



Statement of Accounts

For the year ended 31 March 2022

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:

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Corporate Director of Resources

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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 COVID-19 pandemic and the recovery from it will undoubtedly impact on the council and its communities for a number of years to come.

The COVID-19 outbreak has continued to have a significant financial impact on the council during 2021/22. The council has faced challenges and budget pressures in relation to the continuing response to the pandemic and the restoration of services and supporting the post pandemic recovery.

The longer-term financial impact of the pandemic into future years remains difficult to gauge at this stage. There will potentially be a range of interventions required by the council and ongoing impacts post pandemic that have as yet unquantified financial pressures. Reserves will potentially be required to meet any shortfall in the funding that ultimately arises in this regard whilst longer term strategies are implemented.

The longer-term financial outlook for the council will continue to be extremely uncertain until the Fair Funding Review is concluded and the financial impacts of the Social Care Reforms and the outcomes of the Fair Cost of Care exercise are fully determined. At this stage it would appear that the costs of implementing the reforms will exceed the specific grant funding provided and it is uncertain whether the full Social Care Levy will transfer to local government from 2023 once the hospital backlogs and waiting times are addressed.

It is unlikely however that there will be clarity in any of these areas until late 2022 at the earliest leading to potential implementation in 2024/25.

No detail on links to a Business Rate Reset, further Business Rate Retention (BRR) or consideration of the inclusion of the Public Health Grant in BRR has yet been published therefore significant uncertainty beyond 2022/23 remains. This continues to make accurate medium term financial planning forecasts extremely difficult.

There is currently no certainty in terms of the quantum of recurrent funding to be available to local government from 2023/24 onwards, nor how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding depending on the principles that are ultimately agreed for fair funding distribution.

More recently, during the latter part of 2021/22 budget pressures relating to inflationary pressures in the energy, transport and waste management markets emerged. These have been managed during 2021/22 within the general contingency budget but this position will

need to be kept under review as forecasts would indicate that significant overspends will manifest in these budgets in 2022/23. A further corporate risk relates to pay inflation in 2022/23. Broader inflationary pressures will continue to be managed within service cash limits in 2022/23 and into future years.

By the end of 2021/22, the council had delivered £248 million of financial savings since 2011 throughout its MTFPs, with additional savings of £2.5 million approved for 2022/23 in order to balance its budgets. Across this period and through prudent financial management, the council has utilised circa £104 million of reserves to balance its budget and accommodate redundancy and early access costs as a result of a circa 3,000 reduction in the workforce during this period. It is forecast that total savings required for the period 2011/12 to 2024/25 will be £286 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 Medium Term Financial Plan (MTFP) for the last thirteen 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.

Nevertheless, 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, where Durham suffers from a low tax base due to lower house and property prices relative to other areas.

This document presents the published accounts for Durham County Council for the year ended 31 March 2022 – the 'Statement of Accounts'.

The council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.

I aim to give the readers of these accounts and all interested parties, including electors, local residents, council members, partners, and other stakeholders' information about the money that the council has received and spent, that it has been accounted for properly, that the financial standing of the council continues to be safe and secure, and services are being delivered using value for money principles at all times.

I hope that this document proves to be both informative and of interest to readers.

The council is keen to try to improve both the quality and suitability of information provided and your feedback would be welcome.

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 2021/22;
- 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 2022 and an executive summary of the non-financial performance of the council in 2021/22. 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 2021/22 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 2021/22
- 6 Non-Financial Performance of the council 2021/22
- 7 Significant Issues for 2021/22 and Beyond
- 8 Corporate Risks
- 9 Summary Position
- 10 Receipt of Further Information
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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.

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 533,149, 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 nearly 36% since 1991.
- Over the last six years, County Durham has seen a higher rate of population increase than the North East.
- The number of people aged over 65 is projected to increase by over 30% 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 nearly 20 times the size of Newcastle-upon-Tyne.
- Over a third of the county is made up of accessible green space.
- It has a rich history. Its Norman cathedral and castle were one of the first sites in the UK to be listed as a world heritage site by UNESCO.
- The University of Durham is highly regarded and is a top five UK university (Guardian 2022) and a world top 100 university (QS World Rankings 2022.)
- Durham Constabulary is ranked as 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.
- 40% of dwellings are in terraced properties.
- There are over 14,000 businesses registered in the county and this has increased by nearly 20% in the last 10 years.
- 71.5% of our working age population are in employment.

- It is estimated that 82,800 unique jobs (40.5%) in County Durham were furloughed during the COVID-19 pandemic, from the start of the scheme in March 2020 up to 30 September 2021 when it finished.
- It is estimated that 58,500 claims have been made by eligible self-employed people in County Durham under the Self-Employment Income Support Scheme with an estimated value of £145.3 million
- 7,700 employments or 3.8% of eligible jobs were furloughed in County Durham at the end of the scheme in September 2021 compared to a peak of 29,400 employments or 13.7% of jobs in January 2021
- 1 in 3 people are employed in public administration, health, and education. The largest business sectors in the county are construction and scientific and technical industries. Production is the fastest growing sector.
- Nearly 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's over 65% of our homes.
- 10% of our domestic refuse goes to landfill.
- Carbon emissions throughout the county have reduced by 53% since 1990.
- There are over 19,000 fewer smokers in County Durham now than in 2012.
- Last year there were just over 86 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.

Interesting facts about the council:

- it had an approved original net revenue budget requirement of £441 million in 2021/22 and a capital budget of £489 million covering the period 2021/22 to 2024/25;
- it employs around 8,234 people (excluding schools);
- it maintains 3,793 km of highway and over 82,000 street lights, manages 757,000 sq. ft of commercial space, owns, and manages 39 libraries, 15 leisure centres, 8 customer access points and 174 maintained schools (excluding academies);
- it empties around 250,000 bins, and litter picks over 15sq miles per week;
- it supports 19,000 adults and 3,800 children via its social care services;
- there are over 11,000 children with special educational needs supported by the council;

- 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;
- there are 251,099 domestic and 16,100 business premises in the county;
- 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 2022 were as follows:
 - 54 Labour Group,
 - 23 Conservative Group,
 - 17 Liberal Democrat Group,
 - 16 Durham Independent Group,
 - 9 DCC Independent Group,
 - 3 Spennymoor and Tudhoe Independent Group,
 - 3 Independent Group,
 - 1 vacancy
- its administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and County Hall, Durham;
- there are 14 Area Action Partnerships covering the county providing residents with the opportunity to set local priorities which are acted on through local projects.

5. Financial Performance of the Council 2021/22

Revenue Outturn Position

The council's revenue outturn is shown in the table below. The original net budget requirement of £441.131 million was approved at the Council meeting on 24 February 2021. 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 an underspend of £11.425 million when comparing actual net expenditure to the revised budgeted/ planned net expenditure. The underspend represents 2.54% of the revised total net expenditure budget. Included in this was a net surplus for the year in respect of service groupings (£0.358 million) which has been allocated or drawn from the individual cash limit reserves to meet future service demands. The remaining £11.067 million was allocated to the council's general and earmarked reserves.

	Original Budget 2021/22	Revised Budget (Inc, Qtr 4 Cash Limit Adj.)	Service Groupings Final Outturn	Variance
	£000	£000	£000	£000
Service Groupings				
Adult and Health Services	133,618	121,456	123,077	1,621
Chief Executive's Office	1,381	-	-	-
Children and Young People's Services	133,876	179,541	185,427	5,886
Neighbourhoods and Climate Change	105,731	89,365	94,270	4,905
Regeneration, Economy and Growth	49,630	66,592	70,169	3,577
Resources	21,425	28,965	27,086	-1,879
	445,661	485,919	500,029	14,110
Corporate Finance				
Contingencies	10,337	4,164	-	-4,164
Corporate Costs	4,378	2,763	2,753	-10
Capital charges	-62,797	-131,186	-131,186	-
Gains / losses on disposal of fixed assets	-	20,579	20,579	-
HR accrual	-	3,943	3,943	-
DSG deficit reserve adjustment	-	-796	-796	-
Interest and Investment income	-2,900	-2,900	-4,400	-1,500
Interest payable and similar charges	38,416	50,097	50,279	182
Levies	16,087	16,007	16,008	1
	3,521	-37,329	-42,820	-5,491
Total Net Expenditure	449,182	448,590	457,209	8,619
Funded By:				
Council tax	-241,266	-241,266	-241,266	-
Use of (-) / contribution to earmarked reserves	-7,957	10,048	10,048	-
COVID-19 Support Grant tranche 5	-	-	-15,560	-15,560
COVID-19 Income Guarantee Grant	-	-	-2,652	-2,652
Estimated net surplus (-) / deficit on Collection Fund	-1,514	-1,514	22,380	23,894
Use of earmarked reserves to offset deficit on Collection	-	-	-23,894	-23,894
Business Rates	-57,304	-57,304	-57,649	-345
Top up grant	-72,780	-72,780	-72,780	-
Revenue Support Grant	-28,227	-28,227	-28,227	-
Lower Tier Services Grant	-747	-747	-747	-
Local Tax Income Guarantee	-514	-514	-514	-
New Homes Bonus	-4,476	-4,476	-4,476	-
Section 31 Grant	-11,415	-20,581	-22,068	-1,487
Section 31 Grant - expanded reliefs and discounts	0	0	0	-
Adult/Childrens Pressures Grant	-22,888	-22,888	-22,888	-
Contribution to/from (-) Cash Limit Reserve	-94	-8,341	-8,341	-
Contribution to/from (-) General Reserves	-	-	-	-
Total Funding	-449,182	-448,590	-468,634	-20,044
Variance	-	-	-11,425	-11,425

In the table above, Service Groupings appear to have overspent by £14.110 million. This is mainly due to additional expenditure and loss of income associated with the COVID-19 outbreak of £20.372 million, offset by COVID-19 related underspends of £5.904 million. These net additional costs (£14.468 million) have been met from COVID-19 related grant funding received from government, with government grant exceeding net costs incurred.

After adjusting for COVID-19 related costs there was a net underspend on service groupings outturn of £0.358 million.

The £11.067 million corporate underspend included surplus COVID-19 grant funding of £3.742 million, underspending against corporate contingencies (the pay award was 0.25% less than budgeted in 2021/22 for example) and additional investment income due to unbudgeted dividends received in year and higher level of cash balances being held as significant government grant funding was paid in advance of expenditure being incurred.

The financial impact of COVID-19 remained significant and complex in 2021/22. The council continued to receive a number of government grants, to either fund the authorities own COVID-19 related expenditure and lost income, or to passport on to provide financial assistance to local businesses and individuals during the pandemic.

The council has accounted for individual funding streams in accordance with the terms of the grant, whether there were any grant conditions attached and whether the council has been acting as a principal or agent.

Where the council has simply distributed Government funding to another party and is not in control of the distributing amounts to beneficiaries it has acted as an agent of the Government. The council has acted as a principal when it has control in determining who gets funding and/or by what amount.

National support schemes implemented in 2020/21 by the council continued into 2021/22. These included the various Business Rates Grants Support Scheme(s); the Council Tax Hardship Support Schemes; Test and Trace Payments; the Winter Support Payments Scheme; COVID-19 Local Support Scheme; Infection Control Schemes; and Contain Outbreak Management Schemes as well as dealing with and implementing a range of supplier relief schemes whilst addressing increased demand for support to vulnerable households whilst trying to accommodate new ways of working itself in response to the pandemic.

The council submitted returns for support under the government's Income Guarantee Scheme for three months to 30 June 2021. This scheme requires councils to bear the first 5% of any qualifying income loss after which the government will provide a grant for 75% of subsequent losses. The council has claimed circa £2.65 million from the scheme for 2021/22.

The main reasons contributing to the net cash limit underspends, after excluding COVID-19 related expenditure and lost income, are as follows:

- In Adult and Health Services (AHS) there was a net underspend of £0.192 million. This was mainly due to the spend on adult care packages being over budget (including the part year increase on domiciliary care fee rates). This area of spend

was closely monitored to assess the impact of COVID-19 which has seen a reduction in care home placements but an increase in domiciliary care, as well as ongoing demographic and procedural/operational changes, where significant MTFP savings have been taken over recent years. This expenditure was offset by 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 £3.771 million. This was primarily made up from an overspend within Children's Services relating to the cost of looked after children's placements and overspend with the Education Service relating to Home to School Transport.
- In Neighbourhoods and Climate Change there was a cash limit underspend of £0.563 million. The main reasons being savings relating to vacant posts, plus additional income across trading areas.
- In Regeneration, Economy and Growth there was a cash limit underspend across the service grouping of £1.854 million. The main reasons for this were as a result of savings from vacant posts, additional income across the service along with underspends within the Facilities Management budgets.
- In Resources there was a cash limit underspend of £1.520 million mainly due to managed underspends on employee costs and additional income.

During the year, a review of all reserves enabled the realignment of £14.9 million of cash limit and earmarked reserves enabling the investment of earmarked reserves in council priorities. This included a £10 million transfer into the Cabinet Priorities Reserve supporting one off investment priorities and £4.9 million to replenish corporate reserves as factored into MTFP(12) and the 2022/23 budget agreed by Council on 23 February 2022.

At year end a further review of reserves enabled a number of adjustments to be made as part of the final accounts' closedown. A new Budget Support Reserve has been created to offset the overspends manifesting in 2022/23 as a result of inflationary pressures, alongside transfers into the Climate Change earmarked reserve, the corporate ERVR Reserve (in anticipation of further staffing reductions across MTFP13) and the Culture Reserve.

Capital Outturn Position

The original capital budget for 2021/22, taking into account the budgets approved by Council on 24 February 2021 and adjustments for re-profiling of underspends at 2020/21 year end was £205.408 million. This was agreed by Cabinet on 7 July 2021.

Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources.

Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year.

The council spent £143.068 million on its capital programme in 2021/22 compared to the revised forecast capital programme spend estimate of £158.979 million – an underspend of £15.911 million or circa 10%. 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.

Service Groupings	Revised Budget	Service Groupings Final Outturn	Variance
	£000	£000	£000
Adults and Health Services	377	375	-2
Children's and Young People's Services	16,893	14,525	-2,368
Neighbourhoods and Climate Change Regeneration, Economy and Growth Resources	45,403	41,314	-4,089
	86,976	77,812	-9,164
	9,330	9,042	-288
Total	158,979	143,068	-15,911
Funded by:			
Grants and Contributions	73,133	60,010	-13,123
Revenue and Reserves	18,285	26,280	7,995
Capital Receipts	7,713	7,362	-351
Borrowing	59,849	49,416	-10,433
Total	158,979	143,068	-15,911

The variance between the revised capital budget and the final outturn for the year was £15.911 million. This underspend of planned expenditure has been re-profiled into and augment the 2022/23 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 2021/22

Material Assets and Liabilities:

- As at 31 March 2022, the council held:
 - £1,679.3 million of long term assets
 - £440.5 million of current assets
 - £230.8 million of current liabilities and
 - £1,801.8 million of long term liabilities.
- Long Term Assets have decreased by £154.986 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 £77.022 million, which is mainly due to an increase of circa £95.000 million in Short Term Investments, reduction in short term debtors of circa £17.000million.
- Current Liabilities have increased by £41.062 million, mainly due to an increase in Short Term Creditors and capital grants received in advance.
- Long Term Liabilities have decreased by £175.621 million, which is mainly due to a decrease in Pension Liabilities of £214.600 million and increased movement in Long Term Borrowing of circa £44.000 million during the year.
- The General Fund Medium Term Financial Plan 2021/22 to 2024/25 and Revenue and Capital Budget 2021/22 Report, approved by Council on 24 February 2021, details the 2021/22 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 2021/22 were as follows:
 - Authorised limit for external debt of £676 million
 - Operational boundary for external debt of £621 million
- As part of the council's Treasury Management service, these indicators are monitored daily, and neither was exceeded during 2021/22. The highest level of external debt incurred by the council during the year was £500.724 million, significantly below both thresholds.

6. Non-Financial Performance of the Council 2021/22

The COVID-19 pandemic continued to impact on council services during 2021/22 with the council, its partners, local businesses, and local communities been working tirelessly to respond and to put plans in place for the restoration and recovery of services post pandemic

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 three 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 2021/22, there were four ambitions for the council and County Durham. Each of these priorities, alongside the main objectives and achievements are set out below:

- **More and Better Jobs** - focusing on continuing our economic renaissance and ensuring that people can enjoy a thriving economy with more and better jobs and reduced levels of poverty and deprivation.

Objectives

- Deliver a range of employment sites across the county.
- A strong, competitive economy where County Durham is the premier place in the North East to do business.
- A broader experience for residents and visitors in the county
- Young people will have access to good quality education, training, and employment.
- Helping all people into rewarding work.
- Fewer people will be affected by poverty and deprivation within the county.

Achievements

- Outstanding success in attracting countywide private and public investment in enterprise and tourism.
- £25 million invested in Jade Enterprise Zone.
- £178 million invested by Citrus on Integra 61 warehousing facility at Bowburn including facilitating internet giant Amazon and £5 million junction works.
- £271 million has been invested in one of Europe's leading technology parks at NETPark, Sedgefield delivered by Business Durham with a £50 million Phase 2 business plan agreed.
- £14 million has been invested at Forrest Park in Aycliffe preparing for further investment of over £140 million.
- Succeeded in securing the first constituency Levelling Up bid for the Bishop Auckland constituency.

