	<u>737</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	
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22 £000	2022-23 £000
£0 - £20,000	3	1	2	5	5	6	30	81
£20,001 - £40,000	-	2	-	6	-	8	-	227
£40,001 - £60,000	1	-	1	7	2	7	100	308
£60,001 - £80,000	-	0	1	7	1	7	69	489
£80,001 - £100,000	-	0	2	4	2	4	171	377
£100,001 - £150,000	1	0	2	4	3	4	353	506
£150,001 - £250,000	-	-	-	3	-	3	-	490
£200,001 - £250,000	-	-	-	-	-	-	-	-
£250,001 - £300,000	-	-	-	1	-	1	-	285
<b>Total</b>	<b>5</b>	<b>3</b>	<b>8</b>	<b>37</b>	<b>13</b>	<b>40</b>	<b>723</b>	<b>2,763</b>

### 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 during. These fees consider the PSAA fee scales and approved variations for 2022/23. The appointed auditor for 2022/23, and up to 2023/24, is Mazars LLP.

<b>2021-22</b>	<b>2022-23</b>
<b>£000</b>	<b>£000</b>
238 Fees payable with regard to external audit services carried out by the appointed auditor for the year	206
20 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	22
- Previous year (2021-22) fees payable within year with regard to external audit services carried out by the appointed auditor for the year	23
<b>258 Total</b>	<b>251</b>

### 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 2022/23 are as follows:

2021-2022			2022-2023			
Central Expenditure £000	ISB £000	Total £000		Central Expenditure £000	ISB £000	Total £000
		448,071	A			469,248
		<u>177,755</u>	B			<u>201,944</u>
		270,316	C			267,304
			Plus			
		-3,922	D			-5,785
			Less			
		-	E			-
<u>94,804</u>	<u>171,590</u>	<u>266,394</u>	F	<u>70,719</u>	<u>190,800</u>	<u>261,519</u>
			Plus			
-902		-902	G	594		594
<u>93,902</u>	<u>171,590</u>	<u>265,492</u>	H	<u>71,313</u>	<u>190,800</u>	<u>262,113</u>
			Less			
-99,687		-99,687	I	-78,445		-78,445
			Less			
	171,590	171,590	J		190,800	190,800
			Plus			
			K			
			Local authority contribution for current year			
<u>-5,785</u>		<u>-5,785</u>	L	<u>-7,132</u>		<u>-7,132</u>
			Plus			
			M			
			Carry forward to next financial year agreed in advance			
		<u>-5,785</u>	N			<u>-7,132</u>
			Carry forward to next financial year			

- A Final DSG figure before any amount has been recouped from the council, excluding the January early years block adjustment.
- B Figure recouped from the council in the current year by the DfE for the conversion of maintained schools into Academies.
- C Total figure after EFA Academy recoupment for the current year.
- D Figure brought forward from 2021/22 as agreed with the Department.
- E Any amount which the council decided after consultation with the Schools Forum to carry forward to 2023/24 rather than distribute in the current year – this may be the difference between estimated and final DSG for the current year, or a figure (positive or negative) brought forward from the previous year 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 the current year.
- 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 the current year which will have the effect of substituting for DSG in funding the Schools Budget.
- L Carry forward to the next financial year:
- 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 the next financial year already agreed (E).
- M Carry forward to the next financial year already agreed (E)
- N Carry forward on central expenditure (L) plus carry forward on ISB (L) plus/minus any carry forward to the next financial year 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

### Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

2021-22 £000		2022-23 £000
	<b>Credited to Taxation and Non Specific Grant Income:</b>	
	Non Ring-fenced Government Grants:	
-28,227	Revenue Support Grant	-29,101
-72,780	Top Up Grant	-72,780
-22,068	Section 31 Grants	-27,033
-	Levy Account Surplus Grant	-1,068
-15,560	Covid 19 Support Grant	-
-22,888	Social Care Support Grant	-30,955
-4,476	New Homes Bonus Scheme Grant	-4,082
-2,652	Sales Fees and Charges Grant	-
-747	Lower Tier Services Grant	-802
-	DHLUC Services Grant	-8,776
-40,921	Capital Grants and Contributions	-46,730
<u>-210,319</u>		<u>-221,327</u>

### Grant and Contribution Income Credited to Services

Table showing the balance of other grants credited to services at 31 March 2023

2021-22 £000		2022-23 £000
	<b>Credited to Services:</b>	
	<b>Covid-related Grants</b>	
-2,000	Adult Social Care Infection Control Fund	-
-3,295	Business Support Funding	-
-180	Clinically Extremely Vulnerable	-
-8,776	Contain Outbreak Management Fund	-
-58	Coronavirus Job Retention Scheme (furlough)	-
-2,304	Covid Winter Grant Scheme	-
-706	Omicron Support Fund Grant	-
-1,420	Rapid Testing Fund	-
-88	Vaccine Control Fund Grant	-
-5,368	Workforce Capacity Fund	-
<u>-24,195</u>	Total Covid-related grants	<u>-</u>



2021-22 £000		2022-23 £000
	<b>Credited to Services:</b>	
	<b>Other Grants</b>	
-4,244	Additional Grant for Schools	-13,158
-1,354	Apprenticeship Levy digital account	-1,615
-1,321	Arts Council England - NE	-1,268
-455	Cabinet Office Grants	-
-32,132	Clinical Commissioning Groups-Better Care Fund	-34,657
-3,212	DCSF Grant	-3,317
-270,180	Dedicated Schools Grant (DSG)	-267,304
-1,816	DEFRA Grant	-1,510
-403	Department of Health Grant	-673
-	DHSC - Adult Social Care Discharge Fund	-2,460
-4,498	DHSC - Test & Trace Service Support Grant	-
-415	DHSC in Prisons	-407
-654	DHSC Practical Support (self Isolating)	-
-404	Department of Health Local Reform and Community Voices	-404
-272	Department of Health War Pensions Sheme Disregard	-271
-1,173	Discretionary Housing Payment Grant	-836
-4,174	DLUHC Grant	-2,895
-1,543	DLUHC Grant Former Independent Living Fund	-1,543
-308	Durham Police, Crime and Victims' Commissioner	-268
-4,676	DWP Household Support Fund	-9,426
-486	DWP New Burdens Grant	-1,068
-1,194	Education Authorities-other	-1,074
-10,660	Education Funding Agency	-12,655
-517	Educational Visits	-934
-5,089	ERDF Grant	-2,916
-7,562	ESF Grant	-5,875
-10,346	General Contributions	-9,785
-2,370	Heritage Lottery Fund Grant	-2,321
-970	Home Office Grant - Syrian Vulnerable Persons	-609
-1,899	Housing Benefit - Admin Grant	-1,925
-110,522	Housing Benefit Grant - Rent Allowance	-107,072
-673	Housing Benefit Grant - Rent Rebate	-1,198
-29,959	Improved Better Care Fund	-30,867
-938	Local Council Tax Support Scheme Administration Grant	-913
-7,043	Local Council Tax Support Grant addition	-
-17,252	NHS - Care Costs	-12,966
-4,478	NHS - Joint Arrangements	-9,435
-577	NNDR Cost of Collection Allowance	-602
-15,475	North East Combined Authority	-15,609
-2,636	Other Local Authorities	-2,158
-5,519	PFI Grants	-5,519
-49,592	Public Health Grant	-50,985
-17,578	Pupil Premium Grant	-17,787
-	Social Care Charging Reform Support Grant	-97
-	Social Care Levy Funding	-1,905
-	Supplementary Substance Misuse Treatment & Recovery Grant	-1,101
-2,287	Skills Funding Agency	-3,228
-314	Teacher Pay Grant	-
-888	Teacher Pension Grant	-516
-1,745	Think Family Grant	-2,115
-3,411	Universal Infant Free School Meals Grant	-2,887
-679	Youth Offending Teams Grant	-746
-12,774	Other Grants and Contributions	-21,720
<u>-658,667</u>	Total Other grants	<u>-670,600</u>
<u>-682,862</u>	Total grants credited to services	<u>-670,600</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:

2021-22			2022-23	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
		<b>Capital Grants and Contributions Receipts in Advance</b>		
-	-	Arts Council	-	-176
-	-506	Broadband Delivery UK	-	-163
-	-48	Department for Education	-	-
-3,230	-6,003	Department for Energy Security and Net Zero	-3,230	-2,277
-	-232	Department for Environment, Food & Rural Affairs	-	-175
-278	-4,417	Department for Levelling Up, Housing and Communities	-	-12,390
-	-7	Department for Transport	-	-
-	-616	Environment Agency	-499	-204
-	-46	Historic England	-	-20
-1,214	-	Home Loan Recycled Fund	-1,161	-
-	-56	Homes England	-37	-39
-	-	Living Housing	-	-377
-145	-2,787	North East Combined Authority	-1,717	-1,419
-	-3,589	North of Tyne Combined Authority	-	-
-	-237	North Tyneside Council	-	-237
-	-128	Office for Zero Emission Vehicles	-	-4,509
-	-83	South Tyneside Council	-	-83
-	-	Sunderland City Council	-	-23
-	-375	Sustrans	-	-408
-	-621	Tees Valley Combined Authority	-	-4,024
-189	-85	Warm Homes Fund	-	-
-212	-230	Other	-258	-126
<b>-5,268</b>	<b>-20,066</b>	<b>Total Capital Grants and Contributions Receipts in Advance</b>	<b>-6,902</b>	<b>-26,650</b>

## 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 2022/23 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.

In May 2021 there were considerable changes to the Elected Members, changing the interests declared. Due to this, some declarations have no comparative figures for previous years.

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.204m in 2022/23 (£0.141m in 2021/22). 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 £0.532m in 2022/23 (£0.753m in 2021/22)
- Cornforth Partnership £0m in 2022/23 (£0.151m in 2021/22)
- Easington Regeneration Partnership £0m in 2022/23 (£0.008m in 2021/22)
- Pelton Fell Community Partnership £0.020m in 2022/23 (£0.034m in 2021/22)
- Arts Council £0m in 2022/23 (£0.001m in 2021/22)
- ATOMS Education £0.032m in 22/23 (£0.046m in 2021/22)
- Apollo Pavillion Projects £0 in 2022/23 (£0.010m in 2021/22)
- Woodham Village Community Association £0 in 2022/23 (£0.022m in 2021/22)
- LIVIN £1.017 in 2022/23 (£0.048m in 2021/22)
- Durham University £0.582m in 2022/23 (£0.151m in 2021/22)
- Horden & Peterlee Rugby Club £0.029M in 2022/23
- Charter Trustees for City of Durham £0.057M in 2022/23
- Newton Hall Community Partnership £0.007M in 2022/23
- Quaking Houses Village Hall £0.013M in 2022/23
- PACT House Stanley £0.066M in 2022/23

- Premier Traffic Management £0.065 in 202/23
- Byers Green Community Association £0.006M in 2022/23
- East Durham Veterans Trust £0.001M in 2022/23
- Dawdon Youth and Community Centre £0.043M in 2022/23
- The Auckland Project £0.057M in 2022/23
- Escomb Village Hall £0.001M in 2022/23
- Witham Hall £0.022M in 2022/23
- Annfield Plain Community Centre £0.011M in 2022/23
- The Friends of Blackhill and Consett Park £0.024M in 2022/23
- Bowburn Youth Project £0.005M in 2022/23
- Bowburn Community Centre £0.029M in 2022/23
- Stray Aid £0.015M in 2022/23
- Ruth First Educational Trust £0.002M in 2022/23
- North East Combined Authority £0.318M in 2022/23
- Laurel Avenue Community Association £0.037M in 2022/23
- Belmont Community Association £0.007M in 2022/23
- Sherburn Hill Hub Community Association £0.031M in 2022/23
- Wingate Community Association £0.009M in 2022/23
- Four Clocks (Bishop Auckland Community Association) £0.006M in 2022/23
- Stanley Events £0.159M in 2022/23

During 2022/23, works and services to the value of £0.070m (£0.019m 2021/22) 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	Designated Section 73 Officer for North East Combined Authority and the Joint Transport Committee Board Member of the North East First Credit Union Close family members in senior positions at LIVIN

## **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 2022/23 have been prepared. In 2022/23 Chapter Homes Durham Limited had turnover of £5.977m (£7.621m in 2021/22), made a profit before taxation of £0.166m (£1.646m in 2021/22) no taxation has yet been determined (£0.321m in 2021/22), a dividend of £0.095m was paid to Durham County Council. Chapter Homes had net assets of £6.218m at 31 March 2023 (£6.176m at 31 March 2022).

### **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 2022/23 have been prepared. In 2022/23 Forrest Park (Newton Aycliffe) Limited had a loss of £0.032m before taxation (loss of £0.015m in 2021/22). The net assets of the company total £2.690m at 31 March 2023 (£2.722m at 31 March 2022).

### **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 2022/23 are not yet available, however the draft unaudited management accounts for 2021/22 show at 31 March 2022 Durham Villages Regeneration Limited made an

operating profit before taxation of £0.547m (£0.916m for 2020/21) and £0.443m for 2021/22 after taxation (£0.751m in 2020/21).

During 2022/23 Durham County Council is still owed income of £0.443m (2021/22 £1.752m) due to receipts for the share of the surplus generated in the business.

### **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 2023 are £3.846m (31 March 2022: £3.691m). 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 2023 are £0.762m (31 March 2022: £0.928m). 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 2022/23 have been prepared. In 2022/23 Service Direct NewCo Limited had turnover of £1.584m (2021/22: £1.892m), £0.013m operating profits before taxation (£0.006m: 2021/22), no dividend was paid, and had net assets of £0.039m at 31 March 2023 (£0.028m at 31 March 2022).

## **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 InfraBridge (previously known as AMP Capital Investors Limited) following their purchase on 16 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 £9.742m (£10.629m in 2021/22). 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 impair the valuation. The spread of Covid-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. This continued throughout 2020/21 but subsequent vaccine rollout and a lifting of restrictions has seen the travel sector experience a resurgence in passenger numbers. As a result, the majority of the impairment recognised has been reversed.

Through its shares in NALAHCL the council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2022 (nil for the year ended 31 December 2021).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes of which £9.385m is provided by the council (£9.385m in 2021/22). The loan notes will be repayable in 2032 with interest normally being received up to that date on a six monthly basis.

Due to major curtailments in the airport operations as a result of the Covid-19 pandemic the council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three years (four years in 2021/22) with catch up payments to be made in instalments over a later period. Under the loan agreement the council is entitled to compound interest for any late payments and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.519m (£0.684m in 2021/22) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the council looked at several observable factors regarding the robustness of the airport operations going forward

resulting in an expected lifetime loss provision of £0.228m (£0.156m in 2021/22) in the event all repayments are not made or further delayed at some time in the future.

Other than these loan notes there are no outstanding balances owed to or from NIAL at the end of the year.

NIAL Group Limited made a profit before tax of £0.135m and a loss after tax of £2.181m for the year ended 31 December 2022. In the previous year, the Group made a loss before tax of £31.306m and a loss after tax of £32.755m

### **Teesside International Airport Limited**

The council holds 1.45% of the total shareholding in Teesside International Airport Limited. For the year ended 31 March 2022, Teesside International Airport Limited made a loss before taxation of £11.883m (loss of £13.632m for year ended 31 March 2021) and a loss of £11.883m after taxation (loss of £12.904m for year ended 31 March 2021). The Company accounts for year ending 31 March 2023 are not yet available.

Further information regarding the Company's accounts can be obtained from its Registered Office at Teesside International Airport Limited, Darlington, DL2 1LU.

### **Durham County Cricket Club**

As at 31 March 2023 the council holds £2.340m (£2.650m at 31 March 2022) in redeemable preference shares in Durham Cricket Community Interest Company. 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. For the year ended 30 September 2021, the Company made a profit before tax of £1.055m and a profit after tax of £1.023m. In the previous year the Company made a profit before tax of £0.344m and a profit after tax of £0.362m. The Company accounts for year ending 30 September 2022 are not yet available.

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

Durham County Council administers the Durham County Council Pension Fund on behalf of 107 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2022/23, the Pension Fund had an average balance of £40.968m (£35.687m in 2021/22) of surplus cash deposited with the council. In 2022/23 the council paid the fund a total of £0.677m (£0.030m in 2021/22) 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.

2021-22 £000		2022-23 £000
491,718	<b>Opening Capital Financing Requirement</b>	534,017
	Capital investment:	
103,934	Property, Plant and Equipment	104,625
5,968	Property, Plant and Equipment - Finance Leases	8,801
2,706	Investment Property - Finance Leases	-
314	Heritage Assets	115
2,306	Intangible Assets	2,168
-	Acquisition of share and loan capital	-
36,512	Revenue Expenditure Funded from Capital under Statute	36,143
	Sources of finance:	
-7,363	Capital receipts	-50,330
-60,010	Government grants and other contributions	-78,493
	Sums set aside from revenue:	
-26,277	- Direct revenue financing	-14,227
-15,791	- Minimum Revenue Provision	-17,195
534,017	<b>Closing Capital Financing Requirement</b>	525,624
	<b>Explanation of movements in year</b>	
33,625	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-17,194
-	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	-
8,674	Assets acquired under finance leases	8,801
42,299	<b>Increase/(decrease) in Capital Financing Requirement</b>	-8,393

## 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:

<b>31 March 2022</b>		<b>31 March 2023</b>
<b>£000</b>		<b>£000</b>
3,460	Other Land and Buildings	3,220
16,889	Vehicles, Plant, Furniture and Equipment	20,947
<u>20,349</u>		<u>24,167</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:

<b>31 March 2022</b>		<b>31 March 2023</b>
<b>£000</b>		<b>£000</b>
	Finance lease liabilities (net present value of minimum lease payments):	
5,162	Current	5,770
41,908	Non-Current	42,998
17,346	Finance costs payable in future years	16,976
<u>64,416</u>	<b>Minimum lease payments</b>	<u>65,745</u>

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

<b>31 March 2022</b>			<b>31 March 2023</b>		
Minimum Lease Payments <b>£000</b>	Finance Lease Liabilities <b>£000</b>		Minimum Lease Payments <b>£000</b>	Finance Lease Liabilities <b>£000</b>	
6,474	5,162	Not later than one year	7,313	5,770	
15,386	11,171	Later than one year and not later than five years	17,647	12,748	
42,556	30,737	Later than five years	40,785	30,250	
<u>64,416</u>	<u>47,070</u>		<u>65,745</u>	<u>48,769</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 £17.365m at 31 March 2023 (£19.577m at 31 March 2022). This forms part of the balance in the table below showing operating lease income receivable where the council is the lessor.

The council is facilitating a major regeneration scheme in the centre of Durham City comprising a mixed use development of homes, offices, restaurants, shops, a cinema and hotel. The development is being delivered and funded by the private sector. The council is

committed to taking a 35 year lease on practical completion of the development. In accordance with the council's accounting policy, assets held under finance leases are recognised at the commencement of the lease, but this has not yet taken place. The lease will be recognised and accounted for when the lease is actually completed which is anticipated to be at the time of practical completion of the development Autumn 2023.

### Operating Leases

The council has acquired a number of operational land and building assets by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2022		31 March 2023
£000		£000
1,603	Not later than one year	1,660
3,348	Later than one year and not later than five years	3,376
3,056	Later than five years	6,720
<u>8,007</u>		<u>11,756</u>

Other land and buildings acquired under operating leases have been sub-let. The following table sets out the expenditure and income in relation to these leases which has been charged against, and credited to, the cost of services line within the Comprehensive Income and Expenditure Statement.

31 March 2022		31 March 2023
£000		£000
1,061	Minimum lease payments	2,534
-725	Sublease payments receivable	-655
<u>336</u>		<u>1,879</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:

<b>31 March 2022</b>		<b>31 March 2023</b>
<b>£000</b>		<b>£000</b>
8,613	Not later than one year	11,584
22,864	Later than one year and not later than five years	21,201
16,228	Later than five years	13,390
<u>47,705</u>		<u>46,175</u>

## 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 2022		31 March 2023
£000		£000
4,059	Net book value at 1 April	4,836
45	Additions	25
-89	Depreciation	-98
821	Revaluations	641
-	Disposals	-
<u>4,836</u>	Net book value at 31 March	<u>5,404</u>

In addition to the net book value of £5.404m 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 £0.400m and the total net value of land and buildings for these schools carried forward is £5.804m.

## 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 2022/23 are summarised as follows:

31 March 2022 £000	31 March 2023 £000
36,111 Balance outstanding at start of year	34,897
-1,214 Payments during the year	-1,392
34,897 Balance outstanding at year-end	33,505

## Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2023-24	3,278	1,613	3,399	8,290
Payable within two to five years	14,521	7,676	11,855	34,052
Payable within six to ten years	21,713	13,233	9,808	44,754
Payable within eleven to fifteen years	12,648	10,983	2,227	25,858
Payable within sixteen to twenty years	-	-	-	-
<b>Total</b>	52,160	33,505	27,289	112,954

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates continue to assume that 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

There has been a net decrease of £168.814m in the value of the council's assets (£295.921m in 2021/22), charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This decrease is

significantly lower than last year but reflects that the schools were a part of the revaluation programme carried out during 2021/22 and are a significant share of the Balance Sheet.

## 42. Termination Benefits

The council terminated the contracts of a number of employees in 2022/23. The value of the redundancy payments charged to services in 2022/23 was £1.531m and in 2021/22 was £0.734m. The following table analyses the payments made in the relevant financial years.

2021-22 £000		2022-23 £000
49	Adult and Health Services	-
485	Children and Young People's Services	860
-	Neighbourhoods and Climate Change	62
129	Regeneration, Economy and Growth	269
71	Resources	340
<hr/> 734		<hr/> 1,531

In addition to the above redundancy payments, the pension enhancement value in 2022/23 was £1.683m and in 2021/22 was £0.578m.

## 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 2022/23, the council paid £22.034m to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 23.68% of pensionable pay (£23.060m in 2021/22, representing 23.68% of pensionable pay). There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £22.760m.

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 2022/23, the council paid £0.116m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 16.88% of pensionable pay (£0.082m or 16.88% in 2021/22). 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 £0.113m.

## **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 five 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:

2021-22			2022-23	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
£000	£000		£000	£000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of services:				
Service cost comprising:				
117,420	-	- Current service cost	119,730	-
630	-	- Past service cost (including curtailments)	1,260	-
-15,540	-	- Settlement	-4,260	-
Financing and Investment Income and Expenditure:				
29,950	1,110	- Net interest on net defined benefit liability	32,900	1,290
132,460	1,110	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	149,630	1,290
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
-36,520	-	- Return on plan assets (excluding the amount included in the net interest expense)	171,340	-
-229,660	-1,130	- Actuarial gains(-)/losses due to changes in financial assumptions	-1,320,010	-7,110
-36,070	-790	- Actuarial gains(-)/losses due to changes in demographic assumptions	5,110	-1,260
11,280	200	- Actuarial gains(-)/losses due to liability experience	227,410	4,290
-158,510	-610	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	-766,520	-2,790
<b>Movement in Reserves Statement</b>				
-132,460	-1,110	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-149,630	-1,290
Actual amount charged against the General Fund Balance for pensions in the year:				
60,632	-	- Employer's contributions payable to the scheme	65,496	-
-	4,755	- Direct retirement benefits payable to pensioners	-	4,400

## 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:

2021-22			2022-23	
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
-3,571,660	-50,120	Present value of the defined benefit obligation	-2,605,670	-42,930
2,322,060	-	Fair value of plan assets	2,178,180	-
<b>-1,249,600</b>	<b>-50,120</b>	<b>Net liability arising from defined benefit obligation</b>	<b>-427,490</b>	<b>-42,930</b>

In April 2020 the council made an advance payment of £29.720m to the Pension Fund in respect of amounts due from 2020/21 to 2022/23. The council spread this charge to the General Fund in equal annual instalments of £9.907m over the three-year period, as permitted by the Code, and the Actuary's Rates and Adjustment Certificate dated 31 March 2020, which sets out the pension contribution rates payable. While the pensions liability was reduced by the full prepayment, the pensions reserve was credited only with the amount charged to the General Fund.