- £90 million spent in Barnard Castle by Glaxo Smith Kline on a new manufacturing facility.
- Almost £1.5 billion in Durham City, £750 million by the University and over £240 million on the Riverside and other projects.
- The first two phases of the development of the Aykley Heads strategic employment site have the potential to create 4,000 jobs with an estimated 1,800 jobs being supported in the construction of the park.
- £100 million invested through Project Genesis in Consett.
- £17 million spent at Beamish Museum on the 1950s town, upland farm, and Georgian coaching inn.
- Lumiere, the biggest light festival in Europe, extended across County Durham as well as in Durham City for the first time in 2021 attracting an estimated 140,000 visitors.
- County Durham was one of only four locations shortlisted for the UK City of Culture 2025.
- Successful food festivals held at Bishop Auckland and Seaham.
- Post-16 outcomes have improved steadily over time with average grades at A-level and Advanced General being above national averages in 2018.
- As of February 2022, 94.9% of 16-17 year olds within County Durham are participating in education, employment or training, including 13.2% in employment.

More and Better Jobs Statistics / Challenges

- The employment rate in County Durham has been maintained at 71.5% (September 2021) following a post-lockdown recovery but is still below the national average.
- Lockdown and the cost of living crisis has adversely affected both local businesses and residents financially.
- Businesses and individuals have relied on support arrangements put in place to limit financial impact, but these are only for the short-term and will be phased out.
- The ability of businesses to respond quickly to changes in demand may be limited in the short-term.
- 82,800 unique jobs were furloughed at some stage in the county representing over 40% of all employments. There is uncertainty around whether the ending of the scheme will lead to further unemployment.
- A weaker global economy will reduce export demand and disrupt international supply chains.
- 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 75% 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 percentage points (September 2021) which is one of the highest differences in the country.
 - GCSE results as measured through the average attainment 8 score for the county are below the national average.
 - As of October 2020, only 69% of secondary schools in County Durham are rated as good or outstanding.
 - 1 in 4 of our school children are on free school meals as of January 2020, which is an indicator of the level of child poverty within the county.
 - According to the latest figures (2018), an estimated 9.8% of households are in fuel poverty. This is defined as where the householder, 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 £22.07 in the local economy per day, whilst overnight visitors will spend an average of £190.27 per trip. Only 8% of visitors will stop overnight within the county.
 - Uncertainties around the United Kingdom's exit from the European Union remain.
 - Whilst key stage 4 league tables have not been produced since 2019, we know that COVID will have had a significant impact upon increasing the gap in achievement between our most disadvantaged pupils and their peers.
 - Whilst the proportion of children attending good or better secondary or special schools is improving, our schools continue to require a network of support to accelerate progress.
 - Indicators of child poverty have increased as a result of the pandemic and the cost-of-living crisis. Reducing the cost of the school day will become a greater priority in supporting full attendance strategies.
- **Long and Independent Lives** – Improve both the life expectancy and number of years our residents remain in good health by providing children and young people with the best start in life, a high quality environment for everyone to access, promote positive behaviours amongst our residents, more integrated health and social care services and enabling them to live in their own homes for longer.

Objectives

- Children and young people will enjoy the best start in life, good health, and emotional wellbeing.
- Children and young people with special educational needs and disabilities will achieve the best possible outcomes.
- A physical environment that will contribute to good health.
- Promotion of positive behaviours.
- Better integration of health and social care services.
- People will be supported to live independently for as long as possible by delivering more homes to meet the needs of older and disabled people.

Achievements

- Teenage pregnancies have halved over the last 10 years.
- 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.
- Effective discharge planning and joint working between health and social care services means that County Durham is one of the best performing areas in the country regarding delayed transfers of care from hospital.
- 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.
- To date (Dec 2021), since 2015 we have achieved significant and sustained outcomes with 5,851 families through our Stronger Families Programme.
- 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.
- 100% of our maintained nursery education providers are rated as good or outstanding by Ofsted.
- Durham County Council won the Local Government Chronicle Children's Services Award for 2021 for our Supporting Solutions Service, which works with children on the edge of care to enable them to stay with their families and avoid entering the care system.
- Strong adoption performance.
- Positive feedback from Ofsted focused visit on the quality of services for children in care.
- 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.
- The council has developed County Durham Care Academy for both its existing and potential workforce offering a range of courses from entry level right through to senior leadership and management qualifications.
- Established a Local Tracing Partnership, County Durham Together Hub, and an Outbreak Management Team to protect our residents, provide community support and reduce COVID-19 transmission.
- Won the CYP Now award for Youth Justice Services.
- Over 60% of our domestic waste was going to landfill in 2008. This has been reduced to 5% following the introduction of new waste collection and disposal arrangements.

- Tonnage of carbon emissions from council operations has been reduced by 58% since 2008-09.
- Carbon emissions across the county have reduced by 54% since 1990.
- The council has worked to eliminate single use plastics from all its operations, encouraging over 300 individuals and organisations to sign up to our plastics pledge and work to eradicate plastics from their businesses.

Long and Independent Lives 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.
- Smoking prevalence has increased from 15% to 17%.
- Sustainability of a diverse care sector.
- The risk of a new variant of COVID-19 or an outbreak of another infectious disease, which will have major health impacts on vulnerable people and possibly result in the introduction of health restrictions.
- Life expectancy at birth is 1.6 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.
- 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 19 percentage points behind national figures.
- 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.
- 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.
- The numbers of children requiring the support of a social worker due to complex needs, which have increased during COVID-19.
- Ensuring sufficient local placement choice for our Children in Care.
- The increasing numbers and complexity of children with SEND requiring wider support.
- An increase in the complexity of care and court of protection referrals.

- Durham County Council declared a climate emergency in 2019. Our current targets are to reduce carbon emissions as an organisation by 80% by 2030 (from a 2008/09 baseline) and contribute towards and work with others to achieve a carbon neutral county.
 - The council is committed to exploring more sustainable transport choices and has lobbied MPs and the government for the reopening of the Leamside line 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.
 - Air Quality Management Areas where national standards for levels of pollutants have been declared in parts of Durham City and Chester-Le-Street, each 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.
 - 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 work 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%.
- **Connected communities** – Help our residents create caring and welcoming communities where everyone is valued, we can help and support each other, and we give everyone the opportunity to realise their potential.

Objectives

- All children and young people will have a safe childhood.
- Standards will be maintained or improved across County Durham's housing stock.
- Our towns and villages will be vibrant, well used, clean, attractive, and safe.
- People will have good access to workplaces, services, retail, and leisure opportunities.
- Communities will come together and support each other.

- Delivery of new high-quality housing which is accessible and meets the needs of our residents.

Achievements

- The council leads on Digital Durham, a £35 million initiative to transform broadband speeds for residents and businesses across the North East and has already provided fibre broadband to over 105,000 properties.
- Investment in a new IT system has transformed children's social care performance information and management and oversight has improved compliance in most areas of performance.
- A new adult social care system has recently been implemented.
- Roll out of programmes and training to support increased awareness of mental health issues by staff and schools.
- Significant investment in increasing workforce capacity both at a managerial and social worker level and effective workforce planning has led to reduced caseloads, better quality, and timeliness in children's social care.
- Since 2016, the council in collaboration with a range of partner organisations has played its part in the UK's commitment to support some of the world's most vulnerable refugees and has been recognised nationally as best practice for its resettlement programme.
- A local lettings agency has been established to help secure suitable housing for homeless people and people who find it difficult to access the housing market.
- Durham County Council is only one of two local authorities in the country to achieve the maximum under the Department for Transport's incentive fund in recognition of its efficiency rating and has managed to prioritise and increase investment in its highways.
- Each year the council invests £3.7 million on town centre regeneration, purchasing derelict building and land and environmental improvements.
- Over the last 10 years our Area Action Partnerships have completed over 6,000 community projects, benefiting over 30,000 people, and helping to secure over £100 million funding.
- We remain one of the few councils in the country to provide up to 100% council tax relief to residents – 80% of the circa 36,000 working age claimants in Durham received 100% council tax reduction last year.

Connected Communities Statistics / Challenges

- There has been increased demand for services provided by voluntary and community sector organisation, just as the sector loses a significant proportion of its revenue.
- County Durham follows the national trend for seeing large increases in demand for and complexity of children's social care.

- Lower house prices have resulted in a high proportion of privately rented accommodation in the county and a need for greater regulation to ensure more consistent standards.
 - 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 a percentage of total retail sales has risen nationally, from 2.5% in December 2006 to 26.3% in October 2021, 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 east-west links are seen as an opportunity for development.
 - Domestic abuse was involved in half of all violence against the person crimes during 20/21 and made up 22% of all crime.
- **An Excellent Council** – Rethinking the way that we deliver many of our services in order to meet increasing demand with reducing resources and make sure that we are equipped for the future by reskilling our workforce and working more effectively for the benefit of our residents across organisational boundaries with partner organisations.

Objectives

- Our resources will be managed effectively.
- We will create a workforce for the future.
- We will design our services with the customer in mind.
- We will use data and technology more effectively.
- We will actively performance manage our services.

Achievements

- Durham County Council has delivered £248 million of annual savings since 2011.
- Over 100 council services are available digitally and around a half of our residents access our services this way.
- The council has had 1,113 apprenticeship starts since 2017. We have 292 people employed in apprenticeship posts and 213 existing staff are accessing the apprenticeship.
- The council holds the 'maintaining excellence' status in the Better Health at Work Award, which recognises the efforts of employers regionally in helping to address health issues of its workforce. 79 organisations are now signed up to the award programme, reaching over 40,000 employees.

- The council has 217 trained mental health first aiders and 82 time to change (mental health) champions.
- The council has been awarded the Disability Confident Leader status by the Department for Work and Pensions in recognition of its commitment to be a good employer of people with a disability and will support local businesses to become Disability Confident.
- Durham County Council was highly commended in two national awards by the Municipal Journal in 2021, one being for its digital transformation and one for its senior leadership team.
- We have continued to work with the County Durham Together Community Hub to proactively support residents and businesses, including 70,000 people identified as potentially vulnerable.

An Excellent Council Statistics / Challenges

- Continuing impact of COVID-19 on the council's budget and uncertainties surrounding the UK withdrawal from the European Union.
- Changes to the delivery model for some frontline council services during the coronavirus pandemic and to prioritise essential services. This includes the introduction or expansion of online service delivery.
- Learning from our experiences as we transition to living with COVID, we have set up a Protecting Health Team to address health protection skills and competencies across the workforce and provide expert advice and leadership in the management of communicable diseases.
- Forecast increases of 25% in energy prices and a 1.25% increase in employer's national insurance contributions are an additional budgetary pressure.
- Uncertainty of funding beyond 2022/23 due to the Fair Funding Review, the lack of clarity around New Homes Bonus and Public Health Grant which hinders medium-term financial planning.
- Superfast broadband and the national rollout of 5G networks will enable greater digital connectivity for our residents and offer opportunities for new digital services. Workforce instability is increasing across the council with local and national skills shortages increasing competition within the jobs market.
- 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.
- One quarter of staff (27%) rate their mental wellbeing as five or lower on a scale of 1-10. During the pandemic, 24% of staff felt that their health and wellbeing was not supported.
- Society is experiencing a technological revolution where progress is accelerating and innovations can be identified and rapidly deployed, making it difficult to keep pace and ensure that the skills of our staff are up to date.
- The council together with its partners, should seek to maximise the value of every pound spent and seek to deliver social value outcomes. Social, economic, and

environmental outcomes should be delivered for the local community by adopting a strategic approach during its commissioning, procurement, development, and planning projects.

- The council needs to recognise that the data we hold are an asset and manage them 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.

The current council plan was approved by Council in October 2021. At that time it had been updated to reflect the Covid-19 response. Following the elections in May 2021 and in light of the move into a post pandemic recovery phase period now, the opportunity has been taken to refresh the plan.

The intention going forward is for the plan to be refreshed on an annual basis and be a rolling four year plan going forward - presented to County Council alongside the MTFP and budget setting reports in February each year.

The updated plan gives greater focus to our environment and particularly the impacts of Climate Change and the Ecological Emergency declared by the council's Cabinet.

The updated plan seeks to hang our corporate and service planning frameworks going forward around five key objectives going forward – these are based on:

- Our economy – which picks up the more and better jobs theme.
- Our people – which picks up long and independent lives.
- Our communities – which picks up the connected communities' theme.
- Our environment – which is a new addition and seeks to elevate the importance and significance of our actions to tackle climate change in light of the declarations we have made; and
- Our council – which picks up the Excellent Council ambitions and actions from the current plan.

7. Significant Issues for 2021/22 and Beyond

Economic climate

The longer term financial outlook for the council will continue to be extremely uncertain until the Fair Funding Review is concluded and the financial impacts of the social care reforms, and the outcomes of the Fair Cost of Care exercise are fully determined.

It is unlikely however that there will be clarity in any of these areas until late 2022 at the earliest leading to potential implementation in 2024/25.

No detail on links to a Business Rate Reset, further Business Rate Retention (BRR) or consideration of the inclusion of the Public Health Grant in BRR has yet been published therefore significant uncertainty beyond 2022/23 remains. This continues to make accurate medium term financial planning forecasts extremely difficult.

There is currently no certainty in terms of the quantum of funding available to local government from 2023/24 onwards, nor how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding depending on the principles that are ultimately agreed for fair funding distribution.

By the end of 2021/22, the council had delivered £248 million of financial savings with additional savings of £2.5 million approved for 2022/23 in order to balance its budgets. Across this period and through prudent financial management the council has utilised circa £104 million of reserves to balance its budgets and accommodate redundancy and early access costs as we have managed a significant reduction in our workforce. It is forecast that total savings required for the period 2011/12 to 2024/25 will be £286 million.

The council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, energy and transport inflationary pressures and waste management markets. These costs cannot be accommodated from council tax and business rates income, where Durham suffers from a low tax base due to lower house and property prices relative to other areas.

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 a quarterly review 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, which will be impacted by the Fair Funding Review.
- Potential disruption to the council's and partners' health and social care services during the winter period.

- Failure/inability to respond to and recover from the COVID-19 pandemic, leading to delayed economic recovery and adverse impacts on employee resilience and the health and wellbeing of the wider community.
- Limited product availability and price increases in the construction industry may disrupt or inhibit the delivery of capital projects by the council through external procurement routes and the in-house construction delivery arms within CPaL and Highway Services.
- 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 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.
- Potential adverse impact of energy prices increases on council finances
- If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves.
- 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).

9. Summary Position

The council's financial and non-financial performance in 2021/22 continues to be effective. The revenue outturn showed a £11.425 million underspend (2.55% less than the revised budget). 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 2022/23 and future years.

In 2021/22 the council has faced and dealt successfully with significant challenges. This trend will continue but the council is well placed to adapt to the challenges and take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the council is in a strong position as it moves into 2022/23.

Total general, earmarked and cash limit reserves (excluding school reserves) reduced by a net £10.258 million in 2021/22, from £271.685 million at 31 March 2021 to £261.427 million at 31 March 2022.

The general reserve at 31 March 2022 is £25.898 million, which is broadly in line with the position at 31 March 2021 – a slight reduction in year of £0.255 million – and within the

council's general reserves policy of retaining a balance of between 5% and 7.5% of the net budget requirement, which in cash terms is between £23.336 million and £35.005 million. The £25.898 million balance at 31 March 2022 equates to 5.55% of the 2022/23 net budget requirement.

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.

The Council's Responsibilities

The council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the council that officer is the Corporate Director of Resources.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The Corporate Director of Resources' Responsibilities

The Corporate Director of Resources is responsible for the preparation of the council's Statement of Accounts which is in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Corporate Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Corporate Director of Resources has also:

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

Certificate of the Corporate Director of Resources

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the council as at 31 March 2022 and its expenditure and income for the year ended 31 March 2022.

Paul Darby

Corporate Director of Resources

28 November 2022

Certificate of Chairman

In accordance with Regulation 9 (2) (c) of the Accounts and Audit Regulations 2015, I certify that these Accounts were approved by the Audit Committee, (subject to potential amendments included in the Audit Committee Statement of Accounts 2021/22 Report regarding Infrastructure Asset resolution) at the meeting held on 28 November 2022.

Alex Watson

Chairman of the Audit Committee

Chair of the meeting approving the Accounts

28 November 2022

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

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Comprehensive Income and Expenditure Statement

2020-21 (restated)			Note	2021-22			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
316,658	-190,641	126,017	Adult and Health Services	328,650	-200,036	128,614	
506,049	-370,645	135,404	Children and Young People's Services	589,364	-373,139	216,225	
149,211	-27,693	121,518	Neighbourhoods and Climate Change	140,076	-17,579	122,497	
132,184	-58,858	73,326	Regeneration, Economy and Growth	148,173	-61,147	87,026	
205,552	-175,172	30,380	Resources	200,112	-162,092	38,020	
12,137	-23,840	-11,703	Corporate Costs	12,811	-25,356	-12,545	
1,321,791	-846,849	474,942	Cost of Services	7,8	1,419,186	-839,349	579,837
78,000	-3,692	74,308	Other Operating Expenditure	11	56,200	-5,879	50,321
48,763	-9,441	39,322	Financing and Investment Income and Expenditure	12	51,707	-12,983	38,724
-	-516,970	-516,970	Taxation and Non Specific Grant Income	13	-	-515,138	-515,138
		71,602	Surplus (-) or Deficit on Provision of Services				153,744
			Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services				
		-13,952	Surplus (-) or deficit on revaluation of PPE / Heritage assets	14,15			81,088
		236	Impairment losses on non-current assets charged to revaluation reserve	14			4,188
		-546	Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income	17			-2,925
		139,790	Remeasurements of the net defined benefit liability	26,44			-292,690
		2,069	Difference between actuary's estimate and actual employer's pension contributions	26,44			-
		127,597	Other Comprehensive Income (-) and Expenditure				-210,339
		199,199	Total Comprehensive Income (-) and Expenditure				-56,595

The 2020/21 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Surplus (-) or Deficit on the Provision of Services.