In 2022/23 the net liability arising from defined benefit obligation has been reduced by £4.260m (£15.540m in 2021/22) to recognise the transfer to academy status of a number of schools. This comprises a £6.500m reduction in assets and a £10.760m reduction in liabilities (a £10.850m reduction in assets and a £26.390m reduction in liabilities in 2021/22). This has been allowed for as a settlement event, with the net reduction recognised in the Comprehensive Income and Expenditure Statement, in Corporate Costs.

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

2021-22			2022-23		
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	
2,278,630	-	<b>Opening fair value of scheme assets</b>	2,322,060	-	
47,450	-	Interest Income	62,230	-	
36,520	-	Remeasurement gain / loss (-)	-171,340	-	
50,040	4,680	Contributions from employer	55,590	4,400	
16,250	-	Contributions from employees into the scheme	17,980	-	
-95,980	-4,680	Benefits paid	-101,840	-4,400	
-10,850	-	Settlements	-6,500	-	
<u>2,322,060</u>	<u>-</u>	<b>Closing fair value of scheme assets</b>	<u>2,178,180</u>	<u>-</u>	

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

2021-22			2022-23		
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	
3,736,780	55,410	<b>Opening balance at 1 April</b>	3,571,660	50,120	
117,420	-	Current service cost	119,730	-	
77,400	1,110	Interest cost	95,130	1,290	
16,250	-	Contributions by scheme participants	17,980	-	
		<b>Remeasurement gains (-) and losses:</b>			
-229,660	-1,130	Actuarial gains and losses due to changes in financial assumptions	-1,320,010	-7,110	
-36,070	-790	Actuarial gains and losses due to changes in demographic assumptions	5,110	-1,260	
11,280	200	Actuarial gains and losses due to liability experience	227,410	4,290	
-95,980	-4,680	Benefits paid	-101,840	-4,400	
630	-	Past service cost (including curtailments)	1,260	-	
-26,390	-	Settlements	-10,760	-	
<u>3,571,660</u>	<u>50,120</u>	<b>Closing balance at 31 March</b>	<u>2,605,670</u>	<u>42,930</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:

<b>31 March 2022</b>			<b>31 March 2023</b>		
Fair Value of scheme assets			Fair Value of scheme assets		
£000	%		£000	%	
1,284,098	55.3	Equity investments	1,169,683	53.7	
157,900	6.8	Property	169,898	7.8	
348,309	15.0	Government bonds	276,629	12.7	
137,002	5.9	Corporate bonds	95,840	4.4	
-	-	Multi Asset Credit	328,905	15.1	
58,052	2.5	Cash	39,207	1.8	
336,699	14.5	Other	98,018	4.5	
<b>2,322,060</b>	<b>100.0</b>	<b>Total</b>	<b>2,178,180</b>	<b>100.0</b>	

**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 Solutions UK 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 2022.

The actuary has allowed for the following experience over the accounting period (charged to Other Comprehensive Income and Expenditure):

- **CPI inflation:** in view of the high rates of inflation that the UK has experienced in the period, the defined benefit obligation has been adjusted to allow for actual CPI inflation being higher or lower than previously assumed, resulting in higher or lower increases to pensions in payment, revaluation of deferred pensions and increases to active pension accounts. Over this accounting period, the adjustment is based on actual CPI inflation of 13.8% between 30 September 2021 and 28 February 2023 (the published CPI index at the accounting date). Previously, inflation assumptions were based on the change in the CPI inflation index ending the previous September (September 2020 to September 2021 for 2022/23).
- **Salary increases:** the defined benefit obligation has been adjusted to allow for salary increases of 7.0% p.a. in line with the average settlement for 2022 under the National Joint Council negotiations. This impacts the value of active members' liabilities that remain linked to final salary.

The principal assumptions used by the actuary are:

2021-22			2022-23	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
		<b>Mortality assumptions:</b>		
		Longevity at 65 for current pensioners:		
22.1	22.1	- Men	22.2	22.2
24.2	24.2	- Women	24.4	24.4
		Longevity at 65 for future pensioners:		
23.2	n/a	- Men	23.5	n/a
25.7	n/a	- Women	25.5	n/a
		<b>Principal financial assumptions (% per annum)</b>		
2.7	2.7	- Rate for discounting scheme liabilities	4.7	4.7
3.0	3.0	- Rate of inflation (CPI)	2.7	2.7
3.0	3.0	- Rate of increase in pensions	2.7	2.7
4.0	n/a	- Rate of increase in salaries	3.7	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 2021/22.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2023 and the projected service cost for the year ending 31 March 2024 is set out in the following table:

**Discount rate assumption**

<b>Adjustment to discount rate</b>	<b>+ 0.1% per annum</b>	<b>Base Figure</b>	<b>- 0.1% per annum</b>
Present value of total obligation (£000)	2,563,980	2,605,670	2,647,360
Change in present value of total obligation	-1.6%		1.6%
Projected service cost (£000)	53,960	56,150	58,450
Approximate change in projected service cost	-3.9%		4.1%

**Rate of general increase in salaries**

<b>Adjustment to salary increase rate</b>	<b>+ 0.1% per annum</b>	<b>Base Figure</b>	<b>- 0.1% per annum</b>
Present value of total obligation (£000)	2,610,880	2,605,670	2,600,460
Change in present value of total obligation	0.2%		-0.2%
Projected service cost (£000)	56,150	56,150	56,150
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**

<b>Adjustment to pension increase rate</b>	<b>+ 0.1% per annum</b>	<b>Base Figure</b>	<b>- 0.1% per annum</b>
Present value of total obligation (£000)	2,642,150	2,605,670	2,569,190
Change in present value of total obligation	1.4%		-1.4%
Projected service cost (£000)	58,450	56,150	53,960
Approximate change in projected service cost	4.1%		-3.9%

**Post retirement mortality assumption**

<b>Adjustment to mortality age rating assumption *</b>	<b>- 1 year</b>	<b>Base Figure</b>	<b>+ 1 year</b>
Present value of total obligation (£000)	2,676,020	2,605,670	2,535,320
Change in present value of total obligation	2.7%		-2.7%
Projected service cost (£000)	58,170	56,150	54,130
Approximate change in projected service cost	3.6%		-3.6%

\* a rating of + 1 year means that members are assumed to follow the mortality pattern of the base table for an individual who is 1 year older than them.

**Impact on the 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 16 years from 1 April 2023. Funding levels are monitored on an annual basis.

The council anticipates paying £70.630m contributions to the scheme in 2023/24 (£51.640m anticipated in 2022/23). This includes a £16.443m payment in April 2023 in respect of amounts due from 2023/24 to 2025/26 (£nil advance payment paid in 2021/22). The advance payment in respect of 2024/25 and 2025/26 will be held on the Balance Sheet and the charge will be released to the Comprehensive Income and Expenditure Statement in those years, £5.481m each year.

The weighted average duration of the defined benefit obligation for scheme members is 16.3 years at 31 March 2023 (19.7 years at 31 March 2022).

### **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 Government confirmed changes to all main public sector schemes, including the LGPS, to remove this age discrimination and in July 2021, the Public Service Pensions and Judicial Offices Bill was laid before Parliament. This bill amended the Public Service Pensions Act 2013 by making provision to rectify the unlawful discrimination by the 2014 Scheme. The bill gained Royal Assent on 10 March 2022.

The necessary LGPS Regulations covering the remedy have not yet been laid. Whilst at this stage, it is unknown what impact this will have on future employer pension contributions, the Pension Fund's Actuary has calculated a potential IAS 19 accounting liability 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.

## **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 it is likely that the council will have to make settlement payments however, it is unclear as to how many claimants have live claims and the settlement values.

#### **c) 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 £7.4m.

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.

#### **d) 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.

#### **e) 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.

#### **f) Milburngate Development**

Durham County Council is the intended tenant of the Milburngate Development and has signed an Agreement for Lease with the developer (MGH Card) to take on the building once Practical Completion is achieved.

During 2022/23 the council commenced litigation against both the Developer and the Contractor in relation to design issues with the scheme. This litigation has been complicated by the Contractor (Tolent) entering into Administration in February 2023. There is uncertainty in terms of the outcome of this case, and over the amounts involved and therefore the council's exposure, therefore a contingent liability has been included in the accounts.

## **46. Contingent Assets**

### **LSVT - VAT Shelter**

The council and a number of registered providers in Durham have in place VAT shelter arrangements agreed at the time when the stock was transferred to those registered providers under LSVT, to enable them 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. The council is entitled to a 50% share of VAT recovered by the registered providers from this VAT shelter arrangement. Under the VAT shelter arrangements, during 2022/23, the council received and recognised £3.382m from three registered providers, namely Believe, Livin and North Star.

## **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. Most of these items are not recognised on the Balance Sheet as they have no separate insurance values but one collection (the Londonderry Archives) has been valued as it was offered to the nation in lieu of inheritance tax, with a preference for it to remain with the Durham County Records Office.
- 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 2022/23.

### **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) and NHS County Durham Clinical Commissioning Group up to 30th June 2022. From 1 July 2022 the NHS County Durham Clinical Commissioning Group has become part of the North East and North Cumbria Integrated Care Board (NE & NC ICB).

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

For accounting purposes, the NE & NC ICBCCG 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.

<b>31 March 2022</b>		<b>31 March 2023</b>
<b>£000</b>		<b>£000</b>
	<b>Funding Provided to BCF</b>	
29,959	Local Authority (revenue)	33,219
6,988	Local Authority (capital)	6,988
47,632	CCGs	52,711
<u>84,579</u>		<u>92,918</u>
	<b>Expenditure met from BCF</b>	
62,091	Local Authority (revenue)	67,875
6,988	Local Authority (capital)	6,988
15,500	CCGs	18,055
<u>84,579</u>		<u>92,918</u>
<u>-</u>	<b>Net (-) surplus / deficit on pooled budget</b>	<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 2022/23.

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.

## The Collection Fund

2021-22		2022-23		
		Council Tax £000	NNDR £000	Total £000
	<b>£000</b>			
	<b>Income</b>			
-306,994	Council Tax due from Taxpayers	-320,170	-	-320,170
-95,469	Income from Business Ratepayers	-	-109,074	-109,074
	<b>Recovery of Previous Year's Estimated Deficit</b>			
-20,455	Central Government	-	-5,609	-5,609
-22,379	Durham County Council	-4,292	-5,496	-9,788
-287	Durham Police, Crime and Victims' Commissioner	-541	-	-541
-550	County Durham & Darlington Fire & Rescue Authority	-257	-112	-369
<b>-446,134</b>	<b>Total Income</b>	<b>-325,260</b>	<b>-120,291</b>	<b>-445,551</b>
	<b>Expenditure</b>			
	<b>Precepts and Demands</b>			
255,000	Durham County Council	266,338	-	266,338
32,607	Durham Police, Crime and Victims' Commissioner	34,521	-	34,521
15,232	County Durham & Darlington Fire & Rescue Authority	15,762	-	15,762
	<b>Business Rates</b>			
58,606	Payment to Central Government	-	55,016	55,016
	Payment to Durham County Council, including Renewable Energy	-	52,878	52,878
57,603		-	52,878	52,878
577	Costs of Collection - Business Rates	-	583	583
	Payment to County Durham and Darlington Fire & Rescue Authority	-	1,075	1,075
1,172		-	1,075	1,075
	<b>Bad &amp; Doubtful Debts</b>			
3,505	Write Offs	2,574	1,095	3,669
475	Change in Allowance for Non-Collection	998	199	1,197
-6,225	Provision for Appeals	-	3,616	3,616
<b>418,552</b>	<b>Total Expenditure</b>	<b>320,193</b>	<b>114,462</b>	<b>434,655</b>
-27,582	Movement on Fund Balance	-5,066	-5,830	-10,896
45,647	Surplus(-) /Deficit on Fund Brought Forward	7,679	10,386	18,065
<b>18,065</b>	<b>Fund Balance Carried Forward</b>	<b>2,613</b>	<b>4,556</b>	<b>7,169</b>
	<b>Allocated to :</b>			
5,193	Central Government	-	2,277	2,277
11,555	Durham County Council	2,206	2,233	4,439
827	Durham Police, Crime and Victims' Commissioner	275	-	275
490	County Durham and Darlington Fire & Rescue Authority	132	46	178
<b>18,065</b>		<b>2,613</b>	<b>4,556</b>	<b>7,169</b>

## **Notes to the Collection Fund Accounts**

### **1. The Collection Fund**

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.

### **2. 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 2022/23.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	143,884	6/9ths	95,923
Over £ 40,000 up to £ 52,000	Band B	35,129	7/9ths	27,323
Over £ 52,000 up to £ 68,000	Band C	31,409	8/9ths	27,919
Over £ 68,000 up to £ 88,000	Band D	22,238	9/9ths	22,238
Over £ 88,000 up to £120,000	Band E	10,832	11/9ths	13,239
Over £120,000 up to £160,000	Band F	4,245	13/9ths	6,132
Over £160,000 up to £320,000	Band G	2,221	15/9ths	3,702
Over £320,000	Band H	274	18/9ths	548
		250,232		197,024
				53,328
				<b>143,696</b>
				141,623
				<b>143,696</b>
				141,623

Net effect of discounts, reliefs, exemptions and premiums

**Chargeable Properties (Taxbase) 2022/23**

The Council Tax Base for 2021/22 was:

In 2022/23, the Band D charge was £2,104.62 (£2,041.37 in 2021/22) made up of Durham County Council £1,754.69 (£1,703.58 in 2021/22), Durham Police, Crime and Victims' Commissioner £230.24 (£230.24 in 2021/22) and County Durham and Darlington Fire and Rescue Authority £109.69 (£107.55 in 2021/22). In addition, Band D town and parish precepts between £0 and £304.81 (£0 and £304.07 in 2021/22) 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) is normally 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. In July 2020 the government announced that repayments to meet any Collection Fund deficits accrued in 2020/21 will instead be phased over a three-year period (2021/22 to 2023/24) to ease immediate pressures on budgets.

The Collection Fund - Council Tax estimated a £2.378m deficit for 2022/23, including a final credit of £1.907m for the phased deficit calculated in 2020/21, which will be distributed to major preceptors during 2023/24. At 31 March 2023, the actual outturn was a deficit of £2.613m (deficit of £7.679m at 31 March 2022).

### Allowance for Non-Collection

Each year the impairment allowance 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 2023 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 allowance applied:



Category of Arrears	Year	Percentage allowance applied
1. No reminders yet sent	2022/23	20%
	2021/22	25%
	2020/21	50%
	2019/20	70%
	2018/19 & 2017/18	90%
	2016/17 & older	100%
	2. First, second or final reminder	2022/23
2021/22		30%
2020/21		50%
2019/20		50%
2018/19 & 2017/18		95%
2016/17 & older		100%
3. Summons (including liability orders, bailiff and bankruptcy)		2022/23
	2021/22	60%
	2020/21	80%
	2019/20	85%
	2018/19 & 2017/18	95%
	2016/17 & older	100%

At 31 March 2023, the calculated allowance of £25.891m covered 60.39% of arrears (£24.893m, 63.10% at 31 March 2022).

### **Collection Fund – Council Tax Balance**

The Collection Fund - Council Tax balance at 31 March 2023 amounted to a deficit of £2.613m (deficit of £7.679m at 31 March 2022).

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	Allowance for	Arrears	Overpayments
	Surplus (-) / Deficit on Collection Fund	Non-Collection		and Prepayments
	£000	£000	£000	£000
Durham County Council	2,206	-21,761	35,526	-4,154
Durham Police, Crime & Victims' Commissioner	275	-2,853	4,455	-545
County Durham & Darlington Fire & Rescue Authority	132	-1,282	2,002	-245
<b>Total Allocated</b>	<b>2,613</b>	<b>-25,896</b>	<b>41,983</b>	<b>-4,944</b>

### 3. 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 2022/23, the general multiplier was £0.512 (£0.512 in 2021/22) and the small business multiplier was £0.499 (£0.499 in 2021/22). The total non-domestic rateable value for Durham County Council at 31 March 2023 was £339.299m in accordance with the VOA schedule dated 31 March 2023 (£322.184m at 31 March 2021/22).

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 2022/23 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2022. In addition, during 2022/23, the estimated deficit for 2021/22 was paid to shareholders as shown in the Collection Fund account.

The estimated outturn for 2022/23 was included on the NNDR1 for 2023/24, submitted in January 2023. This predicted a deficit of £3.848m (deficit of £11.217m estimated for 2021/22) of which Durham County Council's share would be £1.886m (deficit of £5.496m for 2021/22). As with council tax the in year deficit calculated in January 2021 was eligible to be spread over a three year period (2021/22 to 2023/24) to ease pressures on budgets. Therefore, this deficit includes a credit of £0.379m as calculated in 2020/21. 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 2023, the actual outturn was a deficit of

£4.447m (deficit of £10.386m in 2021/22). Income from renewable energy amounted to £0.195m (£0.169m in 2021/22).

### Allowance for Non-Collection

Each year the impairment allowance 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 2023 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 allowance applied.

Category of Arrears	Year	Percentage allowance applied
1. No reminders yet sent	2022/23	25%
	2021/22	55%
	2020/21 & older	100%
2. First, second or final reminder	2022/23	45%
	2021/22	75%
	2020/21 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2022/23	50%
	2021/22	95%
	2020/21 & older	100%

At 31 March 2023, the calculated allowance of £4.595m covered 72.60% of arrears (£4,396m, 75.31% at 31 March 2022).

### 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 2023, the provision for appeals was estimated at £18.525m (£14.909m at 31 March 2022).

## Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2023 amounted to a deficit of £4.557m (deficit of £10.386m at 31 March 2022). 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 allowance for non-collection and the provision for appeals.

The following table shows how Business Rates balances have been allocated at 31 March 2023.

<b>Authority</b>	<b>Year-end Surplus (-) / Deficit on Collection Fund £000</b>	<b>Allowance for Non-Collection £000</b>	<b>Business Rates Arrears £000</b>	<b>Business Rates Overpayments and Prepayments £000</b>	<b>Provision for Appeals £000</b>
Durham County Council	2,233	-2,252	3,141	-1,572	-9,077
Central Government	2,278	-2,298	3,149	-1,604	-9,263
County Durham & Darlington Fire & Rescue Authority	46	-46	63	-32	-185
<b>Total Allocated</b>	<b>4,557</b>	<b>-4,596</b>	<b>6,353</b>	<b>-3,208</b>	<b>-18,525</b>

**Independent Auditor's Report to the Members of Durham County  
Council Pension Fund**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**

**THIS PAGE IS LEFT INTENTIONALLY BLANK**



**THIS PAGE IS LEFT INTENTIONALLY BLANK**

## Durham County Council Pension Fund Accounts

### 1. Fund Account

2021-22			2022-23		
£000	£000		Notes	£000	£000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND</b>					
-119,756		Contributions Receivable	8	-131,120	
-7,842		Transfers in from Other Pension Funds	9	-9,410	
-4		Other Income		-4	
	-127,602				-140,534
137,698		Benefits Payable	10	144,687	
6,232		Payments to and on Account of Leavers	11	8,866	
	143,930				153,553
	<b>16,328</b>	<b>Net Withdrawals / -Additions from Dealings with Members, Employers and Others</b>			<b>13,019</b>
	22,427	<b>Management Expenses</b>	12		13,297
	<b>38,755</b>	<b>Net Withdrawals / -Additions Including Fund Management Expenses</b>			<b>26,316</b>
<b>RETURN ON INVESTMENTS</b>					
-28,231		Investment Income	13	-52,697	
-129,994		Profit and Losses on Disposal of Investments and Change in Value of Investments	15	215,107	
	<b>-158,225</b>	<b>Net Returns on Investments</b>			<b>162,410</b>
	<b>-119,470</b>	<b>NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>			<b>188,726</b>

## 2. Net Assets Statement

31 March 2022			31 March 2023	
£000	£000	Notes	£000	£000
<b>INVESTMENT ASSETS</b>				
240,159		Equities	15	243,968
3,289,424		Pooled Investment Vehicles	15	3,109,345
	3,529,583			3,353,313
193		Loans	15	27
		Other Cash Deposits:		
19,072		Fund Managers	15	19,123
46,274		Short Term Investments	15	54,074
-		Derivative Contracts	15	1,478
	<u>65,539</u>			<u>74,702</u>
	3,595,122			3,428,015
<b>Other Investment Assets</b>				
1,296		Dividend Accruals	15,18	1,733
204		Tax Recovery	15,18	265
17		Other Investment Balances	15,18	298
	<u>1,517</u>			<u>2,296</u>
<b>3,596,639</b>		<b>Total Investment Assets</b>		<b>3,430,311</b>
<b>INVESTMENT LIABILITIES</b>				
-1,504		Derivative Contracts	15	-
-1,781		Other Investment Balances	19	-12,698
	<u>-3,285</u>	<b>Total Investment Liabilities</b>		<u>-12,698</u>
<b>3,593,354</b>		<b>NET INVESTMENT ASSETS</b>		<b>3,417,613</b>
<b>Current Assets</b>				
11,705		Contributions Due from Employers		10,142
<u>1,285</u>		Other Current Assets		<u>2,110</u>
	12,990			12,252
<b>Current Liabilities</b>				
<u>-6,330</u>		Current Liabilities		<u>-18,577</u>
	<u>-6,330</u>			<u>-18,577</u>
<b><u>3,600,014</u></b>		<b>NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH</b>		<b><u>3,411,288</u></b>

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

These accounts should therefore be read in conjunction with the information contained within this note.

## Notes to Durham County Council Pension Fund Accounts

### 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 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 Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the 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 pension 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.

	2018/19	2019/20	2020/21	2021/22	2022/23
Contributing Members	20,116	20,901	21,340	22,141	23,139
Pensioners in Payment	19,404	20,109	20,652	21,346	22,200
Pensioners Deferred	15,987	16,420	16,595	17,244	17,970

In comparison to the figures reported at 31 March 2022, the number of pensionable employees in the Fund at 31 March 2023 has increased by 998 (4.51%), the number of pensioners has increased by 854 (4.00%) and deferred pensioners have increased by 726 (4.21%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 107 at 31 March 2023), 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.

2021-22			2022-23	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
99,783	-68,330	Administering Authority	104,716	-72,554
29,824	-41,489	Scheduled Bodies	31,075	-47,412
8,091	-9,937	Admission Bodies	8,897	-11,153
<b>137,698</b>	<b>-119,756</b>		<b>144,688</b>	<b>-131,119</b>

## 2. Basis of Preparation

The Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 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 2022/23, the results of which determined the contribution rates effective from 1 April 2023 to 31 March 2026. 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 2022/23 that are applicable to the 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 members' liability transfers, where the transfer value is agreed by Durham County Council Pension Fund. Where the transfer value has not been agreed in the year in which the member liability transfers, the transfer will be accounted for in full in the year in which the transfer value is agreed.