2021/22:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021 brought forward	26,153	280,830	8	306,991	-276,384	30,607
Movement in Reserves during 2021-22						
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	-
Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves	-11,280	-	5	-11,275	67,870	56,595
Transfers to / from Earmarked Reserves (Note 10)	11,025	-11,025	-	-	-	-
Balance at 31 March 2022 carried forward	25,898	269,805	13	295,716	-208,514	87,202

2020/21:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2020 brought forward	23,950	216,840	8	240,798	-10,992	229,806
Movement in Reserves during 2020-21						
Total Comprehensive Income and Expenditure	-71,602	-	-	-71,602	-127,597	-199,199
Adjustments between accounting basis and funding basis under regulations (Note 9)	132,069	-	-	132,069	-132,069	-
Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves	60,467	-	-	60,467	-259,666	-199,199
Transfer of Dedicated Schools Grant Reserve Deficit at 1 April 2020 to new Adjustment Account (Notes 10 and 26)	-	5,726	-	5,726	-5,726	-
Transfers to / from Earmarked Reserves (Note 10)	-58,264	58,264	-	-	-	-
Balance at 31 March 2021 carried forward	26,153	280,830	8	306,991	-276,384	30,607

31 March 2021 £000		Notes	31 March 2022 £000
1,754,497	Property, Plant and Equipment	14	1,616,923
15,174	Heritage Assets	15, 47	16,241
6,170	Investment Property	16	6,070
5,726	Intangible Assets		6,221
32,624	Long Term Investments	17	17,696
20,167	Long Term Debtors	17	16,221
1,834,358	Long Term Assets		1,679,372
-	Assets held for sale	22	2,540
212,397	Short Term Investments	17	307,063
5,569	Inventories	19	6,323
105,421	Short Term Debtors	20	87,644
40,126	Cash and Cash Equivalents	21	36,965
363,513	Current Assets		440,535
-3,461	Short Term Borrowing	17	-13,840
-170,652	Short Term Creditors	23	-194,827
-4,641	Provisions	24	-2,121
-11,038	Capital Grants Receipts in Advance	36	-20,066
-189,792	Current Liabilities		-230,854
-13,592	Provisions	24	-13,491
-363,643	Long Term Borrowing	17	-407,959
-11,319	Capital Grants Receipts in Advance	36	-5,268
-1,514,320	Other Long Term Liabilities - Pensions	44	-1,299,720
-74,598	Other Long Term Liabilities - Other	39, 40	-75,413
-1,977,472	Long Term Liabilities		-1,801,851
30,607	Net Assets		87,202
306,991	Usable Reserves	25	295,716
-276,384	Unusable Reserves	26	-208,514
30,607	Total Reserves		87,202

2020-21		Notes	2021-22
£000			£000
71,602	Net surplus (-) or deficit on the provision of services		153,744
-224,575	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	27	-215,884
3,697	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	5,872
-149,276	Net Cash flows from Operating Activities		-56,268
59,964	Investing Activities	28	132,884
69,404	Financing Activities	29	-73,455
-19,908	Net increase (-) or decrease in cash and cash equivalents		3,161
20,218	Cash and cash equivalents at 1 April	21	40,126
40,126	Cash and cash equivalents at 31 March	21	36,965

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The values within the financial statements are disclosed with roundings which are appropriate to their individual presentation. Consequently, the tables in the Statement of Accounts may contain rounding differences.

1. Accounting Policies

1.1. General Principles

The Statement of Accounts summarises the council's financial performance for the 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22 (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.
- Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial

valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Durham County Council Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

1.9. Events After the Reporting Period

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council holds most of its investments solely to collect contractual cash flows, which means that the majority of its financial assets are measured at amortised cost. 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 2021/22 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate Costs. These are costs relating to the council's status as a multifunctional, democratic organisation, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

1.21. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

Donated assets are measured initially at current value. The difference between current value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective

- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

For non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

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

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

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2021/22 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.
- Infrastructure – straight-line allocation over 40 years.
- Surplus Assets – buildings up to 50 years, land not depreciated

Where an item of Property, Plant and Equipment has a value greater than £5m and major components greater than 20% of the value of the asset, the components are depreciated separately at rates representative of their useful life.

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services.

Depreciation is not charged on Assets Held for Sale.

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. 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. 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.

1.23. Provisions

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

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

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

1.24. Contingent Liabilities

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

probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

1.25. Contingent Assets

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

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

1.26. Reserves

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

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

1.27. Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.28. Value Added Tax (VAT)

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

1.29. Schools

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

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

Schools Non-Current Assets are recognised on the Balance Sheet where the council directly owns the assets, where the council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

Community schools are owned by the council and are, therefore, recognised on the Balance Sheet.

The council's Voluntary Aided and Controlled schools are owned by the respective Diocese with no formal rights to use the assets through licence arrangements passed to the School or Governing Bodies and as a result these schools are not recognised on the Balance Sheet.

The ownership of the council's Foundation Schools is with the school or the schools' Governing Body and as a result the school is recognised on the council's Balance Sheet.

1.30. Collection Fund Statement

Council Tax Income

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

Business Rates Income

Business Rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund will be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund balance Movement in Reserves Statement. Any balances owed to or

from each preceptor or central government will be shown as a creditor or debtor in the council's accounts.

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

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

There is one standard introduced by the 2022/23 Code which is relevant for additional disclosures in the 2021/22 financial statements. This is as follows:

- Property Plant and Equipment: Proceeds before intended use, amendment to IAS 16

This change in accounting requirement for 2021/22 is a minor amendment and is not anticipated to have a material impact on the Council's financial performance or financial position.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Funding of Local Government

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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 £5.247m, but this does not include assets relating to Sedgefield Community College and the Academy at Shotton Hall. Further details can be found in Note 40.

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	121	5	8	145
b)	Voluntary Controlled (VC)	-	12	-	-	12
b)	Voluntary Aided (VA)	-	14	-	-	14
c)	Foundation	-	-	1	-	1
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	Maintained Schools	11	148	6	9	174
e)	Academies	-	64	25	2	91
	Total	11	212	31	11	265

- 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 2021/22.

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 2022 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 at 31 March 2022 was £1.920 billion. Accumulated depreciation totalled £303m as at 31 March 2022 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £3.030m.</p>

Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the council.	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. A 1% change in asset valuation would equate to £19.197m change in carrying value.
Net Pensions Liability	At 31 March 2022, the council had a net pensions liability of £1,299.720m. Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the council with expert advice about the assumptions to be applied.	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 £67.860m. In order to understand the magnitude of the possible volatility in the Balance Sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions. IAS19 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 2022, the council had a balance of debtors of £113.408m. A review of significant balances suggested that an impairment of doubtful debts of 27.8% (£31.558m) 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 £1.134m
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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 2021/22.

6. Events After the Balance Sheet Date

Non-adjusting Event - Academy Schools

Twelve local authority schools will convert to Academy Status during 2022/23. These conversions are non-adjusting events in 2021/22. This change in status will lead to the removal of these schools from the Balance Sheet in 2022/23 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 £5.006m, which is the carrying value of the assets in the balance sheet.

Non-Adjusting Event – Durham County Council Headquarters

Since the end of 2021/22, a third party, Durham University has expressed interest in acquiring the newly constructed council headquarters building on The Sands in Durham City. At 31 March 2022, the asset is held on the council's Balance sheet under Property Plant and Equipment. The sale was formally completed on 31 October 2022. This asset will be removed from the Balance Sheet in 2022/23.

7. Expenditure and Funding Analysis

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

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

2020-21 (restated)				2021-22		
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
121,367	4,650	126,017	Adult and Health Services	122,942	5,672	128,614
88,882	46,522	135,404	Children and Young People's Services	114,501	101,724	216,225
87,739	33,779	121,518	Neighbourhoods and Climate Change	88,990	33,507	122,497
39,329	33,997	73,326	Regeneration, Economy and Growth	42,355	44,671	87,026
17,965	12,415	30,380	Resources	23,386	14,634	38,020
603	-12,306	-11,703	Corporate Costs	2,941	-15,486	-12,545
355,885	119,057	474,942	Net Cost of Services	395,115	184,722	579,837
-437,330	33,990	-403,340	Other Income and Expenditure	-439,618	13,525	-426,093
20,979	-20,979	-	Adjustments between Funding and Accounting basis outside the CIES	55,783	-55,783	-
-60,466	132,068	71,602	Surplus (-) or Deficit	11,280	142,464	153,744
-240,790			Opening General Fund Balance (including earmarked reserves) at 1 April	-306,982		
-5,726			Transfer of Dedicated Schools Grant Reserve Deficit to new Adjustment Account (Notes 10 and 26)	-		
-60,466			Surplus (-) or Deficit on General Fund Balance in year	11,280		
-306,982			Closing General Fund Balance (including earmarked reserves) at 31 March	-295,702		

The 2020/21 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Surplus (-) or Deficit on the Provision of Services.

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.

2020-21 (restated)				2021-22				
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
115	4,033	502	4,650	Adult and Health Services	166	5,537	-31	5,672
27,384	18,083	1,055	46,522	Children and Young People's Services	84,198	21,220	-3,694	101,724
26,497	6,461	821	33,779	Neighbourhoods and Climate Change	25,963	7,627	-83	33,507
26,397	6,836	764	33,997	Regeneration, Economy and Growth	36,199	8,507	-35	44,671
3,301	8,145	969	12,415	Resources	5,015	9,718	-99	14,634
-	-12,306	-	-12,306	Corporate Costs	-	-15,486	-	-15,486
83,694	31,252	4,111	119,057	Net Cost of Services	151,541	37,123	-3,942	184,722
4,260	29,730	-	33,990	Other Income and Expenditure from the Funding Analysis	-17,535	31,060	-	13,525
-54,248	-	33,269	-20,979	Adjustments between Funding and Accounting basis outside the CIES	-42,070	-	-13,713	-55,783
33,706	60,982	37,380	132,068	Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit	91,936	68,183	-17,655	142,464

The 2020/21 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Surplus (-) or Deficit on the Provision of Services.

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:

2020-21 (restated)		2021-22
£000		£000
-34,972	Adult and Health Services	-39,670
-14,069	Children and Young People's Services	-18,138
-13,913	Neighbourhoods and Climate Change	-15,181
-21,282	Regeneration, Economy and Growth	-35,114
-5,334	Resources	-10,056
-263	Corporate Costs	-146
<u>-89,833</u>	Total	<u>-118,305</u>

The 2020/21 comparative figures have been restated to reflect the current service structure. There is no net impact on the total.

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.

2020-21		2021-22
£000		£000
	Expenditure	
570,531	Employee benefits expenses	571,414
686,373	Other service expenditure	707,315
96,702	Depreciation, amortisation and other capital charges	174,191
29,634	Precepts and levies	29,742
48,366	Amounts of non-current assets written off on disposal	26,458
16,949	Interest payable	17,974
1,448,555	Total Expenditure	1,527,094
	Income	
-98,508	Fees, charges and other service income	-128,037
-3,692	Capital receipts	-5,879
-274,883	Council Tax and non domestic rates	-304,819
-957,185	Grants and contributions	-912,754
-42,685	Other income	-21,861
-1,376,953	Total Income	-1,373,350
71,602	Surplus (-) or Deficit on Provision of Services	153,744

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.

2021-22:

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<u>Adjustments to Revenue Resources</u>			
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
Total Adjustments to Revenue Resources	-190,407	-	190,407
<u>Adjustments between Revenue and Capital Resources</u>			
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
Total Adjustments between Revenue and Capital Resources	47,942	-4,085	-43,857
<u>Adjustments to Capital Resources</u>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	4,563	-4,563
Cash payments in relation to deferred capital receipts	-	-483	483
Total Adjustments to Capital Resources	-	4,080	-4,080
Total Adjustments	-142,465	-5	142,470

2020-21:

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<u>Adjustments to Revenue Resources</u>			
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)	-60,983	-	60,983
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	-31,092	-	31,092
• Holiday pay (transferred to the Accumulated Absences Account)	-4,109	-	4,109
• Dedicated Schools Grant deficit (transferred to the DSG Adjustment Account)	-2,321	-	2,321
• 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	-62,009	-	62,009
○ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-17,854	-	17,854
○ Amounts of non-current assets written off on disposal or sale	-48,371	-	48,371
○ Revenue expenditure funded from capital under statute	-16,839	-	16,839
○ Capital grants and contributions credited to the CI&E Statement	53,420	-	-53,420
Total Adjustments to Revenue Resources	-190,014	-	190,014
<u>Adjustments between Revenue and Capital Resources</u>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	3,697	-3,219	-478
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	14,824	-	-14,824
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	39,424	-	-39,424
Total Adjustments between Revenue and Capital Resources	57,945	-3,219	-54,726
<u>Adjustments to Capital Resources</u>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	3,708	-3,708
Cash payments in relation to deferred capital receipts	-	-489	489
Total Adjustments to Capital Resources	-	3,219	-3,219
Total Adjustments	-132,069	-	132,069

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 2020	2020-21 Transfers Out	In	31 March 2021	2021-22 Transfers Out	In	31 March 2022
	(restated)						
	£000	£000	£000	£000	£000	£000	£000
Adult and Health Services							
Social Care Reserve	25,671	-2,220	1,070	24,521	-4,276	2,394	22,639
Public Health Reserve	4,064	-489	3,757	7,332	-3,166	2,371	6,537
Regional Public Health Reserves	1,181	-118	1,230	2,293	-53	3,096	5,336
Children and Young People's Services							
Children's Services Reserve	1,785	-617	1,467	2,635	-1,029	2,355	3,961
DSG Reserve	-3,807	-	7,931	4,124	-1,067	-	3,057
Education Reserve	12,630	-3,790	6,104	14,944	-910	2,663	16,697
Balances held by schools under a scheme of delegation	15,949	-	15,225	31,174	-	45	31,219
Neighbourhoods and Climate Change							
Community Protection Reserve	576	-126	697	1,147	-217	2,635	3,565
Environmental Services Reserve	1,483	-234	3,588	4,837	-907	956	4,886
North Pennines AONB Partnership Reserve	1,911	-784	-	1,127	-	496	1,623
Partnerships and Community Engagement Reserve	5,604	-526	1,407	6,485	-1,567	5,895	10,813
Technical Services Reserve	802	-658	1,900	2,044	-674	40	1,410
Regeneration, Economy and Growth							
Business Growth Fund Reserve	604	-150	150	604	-150	-	454
Corporate Property and Land Reserve	1,356	-245	802	1,913	-1,183	2,033	2,763
Culture and Sport Reserve	2,283	-130	13,137	15,290	-3,810	7,747	19,227
Economic Development Reserve	2,123	-108	3,884	5,899	-3,131	867	3,635
Employability and Training Reserve	276	-	-	276	-	47	323
Funding and Programmes Management Reserve	506	-1	36	541	-11	52	582
Grant Reserve	86	-	-	86	-	-	86
Housing Regeneration Reserve	473	-	-	473	-221	3	255
Housing Solutions Reserve	2,200	-122	1,444	3,522	-322	1,546	4,746
Match Fund Programme Reserve	1,214	-371	-	843	-238	-	605
Operational Reserve	119	-106	417	430	-149	-	281
Planning Reserve	862	-694	-	168	-	79	247
Town and Villages Regeneration Reserve	19,767	-683	5,000	24,084	-5,637	-	18,447
Transport Reserve	746	-274	723	1,195	-201	500	1,494
Resources							
Corporate Reserve	529	-376	526	679	-457	336	558
Council Tax Hardship Reserve	-	-	2,820	2,820	-	591	3,411
COVID-19 Support Grants Reserve	-	-	4,873	4,873	-4,428	382	827
Customer Services Reserve	316	-66	-	250	-	-	250
DWP Grant Reserve	574	-	1,321	1,895	-217	2,900	4,578
Elections Reserve	859	-	854	1,713	-622	-	1,091
Financial Services Reserve	-	-	93	93	-	151	244
Grant Reserve	154	-	-	154	-	-	154
Housing Benefit Subsidy Reserve	1,542	-1,542	-	-	-	1,962	1,962
Human Resources Reserve	323	-	69	392	-149	154	397
ICT Reserves	1,242	-279	203	1,166	-501	591	1,256
Internal Audit and Corporate Fraud Reserve	80	-	45	125	-	72	197
Legal Reserves	451	-16	100	535	-55	229	709
Operational Reserve	58	-	141	199	-102	-	97
Operations and Data Reserves	38	-	-	38	-	2	40
Registrars Trading Reserve	200	-50	-	150	-150	-	-
Revenue and Benefits Reserve	854	-329	381	906	-642	592	856
System Development Reserve	354	-46	-	308	-111	-	197
Transformation Reserve	1,277	-310	-	967	-764	383	586

	31 March 2020	2020-21 Transfers Out In (restated)		31 March 2021	2021-22 Transfers Out In		31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Corporate							
Budget Support Reserve	-	-	-	-	-	10,000	10,000
Business Support Reserve	1,032	-726	1,642	1,948	-938	613	1,623
Cabinet Priorities Reserve	-	-	-	-	-	10,000	10,000
Capital Reserve	700	-427	-	273	-273	-	-
Collection Fund Deficit Reserve	-	-	24,863	24,863	-24,863	9,166	9,166
Commercialisation Support Reserve	8,376	-	1,720	10,096	-4,872	410	5,634
Covid-19 Support Grant Reserve	17,521	-17,521	-	-	-	-	-
Equal Pay Reserve	9,979	-500	-	9,479	-	-	9,479
ER/VR Reserve	3,347	-1,354	2,000	3,993	-	2,051	6,044
Feasibility Study Reserve	500	-	-	500	-	-	500
Inspire Programme Reserve	330	-84	-	246	-125	-	121
Insurance Reserve	10,070	-506	-	9,564	-4,564	-	5,000
Levelling Up Feasibility Reserve	-	-	1,000	1,000	-150	-	850
Local Taxation Income Guarantee Grant Reserve	-	-	1,224	1,224	-514	-	710
MTFP Reserve	19,172	-2,732	-	16,440	-3,778	2,500	15,162
Office Accommodation Capital Reserve	24,739	-22,794	-	1,945	-1,945	-	-
Recovery Support Reserve	-	-	8,236	8,236	-6,582	-	1,654
Cash Limit Reserves	11,759	-2,234	6,248	15,773	-7,691	3,482	11,564
Total Earmarked Reserves	216,840	-64,338	128,328	280,830	-93,412	82,387	269,805

The 2020/21 comparative figures have been restated to reflect the current service structure. There is no net impact on the total.

The significant earmarked reserves at 31 March 2022, 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 contracts and meeting agreed priorities in the region.

Dedicated Schools Grant (DSG) and Education Reserves: to carry forward the unspent, central element of Dedicated Schools Grant funding for multi-agency operations, and to provide education business links between schools and local businesses.

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 and 2021/22, 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.

Recovery Support Reserve: to provide resources to support the county's recovery from the impact of the COVID-19 pandemic.

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

11. Other Operating Expenditure

2020-21 £000		2021-22 £000
13,638	Parish council precepts	13,734
15,996	Levies	16,008
44,674	Losses / - Gains on the disposal of non-current assets	20,579
<u>74,308</u>	Total	<u>50,321</u>

12. Financing and Investment Income and Expenditure

2020-21 £000		2021-22 £000
16,949	Interest payable and similar charges	17,974
29,730	Pensions net interest on the net defined benefit liability	31,060
-3,169	Interest receivable and similar income	-4,238
272	Impairment of Financial Investments	-134
-415	Income and expenditure in relation to investment properties and changes in their fair value	356
-4,045	Other investment income	-6,294
<u>39,322</u>	Total	<u>38,724</u>

13. Taxation and Non-Specific Grant Income

2020-21		2021-22
£000		£000
-240,103	Council tax income *	-254,906
-34,780	Non domestic rates	-49,913
-199,862	Non-ringfenced government grants	-169,398
-42,225	Capital grants and contributions	-40,921
<u>-516,970</u>	Total	<u>-515,138</u>

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

14. Property, Plant and Equipment

Movement on Balance 2021/22:

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
Cost or valuation							
At 1 April 2021	1,206,221	72,312	703,828	1,465	37,892	41,674	2,063,392
Additions	32,844	12,887	34,637	10	564	28,811	109,753
Revaluation increases/(decreases)	-211,855	-	-	-	3,735	-	-208,120
Derecognition - disposals	-35,078	-6,394	-230	-8	-727	-	-42,437
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	-	-	-	-	-	-	-
At 31 March 2022	1,041,064	78,805	738,235	1,625	38,623	21,371	1,919,723
Accumulated Depreciation and Impairment							
At 1 April 2021	-69,194	-40,926	-198,677	-88	-11	-	-308,896
Depreciation charge	-23,572	-9,605	-18,015	-	-13	-	-51,205
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	-	-	-	-	-	-	-
At 31 March 2022	-41,683	-44,324	-216,692	-88	-12	-	-302,799
Net Book Value							
At 31 March 2022	999,381	34,481	521,543	1,537	38,611	21,371	1,616,924
At 31 March 2021	1,137,027	31,386	505,151	1,377	37,881	41,674	1,754,496
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
	-170,586	-	-	-	3,747	-	-166,839
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
	-170,586	-	-	-	3,747	-	-166,839

Comparative Movements in 2020/21 (restated):

	Operational				Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
Cost or valuation							
At 1 April 2020	1,239,919	97,262	665,786	1,456	34,787	25,565	2,064,775
Additions	24,643	10,270	37,893	2	666	29,927	103,401
Revaluation increases/(decreases)	-22,459	-	-	-	4,689	-	-17,770
Derecognition - disposals	-48,537	-35,220	-	-	-2,234	-	-85,991
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	12,655	-	149	7	-16	-13,818	-1,023
Other movements in cost or valuation	-	-	-	-	-	-	-
At 31 March 2021	1,206,221	72,312	703,828	1,465	37,892	41,674	2,063,392
Accumulated Depreciation and Impairment							
At 1 April 2020	-53,105	-66,532	-181,486	-88	-156	-	-301,367
Depreciation charge	-34,061	-9,264	-17,176	-	-13	-	-60,514
Depreciation written out on revaluation	15,479	-	-	-	158	-	15,637
Impairment losses/(reversals)	-278	-	-	-	-	-	-278
Derecognition - disposals	2,742	34,870	-	-	7	-	37,619
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	29	-	-15	-	-7	-	7
Other movements in cost or valuation	-	-	-	-	-	-	-
At 31 March 2021	-69,194	-40,926	-198,677	-88	-11	-	-308,896
Net Book Value							
At 31 March 2021	1,137,027	31,386	505,151	1,377	37,881	41,674	1,754,496
At 31 March 2020	1,186,814	30,730	484,300	1,368	34,631	25,565	1,763,408
The Revaluations / Impairments above:							
Revaluation increases/(decreases)	-22,459	-	-	-	4,689	-	-17,770
Depreciation written out	15,479	-	-	-	158	-	15,637
Impairment losses/(reversals)	-278	-	-	-	-	-	-278
	-7,258	-	-	-	4,847	-	-2,411
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	7,543	-	-	-	6,324	-	13,867
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-14,523	-	-	-	-1,477	-	-16,000
Impairment losses in the Revaluation Reserve	-236	-	-	-	-	-	-236
Impairment losses in the Surplus/Deficit on the Provision of Services	-42	-	-	-	-	-	-42
	-7,258	-	-	-	4,847	-	-2,411

The comparative movements have been restated to present transfers between asset categories as reclassifications rather than other movements. There is no impact on the gross or net book values.

Depreciation

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

- Land and Buildings – Buildings up to 50 years, Land not depreciated
- Vehicles, Plant, Furniture and Equipment – mainly up to 10 years, however some specialised items are depreciated of up to 25 years
- Infrastructure – 40 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Revaluations

Valuations as at 1 April 2021 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 Children and Young Peoples Service grouping, 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 2021.

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 2022, 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.

	Council dwellings £000	Other land and buildings £000	Vehicles, plant, furniture and equipment £000	Surplus Assets £000	Total £000
Carried at historical cost	-	6,420	78,815	455	85,690
Valued at current value as at:					
31 March 2022	-	564,696	-	38,318	603,014
31 March 2021	-	157,129	-	3	157,133
31 March 2020	-	71,226	-	0	71,226
31 March 2019	-	97,516	-	28	97,544
31 March 2018	-	144,908	-	-	144,908
	-	1,041,896	78,815	38,805	1,159,515

Over the past 2 years, the global market has suffered from the COVID-19 pandemic. This pandemic is an ongoing disruption as new variants i.e., Omicron disrupt economic growth. 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. Nevertheless, this growth may become stagnant as there is an increased risk of rising inflation and current crisis in supply chains. Many experts are advising that the current economic position is likely to lead to a recession.

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, however we believe that the overall trend is relatively stable.

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 2022 (£38.623m) 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 2022 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £31.826 million in future years. Similar commitments at 31 March 2021 were £49.459 million. The commitments at 31 March 2022 are:

• Durham History Centre	£7.884m
• Leisure Centre Transformation schemes	£4.929m
• Morrison Busty Battery Storage Phase 4	£4.720m
• Digital Durham	£4.316m
• NETpark Phase 3	£3.939m
• New Council Headquarters	£3.327m
• Green Homes schemes	£1.449m
• Bishop Auckland FHSF Bus Station / MSCP	£1.263m

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 Monuments, Statues and Historic Buildings £000	Civic Regalia and Silverware £000	Total Assets £000
Cost or valuation				
At 1 April 2021	9,045	659	1,158	15,174
Additions	753	-	-	1,067
Revaluations	-	-	-	-
Assets reclassified from / -to Property Plant and Equipment	-	-	-	-
At 31 March 2022	9,798	659	1,158	16,241
Cost or valuation				
At 1 April 2020	8,961	659	1,158	14,131
Additions	-	-	-	56
Revaluations	84	-	-	84
Assets reclassified from / -to Property Plant and Equipment	-	-	-	903
At 31 March 2021	9,045	659	1,158	15,174

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:

2020-21 £000		2021-22 £000
-2,226	Rental Income from Investment Property	-2,535
-	Direct Operating Expenses arising from Investment property	
<u>-2,226</u>	Net (-) Gain / Loss	<u>-2,535</u>

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

2020-21 £000		2021-22 £000
6,252	Balance at start of the year	6,170
	Additions:	
-	Enhancements	-
1,618	Revaluations	2,706
-	Disposals	-
-1,812	Net gains / (-) losses from fair value adjustments	-2,806
	Transfers:	
112	(-)To / from Property, Plant and Equipment	-
<u>6,170</u>	Balance at end of the year	<u>6,070</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 2022 (£6.070m) 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

Financial Assets

	Long-term				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31 March	31 March	31 March	31 March	31 March	31 March				
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Amortised cost	20,402	2,548	14,729	11,796	252,523	344,029	89,801	60,767	377,455	419,140
Fair value through other comprehensive income - designated equity instruments	7,818	10,743	-	-	-	-	-	-	7,818	10,743
Total financial assets	28,220	13,291	14,729	11,796	252,523	344,029	89,801	60,767	385,273	429,883
Outside of the Scope	4,404	4,405	5,438	4,426	-	-	15,619	26,877	25,461	35,707
Total	32,624	17,696	20,167	16,221	252,523	344,029	105,420	87,644	410,734	465,590

The current investments include cash and cash equivalent balances.

Financial Liabilities

Financial Liabilities

	Long-term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost	- 363,643	- 407,959	- 74,598	- 75,413	- 3,461	- 13,840	- 139,245	- 166,118	- 580,947	- 663,330
Total financial liabilities	- 363,643	- 407,959	- 74,598	- 75,413	- 3,461	- 13,840	- 139,245	- 166,118	- 580,947	- 663,330
Outside of the Scope	-	-	-	-	-	-	31,407	28,709	31,407	28,709
Total	- 363,643	- 407,959	- 74,598	- 75,413	- 3,461	- 13,840	- 170,652	- 194,827	- 612,354	- 692,039

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:

2020-21			2022-22	
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:		
272	-	Financial assets measured at amortised cost	-134	
-	-546	Investments in equity instruments designated at fair value through other comprehensive income		-2,963
272	-546	Total net gains/losses	-134	-2,963
-3,050	-	Interest revenue	-2,439	-
16,949	-	Interest expense	17,974	-

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 2021			31 March 2022	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
212,397	212,397	Short term investments	291,063	291,063
20,402	20,402	Long term investments	2,548	2,548
89,801	89,801	Short term debtors	60,767	60,767
14,729	14,729	Long term debtors	11,796	11,796
337,329	337,329	Total Investments and Debtors	366,174	366,174

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 2021	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2022
£000				£000
7,666	Newcastle International Airport Ltd	Level 3	Inputs other than quoted prices in active markets that are observable for the asset	10,629
-	Durham Tees Valley Airport Ltd	Level 3		-
152	Atom Bank	Level 3		114
7,818	Total			10,743

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 £10.743m 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 2021 (£nil was received for the year ended 31 December 2020).

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:

31 March 2021			31 March 2022	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
-278,972	-313,214	PWLB borrowing	-308,969	-317,280
-84,447	-114,167	Non-PWLB borrowing	-109,017	-131,016
-132,845	-132,845	Short term creditors	-159,564	-159,564
-5,186	-5,186	Short term finance lease liability	-5,162	-5,162
-39,702	-39,702	Long term finance lease liability	-41,908	-41,908
-36,111	-36,111	PFI liability	-34,897	-34,897
-577,263	-641,224	Total Liabilities	-659,517	-689,827

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 £359.311m at 31 March 2022.

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 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 four years (three and a half years in 2020/21) 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 £0.684m (£0.804m in 2020/21) 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 £0.156m (£0.180m in 2020/21) 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 loss was recognised in 2020/21 for the likelihood that these payments will not be repaid. No further loss has been recognised in 2021/22.

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 2022. The result is that the calculated allowance required at 31 March 2022 has increased to £0.052m (£0.042m at 31 March 2021).

A summary of the credit quality of the council's investments at 31 March 2022 is shown as follows:

	Lowest long term rating	Balance at 31 March 2022	Historical rate of default	Estimated maximum exposure to default at 31 March 2022
		£000	%	£000
Deposits with banks and financial institutions				
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>

The council's maximum exposure to credit loss from these deposits is the full balance at 31 March 2022.

Comparative credit quality of the council's investments at 31 March 2021:

	Lowest long term rating	Balance at 31 March 2021	Historical rate of default	Estimated maximum exposure to default at 31 March 2021
		£000	%	£000
Deposits with banks and financial institutions				
Local Authorities	AA	64,661	0.00	-
Banks (less than 1 year)	AA	43,086	0.02	-
Banks (less than 1 year)	A+	91,387	0.05	29
Banks (less than 1 year)	A	-	0.05	-
Banks (less than 1 year)	A-	21,553	0.05	4
Building Societies (less than 1 year)	A	30,175	0.05	7
Building Societies (less than 1 year)	A-	21,554	0.05	1
		<u>272,416</u>		<u>42</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 £22.106m of the £53.450m balance of Other Debtors (Note 20) is past its due date for payment and the council has made an impairment allowance totalling £8.464m 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 2021		31 March 2022
£000		£000
7,740	Less than three months	9,622
2,718	Between three and six months	3,251
2,932	Between six months and one year	2,827
4,499	More than one year	6,405
<u>17,889</u>	Total	<u>22,106</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 2022 was £1.734m (£2.223m at 31 March 2021).

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 2021		31 March 2022	
£000			£000
3,461	Less than one year		13,840
10,373	Between one and two years		20,004
53,691	Between two and five years		32,516
91,903	Between five and ten years		93,923
6,348	Between ten and fifteen years		20,006
2,686	Between fifteen and twenty years		25,000
6,078	Between twenty and twenty five years		13,000
192,564	More than twenty five years		203,509
<u>367,104</u>	Total Short and Long Term Borrowing		<u>421,798</u>

Market Risk

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

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

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or

Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

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

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

According to the council's assessment strategy, at 31 March 2022, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £60.093m 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 £000	Purchases £000	Recognised as an expense in the year £000	Balance outstanding at year-end £000
Year to 31 March 2022				
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
Total	5,569	10,958	-10,205	6,322
Year to 31 March 2021				
Consumable Stores	3,230	6,732	-5,534	4,428
Maintenance Materials	391	164	-155	400
Client Services Work in Progress	-	-	-	-
Rechargeable Works	484	651	-394	741
Total	4,105	7,547	-6,083	5,569

20. Short Term Debtors

31 March 2021		31 March 2022	
£000		£000	
32,935	Central government bodies	10,734	
7,035	Other local authorities	7,806	
6,102	NHS bodies	5,082	
	Other entities and individuals:		
30,956	Council Tax	33,444	
4,275	Non-Domestic Rates	2,892	
47,546	Other	53,450	
	Less Impairment Allowance:		
-20,033	Council Tax	-20,940	
-2,462	Non-Domestic Rates	-2,154	
-7,539	Other	-8,464	
<u>98,815</u>		<u>81,850</u>	
6,605	Payments in advance	5,794	
<u>105,420</u>	Total Debtors	<u>87,644</u>	

21. Cash and Cash Equivalents

2020-21 £000		2021-22 £000
410	Cash at bank	1,678
-3,370	Overdraft	-
43,086	Cash held on demand (call accounts)	35,287
<u>40,126</u>	Cash and Cash Equivalents balance	<u>36,965</u>

22. Assets Held for Sale

2020-21 £000		2021-22 £000
-	Balance outstanding at start of year	-
	Assets newly classified as held for sale:	
-	Property, Plant and Equipment	2,864
-	Revaluations	-59
	Assets declassified as Held for Sale:	
-	Property, Plant and Equipment	-
-	Assets sold	-265
<u>-</u>	Balance outstanding at year-end	<u>2,540</u>

23. Short Term Creditors

31 March 2021 £000		31 March 2022 £000
-60,474	Central government bodies	-82,196
-840	Other local authorities	-1,072
-951	NHS bodies	-990
	Other entities and individuals:	
-16,569	Accumulated Absences Account	-12,627
-6,400	Short term finance lease and PFI liabilities	-6,554
-4,128	Collection Fund prepayments	-6,049
-11,774	Section 106 agreements	-15,022
-5,442	Pension Fund	-6,664
-43,794	Other	-47,461
<u>-150,372</u>		<u>-178,635</u>
-20,280	Receipts in Advance	-16,192
<u>-170,652</u>	Total Creditors	<u>-194,827</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 2022 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 2021/22.