### **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 Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 11 provides further information regarding the basis of Investment Managers' fees. Where an Investment Manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the 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;
- distributions from pooled investment vehicles and private markets are accounted for on an accruals basis on the date of issue;

- 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 value of investments are recognised as income or expenditure 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 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 and fixed interest securities traded on an exchange are accounted for at bid market price;
- index linked securities traded on an exchange are valued at bid market value;
- 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 most recently available net asset value adjusted for cash flows, where appropriate, or a single price advised by the fund manager;
- each of the partners in Border to Coast Pension Pool (BCPP) have an equal shareholding in BCPP which have been valued at cost i.e. transaction price, as an appropriate estimate of fair value. This is reviewed and assessed each year. Relevant factors include that there is no market in the shared held, disposal of shares is not a matter in which any shareholder can make a unilateral decision, and the company is structured as to not make a profit. As at 31 March 2023, taking into consideration the audited accounts for the company at 31 December 2022, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that costs remain an appropriate proxy for fair value at 31 March 2023. All investments managed by BCPP are valued at their fair value;
- investments in private equity funds, private credit funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund, private credit fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows; and
- 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 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.

## **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 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 Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

## **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 Code of Practice on Local Authority Accounting requires disclosure of judgements made by management that affect the application of accounting policies. The Fund can confirm it has made no such critical judgements during 2022/23.

## **6. Assumptions made about the future and other major sources of estimation uncertainty**

The 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
Fair Value of Investments	The Accounts are as at 31 March 2023 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 could reduce / increase in value during the 2023/24 reporting. The total value of Level 3 investments (explained in Note 16) is £397.493m at 31/03/23 (£303.967m at 31/03/22). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure and Private Credit. In line with the market risk section within Note 17, there is a risk that the value of the Fund may reduce / increase during the 2022/23 reporting period by £61.323m at 31/03/23 (£46.133m at 31/03/22), which represents the potential market movement on the value of the above investments.

## 7. Events after the Reporting Period

There are no events after the reporting period to be disclosed separately in the Statement of Accounts in 2022/23.

## 8. Contributions Receivable

2021-22 £000		2022-23 £000
	<b>Employer Contributions:</b>	
-85,555	Normal	-94,492
-662	Augmentation	-1,682
-4,790	Deficit Funding	-2,712
-28,748	<b>Member Contributions</b>	-32,233
<b>-119,756</b>		<b>-131,119</b>
-68,330	Administering Authority	-72,554
-41,489	Scheduled Bodies	-47,412
-9,937	Admission Bodies	-11,153
<b>-119,756</b>		<b>-131,119</b>

## 9. Transfers in From Other Pension Funds

2021-22 £000		2022-23 £000
-7,842	Individual Transfers	-9,409
<b>-7,842</b>		<b>-9,409</b>

**10. Benefits Payable**

2021-22		2022-23
£000		£000
112,961	Pensions	118,810
26,042	Commutations and Lump Sum Retirement Benefits	26,894
2,568	Lump Sum Death Benefits	2,758
-3,872	Recharged Benefits	-3,774
<b>137,698</b>		<b>144,688</b>
99,783	Administering Authority	104,716
29,824	Scheduled Bodies	31,075
8,091	Admission Bodies	8,897
<b>137,698</b>		<b>144,688</b>

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

2021-22		2022-23
£000		£000
362	Refunds to Members Leaving Service	320
-1	Payments for Members Joining State Scheme	0
5,871	Individual Transfers to Other Schemes	8,546
<b>6,232</b>		<b>8,866</b>

**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 two 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 Fund accounting team, plus legal, actuarial and investments advisory services.

2021-22			2022-23	
£000	£000		£000	£000
	991	Administration Expenses		1,034
		Investment Management Expenses		
6,266		Management Fees	3,925	
1,428		Performance Fees	684	
107		Custody Fees	85	
12,509		Transaction Costs	5,895	
	20,310			10,589
	1,126	Oversight and Governance Costs		1,674
	<b>22,427</b>			<b>13,297</b>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2022/23 of £0.022m (£0.036m in 2021/22). The statutory audit fee does not include fees chargeable to the Fund for work undertaken by Mazars at the request of employer auditors as this is fully rechargeable to the employers of whom the information is provided. Fees for this work in 2022/23 is £0.008m (£0.008m in 2021/22). No fees have been paid to Mazars in 2022/23 in respect of non-audit work.

Included within investment management expenses (transaction costs) is the costs associated with processing foreign payments in respect of the BCPP private market drawdowns. These costs were £0.555m in 2022/23 (£6.362m in 2021/22, as they were allocated to the cost of the investments in prior years).

### 13. Investment Income

2021-22 (Restated) £000			2022-23 £000
-310	Interest from Bonds		-16,678
-24,521	Dividends from Equities		-23,183
-34	Interest on Cash Deposits		-974
-20,313	Income from Pooled Investment Vehicles		-8,364
-963	Income from Private Markets		-3,498
<b>-46,141</b>			<b>-52,697</b>

### 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 2022/23 to manage the Fund's assets:

- AB (Formerly AllianceBernstein Limited)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Border to Coast Pension Partnership (BCPP)
- Foresight Regional Investment IV LP

Durham County Council is one of eleven 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.

It is anticipated that all 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 Fund's Investment Strategy and asset allocation requirements.

In line with the Fund's strategic asset allocation, as at 31 March 2023 the Fund had pooled Global Equities, Sterling Index-Linked Bonds, Multi-Asset Credit, and Listed Alternatives as well as commencing a Private Markets programme through BCPP.

The strategic asset allocation as at 31 March 2023 was as follows:

31 March 2022	Asset Class	31 March 2023
%		%
40.00	Global Equities	40.00
13.00	Global Property	13.00
10.00	Private Markets / Listed Alternatives	10.00
7.00	Emerging Market Equities	7.00
15.00	Sterling Indexed Linked Bonds	15.00
15.00	Multi-Asset Credit	15.00
<b>100.00</b>		<b>100.00</b>

Although the strategic asset allocation was reviewed during 2022/23, the Fund holds assets that have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, actual allocations vary from the strategic allocation. In March 2023, the Pension Fund Committee reviewed the strategic allocation with changes to take effect following the implementation of the 2022 Valuation from 1 April 2023.

The actual values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2022		Investment Manager	Asset Class	31 March 2023	
£000	%			£000	%
<b><u>Investments managed by BCPP asset pool:</u></b>					
1,560,269	44.00		Global Equities	1,416,597	41.99
34,421	0.97		Private Equity	55,931	1.66
21,800	0.61		Private Credit	49,307	1.46
477,124	13.45		Bonds	407,005	12.06
31,566	0.89		Infrastructure	62,907	1.86
515,831	14.54		Multi Asset Credit	516,144	15.30
204,575	5.77		Listed Alternatives	154,480	4.58
-	-		Climate Opportunities	8,479	0.25
<b>2,845,586</b>	<b>80.23</b>			<b>2,670,850</b>	<b>79.16</b>
<b><u>Investments managed outside of BCPP asset pool:</u></b>					
175,313	4.94	AB	Global Bonds	173,617	5.15
137	-	BlackRock	Cash Only	-28.00	-
282,242	7.96	CBRE	Global Property	281,138	8.33
242,691	6.84	Mondrian	Emerging Market Equities	244,750	7.25
1,182	0.03	BCPP	Unquoted UK Equity	1,182	0.04
-	-	Foresight	Private Equity	2,405	0.07
<b>701,565</b>	<b>19.77</b>			<b>703,064</b>	<b>20.84</b>
<b>3,547,151</b>	<b>100.00</b>			<b>3,373,914</b>	<b>100.00</b>



The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2023 excludes loans of £0.027m, cash invested by the administering authority of £54.074m, other investment assets of £2.296m and other investment liabilities of £12.698m (£0.193m, £46.274m, £1.517m and £1.781m respectively as at 31 March 2022).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2023, £3,374m (98.74%) is invested through Investment Managers (£3.547m or 98.71% at 31 March 2022).

### Reconciliation of Movements in Investments 2022/23

Investment Category	Value at 31 March 2022	Reclassification	Purchase s at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2023
	£000	£000	£000	£000	£000	£000
Equities	240,159	-	56,857	-48,040	-5,008	243,968
Pooled Investment Vehicles	3,289,424	-	340,820	-334,320	-186,579	3,109,345
	<b>3,529,583</b>	<b>-</b>	<b>397,677</b>	<b>-382,360</b>	<b>-191,587</b>	<b>3,353,313</b>
Derivative Contracts:						
Futures, Margins & Options	-	-	-	-	-	-
Forward Foreign Currency	-1,504	-	27,406	-21,433	-2,991	1,478
	<b>3,528,079</b>	<b>-</b>	<b>425,083</b>	<b>-403,793</b>	<b>-194,578</b>	<b>3,354,791</b>
Other Investment Balances:						
Loans	193					27
Other Cash Deposits	65,346				-20,529	73,197
Dividend Accruals	1,296					1,733
Tax Recovery	204					265
Other Investment Balances	-1,764					-12,400
<b>Net Investment Assets</b>	<b>3,593,354</b>				<b>-215,107</b>	<b>3,417,613</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

**Reconciliation of Movements in Investments 2021/22**

Investment Category	Value at 31 March 2021	Reclassification	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2022
	£000	£000	£000	£000	£000	£000
Equities	387,003	-	99,944	-229,391	-17,397	240,159
Bonds	48,905	-	32,088	-80,776	-217	-
Pooled Investment Vehicles	2,941,246	-	955,387	-755,550	148,341	3,289,424
	<b>3,377,154</b>	-	<b>1,087,419</b>	<b>-1,065,717</b>	<b>130,727</b>	<b>3,529,583</b>
Derivative Contracts:						
Futures, Margins & Options	-1,118		2,330	-2,764	1,552	-
Forward Foreign Currency	1,930		23,722	-20,530	-6,626	-1,504
	<b>3,377,966</b>	-	<b>1,113,471</b>	<b>-1,089,011</b>	<b>125,653</b>	<b>3,528,079</b>
Other Investment Balances:						
Loans	223					193
Other Cash Deposits	93,702				4,341	65,346
Dividend Accruals	1,528					1,296
Tax Recovery	736					204
Other Investment Balances	291					-1,764
<b>Net Investment Assets</b>	<b>3,474,446</b>				<b>129,994</b>	<b>3,593,354</b>

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 2022			31 March 2023	
£000	£000		£000	£000
		<b>ASSETS INVESTED THROUGH FUND MANAGERS &amp; POOL</b>		
	240,159	<b>Equities</b>		243,968
		<b>Pooled Investment Vehicles</b>		
1,168,268		Bonds	1,096,766	
1,764,844		Equities	1,571,076	
268,526		Property	264,879	
31,566		Infrastructure	62,907	
21,800		Private Credit	49,307	
34,420		Private Equity	55,931	
-		Other	8,479	
	<u>3,289,424</u>			<u>3,109,345</u>
		<b>Derivative Contracts</b>		
-		Assets	1,478	
-1,504		Liabilities	-	
	<u>-1,504</u>			<u>1,478</u>
	<u>19,072</u>	<b>Fund Managers' Cash</b>		<u>19,123</u>
<b>3,547,151</b>		<b>NET ASSETS INVESTED</b>		<b>3,373,914</b>
		<b>OTHER INVESTMENT BALANCES</b>		
46,274		Short Term Investments (via DCC Treasury Management)		54,074
193		Loans		27
1,517		Other Investment Assets		2,296
-1,781		Other Investment Liabilities		-12,698
	<u><b>3,593,354</b></u>	<b>NET INVESTMENT ASSETS</b>		<u><b>3,417,613</b></u>

**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 Fund and its Investment Managers.

A summary of the derivative contracts held by the Fund is provided in the following table:

31 March 2022		Derivative Contracts	31 March 2023	
£000	£000		£000	£000
		<b>Forward Foreign Currency</b>		
-		Assets	1,478	
-1,504		Liabilities	-	
	-1,504	<b>Net Forward Foreign Currency</b>		1,478
		<b>Futures</b>		
-		Assets	-	
-		Liabilities	-	
	-	<b>Net Futures</b>		-
		<b>Options</b>		
-		Assets	-	
-		Liabilities	-	
	-	<b>Net Options</b>		-
	<b>-1,504</b>	<b>Net Market Value of Derivative Contracts</b>		<b>1,478</b>

The 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 (CBRE) on 31 March 2023 and 31 March 2022. Please note Blackrock transitioned over to BCPP in February 2022 and there were no forward foreign currency contracts held with Blackrock on 31 March 2023 or 31 March 2022.

**31 March 2023**

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	1,634,527	EUR	-1,628,872	5,655	
1 to 3 months	GBP	1,834	USD	-1,814	20	
1 to 3 months	GBP	874,070	AUD	-866,993	7,077	
1 to 3 months	GBP	750,385	SEK	-741,193	9,192	
1 to 3 months	GBP	66,812,419	USD	-66,151,265	661,154	
1 to 3 months	GBP	92,977	USD	-92,018	959	
1 to 3 months	GBP	31,400,353	JPY	-30,947,506	452,847	
1 to 3 months	GBP	306,448	USD	-303,139	3,309	
1 to 3 months	GBP	62,491,931	EUR	-62,322,365	169,566	
1 to 3 months	GBP	17,230,521	AUD	-17,105,012	125,509	
1 to 3 months	GBP	2,976,058	JPY	-2,932,895	43,163	
					<b>1,478,451</b>	<b>-</b>
<b>Net Forward Foreign Currency Contracts at 31 March 2023</b>						<b>1,478,451</b>

**31 March 2022**

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	2,497	USD	-2,509		-
1 to 3 months	GBP	16,117,967	AUD	-16,269,973		-152
1 to 3 months	GBP	725,805	SEK	-737,561		-12
1 to 3 months	GBP	23,517,682	JPY	-23,550,603		-33
1 to 3 months	GBP	340,514	USD	-342,110		-2
1 to 3 months	GBP	197,196	DKK	-200,264		-3
1 to 3 months	GBP	67,975,922	USD	-68,294,355		-318
1 to 3 months	GBP	669,999	AUD	-676,318		-6
1 to 3 months	GBP	52,982,773	EUR	-53,827,165		-844
1 to 3 months	GBP	1,275,895	EUR	-1,296,230		-21
1 to 3 months	GBP	3,074,834	JPY	-3,079,138		-4
1 to 3 months	GBP	46,744	USD	-46,963		-
1 to 3 months	GBP	6,651,976	EUR	-6,760,965		-109
					<b>-</b>	<b>-1,504</b>
<b>Net Forward Foreign Currency Contracts at 31 March 2022</b>						<b>-1,504</b>

**ii. Futures**

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. As Blackrock transitioned over to BCPP in February 2022 there were no outstanding exchange traded future contracts as at 31 March 2023 or 31 March 2022.

### 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, had previously 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. As Blackrock transitioned over to BCPP in February 2022 there were no equity option contracts as at 31 March 2023 or 31 March 2022.

### Investments Exceeding 5% of the Net Assets available for Benefits

The investments in the following table individually represented more than 5% of the Fund's total net assets available for benefits at 31 March:

At 31 March 2022		Name of Fund	Investment Manager	At 31 March 2023	
£m	%			£m	%
1,560.27	43.34%	Global Equity Alpha	BCPP	1,416.60	41.53%
477.12	13.25%	Sterling Index-Linked Bonds	BCPP	407.00	11.93%
0.00	0.00%	MAC Fund	BCPP	516.14	15.13%
175.31	4.87%	Global Dynamic Bonds	AB	173.62	5.09%

## 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:

As at 31 March 2022			As at 31 March 2023		
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
			<b>Financial Assets</b>		
240,159			Equities	243,968	
-			Bonds	-	
			<b>Pooled Investment Vehicles:</b>		
1,168,268			Bonds	1,096,766	
1,764,844			Equities	1,571,077	
268,526			Property	264,878	
31,566			Infrastructure	62,907	
21,800			Private Credit	49,307	
34,420			Private Equity	55,931	
-			Climate Opportunities	8,479	
-			Other	-	
-			Derivative Contracts		1,478
	193		Loans		27
	19,072		Cash held by Fund Managers		19,123
	46,274		Short Term Investments		54,074
	1,517		Other Investment Assets		2,296
	12,990		Debtors		12,252
3,529,583	80,046	-		3,353,313	89,250
			<b>Financial Liabilities</b>		
-1,504			Derivative Contracts	-	
		-8,111	Creditors		-31,275
-1,504	-	-8,111		-	-31,275
<b>3,528,079</b>	<b>80,046</b>	<b>-8,111</b>		<b>3,353,313</b>	<b>89,250</b>
					<b>-31,275</b>
					<b>3,411,288</b>
			<b>3,600,014</b>	<b>Net Assets at 31 March</b>	

### Net gains and losses on financial instruments

31 March 2022		31 March 2023
£000		£000
	<b>Financial Assets</b>	
119,506	Fair Value through Profit and Loss	194,578
10,488	Financial assets measured at amortised cost	20,529
	<b>Financial Liabilities</b>	
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
<b>129,994</b>	<b>Total</b>	<b>215,107</b>

### 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.

**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, private equity, infrastructure and private credit, 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 2023 and 31 March 2022, 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	
<b>Values at 31 March 2023</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,438,493	518,804	397,494	3,354,791
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	-	-	-	-
<b>Net Financial Assets at Fair Value</b>	<b>2,438,493</b>	<b>518,804</b>	<b>397,494</b>	<b>3,354,791</b>

This table excludes financial assets and financial liabilities at amortised cost. Please refer to the Classification of Financial Instruments table on the previous page, for the total net financial assets figure.



	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
<b>Values at 31 March 2022</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>£000</b>
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,708,603	517,013	303,967	3,529,583
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	-	-1,504	-	-1,504
<b>Net Financial Assets at Fair Value</b>	<b>2,708,603</b>	<b>515,509</b>	<b>303,967</b>	<b>3,528,079</b>

This table excludes financial assets and financial liabilities at amortised cost. Please refer to the Classification of Financial Instruments table on the previous page, for the total net financial assets figure.

#### RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2022/23	Market Value 31 March 2022	Purchases During the Year	Sales During the Year	Unrealised Gains / (Losses)	Realised Gains / (Losses)	Market Value 31 March 2023
	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles	216,181	24,728	-26,027	1,885	1,697	218,464
Private Equity	34,420	34,363	-	-10,447	-	58,336
Infrastructure	31,566	27,784	-	3,558	-	62,908
Private Credit	21,800	29,419	-	-1,913	-	49,306
Climate Opportunities	-	8,908	-	-428	-	8,480
	<b>303,967</b>	<b>125,202</b>	<b>-26,027</b>	<b>-7,345</b>	<b>1,697</b>	<b>397,494</b>

#### RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2021/2022	Market Value 31 March 2021	Purchases During the Year	Sales During the Year	Unrealised Gains / (Losses)	Realised Gains / (Losses)	Market Value 31 March 2022
	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles	178,804	36,178	-18,567	19,526	240	216,181
Private Equity	8,610.00	20,326	-	5,484	-	34,420
Infrastructure	10,750.00	25,666	-	-4,850	-	31,566
Private Credit	3,255.00	17,407	-	1,138	-	21,800
	<b>201,419</b>	<b>99,577</b>	<b>-18,567</b>	<b>21,298</b>	<b>240</b>	<b>303,967</b>

**Disclosures**

- 1) In line with the Fund's rebalancing policy, £17.0m was transferred from BCPP Global Equity Alpha (Level1) to BCPP Multi Asset Credit (Level 2) in December 2022.
- 2) There has been no change in valuation techniques.
- 3) There are no assets or liabilities within the fund of a non-recurring nature.

**Fair Value – Basis of Valuation**

<b>Description of asset</b>	<b>Basis of Evaluation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuations provided</b>
<b>Level 2</b>			
Unquoted equity investments	Shareholdings in BCPP have been valued at cost i.e. transaction price as an appropriate estimate of fair value.	No market for shares held in BCPP. Disposal of shares is not a matter in which any shareholder can make a unilateral decision. Company is structured so as not to make a profit.	Not required
Unquoted fixed income bonds and unit trusts	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange currency	Market forward exchange rates at the year end	Exchange rate risk	Not required
<b>Level 3</b>			
Investment Properties: Freehold and leasehold	The properties are valued at fair value at the year end using the investment method of valuation by independent valuers CBRE	Existing lease terms and rentals Independent market research Nature of tenancies	Significant changes in rental growth, vacancy levels or the discount rate could

properties and property funds	Ltd in accordance with the RICS Valuation Global Standards (incorporating the International Valuation Standards) and the UK national supplement ('the red book') current as at the valuation date.	Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	affect valuations, as could more general changes to market prices.
Private/Unquoted equity (pooled funds in Alternative Assets)	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material event occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

### Fair Value – Sensitivity of Assets values at Level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 instruments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2023.

#### FAIR VALUE - SENSITIVITY ANALYSIS OF LEVEL 3

Period 2022/23	Assessed valuation range (+/-)	Value at 31 March 2023	Value on increase	Value on decrease
	%	£000	£000	£000
<b>Pooled Investment Vehicles</b>				
Property	14.1%	218,465	249,269	187,661
Private Equity	25.0%	58,336	72,920	43,752
Infrastructure	15.0%	62,907	72,343	53,471
Private Credit	10.6%	49,307	54,534	44,080
Climate Opportunities	15.0%	8,479	9,751	7,207
		<b>397,494</b>	<b>458,816</b>	<b>336,172</b>

**FAIR VALUE - SENSITIVITY ANALYSIS OF LEVEL 3**

Period 2021/22	Assessed valuation range (+/-)	Value at 31 March 2022	Value on increase	Value on decrease
	%	£000	£000	£000
<b>Pooled Investment Vehicles</b>				
Property	14.1%	216,181	246,663	185,699
Private Equity	25.0%	34,420	43,025	25,815
Infrastructure	15.0%	31,566	36,301	26,831
Private Credit	10.6%	21,800	24,111	19,489
		<b>303,967</b>	<b>350,099</b>	<b>257,835</b>

Further details on estimates of values are set out in Note 6 to the Accounts (assumptions made about the future and other major sources of estimation uncertainty).

## 17. Nature and Extent of Risk Arising From Financial Instruments

### Risk and risk management

The 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. Risk is further controlled by dividing the management of the assets between a number of managers and ensuring the Fund's portfolio is well diversified across region, sector and type of security. As different asset classes have varying correlations with other asset classes, the Fund can minimise the level of risk by investing in a range of different investments.

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 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.

In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the 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 of asset types, across different regions and sectors.

### 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 2022/23 reporting period. The analysis assumed that all other variables remain the same.

If the market price of the Fund investments were to increase / decrease in line with these potential market movements, the value of assets available to pay benefits would vary as illustrated in the following table (the prior year comparator is also provided):

Manager	Asset Type	Asset Value at 31 March 2023 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	173,617	7.0%	185,770	161,464
CBRE	Unlisted Property	218,465	14.1%	249,269	187,661
CBRE	Listed Property	46,413	21.2%	56,254	36,574
Foresight	Private Equity	2,405	25.0%	3,006	1,804
Mondrian	Emerging Market Equity	240,381	25.9%	302,640	178,122
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,416,597	18.2%	1,674,418	1,158,776
BCPP	Private Equity	55,931	25.0%	69,914	41,948
BCPP	Infrastructure	62,907	15.0%	72,343	53,471
BCPP	Private Credit	49,307	10.6%	54,534	44,080
BCPP	Climate Opportunities	8,479	15.0%	9,751	7,207
BCPP	UK Index Linked Bonds	407,005	9.6%	446,077	367,933
BCPP	Multi Asset Credit	516,144	9.4%	564,662	467,626
BCPP	Listed Alternatives	154,480	18.2%	182,595	126,365
	Loans	27		27	27
	Cash	73,197		73,197	73,197
	Net Derivative Liabilities	1,478		1,478	1,478
	Net Investment Balances	-10,402		-10,402	-10,402
<b>Total Change in Net Investment Assets Available</b>		<b>3,417,613</b>		<b>3,936,715</b>	<b>2,898,513</b>

Manager	Asset Type	Asset Value	Potential	Value on	Value on
		at 31 March 2022 £000	Market Movements %	Increase £000	Decrease £000
AB	Broad Bonds	175,313	7.0%	187,585	163,041
BlackRock	Dynamic Growth Fund	0	10.0%	-	-
CBRE	Unlisted Property	216,181	14.1%	246,663	185,699
CBRE	Listed Property	52,345	21.2%	63,442	41,248
Mondrian	Emerging Market Equity	238,977	25.9%	300,872	177,082
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,560,269	18.2%	1,844,238	1,276,300
BCPP	Private Equity	34,420	25.0%	43,025	25,815
BCPP	Infrastructure	31,566	15.0%	36,301	26,831
BCPP	Private Credit	21,800	10.6%	24,111	19,489
BCPP	UK Index Linked Bonds	477,124	9.6%	522,928	431,320
BCPP	Multi Asset Credit	515,831	9.4%	564,319	467,343
BCPP	Listed Alternatives	204,575	18.2%	241,808	167,342
	Loans	193	0.0%	193	193
	Cash	65,346	0.0%	65,346	65,346
	Net Derivative Liabilities	-1,504	0.0%	-1,504	-1,504
	Net Investment Balances	-264	0.0%	-264	-264
<b>Total Change in Net Investment Assets Available</b>		<b>3,593,354</b>		<b>4,140,245</b>	<b>3,046,463</b>

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The UK has been experiencing its highest rates of inflation for nearly 40 years with CPI peaking around 11% during 2022/23. The Bank of England, to combat this, has continually raised interest rates during the year resulting in higher return on investments.