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 2021/22 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
Balance at 1 April 2021	7,810	67	10,356	18,233
Additional provisions made in 2021/22	2,607	-	1,754	4,361
Amounts used in 2021/22	-1,247	-	-4,804	-6,051
Unused amounts reversed in 2021/22	-931	-	-	-931
Balance at 31 March 2022	<u>8,239</u>	<u>67</u>	<u>7,306</u>	<u>15,612</u>
As shown in Balance Sheet				
Long Term Provisions	6,353	-	7,138	13,491
Short Term Provisions	1,886	67	168	2,121
Balance at 31 March 2022	<u>8,239</u>	<u>67</u>	<u>7,306</u>	<u>15,612</u>

25. Usable Reserves

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

31 March 2021 £000		31 March 2022 £000
8	Usable Capital Receipts Reserve	13
26,153	General Fund Balance	25,898
280,830	Earmarked Reserves	269,805
<u>306,991</u>	Total	<u>295,716</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 2021 £000		31 March 2022 £000
593,414	Revaluation Reserve	486,119
7,539	Financial Instruments Revaluation Reserve	10,465
708,047	Capital Adjustment Account	636,820
-1,208	Financial Instruments Adjustment Account	-1,064
585	Deferred Capital Receipts	1,889
-16,569	Accumulated Absences Account	-12,627
-1,534,133	Pensions Reserve	-1,309,626
-26,012	Collection Fund Adjustment Account	-11,647
-8,047	DSG Deficit Adjustment Account	-8,843
-276,384	Total	-208,514

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.

2020-21 £000		2021-22 £000
635,727	Balance at 1 April	593,414
59,957	Upward revaluation of assets	67,822
-46,241	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-153,098
13,716	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-85,276
-19,584	Difference between fair value depreciation and historical cost depreciation	-10,919
-36,445	Accumulated gains on assets sold or scrapped	-11,100
-56,029	Amount written off to the Capital Adjustment Account	-22,019
593,414	Balance at 31 March	486,119

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.

2020-21		2021-22
£000		£000
6,994	Balance at 1 April	7,539
545	Upward or downward revaluation of investments not credited to the Surplus/Deficit on the Provision of Services	2,925
<u>7,539</u>		<u>10,464</u>
-	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
<u><u>7,539</u></u>	Balance at 31 March	<u><u>10,464</u></u>

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.

Notes to the Accounts

2020-21 £000		2021-22 £000
685,715	Balance at 1 April	708,047
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-60,556	Charges for depreciation and impairment of non-current assets	-51,260
-16,000	Revaluation losses on Property, Plant and Equipment	-81,800
-1,495	Amortisation of intangible assets	-1,811
-16,839	Revenue expenditure funded from capital under statute	-36,512
-48,371	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	-26,451
-143,261		-197,834
56,029	Adjusting amounts written out of the Revaluation Reserve	22,019
-87,232	Net written out amount of the cost of non-current assets consumed in the year	-175,815
	Capital financing applied in the year:	
3,988	Use of Capital Receipts Reserve to finance new capital expenditure	7,363
-280	Write down of capital loan repaid in year as a capital receipt	-2,800
53,420	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	60,763
14,824	Statutory provision for the financing of capital investment charged against the General Fund	15,791
39,424	Capital expenditure charged against the General Fund	26,279
111,376		107,396
-1,812	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-2,807
<u>708,047</u>	Balance at 31 March	<u>636,821</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.

2020-21 £000		2021-22 £000
596	Balance at 1 April	585
493	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,787
-504	Transfer to the Capital Receipts Reserve upon receipt of cash	-483
<u>585</u>	Balance at 31 March	<u>1,889</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.

Despite COVID-19 restrictions continuing in 2021/22, employees were still encouraged to continue to take annual leave. In line with working time regulations, all employees must have taken at least 28 days leave, including 8 days for bank holidays (pro-rata for part-time employees), meaning a maximum carry forward of 13 days (was 11 days in 2020/21) for those entitled to 31 days leave in the year. This continued concession has led to a less significant year-on-year movement in the accumulated absence account in respect of non-teaching staff (£0.667m reduction), accompanied by a larger reduction in the teaching staff element for the account, due to a reduction in the number of maintained schools (due to academisation) and the timing of the Easter holidays affecting the calculation (£3.275m reduction).

2020-21		2021-22
£000		£000
-12,460	Balance at 1 April	-16,569
12,460	Settlement or cancellation of accrual made at the end of the preceding year	16,569
-16,569	Amounts accrued at the end of the current year	-12,627
-4,109	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,942
<u>-16,569</u>	Balance at 31 March	<u>-12,627</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.

2020-21 £000		2021-22 £000
-1,331,291	Balance at 1 April	-1,534,133
-139,790	Remeasurements of the net defined benefit liability	292,690
-2,069	Adjustment for previous year's difference between actuary's estimate and actual employers' pension contributions	-
-125,670	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	-133,570
64,687	Employer's pensions contributions and direct payments to pensioners payable in the year	65,387
<u>-1,534,133</u>	Balance at 31 March	<u>-1,309,626</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.

2020-21 £000		2021-22 £000
5,080	Balance at 1 April	-26,012
	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	
-31,092		14,365
<u>-26,012</u>	Balance at 31 March	<u>-11,647</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 require that, where an authority has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, 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.

2020-21		2021-22
£000		£000
-	Balance at 1 April	-8,047
-5,726	Transfer of High Needs Block deficit balance at 1 April from Dedicated Schools Grant earmarked reserve	-
<u>-5,726</u>	Restated Balance at 1 April	<u>-8,047</u>
-2,321	In year High Needs Block deficit	-796
<u><u>-8,047</u></u>	Balance at 31 March	<u><u>-8,843</u></u>

27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2020-21		2021-22
£000		£000
(restated)		
16,949	Interest paid	17,974
-3,050	Interest received	-2,439
-119	Dividends received	-1,802

The interest paid for 2020/21 has been restated reflecting Financial Instrument note 17.

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

2020-21		2021-22
£000		£000
(Restated)		
-60,514	Depreciation	-51,260
-16,042	Impairment and downward revaluation	-81,800
-1,495	Amortisation	-1,811
4,109	Transfer to/from Accumulated Absences account	-3,942
-757	Increase/decrease in the provision for bad debts	-925
-24,526	Increase/decrease in creditors	-29,389
5,476	Increase/decrease in debtors	-20,832
1,464	Increase/decrease in inventory	754
-60,983	Pension liability	-68,183
-48,371	Carrying amount of non-current assets sold	-26,451
-22,936	Other non-cash items	67,954
<u><u>-224,575</u></u>		<u><u>-215,885</u></u>

2020/21 has been restated for the movement in the value of investment properties from Impairment and downward revaluation to Other non-cash items.

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

2020-21 £000		2021-22 £000
3,697	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,872
<u>3,697</u>	Net cash flows from investing activities	<u>5,872</u>

28. Cash Flow Statement – Investing Activities

2020-21 £000		2021-22 £000
98,415	Purchase of property, plant and equipment, investment property and intangible assets	105,808
297,128	Purchase of short-term (not considered to be cash equivalents) and long-term investments	348,589
4,045	Other payments for investing activities - external trading	6,295
-3,697	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-5,872
-278,288	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-271,777
-57,639	Other receipts from investing activities (inc. external trading)	-50,159
<u>59,964</u>	Net cash flows from investing activities	<u>132,884</u>

29. Cash Flow Statement – Financing Activities

2020-21 £000		2021-22 £000
-15,063	Cash receipts of short-term and long-term borrowing	-55,013
67,221	Other receipts from financing activities	-26,596
7,031	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	7,707
10,215	Repayments of short-term and long-term borrowing	447
-	Other payments for financing activities	-
<u>69,404</u>	Net cash flows from financing activities	<u>-73,455</u>

30. Reconciliation of liabilities arising from financing activities

2021/22:

	1 April 2021	Financing cash flows	Changes which are not financing cash flows		31 March 2022
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	-386,273	-55,013	-	-	-441,286
Short term borrowings	19,133	447	-	-	19,580
Lease liabilities	-44,887	6,493	-5,968	-2,707	-47,069
On balance sheet PFI liabilities	-36,114	1,213	-	-	-34,901
Total liabilities from financing activities	-448,141	-46,860	-5,968	-2,707	-503,676

2020/21:

	1 April 2020	Financing cash flows	Changes which are not financing cash flows		31 March 2021
			Acquisition	Other	
	£000	£000	£000	£000	£000
Long term borrowings	-371,210	-15,063	-	-	-386,273
Short term borrowings	8,918	10,215	-	-	19,133
Lease liabilities	-42,665	5,973	-6,577	-1,618	-44,887
On balance sheet PFI liabilities	-37,172	1,058	-	-	-36,114
Total liabilities from financing activities	-442,129	2,183	-6,577	-1,618	-448,141

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 2021/22 £9.102m (£7.225m in 2020/21) 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 2020/21 to 2021/22 is due to an increase in services provided to Academies, Schools Outside of Durham County Council, the North East Combined Authority, Chapter Homes, and Durham Police, Crime and Victims' Commissioner which net off against a decrease in services provided to, County Durham Housing Group, County Durham and Darlington Fire & Rescue Authority and to County Durham & Darlington NHS Foundation Trust.

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.

2020-21		2021-22
£000		£000
1,662	Basic Allowance	1,668
285	Special Responsibility Allowance	275
5	Broadband Allowance	3
7	Expenses	16
<hr/>		<hr/>
1,959	Total	1,962
<hr/>		<hr/>

33. Officers' Remuneration

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

Name	Period	Salary, Fees and Allowances £	Expenses Allowances £	Compensation for Loss of Office £	Pensions Contribution £	Total £
Chief Executive - John Hewitt (22/09/21 - 31/03/22)	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
	2020-21	50,436	-	-	9,331	59,767
Corporate Director - Resources - John Hewitt (01/04/20 - 31/12/20)	2020-21	114,502	-	-	21,183	135,685
Corporate Director - Resources - Paul Darby (25/10/21 - 31/03/22)	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
	2020-21	38,167	-	-	7,061	45,228
Corporate Director - Children and Young Peoples Services - John Pearce	2021-22	154,959	-	-	26,134	181,093
	2020-21	152,669	-	-	26,851	179,520
Corporate Director - Adult and Health Services - Jane Robinson	2021-22	154,959	-	-	28,667	183,626
	2020-21	152,669	-	-	28,244	180,913
Corporate Director - Regeneration, Economy and Growth - Amy Harhoff (22/06/20 - 31/03/21)	2021-22	155,007	280	-	28,667	183,954
	2020-21	118,319	-	-	21,889	140,207
Corporate Director - Neighbourhood and Climate Change - Alan Patrickson	2021-22	154,959	-	-	27,333	182,292
	2020-22	153,468	-	-	28,392	181,859
Head of Legal and Democratic Services (Monitoring Officer)	2021-22	121,753	-	-	22,524	144,277
	2020-21	119,954	14	-	22,191	142,159

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 249 'Other Staff' in 2021/22 there are 8 employees paid on Leadership Teacher grades and 39 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through

Service Level Agreements from schools within County Durham and also a number of schools outside of the Durham area.

Remuneration band	2020-21			2021-22		
	Number of Employees			Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	119	55	174	131	84	215
£55,000 - £59,999	76	55	131	73	35	108
£60,000 - £64,999	55	35	90	54	52	106
£65,000 - £69,999	55	34	89	39	40	79
£70,000 - £74,999	23	6	29	30	6	36
£75,000 - £79,999	7	1	8	7	3	10
£80,000 - £84,999	4	8	12	3	4	7
£85,000 - £89,999	4	1	5	4	3	7
£90,000 - £94,999	3	1	4	3	1	4
£95,000 - £99,999	2	3	5	-	3	3
£100,000 - £104,999	2	4	6	2	-	2
£105,000 - £109,999	-	4	4	-	5	5
£110,000 - £114,999	2	1	3	1	2	3
£115,000 - £119,999	1	4	5	2	1	3
£120,000 - £124,999	-	4	4	-	8	8
£125,000 - £129,999	-	-	-	-	-	-
£130,000 - £134,999	-	-	-	-	-	-
£135,000 - £139,999	-	1	1	-	1	1
£140,000 - £144,999	-	-	-	-	1	1
	<u>353</u>	<u>217</u>	<u>570</u>	<u>349</u>	<u>249</u>	<u>598</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	
	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22
							£000	£000
£0 - £20,000	-	3	3	2	3	5	37	30
£20,001 - £40,000	-	-	5	-	5	-	149	-
£40,001 - £60,000	-	1	-	1	-	2	-	100
£60,001 - £80,000	-	-	-	1	-	1	-	69
£80,001 - £100,000	-	-	-	2	-	2	-	171
£100,001 - £150,000	-	1	2	2	2	3	277	353
Total	-	5	10	8	10	13	463	723

34. External Audit Costs

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors. The appointed auditor for 2021/22, and up to 2022/23, is Mazars LLP.

2020-21	2021-22
£000	£000
210 Fees payable with regard to external audit services carried out by the appointed auditor for the year	238
28 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	20
238 Total	258

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 2021/22 are as follows:

2020-2021			2021-2022			
Central Expenditure £000	ISB £000	Total £000		Central Expenditure £000	ISB £000	Total £000
		415,918	A			448,071
		<u>140,099</u>	B			<u>177,755</u>
		275,819	C			270,316
			Plus			
		-3,806	D			-3,922
			Less			
		-	E			-
<u>57,397</u>	<u>214,616</u>	<u>272,013</u>	F	<u>94,804</u>	<u>171,590</u>	<u>266,394</u>
2,091	-2,437	-346	G	-902		-902
<u>59,488</u>	<u>212,179</u>	<u>271,667</u>	H	<u>93,902</u>	<u>171,590</u>	<u>265,492</u>
			Less			
-63,410		-63,410	I	-99,687		-99,687
			Less			
	212,179	212,179	J		171,590	171,590
			Plus			
			K			
			L			
-3,922		-3,922	M	-5,785		-5,785
			Plus			
			M			
		-3,922	N			-5,785

- 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 2020/21 as agreed with the Department.
- E Any amount which the council decided after consultation with the Schools Forum to carry forward to 2022/23 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

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

2020-21 £000		2021-22 £000
	Credited to Taxation and Non Specific Grant Income:	
	Non Ring-fenced Government Grants:	
-28,071	Revenue Support Grant	-28,227
-72,780	Top Up Grant	-72,780
-36,600	Section 31 Grants	-22,068
-27,082	Covid 19 Support Grant	-15,560
-17,651	Social Care Support Grant	-22,888
-7,564	New Homes Bonus Scheme Grant	-4,476
-8,890	Sales Fees and Charges Grant	-2,652
-	Lower Tier Services Grant	-747
-1,224	Local Tax Income Guarantee Scheme - Council Tax	-
-42,225	Capital Grants and Contributions	-40,921
<u>-242,087</u>		<u>-210,319</u>

Grant and Contribution Income Credited to Services

2020-21 £000		2021-22 £000
	Credited to Services:	
	Covid-related Grants	
-2,098	Adult Social Care Infection Control Fund	-2,000
-23,293	Business Support Funding	-3,295
-1,697	Clinically Extremely Vulnerable	-180
-10,483	Contain Outbreak Management Fund	-8,776
-1,954	Coronavirus Job Retention Scheme (furlough)	-58
-6,964	Council Tax Hardship Fund	-
-2,523	Covid Winter Grant Scheme	-2,304
-	Omicron Support Fund Grant	-706
-387	Rapid Testing Fund	-1,420
-	Vaccine Control Fund Grant	-88
-1,411	Workforce Capacity Fund	-5,368
<u>-50,810</u>	Total Covid-related grants	<u>-24,195</u>

2020-21 £000		2021-22 £000
	Credited to Services:	
	Other Grants	
-3,950	Additional Grant for Schools	-4,244
-1,310	Apprenticeship Levy digital account	-1,354
-1,792	Arts Council England - NE	-1,321
-	Cabinet Office Grants	-455
-30,515	Clinical Commissioning Groups-Better Care Fund	-32,132
-3,273	DCSF Grant	-3,212
-275,916	Dedicated Schools Grant (DSG)	-270,180
-2,139	DEFRA Grant	-1,816
-1,361	Department of Health Grant	-403
-	DHSC - Test & Trace Service Support Grant	-4,498
-	DHSC in Prisons	-415
-	DHSC Practical Support (self Isolating)	-654
-	Department of Health Local Reform and Community Voices	-404
-	Department of Health War Pensions Scheme Disregard	-272
-1,513	Discretionary Housing Payment Grant	-1,173
-4,936	DLUHC Grant	-4,174
-	DLUHC Grant Former Independent Living Fund	-1,543
-305	Durham Police, Crime and Victims' Commissioner	-308
-	DWP Household Support Fund	-4,676
-342	DWP New Burdens Grant	-486
-757	Education Authorities-other	-1,194
-9,508	Education Funding Agency	-10,660
-	Educational Visits	-517
-4,435	ERDF Grant	-5,089
-2,793	ESF Grant	-7,562
-1,593	General Contributions	-10,346
-764	Heritage Lottery Fund Grant	-2,370
-1,127	Home Office Grant - Syrian Vulnerable Persons	-970
-1,998	Housing Benefit - Admin Grant	-1,899
-118,483	Housing Benefit Grant - Rent Allowance	-110,522
-419	Housing Benefit Grant - Rent Rebate	-673
-29,959	Improved Better Care Fund	-29,959
-917	Local Council Tax Support Scheme Administration Grant	-938
-	Local Council Tax Support Grant addition	-7,043
-26,768	NHS - Care Costs	-17,252
-4,591	NHS - Joint Arrangements	-4,478
-575	NNDR Cost of Collection Allowance	-577
-15,456	North East Combined Authority	-15,475
-1,382	Other Local Authorities	-2,636
-5,519	PFI Grants	-5,519
-49,159	Public Health Grant	-49,592
-18,945	Pupil Premium Grant	-17,578
-2,911	Skills Funding Agency	-2,287
-2,611	Teacher Pay Grant	-314
-7,784	Teacher Pension Grant	-888
-1,720	Think Family Grant	-1,745
-3,905	Universal Infant Free School Meals Grant	-3,411
-626	Youth Offending Teams Grant	-679
-11,329	Other Grants and Contributions	-12,774
<u>-653,386</u>	Total Other grants	<u>-658,667</u>
<u>-704,196</u>	Total grants credited to services	<u>-682,862</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:

2020-21			2021-22	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
		Capital Grants and Contributions Receipts in Advance		
-5,319	-591	Broadband Delivery UK	-	-506
-	-104	Darlington Borough Council	-	-
-3,380	-4,760	Department for Business Energy & Industrial Strategy	-3,230	-6,003
-	-369	Department for Education	-	-48
-	-	Department for Environment, Food & Rural Affairs	-	-232
-	-1,104	Department for Levelling Up, Housing and Communities	-278	-4,417
-1,450	-819	Department for Transport	-	-7
-	-300	Environment Agency	-	-616
-	-398	European Commission	-	-
-	-169	Gateshead Council	-	-
-	-31	Groundwork North East	-	-
-	-30	Highways England	-	-
-	-54	Historic England	-	-46
-	-128	Homes England	-	-56
-1,040	-	Home Loan Recycled Fund	-1,214	-
-	-20	Local Government Association	-	-
-	-63	Middlesbrough Council	-	-
-	-662	North East Combined Authority	-145	-2,787
-	-	North of Tyne Combined Authority	-	-3,589
-	-91	North Tyneside Council	-	-237
-	-338	Office for Zero Emission Vehicles	-	-128
-	-170	Redcar and Cleveland Borough Council	-	-
-	-83	South Tyneside Council	-	-83
-	-156	Stockton Borough Council	-	-
-	-300	Sustrans	-	-375
-	-207	Tees Valley Combined Authority	-	-621
-80	-65	Warm Homes Fund	-189	-85
-50	-23	Other	-212	-230
-11,319	-11,035	Total Capital Grants and Contributions Receipts in Advance	-5,268	-20,066

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 2021/22 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 £0.141m in 2021/22 (£0.157m in 2020/21). 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 £0.753m in 2021/22 (£0.725m in 2020/21)
- Cornforth Partnership £0.151m in 2021/22 (£0.193m in 2020/21)
- Easington Regeneration Partnership £0.008m in 2021/22 (£0.017m in 2020/21)
- Pelton Fell Community Partnership £0.034m in 2021/22 (£0.009m in 2020/21)
- Arts Council £0.001m in 2021/22 (£nil in 2020/21)
- ATOMS Education £0.046m in 21/22
- Apollo Pavillion Projects £0.010m in 2021/22
- Woodham Village Community Association £0.022m in 2021/22

- LIVIN £0.048m in 2021/22
- Durham University £0.151m in 2021/22

During 2021/22, works and services to the value of £0.019m (£0.246m 2020/21) 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 housing

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 audited company accounts for the full year 2021/22 have been prepared and signed off from the auditors. In 2021/22 Chapter Homes Durham Limited had turnover of £7.621m (£5.438m in 2020/21), made a profit before taxation of £1.646m (£0.456m in 2020/21), with taxation of £0.321m (£0.085m in 2020/21) being determined. Chapter Homes had net assets of £6.176m at 31 March 2022 (£4.901m at 31 March 2021). A dividend of £0.050m was paid to Durham County Council in 2021/22.

During 2021/22 Durham County Council paid Chapter Homes £nil (2020/21 £0.123m) in respect of Oakerside Gardens grant instalments.

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 audited company accounts for the full year 2021/22 have been prepared and await final sign off from the auditors. In 2021/22 Forrest Park (Newton Aycliffe) Limited had a loss of £0.015m before taxation (profits of £0.945m in 2020/21). The net assets of the company total £2.722m at 31 March 2022 (£2.737m at 31 March 2021).

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 2021/22 are not yet available, however the draft unaudited management accounts show at 31 March 2022 Durham Villages Regeneration Limited made an operating profit before taxation of £0.647m for 2021/22 (£0.916m for 2020/21) and estimated £0.524m for 2021/22 after taxation (£0.751m in 2020/21).

During 2021/22 Durham County Council received income of £1.752m (2020/21 £0.119m) 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 2022 are £3.691m (31 March 2021: £3.433m). 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.

During 2021/22 Durham County Council received income of £0.685m (2020/21 £0.510m) due to receipts for the share of the surplus generated in the business.

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 2022 are £0.928m (31 March 2021: £0.908m). 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.

During 2021/22 Durham County Council received income of £0.228m (2020/21 £0.228m) due to receipts for the share of the surplus generated in the business.

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 audited company accounts for the full year 2021/22 have been prepared and signed off from the auditors. In 2021/22 Service Direct NewCo Limited had turnover of £1.892m (2020/21: £1.169m), £0.006m operating profits before taxation (£0.002m: 2020/21), no dividend was paid, and had net assets of £0.028m at 31 March 2022 (£0.023m at 31 March 2021).

NIAL Holdings Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The council holds a 12.15% interest in NALAHCL, valued at £10.629m (£7.666m in 2020/21). 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 2021 (nil for the year ended 31 December 2020).

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 2020/21). 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 four years (three and a half years in 2020/21) 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 £0.684m (£0.804m in 2020/21) 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 £0.156m (£0.180m in 2020/21) 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 loss before tax of £31.306m and a loss after tax of £32.755m for the year ended 31 December 2021. In the previous year, the Group made a loss before tax of £34.025m and a loss after tax of £31.835m.

Teesside International Airport Limited

The council holds 1.45% of the total shareholding in Teesside International Airport Limited. For the year ended 31 March 2021, Teesside International Airport Limited made a loss before taxation of £13.632m (loss of £1.737m for year ended 31 March 2020) and a loss of £12.904m after taxation (loss of £1.239m for year ended 31 March 2020). The Company accounts for 2021/22 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 2022 the council holds £2.650m (£3.160m at 31 March 2021) 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.

Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 109 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2021/22, the Pension Fund had an average balance of £35.687m (£43.377m in 2020/21) of surplus cash deposited with the council. In 2021/22 the council paid the fund a total of £0.030m (£0.061m in 2020/21) 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.

2020-21 £000		2021-22 £000
476,095	Opening Capital Financing Requirement	491,718
	Capital investment:	
99,594	Property, Plant and Equipment	103,934
6,577	Property, Plant and Equipment - Finance Leases	5,968
1,618	Investment Property - Finance Leases	2,706
56	Heritage Assets	314
2,139	Intangible Assets	2,306
455	Acquisition of share and loan capital	-
16,840	Revenue Expenditure Funded from Capital under Statute	36,512
	Sources of finance:	
-3,988	Capital receipts	-7,363
-53,420	Government grants and other contributions	-60,010
	Sums set aside from revenue:	
-39,424	- Direct revenue financing	-26,277
-14,824	- Minimum Revenue Provision	-15,791
491,718	Closing Capital Financing Requirement	534,017
	Explanation of movements in year	
7,428	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	33,625
-	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	-
8,195	Assets acquired under finance leases	8,674
15,623	Increase/(decrease) in Capital Financing Requirement	42,299

39. Leases

Council as Lessee

Finance leases

The council has acquired a number of operational vehicles and equipment under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2021 £000		31 March 2022 £000
3,560	Other Land and Buildings	3,460
16,345	Vehicles, Plant, Furniture and Equipment	16,889
19,905		20,349

The council is committed to making minimum payments under these leases, comprising settlement of the long-term liability for the interest in the assets acquired by the council and finance costs that will be payable by the council in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts:

31 March 2021		31 March 2022
£000		£000
	Finance lease liabilities (net present value of minimum lease payments):	
5,186	Current	5,162
39,702	Non-Current	41,908
16,993	Finance costs payable in future years	17,346
<u>61,881</u>	Minimum lease payments	<u>64,416</u>

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

31 March 2021			31 March 2022		
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000	
6,440	5,186	Not later than one year	6,474	5,162	
14,277	10,291	Later than one year and not later than five years	15,386	11,171	
41,164	29,411	Later than five years	42,556	30,737	
<u>61,881</u>	<u>44,888</u>		<u>64,416</u>	<u>47,070</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 £19.577m at 31 March 2022 (£21.789m at 31 March 2021). 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 in November 2022.

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 2021		31 March 2022
£000		£000
1,401	Not later than one year	1,603
2,226	Later than one year and not later than five years	3,348
1,629	Later than five years	3,056
<u>5,256</u>		<u>8,007</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 2021		31 March 2022
£000		£000
1,064	Minimum lease payments	1,061
-755	Sublease payments receivable	-725
<u>309</u>		<u>336</u>

Council as Lessor

Finance Leases

There are no finance leases in respect of property, plant and equipment where the council is the lessor.

Operating leases

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

- for the provision of community services, such as childcare and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for other purposes as the council determines as being beneficial to its interests.

The minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2021		31 March 2022
£000		£000
(Restated)		
8,667	Not later than one year	8,613
19,924	Later than one year and not later than five years	22,864
16,991	Later than five years	16,228
<u>45,582</u>		<u>47,705</u>

The balances for minimum lease payments receivable at 31 March 2021 has been restated as a result of a rental review.

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 2021 £000		31 March 2022 £000
4,117	Net book value at 1 April	4,059
25	Additions	45
-83	Depreciation	-89
-	Revaluations	821
-	Disposals	-
<u>4,059</u>	Net book value at 31 March	<u>4,836</u>

In addition to the net book value of £4.836m (£4.059m in 2020/21) 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 £0.411m (£0.483m in 2020/21) and the total net value of land and buildings for these schools carried forward is £5.247m (£4.542m in 2020/21).

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 2021/22 are summarised as follows:

31 March 2021		31 March 2022
£000		£000
37,171	Balance outstanding at start of year	36,111
-1,060	Payments during the year	-1,214
36,111	Balance outstanding at year-end	34,897

Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2022-23	2,789	1,392	3,540	7,721
Payable within two to five years	11,958	7,104	12,576	31,638
Payable within six to ten years	18,058	12,270	11,052	41,380
Payable within eleven to fifteen years	14,822	14,131	3,661	32,614
Payable within sixteen to twenty years	-	-	-	-
Total	47,627	34,897	30,829	113,353

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 £295.921m in the value of the council's assets (£62.284m in 2020/21), charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This decrease is significantly higher 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 2021/22. The value of the redundancy payments charged to services in 2021/22 was £0.734m and in 2020/21 was £0.735m. The following table analyses the payments made in the relevant financial years.

2020-21 (restated) £000		2021-22 £000
144	Adult and Health Services	49
289	Children and Young People's Services	485
1	Neighbourhoods and Climate Change	-
151	Regeneration, Economy and Growth	129
150	Resources	71
<u>735</u>		<u>734</u>

The 2020/21 comparative figures have been restated to reflect the current service structure. There is no net impact on the total cost of termination benefits.

In addition to the above redundancy payments, the pension enhancement value in 2021/22 was £0.578m and in 2020/21 was £0.731m.

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 2021/22, the council paid £23.060m to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 23.68% of pensionable pay (£25.092m in 2020/21, 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 £22.657m.

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 2021/22, the council paid £0.082m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 16.88% of pensionable pay (£0.067m or 16.88% in 2020/21). 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 £0.092m.

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:

2020-21			2021-22	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
£000	£000		£000	£000
Comprehensive Income and Expenditure Statement				
Cost of services:				
Service cost comprising:				
107,830	-	- Current service cost	117,420	-
1,500	-	- Past service cost (including curtailments)	630	-
-13,390	-	- Settlement	-15,540	-
Financing and Investment Income and Expenditure:				
28,430	1,300	- Net interest on net defined benefit liability	29,950	1,110
124,370	1,300	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	132,460	1,110
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
-425,220	-	- Return on plan assets (excluding the amount included in the net interest expense)	-36,520	-
617,170	3,710	- Actuarial gains and losses due to changes in financial assumptions	-229,660	-1,130
-	-	- Actuarial gains and losses due to changes in demographic assumptions	-36,070	-790
-52,150	-3,720	- Actuarial gains and losses due to liability experience	11,280	200
264,170	1,290	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	-158,510	-610
Movement in Reserves Statement				
-124,370	-1,300	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-132,460	-1,110
Actual amount charged against the General Fund Balance for pensions in the year:				
59,942	-	- Employer's contributions payable to the scheme	60,632	-
-	4,745	- Direct retirement benefits payable to pensioners	-	4,755

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:

2020-21			2021-22	
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	Present value of the defined benefit obligation	-3,571,660	-50,120
2,278,630	-	Fair value of plan assets	2,322,060	-
-1,458,150	-55,410	Net liability arising from defined benefit obligation	-1,249,600	-50,120
-686	-74	Difference between actuary's figures and actual contributions	-	-
-1,458,836	-55,484	Adjusted Total*	-1,249,600	-50,120

* the adjusted total line shows the net liability per the actuary's figures adjusted for actual contributions made to the scheme. From 2021/22, the net liability has been aligned with the actuary's figures.

In 2021/22 the net liability arising from defined benefit obligation has been reduced by £15.540m (£13.390m in 2020/21) to recognise the transfer to academy status of a number of schools. This comprises a £10.850m reduction in assets and a £26.390m reduction in liabilities (a £8.960m reduction in assets and a £22.350m reduction in liabilities in 2020/21). 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

2020-21			2021-22	
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
1,823,960	-	Opening fair value of scheme assets	2,278,630	-
36,910	-	Interest Income	47,450	-
425,220	-	Remeasurement gain / loss (-)	36,520	-
80,440	4,820	Contributions from employer	50,040	4,680
16,040	-	Contributions from employees into the scheme	16,250	-
-94,980	-4,820	Benefits paid	-95,980	-4,680
-8,960	-	Settlements	-10,850	-
2,278,630	-	Closing fair value of scheme assets	2,322,060	-

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

2020-21			2021-22	
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
3,098,380	58,940	Opening balance at 1 April	3,736,780	55,410
107,830	-	Current service cost	117,420	-
65,340	1,300	Interest cost	77,400	1,110
16,040	-	Contributions by scheme participants	16,250	-
		Remeasurement gains (-) and losses:		
617,170	3,710	Actuarial gains and losses due to changes in financial assumptions	-229,660	-1,130
-	-	Actuarial gains and losses due to changes in demographic assumptions	-36,070	-790
-52,150	-3,720	Actuarial gains and losses due to liability experience	11,280	200
-94,980	-4,820	Benefits paid	-95,980	-4,680
1,500	-	Past service cost (including curtailments)	630	-
-22,350	-	Settlements	-26,390	-
3,736,780	55,410	Closing balance at 31 March	3,571,660	50,120

Local Government Pension Scheme Assets comprised:

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories:

31 March 2021			31 March 2022		
Fair Value of scheme assets			Fair Value of scheme assets		
£000	%		£000	%	
1,255,525	55.1	Equity investments	1,284,098	55.3	
143,554	6.3	Property	157,900	6.8	
362,302	15.9	Government bonds	348,309	15.0	
410,153	18.0	Corporate bonds	137,002	5.9	
107,096	4.7	Cash	58,052	2.5	
-	-	Other	336,699	14.5	
2,278,630	100.0	Total	2,322,060	100.0	

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 2019.

The principal assumptions used by the actuary are:

2020-21		2021-22	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
Mortality assumptions:			
Longevity at 65 for current pensioners:			
22.3	22.3	22.1	22.1
24.3	24.3	24.2	24.2
Longevity at 65 for future pensioners:			
23.3	n/a	23.2	n/a
25.8	n/a	25.7	n/a
Principal financial assumptions (% per annum)			
2.1	2.1	2.7	2.7
2.7	2.7	3.0	3.0
2.7	2.7	3.0	3.0
3.7	n/a	4.0	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are based on reasonably possible changes to the assumptions occurring at the end of the reporting period and

assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2020/21.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2022 and the projected service cost for the year ending 31 March 2023 is set out in the following table:

Discount rate assumption			
Adjustment to discount rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,503,800	3,571,660	3,643,090
Change in present value of total obligation	-1.9%		2.0%
Projected service cost (£000)	105,360	109,070	112,890
Approximate change in projected service cost	-3.4%		3.5%
Rate of general increase in salaries			
Adjustment to salary increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,582,370	3,571,660	3,560,950
Change in present value of total obligation	0.3%		-0.3%
Projected service cost (£000)	109,070	109,070	109,070
Approximate change in projected service cost	0.0%		0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption			
Adjustment to pension increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,632,380	3,571,660	3,514,510
Change in present value of total obligation	1.7%		-1.6%
Projected service cost (£000)	112,890	109,070	105,360
Approximate change in projected service cost	3.5%		-3.4%
Post retirement mortality assumption			
Adjustment to mortality age rating assumption *	- 1 year	Base Figure	+ 1 year
Present value of total obligation (£000)	3,696,670	3,571,660	3,446,650
Change in present value of total obligation	3.5%		-3.5%
Projected service cost (£000)	113,540	109,070	104,710
Approximate change in projected service cost	4.1%		-4.0%

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

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a

funding level of 100% over 18 years from 1 April 2020. Funding levels are monitored on an annual basis.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The council anticipates paying £51.640m contributions to the scheme in 2022/23 (£51.130m anticipated in 2021/22).