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 2023 and the effect of a +/- 100 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 2023  £000	Change in Year in the Net Assets Available to Pay Benefits	
		+100 BPS £000	- 100BPS £000
Cash and Cash Equivalents	74,702	747	-747

---

**Total Change in Net Investment Assets Available**

Asset Type	Asset Values at 31 March 2022  £000	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS £000	-25 BPS £000
Cash and Cash Equivalents	65,346	653	-653
<b>Total Change in Net Investment Assets Available</b>	<b>65,346</b>	<b>653</b>	<b>-653</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

## Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening / weakening of the pound, against the various currencies in which the fund holds investments, would increase / decrease the net assets available to pay benefits (the prior year comparator is also provided):



Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at	Value on	Value on
				31 March 23	Increase	Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	173,617	173,617	173,617
CBRE	Global Property	18%	10%	264,878	269,646	260,110
Mondrian	Emerging Market Equity	100%	15%	240,381	276,438	204,324
Foresight	Private Equity	0%	0%	2,405	2,405	2,405
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	100%	10%	1,416,597	1,558,257	1,274,937
BCPP	Private Equity	100%	10%	55,931	61,524	50,338
BCPP	Infrastructure	100%	10%	62,907	69,198	56,616
BCPP	Private Credit	100%	10%	49,307	54,238	44,376
BCPP	Climate Opportunities	100%	10%	8,479	9,327	7,631
BCPP	UK Indexed Linked Bonds	0%	0%	407,005	407,005	407,005
BCPP	Multi Asset Credit	6%	0%	516,144	516,144	516,144
BCPP	Listed Alternatives	100%	10%	154,480	169,928	139,032
	Loans	0%	0%	27	27	27
	Cash	5%	10%	73,197	73,563	72,831
	Net Derivative Assets	0%	0%	1,478	1,478	1,478
	Net Investment Balances	0%	0%	-10,402	-10,402	-10,402
<b>Total Change in Net Investment Assets Available</b>				<b>3,417,613</b>	<b>3,633,575</b>	<b>3,201,651</b>

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at	Value on	Value on
				31 March 22	Increase	Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	175,313	175,313	175,313
BlackRock	DAA	0%	0%	-	-	-
CBRE	Global Property	19%	10%	268,526	273,628	263,424
Mondrian	Emerging Market Equity	100%	15%	238,977	274,824	203,130
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	100%	10%	1,560,269	1,716,296	1,404,242
BCPP	Private Equity	100%	10%	34,420	37,862	30,978
BCPP	Infrastructure	100%	10%	31,566	34,723	28,409
BCPP	Private Credit	100%	10%	21,800	23,980	19,620
BCPP	UK Indexed Linked Bonds	0%	0%	477,124	477,124	477,124
BCPP	Multi Asset Credit	4%	0%	515,831	515,831	515,831
BCPP	Listed Alternatives	100%	10%	204,575	225,033	184,118
	Loans	0%	0%	193	193	193
	Cash	5%	10%	65,346	65,673	65,019
	Net Derivative Assets	0%	0%	-1,504	-1,504	-1,504
	Net Investment Balances	0%	0%	-264	-264	-264
<b>Total Change in Net Investment Assets Available</b>				<b>3,593,354</b>	<b>3,819,894</b>	<b>3,366,815</b>

**ii. Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to

some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the Balance Sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative Balance Sheet management and a high and stable credit rating. As at 31 March 2023, this level of exposure to the Custodian is 0.6% of the total value of the portfolio (0.5% as at 31 March 2022).

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 Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £41.257m as at 31 March 2023 (£46.274m as at 31 March 2022). This was held with the following institutions:

Rating	Balances		Rating	Balances
as at 31 March 2022			as at 31 March 2023	
	£000			£000
<b>Bank Deposit Accounts</b>				
F1+	2,874	Handelsbanken	F1+	1,896
F1	1,189	Bank of Scotland	F1	-
F1	1,902	Lloyds	F1	3,191
	-	Barclays	F1	1
<b>Fixed Term Deposits</b>				
F1	1,189	Leeds Building Society	F1	-
F1	1,784	Yorkshire Building Society	F1	-
F2	2,973	Close Brothers	F2	3,723
F1	2,378	Nationwide Building Society	F1	-
F1	3,567	National Bank of Canada London	F1	4,787
F1	1,784	Goldman Sachs	F1	4,787
F1+	2,973	First Bank of Abu Dhabi	F1+	6,915
F1	4,161	Sumitomo Mitsui Banking Corp.	F1	1,064
F1	2,378	Santander UK Plc	F1	3,723
F1+	5,946	Landesbank Hessen-Thuringen	F1+	532
F1	4,161	Girozentrale (Helaba)	F1	1,064
		Standard Chartered	F1	4,255
		National Bank of Kuwait	F1	3,191
		Natwest (RFB)	F1	1,064
		Natwest Markets (NRFB)	F1	1,064
N/A	7,015	UK Local Authorities	N/A	1,064
	<b>46,274</b>	<b>Total</b>		<b>41,257</b>

### iii. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on

behalf of the 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. As disclosed in Note 19, the Fund expects all liabilities to be paid within 12 months of the year end.

## 18. Analysis of Debtors

As at 31 March 2022 £000		As at 31 March 2023 £000
	<b>Included in the Net Assets Statement as:</b>	
1,517	Other Investment Assets	2,296
12,990	Current Assets	12,252
<u>14,507</u>		<u>14,548</u>

All of the £14.548m is due to be received within 12 months after the year end.

## 19. Analysis of Creditors

As at 31 March 2022 £000		As at 31 March 2023 £000
	<b>Included in the Net Assets Statement as:</b>	
-1,781	Investment Liabilities - Other balances	-12,698
-6,330	Current Liabilities	-18,577
<u>-8,111</u>		<u>-31,275</u>

All of the £31.275m is expected to be paid by the 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 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 2022 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2023 £000
Utmost (formally Equitable Life)	1,378	9	166	-68	1,153
Prudential	8,961		TO BE CONFIRMED		
Standard Life	1,947	238	306	-52	1,827
<b>Total</b>	<b>12,286</b>	<b>247</b>	<b>472</b>	<b>-120</b>	<b>2,980</b>

\* Purchases represent the amounts paid to AVC providers in 2022/23

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 Fund or to be controlled or influenced by the 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 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 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	
		2021/22	2022/23
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£119.756m	£131.119m
Debtors	Amounts due in respect of employers and employee contributions	£11.705m	£10.142m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.661m	£1.762m
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	£1.672m	£1.773m
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 = £35.687m Interest = £0.030m	Balance = £40.968m Interest = £0.677m

**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 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 Fund.

As at 31 March 2023 there was 1 Member of the Pension Fund Committee in receipt of pension benefits from Durham County Council 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 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 Fund or their close families.

There were no material related party transactions between any officers or their families and the Fund.

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Pensions, the Head of Corporate Finance and Commercial Services, and the Finance Manager - Revenue, Pensions. The proportion of employee benefits earned by key management personnel relating to the Fund is set out below:

<b>2021-22</b>		<b>2022-23</b>
<b>£000</b>		<b>£000</b>
103	Short-term benefits	134
18	Post-employment benefits	24
<b>121</b>		<b>158</b>

## **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 Fund are unlikely to have a material effect on the Fund Accounts.

### **b) Foreign Income Dividends (FIDs)**

The 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 2022.

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 2022 actuarial valuation the Fund was assessed as being 98% funded (94% at 31 March 2019). This corresponded to a deficit of £93.1m (£195.5m at 31 March 2016).

The aim is to achieve 100% solvency over a period of 16 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 18.9% of pensionable pay.

Across the Fund as a whole, the secondary contributions required to remove the deficit over a recovery period of 16 years from 1 April 2023 are 1.3% 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 16 years from 1 April 2023, is 20.2% 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 tables:

**Financial assumptions:**

<b>Scheduled body and subsumption funding target</b>	<b>2019 Valuation</b>	<b>2022 Valuation</b>
Discount rate (p.a.)	4.25%	4.40%
Long-term CPI inflation (pension increases/revaluation) (p.a.)	2.10%	2.30%
Post 88 GMP pension increases (p.a.) where full CPI does not apply	1.90%	2.00%

<b>Low risk (exit) funding target</b>	<b>2019 Valuation</b>	<b>2022 Valuation</b>
Discount rate (p.a.)	1.30%	1.70%
CPI inflation (pension/revaluation) (p.a.)	2.10%	3.40%
Post 88 GMP pension increases (p.a.) where full CPI does not apply	1.90%	2.60%

<b>Intermediate funding target</b>	<b>2019 Valuation</b>	<b>2022 Valuation</b>
In service discount rate (p.a.)	4.25%	4.40%
Left service discount rate (p.a.)	3.80%	3.95%
CPI inflation / Post 88 GMP increases as for the scheduled bodies and subsumption funding target		

<b>Ongoing orphan funding target</b>	<b>2019 Valuation</b>	<b>2022 Valuation</b>
In service discount rate (p.a.)	4.25%	4.40%
Left service discount rate (p.a.)	1.60%	1.30%
CPI inflation / Post 88 GMP increases as for scheduled bodies and subsumption funding target		

<b>Assumption</b>	<b>2019 Valuation</b>	<b>2022 Valuation</b>
<b>Pay Increases (in addition to promotional increases)</b>	CPI + 1.00%	CPI + 1.00%
<b>Administration expenses (% of pay)</b>	0.5%	0.5%

**Mortality assumptions:**

<b>Pre/Post Retirement Mortality</b>	<b>Mortality Assumptions</b>	<b>Members currently in this category</b>	<b>Future contingent dependants of members currently in this category</b>
Pre	Active males	40% of S3NMA	n/a
Pre	Active females	40% of S3NFA	n/a
Post	Active and deferred males -(normal health)	115% of S3NMA	145% of S3NFA
Post	Active and deferred females -(normal health)	125% of S3NFA	135% of SENMA
Post	Active and deferred males - (ill health)	130% of S3IMA	145% of S3NFA
Post	Active and deferred females – (ill health)	125% of S3IFA	135% of S3NMA
Post	Pensioner males – (normal health)	110% of S3NMA	135% of S3NFA
Post	Pensioner females – (normal health)	115% of S3NFA	125% of S3NMA
Post	Pensioner males – (ill health)	130% of S3IMA	135% of S3NFA
Post	Pensioner females – (ill health)	120% of S3IFA	125% of S3NMA
Post	Dependant Males	110% of S3NMA	n/a
Post	Dependant females	130% of S3NFA	n/a
n/a	<b>Projection model</b>	CMI 2021 with long-term improvement rate of 1.50% p.a./ sk of 7.0/ A parameter of 0.5%/ w 2020 and w 2021 of 0	

**Other demographic assumptions:**

<b>Demographic</b>	<b>Allowance</b>
Ill health Tier 1/2/3 proportions	85%/5%/10%
Commutation	Each member is assumed to surrender pension on retirement, such that the total cash received is 85% of the permitted maximum
Family details (males)	85% of non-pensioners are assumed to have a partner at retirement or earlier death. 85% of pensioners are assumed to have a partner at age 65. Surviving widow assumed to be three years younger.
Family details (females)	75% of non-pensioners are assumed to have a partner at retirement or earlier death. 75% of pensioners are assumed to have a partner at age 65. Surviving widower assumed to be one year older.
Take up of 50:50 scheme	All members are assumed to remain in the scheme they are in at the date of the valuation
Discretionary benefits	No Allowance

**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 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 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 2022.

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 2019 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2022 £m
Fair value of net assets	2,982	3,606
Actuarial present value of the promised retirement benefits	4,512	5,473
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,867

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 2022 (% p.a.)	31 March 2019 (% p.a.)
Discount rate	2.7	2.4
CPI Inflation *	3.0	2.2
Rate of increase to pensions in payment *	3.0	2.2
Rate of increase to deferred pensions **	3.0	2.2
Rate of general increase in salaries ***	4.0	3.2

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* We recommend the assumption for the revaluation rate of pension accounts is set equal to the assumption for pension increases

\*\*\* 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](http://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 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 [www.durham.gov.uk](http://www.durham.gov.uk)

---

# Annual Governance Statement 2022/23

## 1. 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 2023.

## 2. CONTEXT

2. 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.

## 3. SCOPE OF RESPONSIBILITY

3. Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
4. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
6. In January 2023, 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".

## 4. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have



led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.

8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2023 and up to the date of approval of the Statement of Accounts.

## 5. THE GOVERNANCE FRAMEWORK

10. 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.
11. The Chief Executive, Chief Financial Officer and Head of Legal and Democratic Services meet as statutory officers twice a month to discuss matters relevant to their statutory functions and governance of the Council generally.
12. The Constitution Working Group, which consists of the lead members of each political group and the Chair of Corporate Overview and Scrutiny Management Board, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in [March 2023](#).
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 Democratic Services Manager 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 2022/23.

## 6. 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           | Overview and Scrutiny Committee |
| • Chief Financial Officer | Standards Committee             |
| • Monitoring Officer      | 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 review was also informed by a statement provided by each Corporate Director commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.

19. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which was incorporated in the Annual Internal Audit Report to the Audit Committee in June 2023. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance.

20. We are satisfied that, whilst recruitment and retention challenges have had an impact in reducing the overall number of individual assurance audits delivered than would normally be expected, in prioritising audit activity to areas of key risk and when taken together with work other sources of assurance being identified from within services themselves, 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 2022/2023. The level and nature of internal audit work undertaken has therefore not required the Chief Internal Auditor and Corporate Fraud Manager to provide a formal Limitation on the Opinion to be delivered and as such 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.

21. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2022/23 is included in **appendix A**. An update on improvements identified in the 2021/22 Annual Governance Statement is included in **appendix B**.

## **7. CONCLUSION**

22. 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 2022/23 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 eleven actions as part of ongoing improvements to further strengthen governance arrangements in 2023/24. These are shown in **appendix C**.

## **APPROVAL OF ANNUAL GOVERNANCE STATEMENT**

Signed:

Amanda Hopgood  
Leader of Durham County Council

John Hewitt  
Chief Executive

Paul Darby  
Corporate Director of Resources

## **APPENDIX A: Governance Arrangements during 2022/23**

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 2022/23.

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

#### **Behaving with integrity**

1. The [Code of Our Values Behaviour and Conduct](#) explains our values, sets out the responsibilities we all have and the standards of behaviour that are expected of us. In April 2021, the process for declaring personal interests, [gifts and hospitality](#) was digitised so that heads of service receive notifications of declarations, which are recorded on the employee's personal file.
2. Our core values have been invaluable in shaping the response to Covid-19 and addressing the drivers of poverty, including food and energy inflation: -
  - (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.
3. The [register of gifts, interests and hospitality for members](#) is available online. Staff declarations are monitored by their Head of Service. The Monitoring Officer also maintains quarterly oversight of the Register of Officers Gifts and Hospitality and presents an annual report to the Corporate Management Team.
4. The Contract Procedure Rules set out how contracts for goods, works, services and utilities should be put in place and managed, and specify record keeping and reporting requirements related to procurement activity.
5. In January 2022, the Council agreed to a [members' allowances scheme for 2022-2023](#), taking into account the views of the independent remuneration panel, which the Council is required by law to establish and maintain. The Council is also required in accordance with the Local Authorities ([Councillors' allowances](#)) (England) Regulations 2003 to publish the sum paid to each Member in respect of Basic Allowance, Special Responsibility Allowance, Dependants' Carers' Allowance, Travelling and Subsistence Allowance and Co-optees Allowances.

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

6. In December 2022, the [Standards Committee](#) considered a report of the Head of Legal and Democratic Services, which provided details of the Local Government Association's report, 'Debate Not Hate: The Impact of Abuse on Local Democracy'. In January 2023, the [Council](#) agreed to sign the [Debate not Hate](#) statement and the

Debate Not Hate Campaign has been added to the Standards Committee [Work Programme 2023/24](#).

7. The [2021/22 annual report of the Standards Committee](#), which is responsible for promoting and maintaining high standards of conduct by councillors, was presented to Council in September 2022.
8. Guidance on how to [make a complaint](#) is available on the Council's website. Quarterly customer feedback reports are presented to the [Corporate Overview and Scrutiny Management Board](#), summarising performance in dealing with corporate and statutory complaints, and identifying actions to improve service provision.
9. The Committee receives a quarterly report on [national issues](#) relating to ethical governance relevant to the work of the Committee and considers whether to make recommendations in response so that the Council maintains best practice and learns lessons from experiences elsewhere.
10. An update on complaints against councillors, considered in accordance with the council's Local Assessment Procedure, is presented quarterly to [Standards Committee](#).
11. The [Slavery and human trafficking statement 2021-22](#) explains how the Council aims to understand and address all potential modern slavery and human trafficking risks related to its business. It outlines the steps in place to ensure modern slavery or human trafficking does not occur in the Council's own business, and the preventative measures to ensure this extends to any of its supply chains. This statement is subject to continual annual review and is published on the Council's website.

### Respecting the rule of law

12. 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.
13. The Council has a [Counter Fraud & Corruption Strategy](#), through which it is committed to a zero-tolerance approach to fraud and corruption against the Council and its partners. The Corporate Fraud team examines all reports of fraud, vigorously pursuing sanctions and prosecutions and, where possible, publicising successful cases. The [Protecting the Public Purse Annual Report 2022/2023](#) gives an account of the team's work between 1 April 2022 and 31 March 2023 and the Update Activity Report gives an account of their work between 1 April 2022 and 30 September 2022. Since its' creation in 2015, the team has uncovered or intercepted over £14.8m of fraud, investigating over 4,500 cases across the authority, handling a diverse range of investigations.
14. [Selective licensing](#) of privately rented properties, which aims to drive up standards thereby improve communities, will come into effect in April 2022 until March 2027. The Council will have powers to regulate landlords and managing agents in areas that suffer from low housing demand or high levels of anti-social behaviour or deprivation.

15. In December 2021, Corporate Overview and Scrutiny Management Board were presented with a report on the [Annual Review of the Council's use of powers under the Regulation of Investigatory Powers Act 2000](#).
16. In September 2022, the Pension Fund Committee considered the [Procedure for Reporting Breaches](#) in relation to the Durham County Council Pension Fund and authorised the Corporate Director of Resources to finalise and implement the procedure, taking into account any comments from the Pension Fund Committee and Local Pension Board.
17. The Cabinet considered a report in [May 2022](#), which reviewed enforcement activities under the Children and Young Persons (Protection from Tobacco) Act 1991, the Anti-Social Behaviour Act 2003, and the Licensing Act 2003 for the period April 2021 to March 2022 and sought approval of a new enforcement programme for 2022/23.

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

**Openness**

18. 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 decisions made by Cabinet in [March 2022](#) and [April 2022](#) in relation to reports on,
- (a) Review of Durham Light Infantry (DLI) Collection and Archive and the potential future use of the former DLI Museum & Art Gallery and Grounds at Aykley Heads; and
  - (b) Review of Durham County Council Headquarters.
19. Lists of key decisions to be considered by the Council's Executive were submitted to Corporate Overview and Scrutiny Management Board in [June 2022](#), [September 2022](#), [October 2022](#), [December 2022](#) and [January 2023](#), as required by the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

**Engaging comprehensively with institutional stakeholders**

20. The Leader of the Council is the chair of the County Durham Partnership including: the board and forum, which bring together the board and local communities; five partnerships (Health and Wellbeing Board, Safe Durham Partnership, Economic Partnership, Environment and Climate Change Partnership and County Durham Together Partnership); Durham Safeguarding Children Partnership; Durham

Safeguarding Adult Partnership; Better Together Voluntary and Community Sector Forum; and all Area Action Partnerships.

Examples of partnership working can be found in the following reports: -

- (a) County Durham Partnership updates to Cabinet in [June 2022](#), [November 2022](#) and [March 2023](#).
- (b) [Review of the Mental Health Strategic Partnership and the governance of Mental Health and Wellbeing across County Durham](#)
- (c) [Adopt Coast to Coast](#)
- (d) [Future Adult Social Care Reform Assurance](#)
- (e) [Storm Arwen review](#)
- (f) [Health and Care Integration](#)
- (g) [Border to Coast Pensions Partnership Governance Arrangements](#)
- (h) [County Durham Pound Project Update](#)
- (i) [Family Hubs and Start for Life Programme](#)
- (j) [UK Shared Prosperity Fund Update](#)

21. 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. In January 2023, [Cabinet](#) considered a report of the Chief Executive, which provided a summary of the discussions with Government and the LA6 Councils relating to devolution in County Durham; and information relating the opportunities and impact of a devolution deal on County Durham.
22. The Consultation Officer Group supports the Council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
23. The [Statement of Community Involvement](#) 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.
24. Following the Covid19 pandemic and the removal of legislation permitting virtual committee meetings, the Council reverted to face-to-face meetings from 1 March 2022.
25. The [framework for good workforce mental health in County Durham Businesses](#) supports small and medium sized businesses and voluntary and community sector organisations, which are less likely to have equitable access to good quality training and support for owners and employees. Also, the negative impact of poor mental health and wellbeing in these workplaces is likely to be bigger in terms of staff absence and reduced productivity.

<p><b>Engaging with individual citizens and service users effectively</b></p>
---

26. Consultation on the [Medium Term Financial Plan 2023/24 to 2026/27](#) in October and November 2022 involved residents and partners and considered proposals to balance the council's budget for the next financial year (2023/24) that were published in the Cabinet report in October 2022. Presentations were made to the 14 Area Action Partnership Boards, and officers attended meetings of the County Durham Partnership,



County Durham Association of Local Councils (CDALC) and the Youth Council and met with Trade Unions representatives during the period of the consultation.

27. In March 2023, an update was given to Health and Wellbeing Board on the findings from the independent consultant on the review of the council's [community engagement function](#) and our approach to a public county wide consultation.
28. Public consultation exercises were undertaken during the year on a range of issues, including Pharmaceutical Needs Assessment, our Physical Activities Strategy, Veterans Health Needs Assessment, Growing Up in County Durham Strategy, Anti-Social Behaviour Strategy, Regeneration projects in Bishop Auckland and Horden, Supplementary Planning Documents that support our County Durham Plan, the Inclusive Economic Strategy, Leisure Transformation, Public Space Protection Orders, our Customer Services Review and Poverty Action Plan. The full list can be found on the [Consultations](#) pages of the website.
29. 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.
30. Through our Integrated Customer Service initiative and Unified Communications Strategy, we continue to drive improvements across customer services to enhance the customer experience and reduce complaints. Automatic Call Distributor technology prompts telephone callers to 'describe in a few words' why they are calling and connects the person to the correct agent or department as well as offering a text message with a link to the appropriate information on the corporate website. The system also enables a holistic view of demand and performance statistics for all telephony contact, which is reported quarterly through Corporate Overview and Scrutiny Management Board.
31. The following reports evidence the methods used by the Council to communicate with citizens and service users to provide feedback, publish information and to collect and evaluate their views, experiences and future needs: -
  - (a) Questions from the public received by the County Council at its meetings in [June 2022](#), [July 2022](#), [October 2022](#), and [December 2022](#).
  - (b) Updates in relation to petitions received by the Council reported to Corporate Overview and Scrutiny Management Board (COSMB) at its meetings in [September 2022](#) and [December 2022](#).
  - (c) Customer Feedback Report, Year End update, 2021/22 ([COSMB, July 2022](#)).
  - (d) Adults and Health Services Annual Statutory Representations Report 2020/21 ([COSMB, October 2022](#)).
  - (e) Presentation by the Director of Public Health on various public health campaigns ([Health and Wellbeing Board, January 2023](#)).
32. [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](#).
33. Following the publication of the government Living with Covid guidance, the County Durham health protection governance arrangements were reviewed to align the robust Covid-19 assurance arrangements with wider health protection governance, capturing

the learning and the successful approaches and interdependencies established during the Covid-19 response. The Health Protection Assurance and Development Partnership membership and Terms of Reference were revised accordingly.

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

**Defining outcomes**

34. 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. 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.
35. In February 2022, Cabinet approved the updated [Tenancy Strategy 2022 - 2027](#), which sets out the Council's expectations to the registered providers of social housing operating within the County regarding the types of tenancy they should offer to their tenants.
36. Despite this very challenging financial period and the significant base budget pressures faced by the Council, the [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24](#) report includes some very positive outcomes for the people of County Durham including: -
- (a) continued support to protect the 54,700 working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme, where 80% of eligible households will continue to be awarded 100% relief against their Council Tax payments and where those left with a bill will receive up to £50 for pensioners and up to £110 for working age claimants of additional support next year,

- (b) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide,
  - (c) significant investment in capital expenditure including investment in school provision, in our town centres and infrastructure, including new transport schemes and maintenance of our highways and pavements. In total, additional capital investment of £121.9 million is recommended in this report.
37. In May 2023, the Health and Wellbeing Board endorsed the [Final Joint Local Health and Wellbeing Strategy 2023-2028](#), which is a legal requirement under the Health and Social Care Act 2012, to ensure health and social care agencies work together to agree services and initiatives which should be prioritised.
38. There are clear links between the Financial Management Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes.
39. In April 2022, Cabinet adopted the [Special Educational Needs and Disability \(SEND\) Strategy](#) for the period 2022-24. At the heart of our approach to the strategy, which was developed through extensive stakeholder engagement and public consultation, is a vision for children and young people with special educational needs and disabilities that is the same as for all children and young people in County Durham: that they are safe and part of their community, have the best start in life, have good physical and mental health, and gain the education, skills, and experiences to prepare them for adulthood.
40. Other strategies and plans setting out the Council's intended outcomes include: -
- (a) [Anti-Social Behaviour Strategy 2022-2025](#)
  - (b) [Care Leavers Strategy and Action Plan January 2022 – December 2024](#)
  - (c) [Climate Emergency Response Plan 2022-24](#)
  - (d) [Growing Up in County Durham Strategy 2023-25](#)
  - (e) [Inclusive Economic Strategy](#)
  - (f) [Final Joint Local Health and Wellbeing Strategy 2023-2028](#)
  - (g) [Poverty Strategy and Action Plan 2022-2026](#) (following a consultation exercise undertaken April to August 2022)
  - (h) [Road Safety Strategy 2022-2032](#)
  - (i) [Sufficiency and Commissioning Strategy for Looked After Children and Care Leavers 2022-2024](#)
  - (j) [Youth Justice Plan 2022 - 2023](#)

<b>Sustainable economic, social and environmental benefits</b>
--

41. In [April 2022](#), Cabinet declared an ecological emergency for County Durham. Accordingly, actions to address the ecological emergency will be reflected in future MTFP planning cycles and other projects and programmes. In December 2022, the Cabinet considered a report which outlined an initial strategy and action plan for Council activities in response to the declaration of an ecological emergency made in April 2022.
42. Through its [Accessibility Statement](#), the Council endeavours to make the full range of services available on our website accessible to everyone, regardless of their skill or technology. Also included is an account of the Council's level of the compliance with

the Web Content Accessibility Guidelines and plans to remedy non-accessible content. There is also a link to the enforcement procedure.

43. In November 2021, the Health and Wellbeing Board was presented with an overview of the work being undertaken to mitigate against COVID-19 vaccine inequality in underrepresented groups across County Durham.
44. The [Gender Pay Gap Report 2021](#) sets out Durham County Council's gender pay gap data, analysis and plans for long term improvements.
45. In October 2021, Cabinet endorsed the [Armed Forces Covenant](#), which is a promise by the nation, ensuring that serving and former armed forces personnel and their families are treated fairly and will not be disadvantaged in accessing public services by their military service.
46. In December 2022, the Pension Fund Committee considered a report that provided an update on the approach to Responsible Investment at Border to Coast Pension Partnership. As required by law, the Fund's Investment Strategy Statement includes details of how environmental, social and governance issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.

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

**Determining interventions**

47. The Council continues to ensure that decision makers receive an objective and rigorous analysis of options, highlighting risks and considering feedback from service users and relevant stakeholders. An example is the Durham County Council Headquarters Alternative Options Assessment, reported to [Cabinet, April 2022](#).
48. The [County Durham Commissioning and Delivery Plan 2020-2025](#) update report was presented to Health and Wellbeing Board on 24 November 2021. The Plan is administered by the County Durham Care Partnership Executive (of which the council is a partner) and helps shape commissioning decisions through understanding the needs of communities and individuals, so that collective resources and staff can be used to meet those needs. The Council submitted its Cost of Care and draft Market Sustainability Plan (MSP) to Department of Health and Social Care (DHSC) in October 2022, as required by national guidance. Work is continuing with the markets in scope, including older persons care homes and domiciliary home care, to complete and submit a final MSP in late March 2023 as specified by DHSC. The Integrated Commissioning service has continued to strengthen its approach to governance in terms of provider support, including formal recruitment and training approaches through the Durham Care Academy; the establishment of a care home provider panel with a range of provider representatives; and widened scope of provider forums to include system issues relevant to local markets.

**Planning interventions**

49. Following a change in administration in May 2021, a new Council Plan was considered by Cabinet in April 2022 and approved by Council in June 2022. A [refreshed version of the plan](#) covering the four-year period 2023 – 2027 was approved by Council in February 2023. The Council Plan is the primary corporate planning document for the county council and details the Council's contribution towards achieving the objectives set out in the [Vision for County Durham 2035](#) together with its own objectives and change agenda. The Council Plan aligns to both the council's Medium-Term Financial Plan and the County Durham Plan, which is a spatial representation of our ambitions contained within the Council Plan around housing, jobs and the environment until 2035, as well as the transport, schools and infrastructure to support it. The Council Plan is underpinned by a series of corporate strategies and service planning arrangements providing more detailed information on the actions being undertaken to deliver on our priorities and to avoid duplication.

50. The Corporate Director of Resources delivered a presentation to Audit Committee on the council's approach to planning, performance, major projects, and change. It was noted that, as a result of the Transformation Programme 2017 – 2022, the Council has:

- 
- become renowned for our skilled and flexible workforce and our employee engagement,
- helped communities to become more self-reliant and resilient,
- moved partnership working from good to great, and
- redesigned our services to better meet customer's needs at reduced cost to the Council.

In the 2024/25 planning cycle, the aim is to deliver increased value for money by further strengthening the alignment of the processes for service planning, financial planning, performance management and service development.

51. The [Medium Term Financial Plan 2023/24 to 2026/27 \(MTFP13\)](#), which was approved by the Council in February 2023, 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. Prior to being approved by Council, the MTFP13 underwent scrutiny and challenge by [Corporate Overview and Scrutiny Management Board](#). In addition, the [Adults Wellbeing and Health OSC](#) and [Children and Young Peoples OSC](#) established working groups to identify potential efficiencies and income generation initiatives as part of the process.

52. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT). The drivers for the council's financial strategy, which were agreed by Cabinet on 28 June 2010 for MTFP1, and still underpin the strategy in MTFP13: -

- (a) set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
- (b) fund agreed priorities, ensuring that service and financial planning are fully aligned with council plans;
- (c) deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
- (d) strengthen the council's financial position so that it has sufficient reserves and

- balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes; and
- (e) ensure the council can continue to demonstrate value for money in the delivery of its priorities.

53. [Quarterly performance reports](#), which answer key performance questions rather than rely on performance indicators, have been aligned to the new [Council Plan](#) and [County Durham Vision 2035](#).
54. In November 2022, the Health and Wellbeing Board received a report on the [Better Care Fund Plan 2022-23 \(BCF\)](#). The BCF is one of the government's national initiatives for driving health and social care integration and requires Clinical Commissioning Groups and local government to agree a joint plan for using pooled budgets to support integration.
55. In [June 2022](#), Cabinet considered a report, which provided an overview of the guidance and bidding requirements to access Round 2 of the Levelling Up Fund and sought approval for the submission of five proposals across County Durham for the parliamentary constituencies of City of Durham, Easington, North Durham, North West Durham and Sedgfield.
56. In [July 2022](#), Cabinet considered a report, which provided an update on the approach and progress made so far in the development of an Investment Plan for the UK Shared Prosperity Fund, and sought approval for the submission of the UKSPF Investment Plan for Durham.

### Optimising achievement of intended outcomes

57. The Council has established a Shareholder Working Group comprising the Leader, Deputy Leader and relevant portfolio holders, the Chief Financial Officer and Monitoring Officer and Head of Finance to oversee performance and proposals in relation to the Council's companies. Shareholder decisions rest with Cabinet or the relevant Corporate Director in accordance with the Officer Scheme of Delegation within the Constitution. The Company Governance Group supports the work of the Shareholder Working Group with the oversight of the Council's companies' governance arrangements, including consideration of the strategic approach to, and structure of, its' companies and joint venture arrangements. The Group seeks to ensure that officers who work with, or who are appointed as, directors of Council companies understand their roles and responsibilities, identify and manage conflicts of interests, and provide resilience in the Council's resourcing of companies. Company governance training is included in the Council's Workforce Learning and Development Plan. Updates on the Group's work are periodically presented to the Corporate Management Team.
58. The following reports outline measures taken by the Council to optimise the achievement of outcomes included in the Council Plan: -
- (a) Climate Emergency Response Plan 2022-24 Update, [Health and Wellbeing Board, September 2022](#) (OUR ENVIRONMENT)
  - (b) Finance Durham – the First Five Years, [Cabinet, November 2022](#) (OUR ECONOMY)
  - (c) Humanitarian Support in County Durham, [Cabinet, October 2022](#) (OUR PEOPLE)



- (d) Local Council Tax Reduction Scheme 2023/24, [County Council, October 2022](#) (OUR ECONOMY)
- (e) Scope 3 Emissions, [Environment and Sustainable Communities Overview and Scrutiny Committee, May 2022](#) (OUR ENVIRONMENT)
- (f) Supporting Solutions Update, [Corporate Parenting Panel, September 2022](#) (OUR PEOPLE)
- (g) Unaccompanied Asylum-Seeking Children, [Corporate Parenting Panel, October 2022](#) (OUR PEOPLE)

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

**Developing the Council's capacity**

59. The Council's Digital Strategy 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. Projects supporting these aims that have been completed during the last year include: -

- (a) The council's device replacement programme which ensures staff are equipped with the necessary technology to allow them to work virtually and in office, including access collaboration and communication applications, and the implementation of telephony software.
- (b) Mobile working projects to support employees in a range of front line and roles.

60. The [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. The strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities. Projects supporting delivery of Digital Strategy outcomes that have been completed in the last year include: -

- (a) Digital Customer
  - i. Website improvements: Accessibility, digital channel shift / Customer Relationship Management
  - ii. Contact Centre: conversational AI (artificial intelligence), chatbots
  - iii. Digital Durham: Better broadband programmes
- (b) Digital Organisation
  - i. Hybrid Working: Technology support, remote access projects
  - ii. Service Desk: Incident management, self-service/self-help
  - iii. Applications Review to establish direction for provision of major applications
  - iv. Office 365: Expanded suite of productivity applications
  - v. Hosting Review to set direction for provision of data centre, hosted and cloud services
  - vi. Commercial Services Review to ensure services to external bodies are appropriate, profitable and sustainable
  - vii. MTFP Financial review to set budgets and achieve efficiencies

- viii. Capital Schemes totalling over £4million to ensure that digital infrastructures remain fit for purpose
- ix. Cyber Security Framework to provide a blueprint and associated polices for the secure provision of ICT services.

(c) Digital Communities

- i. Digital Inclusion Strategy development
- ii. Support to Poverty Action Steering Group
- iii. Support to develop digital themes with the Inclusive Economic Strategy

61. The Community Assets Steering Group was re-established to develop a new policy and process to oversee new and existing asset transfers, which were previously managed under the Durham Ask programme.

62. Following a cyber self-assessment and analysis of our current position and market conditions, options for appropriate cyber insurance cover continue to be explored. Market conditions are currently unfavourable due to several recent global hacks and continued uncertainty following Russia's invasion of Ukraine. Local authorities are regarded as high-risk with only a limited number of companies willing to provide insurance on a case-by-case basis, subject to a detailed assessment of our risks and mitigations. Costs have increased significantly, cover is limited if available, and insurance brokers have advised to invest the money that was earmarked for premiums in to improving defences. During the year, resilience was enhanced through a review of our current programme, the development of the Council's corporate [Cyber Security Strategy](#) and framework in addition to the delivery of a mandatory programme of cyber-security training and awareness for relevant employees. To further reduce the risk of a cyber-attack, our remote access policy was changed recently to reduce the number of countries from which staff can connect to DCC systems, applications and electronic resources. We continue to monitor and respond to the changing cyber-security landscape and emerging threats.

63. In December 2022, the Council received a report of the Chief Executive regarding the decision of the Chief Officer Appointments Committee to create a new Head of Service role, [Head of Corporate Affairs](#), which would report directly to the Chief Executive. The postholder will lead on the council's management of corporate affairs and provide support to the Chief Executive and Corporate Management Team to deliver the strategic priorities of the council. This new post includes responsibility for corporate communications and media as well as corporate strategy, planning and performance.

64. The following reports set out measures taken by the Council to develop the capabilities of members and senior management to enable a successful response to change and risks: -

- (a) Counter Terrorism - Prevent Awareness Session, [Safer and Stronger Overview and Scrutiny Committee, April 2022](#)
- (b) Impact of the Education White Paper – Opportunity for all: Strong schools with great teachers, [Children and Young People's Overview and Scrutiny Committee, May 2022](#)



65. In October 2022, the Corporate Parenting Panel received a report, which provided information on the role of Independent Visitors (IV) who are trained volunteers who provide trusted and consistent relationships to children and young people looked after. At the end of August 2022 there had been 93 referrals to the service for a match, with 70 matches being made and 37 matches concluded. The service aims to meet the National Independent Visitor Service target of 10% of children in care being matched by June 2024. The service requires that students who volunteer must be able to commit to the role for at least one year and preferably two years in order to provide continuity.

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

66. The Corporate 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 and consultation responses both within the Council and with key partners, which are outlined in the [Overview and Scrutiny Annual Report](#) and the [Overview and Scrutiny Six-Monthly Update](#). Examples include: -

- (a) The Inclusive Economic Strategy (E&E OSC<sup>1</sup>)
- (b) Ecological Emergency Review and Declaration (ESC OSC<sup>2</sup>)
- (c) Leisure Transformation Programme (ESC OSC and E&E OSC)
- (d) Climate Emergency Response Plan (CERP) (ESC OSC)
- (e) Durham County Council Allotments Policy (ESC OSC)
- (f) Library Transformation (ESC OSC)
- (g) Developing a new Special Educational Needs and Disabilities Strategy (CYP OSC<sup>3</sup>)
- (h) County Durham Children, Young People and Families Strategy (CYP OSC)
- (i) Contextualised Safeguarding (CYP OSC and SSC OSC<sup>4</sup>)
- (j) Safer Durham Partnership ASB Strategy (SSC OSC)
- (k) County Durham and Darlington Fire and Rescue Service Community Risk Management Plan
- (l) Pharmaceutical Needs Assessment (AWH OSC<sup>5</sup>)
- (m) Access to Primary Care in County Durham (AWH OSC)
- (n) Quality Accounts for County Durham and Darlington NHS Foundation Trust; North East Ambulance Service NHS Foundation Trust and Tees, Esk and Wear Valleys NHS Foundation Trust (AWH OSC)
- (o) Oral Health Strategy (AWH OSC)
- (p) Joint Health and Wellbeing Strategy (AWH OSC and CYP OSC).

---

<sup>1</sup> Economy and Enterprise Overview and Scrutiny Committee

<sup>2</sup> Environment and Sustainable Communities Overview and Scrutiny Committee

<sup>3</sup> Children and Young People's Overview and Scrutiny Committee

<sup>4</sup> Safer and Stronger Communities Overview and Scrutiny Committee

<sup>5</sup> Adults, Wellbeing and Health Overview and Scrutiny Committee

- 
67. A refresh of the Corporate Overview and Scrutiny Management Board [work programme 2022/23](#) was agreed in June 2022.
68. The Durham Learning and Development system hosts our new Performance and Development Review scheme, which was launched for leaders, managers and core employees in 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 personal development. During 2022/23, managers attended mandatory training throughout the year to develop their skills as part of the corporate learning programme. Senior leadership development programmes were relaunched for Corporate Management Team, Extended Management Team and strategic managers.
69. Employees' needs, in terms of training, development, health and wellbeing, are delivered through our Workforce Strategy and the Health, Safety and Wellbeing Strategy. Workforce Plans are being developed for all service areas to support current and future workforce challenges. In addition, the feedback and high-level results from the 2022 Working Well Survey will help inform key corporate actions and themes for the Council to address as well as service specific actions.
70. A revised Health, Safety and Wellbeing Strategy for 2022-2025 was introduced following consultation and agreement by Corporate Management Team in August 2022. The revised strategy now focuses on six key areas which are control, compliance, culture, cooperation, competence, and communication. A series of key milestones for each of the indicators has been attributed and will be implemented and monitored through the Corporate Health and Safety Group on a quarterly basis. The second employee working well survey was undertaken to collect information about the views of employees on workplace wellbeing issues. The Council also signed up to the workplace menopause pledge which supports the Menopause Workplace Pledge campaign. In doing so, the Council has committed to recognising that the menopause can be an issue in the workplace that needs support, talking openly, positively and respectfully about the menopause and actively supporting and informing employees affected.
71. The Council continues to support employees through the change process with, for example, confidential counselling services through the Employee Assistance Programme. A Wellbeing Portal has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.
72. The Council achieved the Maintaining Excellence Better Health at Work Award and surveyed staff to inform future health and wellbeing campaigns.
73. The Council's [Apprenticeship Strategy 2022 - 2025](#) was approved by Cabinet in April 2022. Apprenticeship recruitment continues to support and grow our own approach to meet future skills requirements.
74. A report to Cabinet in June 2021 outlined a delegated decision taken by the Corporate Director of Adult and Health Services, to commission [Designated Settings](#) within care

homes to provide a safe alternative for people who are temporarily unable to return to their usual place of residence due to their covid status. This arrangement was extended for 2022/23, given the ongoing need to protect residents and uncertainty on Covid levels, but it is expected to be stood down for 2023/24.

75. The Council has a Member Development Programme, which provides training on specific roles (e.g., Chair, Vice-Chair, Committee positions) and responsibilities, and the opportunity to have an annual development conversation, which identifies personal learning and development opportunities. Members also have access to well-being support through the Employee Assistance Scheme. Where appropriate, risk assessments are completed for individual Members to reflect health and wellbeing needs or risks to their personal safety.
76. A portal on the Durham Learning and Development system brings together valuable resources and information for managers. Induction for new managers includes, mandatory training, links to policies, useful documentation and guidance, briefings and useful contacts.
77. Following the cessation of Covid Plan B measures in February 2022, a hybrid working model continues to operate, which minimises the potential number of employees in the workplace at any one time, whilst also supporting our future direction of travel to work more flexibly and smarter as an organisation.

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

**Managing risk**

78. 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 [September 2022](#), [November 2022](#) and [February 2023](#). In September 2022, the Council received a report from the [Report of the Audit Committee](#) on its work between September 2021 and August 2022, and how the Committee continues to provide for good governance across the Council.
79. The Council is jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and the Covid-19 pandemic) through the County Durham and Darlington Local Resilience Forum. The [strategic risk management progress report](#) to Audit Committee in February 2023 gave an account of work by the Council and its' partners to scale up preparedness for, and protection from, a potential terrorist attack and to ensure that the council will be able to meet the new requirements of Martyn's Law, which follows campaigning after the Manchester Arena terror attack in May 2017 and is expected to come into force in August 2023.
80. The Pension Fund Committee has gained assurance that pension fund risks are being effectively managed through a report issued in [June 2022](#).
81. The Council's insurance policy has been enhanced to provide additional cover for third party computer fraud and network security. The Corporate Insurance Team is working

to ensure that the Tree Management Policy meets the requirements of the insurance policy. Insurance-related challenges include increasing costs of cover linked to inflation and projected property portfolio increases of 20%.

82. 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) Capacity issues caused by nationwide labour shortages.
  - (c) Funding pressures in adult social care.
  - (d) The Council's role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).
  - (e) Potential disruption to the Council's and partners' urgent and emergency care services due to backlogs caused by Covid, increased demand and staff capacity issues.
  - (f) Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.

### Managing performance

83. 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.
84. 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, and Corporate Directors during the year.
85. 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.
86. 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.
87. 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.
88. 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 2022](#), [September 2022](#), [November 2022](#) and [February 2023](#).

### **Robust internal control**

89. The Internal Audit service has continued to face ongoing recruitment and retention challenges throughout 2022/23 year which impacted on the delivery of the overall plan. As such, the service regularly reviewed the content of the plan to ensure that the work carried out was prioritised on a risk basis and to ensure that all key financial systems and high-risk areas of activity are reviewed on an annual basis. The recruitment and retention challenges resulted in changes being made to the service structure taking place in January 2023.
90. Revised versions of the [Internal Audit Strategy, Charter and Plan 2022/23](#) were approved by Audit Committee in May 2022.
91. The Council's [Counter Fraud & Corruption Strategy](#) and companion documents, the Fraud Response Plan, Sanctions Policy, Confidential Reporting Code (Whistleblowing) and the [Anti-Money Laundering Policy](#) have all been reviewed and presented to Audit Committee in 2021/2022. A comprehensive communications and awareness plan to help launch these is planned throughout 2023.
92. The Corporate Fraud Team received Cabinet Office approval to progress a Northeast Fraud Hub Pilot with Gateshead and Newcastle Councils. The Hub uses Part 5 of the Digital Economy Act to share data and fraud intelligence to increase our capability to uncover potential and actual fraud across the region. The Cabinet Office have acknowledged that it would be beneficial for as many local authorities to be part of the Hub and have suggested that if the pilot is successful then the concept could be used nationally as a model of best practice.