The weighted average duration of the defined benefit obligation for scheme members is 19.7 years at 31 March 2022 (19.7 years at 31 March 2021).

Pension Fund Advance Payment

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 has 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 is reduced by the full prepayment, the pensions reserve is credited only with the amount charged to the General Fund.

Pensions: McCloud Judgement

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public service schemes who were within 10 years of their normal pension age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remained in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory.

The 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.

It is not anticipated that the necessary LGPS Regulations will come into force before 2023.

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 £7.3m.

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.

Building Control has indicated it considers the Building Regulation requirements for the Development have been met and it will grant certification to the Development at Practical Completion.

The Fire and Rescue Service however considers the carpark design does not comply with the requirements of the Regulatory Reform (Fire Safety) Order 2005, therefore, in March 2022, the council appointed external legal representation regarding the agreement of Practical Completion of the Milburngate Development.

In October 2022, the council lodged a claim for declaratory relief from the courts. Legal proceedings have therefore commenced, seeking a declaration from the courts that the development as currently designed and constructed, does not meet relevant statutory and contractual requirements.

Under the agreement for lease between the council and the developer, development completion must be in accordance with all consents and statutory requirements, and in accordance with the lawful requirements of a statutory authority and approval from competent authorities.

The council, upon consideration of statutory and competent authority opinion, has taken the necessary steps to protect the council's interests. There is however no certainty of the outcome at this stage, or of amounts involved, though installation of sprinklers in the car park and loading bay areas is estimated to cost up to circa £2 million and therefore a contingent liability note is included herewith 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 2021/22, the council received and recognised £1.308m 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 2021/22.

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 from 1 April 2020 NHS County Durham Clinical Commissioning Group (which was formed by the merger of North Durham Clinical Commissioning Group and Durham Dales, Easington and Sedgefield Clinical Commissioning Group).

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

For accounting purposes, the CCG and the Local Authority have agreed that joint control does not exist, and the council has therefore only accounted for its share of income and expenditure within the Comprehensive Income and Expenditure Statement.

31 March 2021		31 March 2022
£000		£000
	Funding Provided to BCF	
29,959	Local Authority (revenue)	29,959
6,988	Local Authority (capital)	6,988
45,235	CCGs	47,632
<u>82,182</u>		<u>84,579</u>
	Expenditure met from BCF	
60,474	Local Authority (revenue)	62,091
6,988	Local Authority (capital)	6,988
14,720	CCGs	15,500
<u>82,182</u>		<u>84,579</u>
<u>-</u>	Net (-) surplus / deficit on pooled budget	<u>-</u>
-	Authority share of the net surplus / deficit arising from pooled budget	-

50. Prior Period Adjustments (PPAs)

There were no prior period adjustments in 2021/22.

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

2020-21		2021-22		
		Council Tax £000	NNDR £000	Total £000
	Income			
-293,976	Council Tax due from Taxpayers	-306,994		-306,994
-68,427	Income from Business Ratepayers		-95,469	-95,469
<u>-362,403</u>	Total Income	<u>-306,994</u>	<u>-95,469</u>	<u>-402,463</u>
	Expenditure			
	Precepts and Demands			
248,096	Durham County Council	255,000		255,000
30,509	Durham Police, Crime and Victims' Commissioner	32,607		32,607
14,951	County Durham & Darlington Fire & Rescue Authority	15,232		15,232
	Payment of Previous Year's Surplus			
858	Central Government		-20,455	-20,455
1,740	Durham County Council	-2,333	-20,046	-22,379
116	Durham Police, Crime and Victims' Commissioner	-287		-287
76	County Durham & Darlington Fire & Rescue Authority	-141	-409	-550
	Business Rates			
57,053	Payment to Central Government		58,606	58,606
	Payment to Durham County Council, including Renewable Energy		57,603	57,603
56,074	Costs of Collection - Business Rates		577	577
574	Payment to County Durham and Darlington Fire & Rescue Authority		1,172	1,172
1,141				
	Bad & Doubtful Debts			
5,911	Write Offs	3,176	329	3,505
6,942	Change in Allowance for Non-Collection	1,103	-628	475
-5,822	Provision for Appeals		-6,225	-6,225
<u>418,219</u>	Total Expenditure	<u>304,357</u>	<u>70,524</u>	<u>374,881</u>
55,816	Movement on Fund Balance	-2,637	-24,945	-27,582
-10,169	Surplus(-) /Deficit on Fund Brought Forward	10,316	35,331	45,647
<u>45,647</u>	Fund Balance Carried Forward	<u>7,679</u>	<u>10,386</u>	<u>18,065</u>
	Allocated to :			
17,666	Central Government		5,193	5,193
26,019	Durham County Council	6,466	5,089	11,555
1,086	Durham Police, Crime and Victims' Commissioner	827		827
876	County Durham and Darlington Fire & Rescue Authority	386	104	490
<u>45,647</u>		<u>7,679</u>	<u>10,386</u>	<u>18,065</u>

Notes to the Collection Fund Accounts

i. 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.

ii. Council Tax

Durham County Council is the billing authority for its administrative area and collects council tax to cover its own requirements, plus those of Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and where applicable, Town and Parish Councils.

Council tax is a tax levied on a domestic property broadly in accordance with the value of property. The properties in each Town and Parish Council area are classified into one of eight bands (A to H) according to its value and based upon information provided by the Valuation Office Agency (VOA).

Adjustments are made to the number of properties in each band by taking into account those occupied by a single council taxpayer (25% discount), long-term empty (50% premium) and other discounts and exemptions. A factor is applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection is applied to produce the tax base.

The council tax base is divided into the County Council demand and the precepts requested by Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and where applicable, Town and Parish Councils to calculate the standard Band D council tax. The other bands' liabilities are calculated by reference to the same proportion used to convert to band D.

The following table shows the property value bandings and the Band D equivalent properties in 2021/22.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	143,890	6/9ths	95,927
Over £ 40,000 up to £ 52,000	Band B	34,746	7/9ths	27,025
Over £ 52,000 up to £ 68,000	Band C	31,031	8/9ths	27,583
Over £ 68,000 up to £ 88,000	Band D	21,983	9/9ths	21,983
Over £ 88,000 up to £120,000	Band E	10,601	11/9ths	12,957
Over £120,000 up to £160,000	Band F	4,142	13/9ths	5,983
Over £160,000 up to £320,000	Band G	2,197	15/9ths	3,662
Over £320,000	Band H	277	18/9ths	554
		248,867		195,674
Net effect of discounts, reliefs, exemptions and premiums				54,051
Chargeable Properties (Taxbase) 2021/22				141,623
The Council Tax Base for 2020/21 was:				141,742

In 2021/22, the Band D charge was £2,041.37 (£1,974.84 in 2020/21) made up of Durham County Council £1,703.58 (£1,654.12 in 2020/21), Durham Police, Crime and Victims' Commissioner £230.24 (£215.24 in 2020/21) and County Durham and Darlington Fire and Rescue Authority £107.55 (£105.48 in 2020/21). In addition, Band D Town and Parish precepts between £0 and £304.07 (£0 and £305.27 in 2020/21) 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 £5.090m deficit for 2021/22, including a credit of £1.907m for the phased deficit calculated in 2020/21, which will be distributed to major preceptors during 2022/23. At 31 March 2022, the actual outturn was a deficit of £7.679m (deficit of £10.316m at 31 March 2021).

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 2022 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	2021/22	20%
	2020/21	45%
	2019/20	85%
	2018/19	95%
	2017/18 & 2016/17	99%
	2015/16 & older	100%
2. First, second or final reminder	2021/22	30%
	2020/21	55%
	2019/20	85%
	2018/19	95%
	2017/18 & 2016/17	99%
	2015/16 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2021/22	40%
	2020/21	70%
	2019/20	80%
	2018/19	95%
	2017/18 & 2016/17	99%
	2015/16 & older	100%

At 31 March 2022, the calculated allowance of £24.893m covered 63.10% of arrears (£23.791m, 64.55% at 31 March 2021).

Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2022 amounted to a deficit of £7.679m (deficit of £10.316m at 31 March 2021).

Durham County Council and the major preceptors, Durham Police, Crime and Victims' Commissioner and County Durham and Darlington Fire and Rescue, each account for a share of the Collection Fund balance in proportion to their Precept or Demand on the fund.

This also applies to the balances for arrears and prepayments on the council taxpayers account and the Provision for Doubtful Debts for council tax.

The following table shows how the council tax balances have been allocated between Durham County Council and the major precepting authorities:

Authority	Year end Surplus (-)/ Deficit on Collection Fund £000	Allowance for Non- Collection £000	Arrears £000	Overpayments and Prepayments £000
Durham County Council	6,466	-20,940	33,428	-3,495
Durham Police, Crime & Victims' Commissioner	827	-2,714	4,037	-453
County Durham & Darlington Fire & Rescue Authority	386	-1,239	1,843	-207
Total Allocated	7,679	-24,893	39,308	-4,155

iii. Business Rates (Non Domestic Rates)

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic multiplier each year. This multiplier is applied to the rateable value of the property to give, subject to various reliefs and exemptions, the rates payable for the year.

In 2021/22, the general multiplier was £0.512 (£0.512 in 2020/21) and the small business multiplier was £0.499 (£0.499 in 2020/21). The total non-domestic rateable value for Durham County Council at 31 March 2022 was £322.184m in accordance with the VOA schedule dated 31 March 2022 (£321.710m at 31 March 2020/21).

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 2021/22 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2021. In addition, during 2021/22, the estimated deficit for 2020/21 was paid to shareholders as shown in the Income and Expenditure Account.

The estimated outturn for 2021/22 was included on the NNDR1 for 2022/23, submitted in January 2022. This predicted a deficit of £11.217m (deficit of £40.910m estimated for 2020/21) of which Durham County Council's share would be £5.496m (deficit of £20.046m for 2020/21). 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 2022, the actual outturn was a deficit of

£10.386m (deficit of £35.331m in 2020/21). Income from Renewable Energy amounted to £0.169m (£0.163m in 2020/21).

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 2022 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	2021/22	25%
	2020/21	55%
	2019/20 & older	100%
2. First, second or final reminder	2021/22	45%
	2020/21	75%
	2019/20 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2021/22	50%
	2020/21	95%
	2019/20 & older	100%

At 31 March 2022, the calculated allowance of £4.396m covered 75.31% of arrears (£5.024m, 57.10% at 31 March 2021).

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 2022, the provision for appeals was estimated at £14.909m (£21.134m at 31 March 2021).

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2022 amounted to a deficit of £10.386m (deficit of £35.311m at 31 March 2021). 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 2022.

Authority	Year-end Surplus (-)/ Deficit on Collection Fund £000	Allowance for Non-Collection £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	5,089	-2,154	2,892	-2,537	-7,305
Central Government	5,193	-2,198	2,881	-2,589	-7,455
County Durham & Darlington Fire & Rescue Authority	104	-44	58	-52	-149
Total Allocated	10,386	-4,396	5,831	-5,178	-14,909

Table showing how Business Rates balances have been allocated at 31 March 2022.

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

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Fund Account

2020-21				2021-22	
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-147,634		Contributions Receivable	8	-119,756	
-4,128		Transfers in from Other Pension Funds	9	-7,842	
-3		Other Income		-4	
	-151,765				-127,602
129,937		Benefits Payable	10	137,698	
3,990		Payments to and on Account of Leavers	11	6,232	
	133,927				143,930
	-17,838	Net Withdrawals / -Additions from Dealings with Members, Employers and Others			16,328
	13,187	Management Expenses	12		22,427
	-4,651	Net Withdrawals / -Additions Including Fund Management Expenses			38,755
RETURN ON INVESTMENTS					
-20,665		Investment Income	13	-28,231	
-668,983		Profit and Losses on Disposal of Investments and Change in Value of Investments	15	-129,994	
	-689,648	Net Returns on Investments			-158,225
	-694,299	NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-119,470

Net Assets Statement

31 March 2021			31 March 2022	
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
387,003		Equities	15	240,159
48,905		Bonds	15	0
2,941,246		Pooled Investment Vehicles	15	3,289,424
	3,377,154			3,529,583
223		Loans	15	193
		Other Cash Deposits:		
50,651		Fund Managers	15	19,072
43,051		Short Term Investments	15	46,274
3,650		Derivative Contracts	15	0
	97,575			65,539
	3,474,729			3,595,122
Other Investment Assets				
1,528		Dividend Accruals	15,18	1,296
736		Tax Recovery	15,18	204
1,598		Other Investment Balances	15,18	17
	3,862			1,517
3,478,591	Total Investment Assets			3,596,639
INVESTMENT LIABILITIES				
-2,838		Derivative Contracts	15	-1,504
-1,307		Other Investment Balances	19	-1,781
	-4,145	Total Investment Liabilities		-3,285
3,474,446	NET INVESTMENT ASSETS			3,593,354
Current Assets				
9,279		Contributions Due from Employers		11,705
1,874		Other Current Assets		1,285
	11,153			12,990
Current Liabilities				
-5,053		Current Liabilities		-6,330
	-5,053			-6,330
3,480,546	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			3,600,014

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

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

1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the 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.

	2017/18	2018/19	2019/20	2020/21	2021/22
Contributing Members	19,219	20,116	20,901	21,340	22,141
Pensioners in Payment	18,618	19,404	20,109	20,652	21,346
Pensioners Deferred	15,746	15,987	16,420	16,595	17,244

In comparison to the figures reported at 31 March 2021, the number of pensionable employees in the Fund at 31 March 2022 has increased by 801 (3.75%), the number of pensioners has increased by 694 (3.36%) and deferred pensioners have increased by 649 (3.91%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 109 at 31 March 2022), 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 9 and 7 accordingly.

2020-21			2021-22	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
96,890	-96,562	Administering Authority	99,783	-68,330
25,187	-39,354	Scheduled Bodies	29,824	-41,489
7,860	-11,718	Admission Bodies	8,091	-9,937
129,937	-147,634		137,698	-119,756

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 2021/22 (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 2019/20, the results of which determined the contribution rates effective from 1 April 2020 to 31 March 2023. Details of the latest valuation are included in Note 23.

3. Accounting Standards issued but not yet adopted

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

No such accounting standards have been identified for 2021/22 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 shares 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 2022, taking into consideration the audited accounts for the company at 31 December 2021, 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 2022. 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 21.

Investment Transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

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 23).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the 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 2021/22.

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 Level 3 Investments	The accounts are as at 31 March 2022 and all level 3 investments held by the fund are valued as at that date using the best estimate of fair value as detailed in 'Significant Accounting Policies – Valuation of Investments. As these investments are calculated using unobservable inputs and estimation techniques there is a significant risk of material adjustment in the forthcoming financial year.	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 2022/23 reporting. The total value of Level 3 investments (explained in Note 15) is £303.967m at 31/03/22 (£201.419m at 31/03/21). 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 15, there is a risk that the value of the Fund may reduce / increase during the 2022/23 reporting period by £46.133m at 31/03/22 (£29.289m at 31/03/21), which represents the potential market movement on the value of the above investments.

Table showing items for which there is a significant risk of material adjustment in the forthcoming financial year

7. Contributions Receivable

2020-21 £000		2021-22 £000
	Employer Contributions:	
-83,814	Normal	-85,555
-2,262	Augmentation	-662
-33,874	Deficit Funding	-4,790
-27,684	Member Contributions	-28,748
-147,634		-119,756
-96,562	Administering Authority	-68,330
-39,354	Scheduled Bodies	-41,489
-11,718	Admission Bodies	-9,937
-147,634		-119,756

8. Transfers in From Other Pension Funds

2020-21 £000		2021-22 £000
-4,128	Individual Transfers	-7,842
-4,128		-7,842

9. Benefits Payable

2020-21 £000		2021-22 £000
110,209	Pensions	112,961
20,560	Commutations and Lump Sum Retirement Benefits	26,042
3,279	Lump Sum Death Benefits	2,568
-4,111	Recharged Benefits	-3,872
129,937		137,698
96,890	Administering Authority	99,783
25,187	Scheduled Bodies	29,824
7,860	Admission Bodies	8,091
129,937		137,698

10. Payments To and On Account of Leavers

2020-21			2021-22	
£000			£000	
229		Refunds to Members Leaving Service		362
-1		Payments for Members Joining State Scheme		-1
3,762		Individual Transfers to Other Schemes		5,871
<u>3,990</u>			<u>6,232</u>	

11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the 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.

2020-21			2021-22	
£000	£000		£000	£000
	999	Administration Expenses		991
		Investment Management Expenses		
5,998		Management Fees	6,266	
78		Performance Fees	1,428	
120		Custody Fees	107	
<u>5,233</u>		Transaction Costs	<u>12,509</u>	
	11,429			20,310
	759	Oversight and Governance Costs		1,126
	<u>13,187</u>			<u>22,427</u>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2021/22 of £0.036m (£0.020m in 2020/21). Included in the 2021/22 fee is £0.016m audit fee variations for additional work required during 2019/20 and 2020/21. 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 2021/22 is £0.008m (£0.007m in 2020/21). No fees have been paid to Mazars in 2021/22 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 £6.362m in 2021/22 (nil in 2020/21, as they were allocated to the cost of the investments in prior years).