### **Managing data**

93. 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.
94. A mandatory data protection e-learning training module was issued in 2021/22 for completion by all relevant employees. A mandatory freedom of information awareness e-learning training module is available for completion by all relevant employees.

### **Strong public financial management**

95. 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.

96. The Government's responses to the recommendations made in the [Redmond review](#) into the oversight of local audit and the transparency of local authority financial reporting are reported regularly to Members of the Audit Committee.

97. 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) [Update on Progress towards achieving MTFP \(12\) savings](#)
- (b) [Mid-Year Review Report on Treasury Management for the period to 30 September 2022](#)
- (c) [Forecast of Revenue and Capital Outturn 2022/23](#)
- (d) [Forecast of Revenue and Capital Outturn 2022/23 – Period to 31 December 2022 and Update on Progress towards achieving MTFP \(12\) savings](#)
- (e) [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue Budget 2023/24](#)
- (f) [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24](#)

98. Following the Government's publication in May 2022 of [statutory guidance](#) in relation to special severance payments, the Council's decision-making process for authorising such payments was reviewed and updated to ensure that the Council complies with the statutory guidance. The changes will be reflected in the annual review of the Constitution being considered by the Council in May 2023.

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

**Implementing good practice in transparency**

99. 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.

100. 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). The Committee receives a quarterly report on national issues relating to ethical governance relevant to the work of the Committee and considers whether to make recommendations in response so that the Council maintains best practice and learns lessons from experiences elsewhere.

**Implementing good practices in reporting**



101. 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 of reports to relevant committees include: -
- (a) [Annual Performance Update](#) (Health and Wellbeing Board, July 2022)
  - (b) [Annual Report of Durham County Council's Fostering Service](#) (Corporate Parenting Panel, September 2022)
  - (c) [Annual Report on the Adoption Service 2021/2022](#) (Corporate Parenting Panel, December 2022)
  - (d) [Annual Summary Report of the Children Looked After Strategic Partnership](#) (Corporate Parenting Panel, December 2022)
  - (e) [Corporate Parenting Panel Annual Report 2021-22](#) (County Council, September 2022)
  - (f) [County Durham Plan Annual Monitoring Report 2021/22](#) (Cabinet, December 2022)
  - (g) [Director of Public Health Annual Report 2022](#) (County Council, December 2022)
  - (h) [Domestic Abuse and Sexual Violence Executive Group Annual Report 2021/22](#) (Safer and Stronger Communities Overview and Scrutiny Committee, November 2022)
  - (i) [Durham Safeguarding Adults Partnership Annual Report 2021/22](#) (Health and Wellbeing Board, January 2023)
  - (j) [Durham Safeguarding Children Partnership Annual Report 2020/21](#) (Health and Wellbeing Board, January 2023)
  - (k) [Health and Wellbeing Board Annual Report 2021/22](#) (Cabinet, October 2022)
  - (l) [Health Protection Assurance Annual Report](#) (Cabinet, May 2022)
  - (m) [Virtual School Annual Report Summary](#) (Corporate Parenting Panel, January 2023)
102. The Local Code of Corporate Governance is reviewed annually before being considered for approval by the Audit Committee and County Council.
103. The [Statement of Accounts for the year ended 31 March 2022](#), incorporating the [Annual Governance Statement for 2021/22](#), was approved by the Audit Committee in November 2022, 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.
104. In February 2023, the External Auditor presented Audit Committee with the [Audit Planning Update and Progress Report](#), which covered the 2020/21, 2021/22 and 2022/23 audits. The report notes that the Council's 2021/22 opinion was successfully delivered by the publishing date despite uncertainties concerning the valuation of infrastructure assets, and significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.
105. The Council endeavours to publish financial statements in a timely manner and in accordance with financial reporting standards. Examples include: -
- (a) [Compliance with CIPFA Financial Management Code](#)
  - (b) [Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2022](#)
  - (c) [Audit Completion Report 2021/220/21 - Pension Fund](#)
  - (d) [Treasury Management Final Outturn 2021/22](#)

- (e) [Final Outturn for the General Fund and Collection Fund 2021/22](#)
- (f) [Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23](#)
- (g) [Agreement of Accounting Policies for Application in the 2022/23 Financial Statements](#)
- (h) [Budget 2023/24 – Report under Section 25 of Local Government Act 2003](#)

106. In February 2023, Audit Committee was provided with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (item f, above). The report highlighted a mid-year update to the Code, due to exceptional circumstances, by the CIPFA/LASAAC Code Board, which is overseen by the Financial Reporting Advisory Board. The amendment relaxed the reporting requirements for infrastructure assets temporarily, until the 2024/25 financial year. The Council has chosen to apply this relief and, as required by the Code, will provide the rationale for this decision in the Statement of Accounts.
107. Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme governed by regulations made under the Public Service Pensions Act 2013 and administered by Durham County Council. The Pension Fund Annual Report and Accounts for the year ended 31 March 2021, which contains the Pension Fund audited statement of accounts, was authorised by the responsible financial officer on 30 September 2021 and published on the council's website on 28 October 2021. The [Pension Fund Accounts for the year ended 31 March 2022](#) were received by the Pension Fund Committee in December 2022. The Pension Fund's [Annual Report](#) includes a Governance Compliance Statement which sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State and the provisions of regulation 55 of the Local Government Pension Scheme Regulations 2013.

<b>Assurance and effective accountability</b>
---

108. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2023. 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.
109. 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.
110. An external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and the CIPFA\* Local Government Application Note during 2021/22 was carried out by CIPFA. The opinion delivered concluded that the Internal Audit Service fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Some improvement opportunities have been identified and an action plan has been developed to address these.

\* Chartered Institute of Public and Finance and Accountancy.



111. 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 [Audit Completion Report 2021/22 - Durham County Council](#) summarises the external auditor's conclusions for the year ended 31 March 2022.
- (b) External Audit Progress reports in [September 2022](#) and [February 2023](#).
- (c) The [Audit Completion Report 2021/22 - Pension Fund](#) summarises the external auditor's conclusions for the year ended 31 March 2022.

112. Regulatory inspections

- (a) Each Children's home is inspected by the regulator, Ofsted - [Regulation 44 Visits and Regulatory Body Ratings of Children's Residential Homes](#).
- (b) [Inspecting Local Authority Children's Services Update](#).
- (c) [The Approach to Wellbeing Recommendations arising from the final evaluation](#).

## **APPENDIX B: Update on improvements identified in the 2021/22 Annual Governance Statement**

Following the production of the Annual Governance Statement for 2021/22, seven improvement actions were identified for 2022/23. Progress against each action is shown in the table below.

<b>No.</b>	<b>Actions to be taken</b>	<b>Links to the Local Code of Corporate Governance (ref)</b>	<b>Lead Officer</b>	<b>Timescale</b>
1	Brought forward Implement the actions identified in the Children's Social Care Services improvement plan agreed with Ofsted.	The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).	Head of Children's Social Care	March 2023

### **Update:**

#### **The action is complete.**

We have clarified the response required and reported this to Ofsted as part of our Action Plan. All actions identified in the improvement plan have been completed or incorporated into the new Improvement Plan being developed by Children and Young Peoples Services in response to the most recent ILACS Inspection in May 2022, when the Council was judged to be 'good' for overall effectiveness with 'outstanding' leadership.

The actions are being progressed by CYPS and Commissioning Teams with regular updates on progress, which show improvements have been and continue to be made.

2	Brought forward Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a sustainable and high-quality care market.	D3.1 Optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning	March 2023
---	--	--	----------------------------------	------------

### **Update:**

#### **This action has been carried forward to 2023/24 with a revised timescale of March 2025.**

The Government announced a far-reaching reform of social care funding in Spring 2022. Following the update provided on this action in May 2022, full details were received by local authorities (LAs). The reforms set out changes to the way individuals pay for care, i.e., the 'care cap', and linked initiatives to move towards a Fair Cost of Care (FCOC) for

older persons care homes. LAs were required to carry out cost exercises with their local markets using set national parameters and provide both these and a detailed Market Sustainability Plan (MSP) to the Department of Health & Social Care (DHSC). However, the 2022 Autumn Statement both delayed the charging reforms to late 2025 and reprofiled national funding allocated to LAs for those markets in scope for FCOC and wider adult and children's social care services. DCC completed and submitted FCOC market exercises in Autumn 2022 and a comprehensive MSP in March 2023, as required by DHSC. In terms of sustainability issues, these national requirements effectively cover the same areas of the planned review we had already anticipated carrying out; therefore, a decision was made to avoid duplication and concentrate fully on the FCOC exercise and MSP. These are now complete. Integrated Commissioning have also completed modelling on care home activity and housing stock as part of the above work.

Commissioners have also recently successfully negotiated a two-year fee uplift agreement with local older persons care homes, following an extended period where contracts had not been signed. As part of this agreement, it has been agreed with the market that the Council will build on the successful FCOC and MSP work locally to take forward further market shaping during 2023-24 and 2024-25.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
3	Brought forward Deliver the actions set out within the Looked After Children Placement Sufficiency Strategy to ensure best outcomes and cost-effective placement costs to address escalating budget pressures within Children's Social Care.	Developing the Council's capacity: improve the use of resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)	Head of Children's Social Care and Head of Integrated Commissioning	March 2023

**Update:**

**The action plan is substantially complete and four remaining actions of the original 26 have been incorporated into a new strategy.**

The Looked After Children Placement Sufficiency Strategy action plan has been superseded by the new [Sufficiency and Commissioning Strategy for Looked After Children and Care Leavers 2022-2024](#), which was approved by Cabinet in January 2023.

The original plan contained 26 actions over a three-year period (2020-2023), each aligned to one of four objectives relating to in-house foster carers (9), adopters (2), residential homes (11) and care leavers (4). As of 31 March 2023, 18 actions were complete, six were incorporated into the new strategy, and two have been removed as they are no longer considered fit for purpose. The new strategy includes two new objectives, Unaccompanied Asylum-Seeking Children and Short breaks.

During 2022/23, the **Fostering Service** recruited 11 new foster carer households, against a target of 35. When taking into account the number of foster carer de-registrations (30) there has been a loss of 19 foster carer households during the year, in comparison with 29 households (net) recruited during 2021/22. The reduction in the number of foster carers

recruited is due to a number of aspects, including operating in a highly competitive market with Independent Fostering Agencies, the cost-of-living crisis and the loss of a Marketing Officer that worked within the Fostering Team who directly managed advertising campaigns and provided additional capacity. The marketing and recruitment campaign continues to focus on sibling groups, children with a disability, teenagers and unaccompanied asylum-seeking children. Work is ongoing to develop a new website which provides a 'one-stop-shop' for prospective foster carers and it is anticipated that this will be live later in the year. The Mockingbird Model has launched its first set of hub carers during the year, which has enhanced support to foster carers and improved the stability of children's foster homes. A second hub is due to be rolled out over the next 3 months. The Payment for Skills Review has been concluded, which seeks to improve our sufficiency of foster carers through the review of payments and incentives to carers. This will be launched in April 2023. Durham continues to work regionally as part of Tyne Tees Independent Fostering Agency Solution, with the contract opened on a monthly basis, to enable new IFAs to join.

The **Adopt** Coast to Coast Regional Adoption Agency (RAA) continues to operate across the Durham, Sunderland and Cumbria area, however from April 2023 Cumbria will move away from the arrangement. The practice around early linking and matching continues to be monitored to ensure children do not wait longer than necessary. There is evidence that Link Maker is enabling matches across the spokes. The number of prospective adoptive households approved by the Durham spoke remains good. Adoption approvals in 2022/23 are 38 in comparison with 40 in 2021/22.

During 2022/23 we have continued to make good progress in the development of new smaller children's **residential homes**. A home for one child / young person has been established (Hudson House - Coxhoe) which is currently going through a registration process with Ofsted. We are in the process of opening another children's home which will accommodate up to two children / young people (Elderhurst – Meadowfield). This home has been subject to an extensive refurbishment programme which has now been completed and is due to open over the next two months. We continue to progress with the development of an Edge of Care home in Seaham. The purchase price has been agreed and the fire service have agreed the sale of the building. Following a change of planning use, it is anticipated that the new home will open later in 2023. DfE funding of £256,020 has also been secured to support the development costs of this new home. A number of different properties had been previously identified for the re-provided home (Tow Law), but unfortunately offers had to be withdrawn due to complications encountered i.e. issues identified in the survey, challenge from members or the police. A property has since been identified which we will purchase over the coming weeks. This property will provide a home for up to two children / young people (Lincoln House – Castleside), which we aim to open later in the financial year. We are working in partnership with the registered social landlord, Livin Homes, to develop a short-term / emergency home for one young person. A property has been identified and a lease is being developed. It is anticipated that the home will open later in 2023. Recommendations from the Children's Home LEAN Review (which considered the end-to-end process of setting up homes) were approved at CMT and Cabinet. This resulted in the delegated limit for children's home property purchases being increased to £500K, enabling the Council to purchase properties without a change of planning use in place (subject to due diligence) and sets out a clear process for developing children's homes with all supporting teams/services clear about the importance of the new homes and the need to prioritise this area of work (where possible).

The Staying Close Pilot Programme was rolled out during 2022/23 using funding secured from the DfE and to date has supported four young people. The Staying Close Programme focuses on our young people in children's home provision, providing ongoing, consistent,

familiar support from their residential staff, when they leave their children’s home as care leavers. The programme aims to deliver a series of improved outcomes for young people, including, accommodation stability, reduction in eviction, improved emotional wellbeing and mental health. Young people who will be supported through year 2 are being considered.

In relation to **care leavers**, the Supported Living Preferred Provider Panel has been recommissioned for a further 12 months, until September 2023, when we will then consider the new regulatory framework for supported accommodation providers prior to recommissioning. We will work closely with providers to prepare them and to understand any emerging gaps within the provider marketplace. We meet frequently with supported accommodation providers as part of a provider engagement forum. One action, *review the marketing and recruitment strategy for supported lodging provision*, has been re-profiled to June 2023. Additional capacity is now in place to drive this work forward.

4	Change our social care model and ensure that people have access to robust advice and information to enable them to live healthy and independent lives in their community and to prevent delaying the need for formal service provision (Our People)	Engaging with individual citizens and service users effectively: effective communication methods to collect and evaluate the views, experiences and future needs (4.23)	Head of Adult Care	2022
---	---	---	--------------------	------

**Update:**

**This action is complete.**

Our ‘front of house’ service remains highly effective at sign-posting and re-directing people to available support in their community. 35% of all calls are resolved without the need for a formal referral for full assessment.

Following completion of baseline review, a project is now being developed to take forward the recommendations to consolidate our Locate and FIS directories and review the supporting governance to ensure we have vibrant and community focused assets.

Our locality social work teams have strengthened links with the Wellbeing for Life service and Health Facilitators work as part of a network of Community Connectors to advise and signpost people to use the assets available in their local communities.

Integrated Commissioning Service have also developed an Integrated Involvement Strategy which includes our shared vision for integration, involvement, and co-production. Working with the North East regional ADASS People with Lived Experience Group, we are developing more effective methods of engaging with users of our services and our citizens to ensure that their experiences shape our service improvement work.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
5	Review of the Council's community engagement functions, including the work of area action partnerships (Our Communities)	Engaging with institutional stakeholders: engage & develop formal/informal partnerships to ensure that the purpose, objectives & intended relationship outcomes are clear (4.21)	Head of Partnerships and Community Engagement	2023

**Update:****The action is complete.**

Independent consultants ERS have completed a review of the Council's community engagement functions including engagement and consultation with staff, elected members and key partners. The final report, including findings and recommendations, was reported to Community Engagement Review Steering Group on 10th January 2023.

A consultation period will now take place, followed by a report to Cabinet in June 2023 to propose a way forward, including any potential changes to the organisational structure and service delivery model.

6	Implement a new performance management framework for Adult and Health Services, to enable more timely analysis of data, improved business intelligence and real time presentation of data (Our Council)	Managing performance: service delivery is effectively monitored (4.52)	Head of Adult Care	2022
---	---	--	--------------------	------

**Update:****This action is complete.**

The new Adult and Health Services performance management framework has been in place since Spring 2022. This involves bi-monthly cycles of performance clinics with operational teams and strategic managers, Head of Adult and Social Care, the Corporate Director of Adult and Health Services and Corporate Management Team. Throughout these cycles, performance is discussed within the context of demand, complexity and other pressures and significant issues are escalated for oversight, assurance and support. The rollout is complete and will be reviewed and refreshed regularly as the Care Quality Commission inspection framework emerges and wider health and social care integration takes place.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
7	Undertake a corporate peer challenge with the Local Government Association to help us identify strengths and areas for improvement within the council (Our Council)	Assurance and effective accountability: welcome peer challenge, reviews & inspections from regulatory bodies and ensure that recommendations are implemented (4.67)	Head of Corporate Affairs	December, 2023

**Update:****This action is postponed.**

A corporate peer challenge working group had been established and some work undertaken to prepare for a Peer Review, with meetings having been held with the lead officer from the Local Government Association. The corporate peer challenge was scheduled to take place in February 2023 but has now been postponed due to the work underway to plan for savings should the Councils current MTFP projections prove correct, given the uncertainty surrounding local government funding and the implications for the Council. It is intended to defer undertaking the peer challenge at this stage and discussions are underway to find a mutually convenient time for the Council and the LGA to undertake the review.

## **APPENDIX C: Proposed Governance Improvements required during 2023/24**

As a result of the review of governance arrangements, and the work of both internal and external audit, eleven improvement actions have been identified to further strengthen governance arrangements in 2023/24. 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 Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a sustainable and high-quality care market.	Optimising achievement of intended outcomes: optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning  March 2025
2	Develop a new corporate cyber recovery plan for key digital services with prioritised recovery targets and business continuity plans to further strengthen the Council's resilience to a successful cyber-attack.	Developing the Council's capacity: ensures the continuing effectiveness of its operations, performance, and use of assets (4.37)	Head of Digital Services  March 2024
3	Implement our Poverty Strategy and Action Plan to help protect residents most at risk of poverty and exclusion, increase equality of opportunity and ensure fewer people are affected by poverty and deprivation (Our Economy).	Sustainable economic, social, and environmental benefits: ensure fair treatment and fair access to services and opportunities (4.29)	Head of Transactional and Customer Services  March 2026
4	Deliver Actions from the Growing up in County Durham Strategy 2023-25, including working with the strengths and opportunities in local communities to develop a network of family hubs which can support the delivery of a range of local community support and services to children, young people and families (Our People).	Planning interventions: arrangements for planning the interventions for the achievement of intended outcomes (4.33)	Corporate Director Children and Young Peoples Services  March 2025
5	Through the Health, Safety and Wellbeing (HSW) Strategy, deliver the HSW programme to support the development of a positive culture and to ensure that our employees and those who may be affected by what we do, go home safe and well every day.	Developing the capability of the Council's leadership and others: maintain effective arrangements to	Head of Corporate Property and Land  March 2024



		meet employees' needs of training, development, health, and wellbeing (4.46)	
6	Develop a digital skills programme and invest in smarter working (Our Council).	Developing the Council's capacity: improve the management of resources to ensure that they are allocated and utilised in a way that realises outcomes effectively and efficiently (4.38)	Head of Digital Services / Head of Human Resources & Employee Services  March 2024
7	Develop & implement the Workforce Development Offer and programmes for 2023/24, including utilising opportunities to upskill the workforce.	Developing the Council's capacity: maintain an effective workforce plan, through the Workforce Strategy, to enhance the strategic allocation of resources (4.39)	Head of Human Resources & Employee Services  March 2024
8	Increase self-service of management and performance data by developing a range of business intelligence products (Our Council).	Developing the Council's capacity: improve the management of resources to ensure that they are allocated and utilised in a way that realises outcomes effectively and efficiently (4.38)	Head of Corporate Affairs  March 2024
9	Implement the Council's response to the Community Engagement and Funding processes review (Our Council).	Engaging with institutional stakeholders: engage & develop formal/informal partnerships to ensure that the purpose, objectives & intended relationship	Head of Partnerships and Community Engagement  March 2024

		outcomes are clear (4.21)	
10	Further strengthen the alignment of the processes for service planning, financial planning, performance management and service development to deliver increased value for money.	Planning interventions: arrangements for planning the interventions for the achievement of its intended outcomes (4.33)	Head of Corporate Affairs  March 2024
11	Review and refresh the DCC Workforce Strategy	Developing the Council's capacity: maintain an effective workforce plan, through the Workforce Strategy, to enhance the strategic allocation of resources (4.39)	Head of Human Resources & Employee Services  March 2024

## **Glossary of Terms used in the Accounts**

### **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.

### **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

**DLUHC**

Department for Levelling Up, Housing and Communities – the government department that directs local authorities in England. Formerly Ministry of Housing, Communities and Local Government (MHCLG or CLG).

**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.

**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.

**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.

### **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.

### **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.

### **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.

**Audit Committee**

**30 June 2023**

**Compliance with CIPFA Financial Management Code**

**Ordinary Decision**



---

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

**Electoral division(s) affected:**

Countywide

**Purpose of the Report**

- 1 To provide Members with an update against the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

**Executive Summary**

- 2 The FM Code sets out the principles by which local authorities should be guided in managing their finances and the specific standards that should be achieved.
- 3 The FM Code was introduced in 2020 and is based on a series of principles supported by specific standards which are considered necessary to provide a strong foundation to:
  - financially manage the short, medium, and long-term finances of a local authority
  - manage financial resilience to meet unforeseen demands on services
  - manage unexpected shocks in their financial circumstances.
- 4 The FM Code is designed to be flexible to the needs, nature and circumstances of individual local authorities and therefore does not determine the extent and format to which an authority complies with

the code. It does however guide local authorities towards achievement of specific standards of financial management practice.

- 5 An annual self-assessment is undertaken by the Revenue, Pensions and Technical Finance Manager to review the Council's compliance with CIPFA's Financial Management Code and to identify any improvement opportunities.
- 6 The 2021/22 self- assessment concluded that the Council's arrangements complied with the CIPFA Financial Management Code and identified two improvement opportunities. This report provides an update of these elements.
- 7 The 2022/23 self-assessment has concluded that the Council's arrangements fully comply with CIPFA's Financial Management Code (full details and conclusion are attached at Appendix 2).

### **Recommendation**

- 8 It is recommended that Members note the contents of this report.

## Background

- 9 The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 10 The FM Code was introduced in 2020 and sets out the standards of financial management for local authorities. The code takes in consideration the varying nature, circumstances and needs of individual authorities and is therefore not prescriptive, rather enabling each authority to determine individual levels of compliance.
- 11 The FM Code is based on a series of principles by which authorities should be guided in managing their finances and supported by specific standards which are considered necessary to provide the strong foundation to:
  - financially manage the short, medium, and long-term finances of a local authority
  - manage financial resilience to meet unforeseen demands on services
  - manage unexpected shocks in their financial circumstances.
- 12 Demonstrating compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.
- 13 The FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments.
- 14 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good

financial management for an authority of its size, responsibilities, and circumstances.

15 The FM Code acknowledges that good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

16 The series of principles focus on an approach that assists in determining whether, in applying specific standards of financial management, a local authority is financially sustainable. The six principles are as follows:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with transparency at its core using consistent, meaningful, and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit, and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

17 These principles further translate into 17 financial management standards. These standards are as follows:

- The leadership team is able to demonstrate that the services provided by the authority provide value for money.
- The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016).