12. Investment Income

2020-21 £000		2021-22 £000
-1,203	Interest from Bonds	-84
-6,398	Dividends from Equities	-6,837
-209	Interest on Cash Deposits	-34
-12,855	Income from Pooled Investment Vehicles	-20,313
-	Income from Private Markets	-963
<u><u>-20,665</u></u>		<u><u>-28,231</u></u>

13. Taxation

The Code requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2021/22 to manage the Fund's assets:

- AB (Formerly AllianceBernstein Limited)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Border to Coast Pension Partnership (BCPP)

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. BCPP is one of these 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, during 2021/22, the Multi Asset Credit and Listed Alternatives mandates were funded.

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

31 March 2021	Asset Class	31 March 2022
%		%
40.00	Global Equities	40.00
15.00	Global Bonds	0.00
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
0.00	Multi-Asset Credit	15.00
100.00		100.00

Although the strategic asset allocation was reviewed and agreed during 2021/22, 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, asset reallocation has temporarily been suspended and consequently actual allocations vary from the strategic allocation.

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

Investments managed by BCPP asset pool:

1,450,550	42.31		Global Equities	1,560,269	44.00
8,610	0.25		Private Equity	34,421	0.97
3,255	0.10		Private Credit	21,800	0.61
458,726	13.38		Bonds	477,124	13.45
10,750	0.31		Infrastructure	31,566	0.89
-	0.00		Multi Asset Credit	515,831	14.54
-	0.00		Listed Alternatives	204,575	5.77
1,931,891	56.35			2,845,586	80.23

Investments managed outside of BCPP asset pool:

577,005	16.83	AB	Global Bonds	175,313	4.94
418,827	12.22	BlackRock	Dynamic Asset Allocation	137	0.00
240,036	7.00	CBRE	Global Property	282,242	7.96
259,676	7.57	Mondrian	Emerging Market Equities	242,691	6.84
1,182	0.03	BCPP	Unquoted UK Equity	1,182	0.03
1,496,726	43.65			701,565	19.77
3,428,617	100.00			3,547,151	100.00

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2022 excludes loans of £0.193m, cash invested by the administering authority of £46.274m, other investment assets of £1.517m and other investment liabilities of £1.781m (£0.223m, £43.051m, £3.862m and £1.307m respectively as at 31 March 2021).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2022, £3,547m (98.71%) is invested through Investment Managers (£3,429m or 98.68% at 31 March 2021).

Reconciliation of Movements in Investments 2021/22

Investment Category	Value at 31 March 2021	Reclassification	Purchase s 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
	3,377,154	-	1,087,419	-1,065,717	130,727	3,529,583
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
	3,377,966	-	1,113,471	-1,083,483	125,653	3,528,079
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
Net Investment Assets	3,474,446				129,994	3,593,354

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 2020/21

Investment Category	Value at 31 March 2020	Reclassification	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2021
	£000	£000	£000	£000	£000	£000
Equities	276,336	-2,907	208,480	-191,966	97,060	387,003
Bonds	624,790		618,409	-1,227,445	33,151	48,905
Pooled Investment Vehicles	1,811,450	2,907	749,575	-140,952	518,266	2,941,246
	2,712,576	-	1,576,464	-1,560,363	648,477	3,377,154
Derivative Contracts:						
Futures, Margins & Options	2,264		8,412	-6,553	-5,241	-1,118
Forward Foreign Currency	-2,744		41,733	-59,213	22,154	1,930
	2,712,096	-	1,626,609	-1,626,129	665,390	3,377,966
Other Investment Balances:						
Loans	252					223
Other Cash Deposits	85,436				3,591	93,702
Dividend Accruals	1,594					1,528
Tax Recovery	725					736
Other Investment Balances	-15,968					291
Net Investment Assets	2,784,135				668,981	3,474,446

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 2021			31 March 2022	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS & POOL				
Bonds				
39,689		Government Bonds	-	
9,216		Corporate Bonds	-	
	48,905			-
	387,003	Equities		240,159
Pooled Investment Vehicles				
1,125,587		Bonds	1,168,268	
1,523,207		Equities	1,764,844	
222,013		Property	268,526	
10,750		Infrastructure	31,566	
17,405		Private Credit	21,800	
9,760		Private Equity	34,420	
32,524		Other	-	
	2,941,246			3,289,424
Derivative Contracts				
3,650		Assets	-	
-2,838		Liabilities	-1,504	
	812			-1,504
	50,651	Fund Managers' Cash		19,072
3,428,617	NET ASSETS INVESTED			3,547,151
OTHER INVESTMENT BALANCES				
43,051		Short Term Investments (via DCC Treasury Management)		46,274
223		Loans		193
3,862		Other Investment Assets		1,517
-1,307		Other Investment Liabilities		-1,781
3,474,446	NET INVESTMENT ASSETS			3,593,354

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 2021		Derivative Contracts	31 March 2022	
£000	£000		£000	£000
		Forward Foreign Currency		
3,298		Assets	-	
<u>-1,368</u>		Liabilities	<u>-1,504</u>	
	1,930	Net Forward Foreign Currency		-1,504
		Futures		
235		Assets	-	
<u>-1,469</u>		Liabilities	<u>-</u>	
	-1,234	Net Futures		-
		Options		
117		Assets	-	
<u>-1</u>		Liabilities	<u>-</u>	
	116	Net Options		-
	<u><u>812</u></u>	Net Market Value of Derivative Contracts		<u><u>-1,504</u></u>

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 (Blackrock & CBRE) on 31 March 2022 and 31 March 2021. Please note Blackrock transitioned over to BCPP in February 2022 and there were no forward foreign currency contracts held with Blackrock on 31 March 2022.

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
					-	-1,504
Net Forward Foreign Currency Contracts at 31 March 2022						-1,504

31 March 2021

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	AUD	6,559,050	EUR	-6,521,263	38	
0 to 1 month	USD	6,321,471	SEK	-6,559,050		-238
0 to 1 month	EUR	38,489,416	EUR	-36,989,173	1,500	
0 to 1 month	GBP	2,556,266	EUR	-2,582,541		-26
0 to 1 month	EUR	10,119,735	USD	-9,969,438	150	
0 to 1 month	USD	164,000,000	JPY	-162,819,120	1,181	
0 to 1 month	GBP	25,759,026	GBP	-26,000,000		-241
0 to 1 month	USD	4,500,000	GBP	-4,536,727		-37
0 to 1 month	USD	4,200,000	USD	-4,254,883		-55
0 to 1 month	ZAR	8,479,646	GBP	-8,620,791		-141
0 to 1 month	ZAR	3,261,402	GBP	-3,365,578		-104
1 to 3 months	GBP	23,865	USD	-33,327		-1
1 to 3 months	GBP	15,867,761	AUD	-28,515,240	125	
1 to 3 months	GBP	57,165,686	USD	-79,616,365		-523
1 to 3 months	GBP	24,724	USD	-34,433		-
1 to 3 months	GBP	1,457,153	EUR	-1,702,898	4	
1 to 3 months	GBP	2,077,085	DKK	-18,050,282	7	
1 to 3 months	GBP	23,118,380	JPY	-3,501,532,931	138	
1 to 3 months	GBP	599,711	AUD	-1,077,714	5	
1 to 3 months	GBP	42,902,983	EUR	-50,138,465	124	
1 to 3 months	GBP	1,137,896	SEK	-13,511,377	14	
1 to 3 months	GBP	1,960,991	JPY	-297,013,590	11	
1 to 3 months	GBP	199,953	USD	-278,481		-2
1 to 3 months	GBP	528,287	EUR	-618,314	1	
					3,298	-1,368
Net Forward Foreign Currency Contracts at 31 March 2021						1,930

ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock at 31 March 2021 are shown below. As Blackrock transitioned over to BCPP in February 2022 there were no outstanding exchange traded future contracts as at 31 March 2022.

2020-21					
Type	Expires	Product Description	Currency	Market Value at 31 March 21	
				£000	£000
<u>Assets</u>					
Overseas Equity	1 to 3 months	MSCI SING IX ETS APR 21	SGD	40	
Overseas Equity	1 to 3 months	EMINI FINANCIAL SELECT SECTOR JUN	USD	22	
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 21	EUR	151	
Overseas Equity	0 to 1 month	EURO STOXX BANK JUN 21	EUR	<u>22</u>	
Total Assets					235
<u>Liabilities</u>					
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 21	USD	-702	
Overseas Equity	1 to 3 months	IBEX 35 INDEX APR 21	EUR	-56	
Overseas Equity	1 to 3 months	MSCI WORLD INDEX JUN 21	USD	-333	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 21	GBP	-15	
Overseas Equity	1 to 3 months	NASDAQ 100 E-MINI JUN 21	USD	-338	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 21	USD	<u>-25</u>	
Total Liabilities					-1,469
Net Futures Contracts at 31 March 2021					<u>-1,234</u>

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested. As Blackrock transitioned over to BCPP in February 2022 there were no equity option contracts as at 31 March 22.

2020-21					
Type	Expires	Product Description	Currency	Market Value at 31 March 21	
				£000	£000
<u>Assets</u>					
Overseas Equity	1 to 3 months	MSCI EMERGING MARKETS INDEX JUN C @ 1450	USD	114	
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3885	USD	<u>3</u>	
Total Assets					117
<u>Liabilities</u>					
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3690	USD	<u>-1</u>	
Total Liabilities					-1
Net Options at 31 March 2021					<u>116</u>

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 2021		Name of Fund	Investment Manager	At 31 March 2022	
£m	%			£m	%
1,450.55	41.68	GLOBAL EQUITY ALPHA A ACC	BCPP	1,560.27	43.34
458.73	13.18	STERLING INDEX-LINKED BOND	BCPP	477.12	13.25
577.00	16.58	Diversified Yield Plus	AB	175.31	4.87

*Please note part of Diversified Yield Plus Fund, held with AB transitioned into the Pool October 2021

15. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

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 2022 and 31 March 2021, 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	Total
Values at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,708,603	517,013	303,967	3,529,583
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-	-1,504	-	-1,504
Net Financial Assets at Fair Value	2,708,603	515,509	303,967	3,528,079

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
Values at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	3,021,165	158,220	201,419	3,380,804
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-1,470	-1,368		-2,838
Net Financial Assets at Fair Value	3,019,695	156,852	201,419	3,377,966

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 2021/22	Market Value 01 April 2021 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2022 £000
Pooled Investment Vehicles	178,804	36,178	-18,567	19,526	240	216,181
Private Equity	8,610	20,326	-	5,484	-	34,420
Infrastructure	10,750	25,666	-	-4,850	-	31,566
Private Credit	3,255	17,407	-	1,138	-	21,800
	201,419	99,577	-18,567	21,298	240	303,967

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2020/21	Market Value 01 April 2020 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2021 £000
Pooled Investment Vehicles	186,495	13,296	-8,693	-12,047	-247	178,804
Private Equity	2,908	4,812	-	890	-	8,610
Infrastructure	3,696	7,367	-	-313	-	10,750
Private Credit	-	3,300	-	-45	-	3,255
	193,099	28,775	-8,693	-11,515	-247	201,419

Disclosures

- 1) There have been no transfers between Level 1 and 2 financial instruments during 2021/22.
- 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

Description of asset	Basis of Evaluation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level 2			
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
Level 3			
Investment Properties: Freehold and leasehold properties and property funds	The properties are valued at fair value at the year end using the investment method of valuation by independent valuers CBRE Ltd in accordance with the RICS Valuation Global Standards (incorporating the International Valuation Standards) and the UK national supplement ('the	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

	red book') current as at the valuation date.	Discount rate	
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 2022.

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
Pooled Investment Vehicles				
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
		303,967	350,099	257,835

FAIR VALUE - SENSITIVITY ANALYSIS OF LEVEL 3

Period 2020/21	Assessed valuation range (+/-)	Value at 31 March 2021	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Investment Vehicles				
Property	14.1%	178,804	204,015	153,593
Private Equity	24.0%	8,610	10,676	6,544
Infrastructure	15.5%	10,750	12,416	9,084
Private Credit	10.6%	3,255	3,600.03	2,910
		201,419	230,708	172,130

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).

16. 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 14. 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	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	-	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
Total Change in Net Investment Assets Available		3,593,354		4,140,245	3,046,463

Manager	Asset Type	Asset Value	Potential	Value on	Value on
		at 31 March 2021 £000	Market Movements %	Increase £000	Decrease £000
AB	Broad Bonds	577,005	7.0%	617,395	536,615
BlackRock	Dynamic Growth Fund	388,721	10.6%	429,925	347,517
CBRE	Unlisted Property	178,804	14.1%	204,015	153,593
CBRE	Listed Property	41,762	20.5%	50,323	33,201
Mondrian	Emerging Market Equity	257,789	26.3%	325,588	189,990
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,450,550	17.5%	1,704,396	1,196,704
BCPP	Private Equity	8,610	24.0%	10,676	6,544
BCPP	Infrastructure	10,750	15.5%	12,416	9,084
BCPP	Private Credit	3,255	10.6%	3,600	2,910
BCPP	UK Index Linked Bonds	458,726	9.8%	503,681	413,771
	Loans	223	0.0%	223	223
	Cash	93,702	0.0%	93,702	93,702
	Net Derivative Assets	812	0.0%	812	812
	Net Investment Balances	2,555	0.0%	2,555	2,555
Total Change in Net Investment Assets Available		3,474,446		3,960,489	2,988,403

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the Fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2022 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 2022	Change in Year in the Net Assets Available to Pay Benefits	
		+100 BPS	- 100BPS
		£000	£000
Cash and Cash Equivalents	65,346	653	-653
Fixed Interest Securities	-	-	-
Total Change in Net Investment Assets Available	65,346	653	-653

Asset Type	Asset Values at 31 March 2021	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and Cash Equivalents	93,702	234	-234
Fixed Interest Securities	48,905	122	-122
Total Change in Net Investment Assets Available	142,607	356	-356

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening / weakening of the pound, against the various currencies in which the fund holds investments, would increase / decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at 31 March 22	Value on Increase	Value on 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 Liabilities	0%	0%	-1,504	-1,504	-1,504
	Net Investment Balances	0%	0%	-264	-264	-264
Total Change in Net Investment Assets Available				3,593,354	3,819,894	3,366,815

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at 31 March 21	Value on Increase	Value on Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	577,005	577,005	577,005
BlackRock	DAA	5%	10%	388,721	390,665	386,777
CBRE	Global Property	18%	10%	220,566	224,536	216,596
Mondrian	Emerging Market Equity	100%	15%	257,789	296,457	219,121
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	88%	10%	1,450,550	1,578,198	1,322,902
BCPP	Private Equity	93%	10%	8,610	9,411	7,809
BCPP	Infrastructure	93%	10%	10,750	11,750	9,750
BCPP	Private Credit	74%	10%	3,255	3,496	3,014
BCPP	UK Indexed Linked Bonds	0%	0%	458,726	458,726	458,726
	Loans	0%	0%	223	223	223
	Cash	22%	10%	93,702	95,763	91,641
	Net Derivative Assets	0%	0%	812	812	812
	Net Investment Balances	0%	0%	2,555	2,555	2,555
Total Change in Net Investment Assets Available				3,474,446	3,650,779	3,298,113

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 2022, this level of exposure to the Custodian is 0.5% of the total value of the portfolio (1.5% as at 31 March 2021).

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 £46.274m as at 31 March 2022 (£43.051m as at 31 March 2021). This was held with the following institutions:

	Rating	Balances	Rating	Balances
	as at 31 March 2022	as at 31 March 2021	as at 31 March 2021	as at 31 March 2021
		£000		£000
Bank Deposit Accounts				
Handelsbanken	F1+	2,874	F1+	6,809
Bank of Scotland	F1	1,189	F1	1,362
Lloyds	F1	1,902		-
Fixed Term Deposits				
Leeds Building Society	F1	1,189		-
Yorkshire Building Society	F1	1,784	F1	3,406
Close Brothers	F2	2,973	F2	3,406
Nationwide Building Society	F1	2,378	F1	4,769
National Bank of Canada London	F1	3,567		-
Goldman Sachs	F1	1,784	F1	4,769
First Bank of Abu Dhabi	F1+	2,973		-
Sumitomo Mitsui Banking Corp.	F1	4,161		-
Santander UK Plc	F1	2,378	F1	4,769
Landesbank Hessen-Thuringen	F1+	5,946	F1+	-
Girozentrale (Helaba)				
Standard Chartered	F1	4,161	F1	3,542
UK Local Authorities	N/A	7,015	N/A	10,219
Total		46,274		43,051

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 18, the Fund expects all liabilities to be paid within 12 months of the year end.

17. Analysis of Debtors

As at 31 March 2021 £000		As at 31 March 2022 £000
	Included in the Net Assets Statement as:	
3,862	Other Investment Assets	1,517
11,153	Current Assets	12,990
15,015		14,507

All of the £14.507m is due to be received within 12 months after the year end.

18. Analysis of Creditors

As at 31 March 2021 £000		As at 31 March 2022 £000
	Included in the Net Assets Statement as:	
-1,307	Investment Liabilities - Other balances	-1,781
-5,053	Current Liabilities	-6,330
-6,360		-8,111

All of the £8.111m is expected to be paid by the Fund within 12 months after the year end.

19. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The 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 2021 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2022 £000
Utmost (formally Equitable Life)	1,435	9	137	71	1,378
Prudential	8,797	1,567	1,665	262	8,961
Standard Life	1,756	195	111	107	1,947
Total	11,988	1,771	1,913	440	12,286

* Purchases represent the amounts paid to AVC providers in 2021/22

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with

Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

20. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the 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	
		2020/21	2021/22