- The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
- The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
- The financial management style of the authority supports financial sustainability.
- The authority has carried out a credible and transparent financial resilience assessment.
- The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
- The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
- The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
- The authority complies with its statutory obligations in respect of the budget setting process.
- The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.
- The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan, and annual budget.
- The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
- The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

- The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.
- The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

## 2021/22 Self - Assessment Update

18 The 2021/22 self-assessment review identified two improvement opportunities for consideration. The following updates are provided in terms of addressing the opportunities identified:

- **Improvement Opportunity 1 - A review of Reports and Oracle BI Dashboards should be undertaken to ensure relevance.** *(Any review should be in conjunction and should complement the Corporate BI review in the interim whilst a corporate solution is completed).*

An on-going financial reports review has commenced:

- a. new system generated reports have been created providing consistency and removing the requirement for manual service reports. It is anticipated that further reports will be created aligning services reporting across the council in the coming year;
- b. The Principal Accountants Group have reviewed and have commenced a relevance assessment of the current suite of reports within the financial system. A number of reports have been withdrawn from the system where financial reporting processes and practices are deemed to have changed. It is expected that the ongoing assessment will enable the removal of further reports;

The corporate BI project is underway with:

- c. The Finance Manager – Commercial, Capital, Treasury and Systems attends the Corporate BI Development Board meetings to enable alignment between systems.
- **2021/22 Improvement Opportunity 2 – Review of Budget Managers local government finance knowledge.** *(To further complement the Corporate Budget Manager Training*



*Programme, a review via service management teams to identify service Budget Manager local government finance knowledge and, where required, provide further consistent training would add value across the authority).*

The Corporate Budget Manager Training programme is being refreshed and relaunched via an E learning approach. Training content is complete with the E learning platform scheduled to go live via the Durham Learning and Development System (DLDS) during July 2023.

In addition, service teams have undertaken targeted training courses to enhance and refresh budget manager local government finance knowledge.

### **2022/23 Self - Assessment**

- 19 The council's Financial management processes have again been reviewed in line with the 17 financial management standards within the FM Code and the outcome/ updates documented.
- 20 The review has concluded **Durham County Council's arrangements continue to comply with CIPFA's Financial Management Code**. Full details of the assessment and conclusion is attached at Appendix 2.

---

**Contact: Jo McMahon Tel: 03000 261968**

---

---

## **Appendix 1: Implications**

---

### **Legal Implications**

Preparation of annual accounts in compliance with the Accounts and Audit Regulations 2015 and the latest CIPFA Code of Practice on Local Authority Accounting 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**

There are no direct financial implications associated with this report.

### **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**

The key risk is that the Council is not operating in Compliance with CIPFA Financial Management Standards. The review undertaken by the Revenue, Pension and Technical Finance Manager concluded that the council's arrangements continue to comply with CIPFA's FM code.

### **Procurement**

None.

**APPENDIX 2 – CIPFA Financial Management Code – Compliance with Standards 2022-23 Self-Assessment**

FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
<p><b>The responsibilities of the chief finance officer and leadership team</b></p>		
<p>The leadership team is able to demonstrate that the services provided by the authority provide value for money</p>	<p>Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?</p> <p>Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?</p>	<p>The Council's Constitution sets out the roles and responsibilities of all Members, committees, and chief officers, and in the Financial Procedures (start page 182 of DCC Constitution) contained within, sets out the responsibilities for VFM.</p> <p>The MTFP reported to Cabinet and Council each year includes updated financial position; factors/ considerations listed; robust programme management approach; HR implications; equality impact assessments; development of new approach through the Transformation Programme; consultation.</p> <p>Cabinet 8 February 2023 County Council 22 February 2023</p> <p>CMT / Cabinet MTFP (14) planning sessions commenced in April 2023.</p> <p>A clear timetabled approach to MTFP saving and growth requirements/ priorities is in place.</p> <p>The role of the Corporate Overview and Scrutiny Management Board (COSMB) is to oversee and coordinate the work of overview and scrutiny and the five thematic committees. COSMB's main focus each year is scrutiny of the Council's Medium Term Financial Plan process and revenue and capital budget proposals. Their work contributes to ensuring the council's resources are used effectively and efficiently. Another</p>

FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
	<p>Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?</p>	<p>key role for the Board is corporate performance and budgetary monitoring which is undertaken on a quarterly basis.</p> <p>The Council's CMT, Cabinet and Overview &amp; Scrutiny Committees, monitor performance and ensure 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 and Corporate Directors during the year. These scrutiny / performance clinics are embedded within directorate management teams to inform CEO/ Director discussions/ considerations.</p> <p>Quarterly Forecast of Outturn reports to CMT, Cabinet and COSMB</p> <p>The Council has a locally led planning and performance management framework that links to the County Durham Vision 2035 and Council Plan. The council plan 2023-2027 has been refreshed and focuses on priority actions in line with the MTFP. The objectives for this plan align to the Vision for County Durham 2035.</p> <p><a href="#">The performance management framework has been refreshed to link detailed service and improvement plans aligned to service budgets, major project plans and assurance through relevant boards.</a></p> <p>The format of performance reports has been realigned to the ambitions in the new Council vision and are reported quarterly to CMT, Cabinet and Scrutiny committees.</p> <p>Joined up, real-time performance and finance dashboards using business intelligence and reporting services tools continue to be developed to provide more immediate view and</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
			<p>visualisation of performance (including financial) as part of a Business Intelligence Programme.</p> <p>These will enable better targeting of resources and services and support the management and prediction of demand.</p> <p>The programme to implement a single data analytics platform for the whole council to automate the extraction, transformation, and presentation of data analytics across all our systems, allow matching of data from disparate systems and presentation of single views. This will replace all existing dashboards and management information reporting arrangements.</p> <p>In the interim, we have real time performance dashboards already in place for children’s social care data (linked to the liquid logic system implementation) and the new adults social care system (Azeus).</p> <p>We also have Power BI dashboards for anti-social behaviour integrating data from the council, police, fire and rescue service and housing providers.</p> <p>The Durham Insight data and intelligence platform for our joint strategic needs assessment also continues to be enhanced with a variety of dashboard products.</p> <p>The County Durham Partnership monitors performance towards implementing County Durham Vision 2035 and considers strategically how plans align and where efficiencies and value can be maximized through integration, shared services, and joint commissioning.</p> <p>Fourteen Area Action Partnerships (AAPs) are fully engaged with the community in identifying, addressing local priorities, and utilising locality budgets to drive improvements to the local area.</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
			<p>Within our quarterly performance reports, we set out how we compare to our own performance a year ago, the National figure, the North East figure and nearest statistical neighbour, where relevant and data is available. The council reports on the performance of over one hundred key target/ tracker indicators.</p> <p>The Audit Completion report of the external audit sets out their views on whether the council satisfies its VFM criteria as set by the National Audit Office. This is reviewed by the Audit Committee before being published on the council's website.</p> <p>The Annual Governance statement included in the Statement of Accounts sets out the means whereby the council has evidenced VFM.</p> <p>Treasury Management Outturn reports benchmarking and TM indicators also provide evidence of VFM.</p>
	<p>The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government (2016)</i></p>	<p>Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?</p> <p>Does the CFO lead and champion the promotion and delivery of good financial management across the authority?</p>	<p>Corporate Director of Resources is a key member of the Corporate Management team and is therefore involved in, and able to bring influence to bear on, all key business decisions.</p> <p><a href="#">The CFO is also a member of the Statutory Officer group along with the CEO and Head of Legal and Democratic Services</a></p> <p>The CFO champions VFM, effective financial management and leads on the development of the MTFP.</p> <p>Also, within the Constitution, the Financial Procedures provide the framework for managing the Council's financial affairs.</p>



FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>professional authoritative advice provided by the authority's Chief Finance Officer when final budget decisions are made.</p> <p>The finance teams are well qualified, professional, and very experienced. Accountancy and Accountancy Assistant qualifications are encouraged throughout.</p> <p>Finance have embedded mentoring scheme which includes qualification mentoring and developmental mentoring The qualification mentoring programme provides tailored support to AAT and CIPFA students via qualified staff and technical support groups.</p> <p>The Head of Corporate Finance and Commercial Services, Finance Managers and Principal Accountants are all available to mentor individual and further develop staff with specific requirements and skills to enhance career prospects within the council under the 'grow our own' ethos.</p> <p>Mentoring profiles have been completed by all qualification and developmental mentors and a panel considers each mentoring request to align mentors based on individual requests.</p> <p>Line managers also consider individual request via PDRs and 1-1s and work alongside the administrator to ensure effective alignment.</p> <p>The Head of Corporate Finance and Commercial Services has strong links to County Council Network, SIGOMA and is highly regarded in terms of knowledge and expertise across these bodies, throughout the North East and national Local Authorities</p>



	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
			<p>The majority of Finance Managers and Principal Accountants have successfully undertaken formal (CIPFA) finance business partnering training and qualification which further promotes effective decision making via a systemic approach to service and corporate priorities, including value for money. This qualification is now being offered through the service training plan to eligible finance staff</p> <p>As a business as usual approach across the service, tasks deemed non-value adding are removed and resources redirected to priority areas.</p> <p>The development of financial systems has facilitated staffing restructures and downsizing, ensuring service delivery has not been compromised.</p> <p>Further projects are currently underway to further remove manual processes, automating reports and cross systems data.</p> <p>Improvement Opportunity 1 – ongoing into Business as usual approach</p> <p>Following the initial review undertaken as part of the 2021/22 improvement opportunity, continuous review of all system provided reports and Oracle BI dashboards will be undertaken to ensure relevance.</p> <p>Finance Manager oversight of Principal Accountant led reviews have been introduced to ensure alignment to corporate priorities</p>
	<p><b>Governance and financial management style</b></p>		

FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
<p>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control</p>	<p>Does the leadership team espouse the Nolan principles?</p> <p>Does the authority have in place a clear framework for governance and internal control?</p> <p>Has the leadership put in place effective arrangements for assurance, internal audit, and internal accountability?</p> <p>Does the leadership team espouse high standards of governance and internal control?</p> <p>Does the leadership team nurture a culture of effective governance and robust internal control across the authority?</p>	<p>The Constitution sets out the standards to be met by Members, Chief Officers, and staff.</p> <p>The Council seeks to align the risk management strategy and policies on internal control with achieving objectives, as well as evaluating and monitoring risk management and internal control on a regular basis.</p> <p>The Council uses a risk-based Internal Audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.</p> <p>The Annual Internal Audit Charter, Strategy and Audit Plan reported to Audit Committee sets out 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.</p> <p>Internal Audit are independent to other teams within the council; they will regularly review internal control arrangements within the authority. The Chief Internal Auditor and Corporate Fraud Manager reviews the effectiveness of the system of internal control throughout the year and regularly reports to the Audit Committee.</p> <p>The Council has a dedicated counter fraud response and strategy which includes fraud governance and arrangements to prevent, detect and pursue fraud.</p> <p>Fraud &amp; Corruption is a Strategic Risk which is monitored and reported.</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
			<p>The Council endeavours to deal effectively with fraud and corruption, misuse of power and breaches of legal and regulatory provisions.</p>
	<p>The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016)</p>	<p>Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?</p> <p>Does the authority have in place a suitable local code of governance?</p> <p>Does the authority have a robust assurance process to support its AGS?</p>	<p>The authority seeks to apply the principles, behaviours and actions set out in the Framework within its own governance arrangements, including the Financial Regulations which form part of the County Council Constitution. These are supported by the more detailed Financial Management Standards.</p> <p>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.</p> <p>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.</p> <p>The Annual Governance Statement is included in the Annual Statement of Accounts and explains how the Council’s arrangements for the governance of its affairs complied with its Local Code of Corporate Governance. This is regularly reviewed by CMT and reviewed and approved by Audit Committee and approved annually by the Chief Executive, Leader of the Council and the Corporate Director of Resources.</p>

FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
<p>The financial management style of the authority supports financial sustainability</p>	<p>Does the authority have in place an effective framework of financial accountability?</p> <p>Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness, and equity of its services?</p> <p>Does the authority's finance team have appropriate input into the development of strategic and operational plans?</p>	<p>The Constitution and Budget reports collectively set out the Council's approach to prudent, sustainable financial planning and the role of the Corporate Director of Finance role in commenting on the robustness of estimates, and duties under section 114 of Local Government Finance Act 1988.</p> <p>The robust MTFP planning process requires that all senior managers and budget holders be committed to continuous improvement in terms of the economy, efficiency, effectiveness, and equity of its services.</p> <p>The One Council ethos and business partnering approach highlights the Council's commitment.</p> <p>The performance management framework aligns closely to the MTFP</p> <p>The Council's Cabinet monitors quarterly performance and ensures that effective arrangements are put in place to deal with any failures in service delivery.</p> <p>A balanced Revenue Budget is prepared annually, and Members make decisions on council tax increases which ensure future sustainability. The rolling MTFP considers financial planning across a rolling four year period. The wider financial management style of the authority supports financial sustainability as reports taken to committee have to consider and document the financial implications of any material decision taken.</p> <p>Service Finance Managers play a key role on the Service Management Team which they represent. They play a vital role in helping the service managers and Corporate Director of</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>Do managers across the authority possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so?</p>	<p>Resources to develop a balanced budget and longer term MTFP.</p> <p>The Head of Corporate Finance and Commercial Services supported by the Revenue Pensions and Technical Finance Manager, co-ordinates annual revenue budget setting, regular monitoring and MTFP plans across finance and wider services</p> <p>The Head of Corporate Finance and Commercial Services supported by the Capital, Commercial, Treasury and Systems team co-ordinates the capital budget setting, monitoring and MTFP planning, including MOWG consideration.</p> <p>The Strong links between Service and Strategic Finance via the Financial Services Management team ensure a fully considered approach to strategic and operational plans are undertaken.</p> <p>Financial management training is provided corporately to Budget managers as part of the DLDS. Budget Managers ought to attend an internal finance training session once they take responsibility for a budget to enhance their financial literacy and enable them to manage their budgets more effectively.</p> <p>The Corporate Budget Manager Training programme is being refreshed and relaunched via an E learning approach. Training content is complete with the E learning platform scheduled to go live via the Durham Learning and Development System (DLDS) from July 2023.</p> <p>In addition, service teams have undertaken targeted training courses to enhance and refresh budget manager local government finance knowledge. (e.g., Adults Mental Health</p>

FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
	<p>Has the authority sought an external view on its financial style, for example through a process of peer review?</p>	<p>teams including TEWV staff have recently undertaken targeted financial training in conjunction with other council service teams)</p> <p>The Head of Corporate Finance and Commercial Services has recently completed a Financial Planning questionnaire for consideration across the LA7 authorities.</p> <p>In addition, an LA7 benchmarking exercise has recently been considered by the partner Corporate Directors and will be commencing in the coming weeks.</p> <p>Financial surveys are regularly completed across County/ Municipal Treasurer and other networks with feedback obtained and considered.</p> <p>A peer review was undertaken in September 2021 by South Tyneside on the Council's Financial style. The review concluded that the financial management at DCC is strong and the financial foundations of the Council robust. The assumptions underpinning its financial planning are generally reasonable and prudent with key risks identified related to its ongoing financial resilience and sustainability.</p> <p>The regional consensus is to undertake peer reviews every 3-5 years. Any advice from OFLOG however will be considered and should clear expectations for peer reviews become more prominent, the council will act accordingly</p> <p>The Annual Value for Money Judgement provided by external audit as part of the Statement of Accounts highlights the councils financial style and standing in relation to its strategic and financial planning approach</p>



	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>Has the authority taken appropriate action to address any risks identified as part of the assessment?</p>	<p>The robust MTFP process details and assesses the risks to financial sustainability and sets out how the budget will be balanced, identifying budget pressures and savings proposals to ensure a balanced budget. All proposals are risk assessed.</p> <p>Risk Registers are reviewed regularly with emerging issues and concerns considered and assessed throughout this process</p>
	<p>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members</p>	<p>Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?</p> <p>Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?</p> <p>Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational, and financial challenges that it might face (e.g., using a technique such as scenario planning)?</p> <p>Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks, and the</p>	<p>MTFP 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. comprehensive schedules of savings targets are programmed to achieve the necessary savings to enable the delivery of a balanced annual budget and MTFP. Proposed savings are fully assessed for potential risks to the council with monthly CMT and Cabinet sessions to review and direct.</p> <p>The corporate strategic finance teams regularly horizon scan and scenario plan to consider a number of potential outcomes to government funding and business decisions being considered by the council. <a href="#">Service Finance teams regularly horizon scan and scenario plan regarding service specific requirements.</a></p> <p>Regular updates are shared with CMT and Cabinet, on preparations for the next MTFP as information becomes available.</p>



	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>impact of these for short and medium-term decision making?</p>	<p>A service business case approach is embedded with the council which includes input by relevant business partners, finance, HR, legal, planning, CPAL etc.</p>
	<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities</p>	<p>Has the authority prepared a suitable capital strategy?</p> <p>Has the authority set prudential indicators in line with the Prudential Code?</p> <p>Does the authority have in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set?</p>	<p>DCC prepares and publishes an annual Capital Budget and Strategy as part of the budget setting process included in the MTFP.</p> <p>In the MTFP report, the authority sets out prudential indicators included within the Treasury Management Strategy, and in line with the Prudential Code.</p> <p>A mid-year review report on Treasury Management is approved by Cabinet which is our means of monitoring performance against indicators set. The report provides a summary of the Council's treasury position, borrowing activity, investment activity, treasury management and prudential indicators.</p> <p><a href="#">The change in borrowing and investment is reported via quarterly outturn reports</a></p>
	<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans</p>	<p>Does the authority have in place an agreed medium-term financial plan?</p> <p>Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?</p>	<p>Yes - annually revised and approved, rolling four-year MTFP linked to the Council Plan.</p> <p>MTFP 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. A comprehensive schedule of savings targets has been programmed to achieve the necessary savings to enable us to deliver a balanced budget and MTFP.</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?</p> <p>Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?</p> <p>Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant, and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?</p>	<p>The detailed MTFP has been prepared on the basis of a robust assessment of relevant drivers of cost and demand, determined via a multi service approach.</p> <p>The Head of Corporate Finance and Commercial Services leads on various scenarios (best case, worst case, and most likely case) of the MTFP model which are developed from May of each year onwards, considering potential funding scenarios, budget pressures and one-off investments, use of reserves and council tax increases likely to receive support from Members. Alternative service provision scenarios are fully considered when developing the MTFP.</p> <p>Property and Land assets are maintained by the Corporate Property and Land Service. Outside of this, to ensure the effective delivery of services, plant and equipment registers are maintained by the Environment Service and an IT asset register is maintained by Digital and Customer Services.</p> <p><a href="#">The Corporate Asset Management Plan was approved by Cabinet in April 2023</a></p>
	<b>The annual budget</b>		
	The authority complies with its statutory obligations in respect of the budget setting process	<p>Is the authority aware of its statutory obligations in respect of the budget-setting process?</p> <p>Has the authority set a balanced budget for the current year?</p>	<p>The authority is aware of its statutory obligations in respect of the budget setting process and sets a balanced budget for the following year within the required timeframe.</p> <p>Proposals set out in the MTFP, and Revenue and Capital Budget Reports enables the Council to set a balanced budget for the forthcoming year.</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?</p>	<p>Where its forecast expenditure exceeds the financing available and therefore a balanced budget cannot be set, a section 114 notice should be issued.</p> <p>At the earliest possible stage, the S151 Officer should make informal confidential contact with DLUHC to advise of financial concerns and a possible forthcoming S114 requirement, and at the same time should communicate the potential unbalanced budget position to Cabinet and the external auditor.</p> <p>Discussion with DLUHC may delay/avoid the need to issue a S114 notice, and the resulting freeze on local spending that inevitably follows.</p>
	<p>The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves</p>	<p>Does the authority's most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?</p> <p>Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case?</p> <p>Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?</p>	<p>Section 25 of the LGA 2003 requires that when a local authority is considering its Budget and setting its Council Tax for the forthcoming financial year, its Chief Financial Officer reports to Full Council on the robustness of the estimates made for the purposes of the Council Tax requirement calculations and the adequacy of the proposed financial reserves allowed for in the budget proposals.</p> <p>Each year before the budget is agreed, Members of full Council are asked to take advice of the Chief Finance Officer via the section 25 Report. Provision of this information is a legal requirement and ensures that all Members have regard to the professional authoritative advice provided by the authority's Chief Finance Officer when final budget decisions are made.</p> <p>The MTFP report sets out the current level of reserves and reports on any shortfall estimated, alongside proposals to address the shortfall.</p>

	<b>FM Code Requirements</b>	<b>Self-Assessment Criteria</b>	<b>Self-Assessment Response</b>
		Does the report set out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is to take to address any shortfall?	DCC has sufficient reserves to ensure its financial sustainability for the foreseeable future – this is set out in the MTFP report and updated during the year in the quarterly forecast of outturn reports to Cabinet.
	<b>Stakeholder engagement and business cases</b>		
	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan, and annual budget	How has the authority sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan, and its annual budget?	<p>Each year the Council engages with a range of stakeholders and communities in its budget preparations via its 14 Area Action Partnership Board and Forum members which include community groups, organisations, and individuals. In addition, we engage with the <u>County Durham Partnership</u> and its thematic partnerships and networks.</p> <p>Our 14 Area Action Partnerships are fully engaged with the community to identify and address local priorities and utilising locality budgets to drive improvements to their local areas. In addition, Durham County Council worked alongside its partners to develop a County Durham Vision.</p> <p>The 2023/24 revenue budget setting approach included the following:</p> <ul style="list-style-type: none"> <li>• Between 25 October to 22 November 2022, consultation was undertaken with residents and partners regarding proposals to balance the council's budget for the next financial year (2023/24) that were published in the Cabinet report in October 2022. During the same period and beyond to 1 December 2022,</li> </ul>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		How effective has this engagement been?	<p data-bbox="1301 236 1912 300">presentations were made to the 14 Area Action Partnership Boards.</p> <ul data-bbox="1249 339 2022 946" style="list-style-type: none"> <li data-bbox="1249 339 2022 507">• Officers also attended meetings of the County Durham Partnership (CDP), County Durham Association of Local Councils (CDALC) and the Youth Council and met with Trade Unions representatives during the period of the consultation</li> <li data-bbox="1249 547 2022 778">• Consultation was published on the Councils website and fully promoted whilst CDP partners were written to, seeking their views on the Councils budget strategy. The Corporate Overview and Scrutiny Management Board met on 24 October 2022 to consider the October Cabinet report and on 23 January 2023 to consider the 18 January 2023 Cabinet report.</li> <li data-bbox="1249 818 2022 946">• The consultation was promoted with press releases; social media posts; posters displayed in libraries and Customer Access Points and targeted emails were sent to a range of partners</li> </ul> <p data-bbox="1205 978 2022 1082">Full details are included within the Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget Report to Council on 22 February 2023</p> <p data-bbox="1205 1121 2022 1353">Extensive consultation combined with reviewing what people have told us during recent consultations helped us to gather insight, knowledge and understanding about people’s priorities. This insight enabled Durham County Council to formulate the budget proposals and obtain feedback from a range of stakeholders, community groups and individuals through a series of presentations and discussion.</p>

	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
		<p>What action does the authority plan to take to improve its engagement with key stakeholders?</p>	<p>Responses regarding the 23/24 budget consultation process were received from the following partners:</p> <ul style="list-style-type: none"> <li>• AAP Sessions;</li> <li>• County Durham Partnership partners – Durham Police, Police Crime and Victim’s Commissioner (PCVC) and Livin;</li> <li>• Youth Council;</li> <li>• CDALC;</li> <li>• Residents</li> </ul> <p>Full details of participation and responses are included within the Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget Report to Council on 22 February 2023</p> <p>We use various channels of communication and feedback mechanisms, including press releases, social media (Twitter, Facebook, Instagram, and YouTube), posters displayed in libraries and Customer Access Points and targeted emails across partners to reach out to and meet the needs of its communities.</p> <p>Each year, we plan how best to carry out the budget consultation. The approach may vary from year to year depending on the scale of change required, as well as the insights we have already obtained from consultations, engagement and discussions with our partners, stakeholders, and the general public.</p>
	<p>The authority uses an appropriate documented</p>	<p>Does the authority have a documented option appraisal methodology that is</p>	

FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
<p>option appraisal methodology to demonstrate the value for money of its decisions</p>	<p>consistent with the guidance set out in IFAC/PAIB publication <i>Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal?</i></p>	<p>The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme which are set out in the MTFP. When bidding for capital funding it is imperative that effective business cases are submitted initially to the Capital Member Officer Working Group, before being presented to members of the Cabinet.</p> <p>The Prudential Code requires that local authorities produce a Capital Strategy to ensure that they can demonstrate that they are making capital expenditure and investment decisions in line with service objectives and properly take into account stewardship, prudence, sustainability, and affordability. Specific Appendices to the MTFP sets out the Capital Strategy providing the framework in which the capital programme is developed.</p> <p>As part of the development of the capital programme for the MTFP, services develop capital bid submissions during the summer alongside the development of revenue MTFP proposals. Bids are submitted to maintain the two year rolling programme approach to the capital budget. The Capital Member Officer Working Group (MOWG) considers the capital bid submissions taking the following into account:</p> <ul style="list-style-type: none"> <li>(a) service grouping assessment of priority;</li> <li>(b) affordability based upon the availability of capital financing.</li> </ul> <p>This process takes into account the impact of borrowing upon the revenue budget; and</p> <ul style="list-style-type: none"> <li>(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.</li> </ul>

	<b>FM Code Requirements</b>	<b>Self-Assessment Criteria</b>	<b>Self-Assessment Response</b>
		<p>Does the authority offer guidance to officers as to when an option appraisal should be undertaken?</p> <p>Does the authority's approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?</p> <p>Does the authority's approach to option appraisal include suitable mechanisms to address risk and uncertainty?</p> <p>Does the authority report the results of option appraisals in a clear, robust, and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?</p>	<p>Finance Managers work with service managers to evaluate options and prepare reports, fully considering risks. Options are set out clearly in reports.</p> <p>The authority uses documented business case and option appraisal methodologies for strategic programmes and projects. Staff have received training on such methodologies and these methodologies have been applied in practice.</p> <p>REG colleagues in particular use approaches for their major projects as also needed when bidding for large grants etc. A corporate programme has been undertaken for officers with key roles in business case development.</p> <p>CIPFA have provided courses to staff across the Council for Foundation and Practitioner Business case training, aimed at staff involved in preparing and submitting business cases.</p> <p>CIPFA also provided finance staff training [Business Cases and Costing Techniques for Finance Staff].</p> <p>Business cases are largely structured around the Treasury 5 case test and clearly set out options, costings, financing and risks. All business cases are considered by the Head of Corporate Finance and Commercial Services.</p> <p>The following techniques are applied, to ascertain affordability and funding and viability;</p> <ul style="list-style-type: none"> <li>- Financial appraisals undertaken in the form of Long term cash flow forecasts, cash inflows and outflows, produced. The impact on revenue is considered in cash flow, along with interest and inflation rates, increased</li> </ul>



	FM Code Requirements	Self-Assessment Criteria	Self-Assessment Response
			<p>variations over the lifespan of asset, void period assumptions, sinking funds, management costs etc.</p> <ul style="list-style-type: none"> <li>- The outcome of financial appraisal cash flows are included in decision making reports (e.g., Investment / capital reports) and considered by service management teams, and cabinet.</li> <li>- Due diligence checks on companies</li> <li>- Sensitivity analysis, scenario analysis including financial return</li> <li>- Funding Options appraisals considered when appropriate</li> <li>- Consideration of entity depending on commercial undertaking and council powers etc,</li> <li>- Policy and council aims and objectives etc also considered in report to back up financial appraisals. Considering what, how, who, when and funding.</li> </ul>
	<b>Monitoring financial performance</b>		

	The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?	Development of the Oracle business suite means that budget managers have direct access to the system to produce reports, providing historical data and allowing for budget profiling and forecast of outturn.
--	--	--	---

	<p>Do the reports cover both forward and backward-looking information in respect of financial and operational performance?</p> <p>Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data?</p> <p>Are the reports provided to the leadership team in a timely manner and in a suitable format?</p> <p>Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?</p>	<p>Quarterly service budget performance/ forecast of outturn reports are prepared in line with internal and statutory reporting deadlines, for consideration and approval by Service management teams, CMT, Cabinet, Council and Overview &amp; Scrutiny Committees. Reporting includes details of the monitoring position against the budget, forecasts general balances and earmarked reserves for the end of the financial year and highlights any other pertinent information relating to the overall financial position of the council. These reports also detail relevant service specific financial and operational issues.</p> <p>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 continuing to develop online 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.</p> <p>A programme to implement a single data analytics platform is underway for the whole council to automate the extraction, transformation, and presentation of data analytics across all our systems, allow matching of data from disparate systems and presentation of single views of the child, individual, family and of debt. This will replace all existing dashboards and management information reporting arrangements.</p> <p>In the interim, we have real time performance dashboards already in place for children's social care data (linked to the liquid logic system implementation) and the new adults social care system (Azeus).</p>
--	---	---

<p>We also have Power BI dashboards for anti-social behavior integrating data from the council, police, fire and rescue service and housing providers.</p> <p>The Contract Procedure Rules are part of the council's constitution. They set out the council's procedures for procurement, and all service areas must adhere to them. They are regularly updated and communicated to all DCC managers.</p> <p>Council's Contract Procedure Rules ensure that a lead Contract Manager is assigned for each contract.</p> <p>Contract management performance is managed on a contract by contract basis within each service grouping and reported appropriately within the service</p> <p>Although contracts are robustly managed on an individual basis, at this point the Council does have a centralised system for recording or reporting performance outcomes. There is, however, a new fully integrated e-procurement solution, OPEN, which is due to go live in late 2023. The OPEN solution is end to end system dealing with activity from pre-procurement through to contract management and has been developed working in collaboration with our 11 other partners in our North East Procurement Organisation (NEPO) Shared Service.</p> <p>Contract Management Training - as part of the Council's corporate learning and development offer/programme, a contract management on line training module for all contract managers within the authority is being rolled out with final implementation within the coming months.</p>
--

			<p>All data and training records will be captured within the Council's Learning and Development programme and reportable going forward.</p>
	<p>The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability</p>	<p>Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability?</p> <p>Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet?</p> <p>Is the authority taking action to mitigate any risks identified?</p> <p>Does the authority report unplanned use of its reserves to the leadership team in a timely manner?</p> <p>Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?</p>	<p>The Head of Corporate Property and Land has responsibility to manage our land and property.</p> <p>Regular meetings are held between the capital finance team and the asset valuation/ management team.</p> <p>Regular meetings are also held between the capital finance team and capital project/ budget managers.</p> <p>The performance of the capital programme and implications arising from capital monitoring are brought to the attention of the Service Grouping Management team, Corporate Management Team and Cabinet. Budget monitoring is reported to Cabinet on a quarterly basis for consideration of slippage and budget amendment. At year end, the outturn position for capital schemes is determined including accommodation for any slippage and budget carry forwards.</p> <p>These quarterly reports detail the reserves position including a forecast to the year end.</p> <p>The Council's Asset Register is updated with new acquisitions within the year. The annual statement of accounts reflect movement on assets within the balance sheet and specific notes. Reviews of projects are conducted once they have been completed to consider what extent the key delivery objectives – such as time, cost and quality were met. Lessons learned being used to improve the organisation's processes for selecting, developing and delivering capital projects.</p>

			<p>Work has been undertaken during 2022/23 to streamline and connect data via the Asset Management system – Asset Manager. The Capital Accountancy team have worked closely with Assets to automate and link data between the two services.</p> <p>Monthly treasury management team meetings with the Corporate Director of Resources and the Head of Corporate Finance to discuss the capital programme, financing costs and investments.</p> <p>The largest liability on our BS relates to the IAS19 pension liability, however the Pension Fund’s Funding Strategy Statement and triennial valuations are the means by which the authority will ensure it meets its liabilities as they fall due.</p>
--	--	--	--

This page is intentionally left blank

**Audit Committee**

**30 June 2023**



**Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023**

**Ordinary Decision**

---

**Report of Paul Darby, 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 2022/23 (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 2023 the council held general reserves of £26.017 million and reserves earmarked for specific future

purposes, including those held for schools, of £224.997 million;

- (c) net assets at 31 March 2022 amounted to £913.855 million;
- (d) the council has been able to set a balanced budget for 2023/24 and has a clear plan in place to continue to deliver local services up to 2026/27 via its medium term financial plan (MTFP);
- (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 is 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 ceases 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:

<b>Year ended 31 March</b>	<b>Net Assets £ million</b>
2019	388.566
2020	229.807
2021	30.607
2022	87.202
2023	913.855

12. The fluctuations are mainly due to accounting entry changes in the estimated pension liability (as calculated by the Pension Fund's Actuary).
13. The 2023 Actuary calculation decreases this liability, and this, along with increased Long Term Borrowing to fund capital commitments and increased short term debtors result in an increased net assets balance from 2022.
14. The estimation of the net pension liability depends on a number of complex judgements and as such results in possible volatility in the balance sheet position. The annual statement of accounts includes disclosure under IAS19 around the sensitivity of the defined benefits obligation to changes in key assumptions.
15. The 2023 net asset position shown above is subject to change awaiting updated information from the Actuary. An amendment to IAS 19 requires that updated actuarial assumptions are used to remeasure the interest on the net defined benefit obligation for the remainder of the reporting period after special events, such as academy transfers. The draft accounts will require amendment following receipt of the updated actuarial information. The council's external auditor is aware of this matter.
16. 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).

17. 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.
18. The External Auditors annual report relating to 2021/22 was reported to the Audit Committee on 23 May 2023. 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 2022.

### **Current Position**

19. At 31 March 2023, the council held general reserves of £26.017 million and reserves earmarked for specific future purposes, including those held for schools, of £224.997 million.
20. The financial position of the council remains healthy. Net assets at 31 March 2023 amounted to £913.855 million, an increase of £826.653 million during 2022/23. This is mainly due to a technical accounting issue in relation to a decrease in the estimated future pension liability for employees, calculated by the Pension Fund Actuary. Other minor changes relate to an increase in Long Term Borrowing to fund capital commitments taking into consideration securing cost certainty and borrowing rates and an increase in short term debtors.

### **Future Plans**

21. The council approved its budget for 2023/24 and Medium Term Financial Plan (MTFP) 13 to 2026/27, on 22 February 2023.

### **Medium Term Financial Plan (13) – 2023/24 to 2026/27**

22. The council is continuing to operate in a period of significant financial uncertainty due to the lack of a long term financial settlement from government and high inflation, mainly resulting from the impact of the Ukraine conflict and turbulence in the financial markets. These geopolitical and national policy issues have driven and continue to drive significant and complex price

inflation fluctuations resulting in upward pressures across a range of council budgets.

23. County Durham suffers from a low tax base due to lower house and property prices relative to other areas and therefore is unable to raise sufficient income from permitted and expected increases in charges to meet its ongoing and unavoidable cost pressures.
24. Significant budget pressures in Adults Social Care and enduring demographic pressures in Children's Social Care along with waste, energy and transport pressures arising from high levels of inflation have been considered within the 2023/24 revenue budget and MTFP approved by Council on 22 February 2023. This position will however need to be kept under review.
25. Additionally, there remains uncertainty in terms of the quantum of recurrent funding to be available to local government from 2025/26 onwards. Financial Planning strategies continue to assess the risk to the council's budgets so that strategic decisions can be made to ensure that balanced budgets can be set going forward.
26. The budgetary pressures as a consequence of the legacy issues linked to COVID19 pandemic will undoubtedly impact on the council for a number of years to come.
27. Going forward, the financial outlook for the council will continue to be extremely challenging for the foreseeable future. There will potentially be a range of further financing decisions needed by the council throughout the current MTFP (13) period.
28. The risk in this regard will be considered and assessed in future MTFP (14) Cabinet reports, which will set out updated financial forecasts for the period 2024/25 to 2027/28.
29. By the end of 2022/23, the council had delivered circa £250 million of financial savings with additional savings of £12.383 million approved for 2023/24. It is forecast that the total savings requirement for the period 2011/12 to 2026/27 will be £327 million.
30. The council's MTFP for the last 14 years, has focused on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management as well as focussing on income generation where possible. As this strategy has become increasingly more difficult to maintain over time, the council's Transformation Programme has ensured that all options

are consistently considered to protect front line services wherever possible.

31. Nevertheless, going forward, front line services will inevitably become progressively more impacted over the coming years if funding continues to be restricted.
32. The council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.
33. 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.
34. In general, the council has been quite accurate in forecasting the level of savings required, which has allowed the early development of savings 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.
35. After taking into account base budget pressures, additional investment and savings, the council's net budget requirement for 2023/24 is £520.176 million. The financing of the net budget requirement is detailed in the following table.

<b>Funding Stream</b>	<b>Amount</b>
	<b>£m</b>
Revenue Support Grant	32.991
Business Rates – Local Share	55.712
Business Rates – Top Up Grant	75.956
Section 31 Grant	34.468
Collection Fund Deficit	-3.895
Council Tax	268.372
New Homes Bonus	1.860
Social Care Pressures Grant	49.564

Services Grant	5.148
<b>NET BUDGET REQUIREMENT</b>	<b>520.176</b>

## Capital Funding

36. On 22 February 2023 Council approved the 2022/23 revised capital budget and the MTFP (13) capital budget for the period 2023/24 to 2025/26.
37. Service groupings developed capital bid submissions alongside the development of revenue MTFP (13) proposals. Bids were submitted in the main for 2024/25 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.
38. 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.
39. 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.
40. The following table provides summary information of the Capital budget approved at Council.

## MTFP (13) Capital Programme

Service Grouping	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Adult and Health Services	0.100	1.589	0.000	0.000	1.689
Children and Young People's Service	18.048	79.466	7.495	0.440	105.449
Neighbourhoods & Climate Change	57.915	65.348	0.200	0.000	123.463
Regeneration, Economy & Growth	84.736	130.435	160.204	50.699	426.074
Resources	4.275	9.530	0.882	0.000	14.687
<b>TOTAL</b>	<b>165.074</b>	<b>286.368</b>	<b>168.781</b>	<b>51.140</b>	<b>671.362</b>
<b>Financed by:</b>					
Grants & Contributions	82.518	89.514	30.177	14.396	216.605
Revenue & Reserves	7.992	1.879	3.142	0.032	13.046
Capital Receipts	74.563	10.890	4.023	0.000	89.477
Borrowing	0.000	184.084	131.439	36.711	352.235
<b>TOTAL</b>	<b>165.074</b>	<b>286.368</b>	<b>168.781</b>	<b>51.140</b>	<b>671.362</b>

41. The council has been able to set balanced revenue and capital budgets for 2023/24 and has a clear plan in place to continue to deliver local services up to 2025/26. Based upon this, it is evident that the council is a going concern.

### Financial Reserves

42. 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.
43. 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 £39 million.
44. Based on the level of reserves held, the council has demonstrated robust financial management that underpins its status as a going concern.

## **Risk**

45. 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 council's responsibility for business rates and council tax support. All risks will be assessed continually throughout the MTFP (13) period. Some of the key risks identified include:
- (a) ensuring the achievement of a balanced budget and financial position across the MTFP (13) period.
  - (b) ensuring timely and comprehensive savings plans are in place across the council, to mitigate extensive utilisation of reserves
  - (c) ensuring savings plans are risk assessed across a range of factors e.g., impact upon customers, stakeholders, partners, and employees.
  - (d) uncertainty in terms of the quantum of recurrent funding to be available to local government from 2025/26 onwards,
  - (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) the council retaining 49% of all business rates collected locally but also being responsible for settling all rating appeals. 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 upon MTFP (13).
  - (g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards. Of particular concern is the volatility of energy prices, all these factors will continue to be closely monitored.



- (h) the council continuing to experience increases in demand for both Adults and Children's social care services. Although pressures have been considered across the MTFP (13) period, this issue will need to be closely monitored.
- (i) the funding position for the High Needs Dedicated Schools Grant. The five year plan for High Needs Block funding and expenditure was approved by Cabinet in April 2022. This plan is now being updated to reflect the final outturn position and changes to future year forecasts, which are being developed as part of the DfE's Delivering Better Value Programme (DBV).
- (j) uncertainty as to any long-term impact from COVID-19 on council budgets especially regarding reductions in income from leisure, theatre and other facilities. This will continue to be closely monitored with any ongoing impact built into future MTFP plans.

46. Based upon the above there are no financial risks which would indicate that the council is not a going concern.

## **Conclusion**

47. When considering 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.

48. 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.
49. The council is therefore clearly a going concern, and it is appropriate for the statement of accounts to be prepared on that basis.

**Other useful documents**

- (a) County Council – 22 February 2023 – Medium Term Financial Plan, 2023/24 to 2026/27 and Revenue and Capital Budget 2022/23
- (b) County Council – 22 February 2023 – Budget 2023/24 Report under Section 25 of Local Government Act 2003
- (c) Cabinet – 15 March 2023 - Forecast of Revenue and Capital Outturn 2022/23 - Period to 31 December 2022.
- (d) Audit Committee – 23 May 2023 – Auditor's Annual Report for the year ending 31 March 2022
- (e) Audit Committee – 30 June 2023 – Statement of Accounts for the year ended 31 March 2023

---

**Contact: Jo McMahon Tel: 03000 261968**

---

---

## **Appendix 1: Implications**

---

### **Legal Implications**

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2022/23 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 provides overview of the 2022/23 revenue financial outturn and net assets of the council. Revenue and capital budgets for 2023/24 along with summarised MTFP (13) information also included within the report consider the County Council a 'going concern'.

### **Consultation**

None.

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

None.

### **Climate Change**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

The summarised financial information within the report considers movement within employee budgets. The report references savings with the MTFP which have included employee savings.

### **Accommodation**

None.

### **Risk**

The information contained within this report has been extracted from the general ledger and scrutinised and supplemented with information supplied by the Service Management Teams and budget holders. The financial information has been produced taking into consideration historic financial data, year- end accounting practices and robust financial planning strategies (including MTFP and annual budget

processes). This should mitigate any risks regarding challenge over the accuracy and validity of the going concern statement

**Procurement**

None.

**Audit Committee**

**30 June 2023**

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



---

**Report of Councillor Alex Watson, Chair of the Audit Committee**

**Purpose of the Report**

- 1 Members are asked to agree the proposed response to questions from the External Auditor put to the Committee for consideration in a letter dated 09 June 2023, as detailed in Appendix 2.
- 2 The questions seek responses to evidence how management and those charged with governance are discharging their responsibilities.

**Executive summary**

- 3 The proposed committee's response to the range of questions posed by the external auditor are detailed within the draft response at Appendix 3.
- 4 There are no material issues to bring to the Committee's or the External Auditors attention in terms of weaknesses or gaps in the governance arrangements within the Council.

**Recommendation(s)**

- 5 Members are asked to:
  - (a) Consider and agree the proposed draft response to the External Auditor, as set out at Appendix 3.
  - (b) Authorise the Chair of the Audit Committee to formally respond on behalf of the Committee to this effect.

## Background

- 6 The External Auditor requested in a letter to Members of the Audit Committee dated 09 June 2023 that the Committee consider and provide a response to 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).
- 7 The proposed committee's response to the range of questions posed by the External Auditor are detailed within the draft response at Appendix 3.

---

**Contact:** Tracy Henderson

Tel: 03000 269668

---

---

## **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 2022/2023.

### **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.



The Corner  
Bank Chambers  
26 Mosley Street  
Newcastle upon Tyne  
NE1 1DF

Tel: +44 (0)191 383 6300  
[www.mazars.co.uk](http://www.mazars.co.uk)

Audit Committee  
Durham County Council  
County Hall  
DH1 5UQ

Direct +44 (0)191 383 6339  
Dial  
Email [mark.outterside@mazars.co.uk](mailto:mark.outterside@mazars.co.uk)

9 June 2023

Dear Audit Committee Members

**Durham County Council (including Pension Fund) – 2022/23: Audit Committee briefing note - ISA240 (Fraud), ISA250 (laws and regulations), ISA501 (litigation and claims) & ISA570 (going concern)**

### Introduction

This letter aims to summarise for the Audit Committee the requirements under International Auditing Standards, in respect of preventing fraud in the annual accounts, compliance with laws and regulations, litigation and claims, and going concern. This letter requests an update from the Audit Committee in order to inform our continuous audit planning prior to the start of the final stage of our audit of Durham County Council's (the Council) 2022/23 accounts.

### **International Standard for Auditing 240 - The auditor's responsibility to consider fraud in an audit of financial statements**

#### Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Council is the Audit Committee.

The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

#### What is 'fraud' in the context of the ISA?

The ISA views fraud as either:

- the intentional misappropriation of the Council's assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

#### What are auditors required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Audit Committee and management on the following, or similar, issues:



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

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

2) Has the Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2021– 31 March 2023?

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

4) Is the Audit Committee aware of any significant breaches of internal control during 2022/23?

5) Is the Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details of these controls. If not:

- Where are the risk areas?
- What other controls are in place to prevent, deter or detect fraud?

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

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

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

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

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

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

## **International Standard for Auditing 250 – Consideration of laws and regulations in an audit of financial statements**

### Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Council is the Audit Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

## What are auditors required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

11) How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with. In particular:

- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
- What arrangements are in place for the Committee to oversee this process?
- Is the Committee aware of the arrangements management have in place, for communicating with employees, Members and stakeholders regarding the relevant laws and regulations that need to be followed?

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

## **International Standard for Auditing 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements**

### Background

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity. The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

### What are auditors required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA501. We are therefore making requests from the Audit Committee, and will be making similar enquiries of management:

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

## **International Standard for Auditing 570 – Consideration of the going concern assumption in an audit of financial statements**

### Background

Financial statements are generally prepared on the basis of the going concern assumption. Under the going concern assumption, an audited body is ordinarily viewed as continuing in operation for the foreseeable future. Accordingly, assets and liabilities are recorded in financial statements on the basis that the audited body will be able to realise its assets and discharge its liabilities in the normal course of its operations.

### What are auditors required to do?

If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA570. We are therefore making the following request from the Audit Committee:

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

15) 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?

## Consideration of related parties

The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from the Audit Committee:

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

17) 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 way forward

The information you provide will help inform our understanding of the Council and its business processes, prior to the start of the final stage of the audit of the 2022/23 financial statements.

I would be grateful for your responses, which should be formally considered and communicated to us on the Committee's behalf to cover the period to 31 March 2023, by September 2023. In the meantime, if you have any queries, please do not hesitate to contact me.

Yours sincerely



**Mark Outterside**  
Senior Manager

---

## Appendix 3: 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 periodic 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 2022 – 31 March 2023?***

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 'Protecting the Public Purse' reports.

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

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

The Committee also receives assurance from Internal Audit from planned work around key financial systems and the counter fraud plan that is reported through 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 2022/2023?***

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 2022/2023 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 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.

**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 2022/23.

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 2022/2023. These are included in the 2022/2023 statement of accounts for the Audit Committee's approval in June 2023.

**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**

**11) *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.

**12) *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**

#### **13) *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 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**

#### **14) *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 30 June 2023 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 2022/2023 financial statements.

#### **15) *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**

#### **16) *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 / Senior Officers 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 2022/23.

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 2022/2023. These will be included in the 2022/2023 statement of accounts for the Audit Committee's approval in June 2023.

**17) 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.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank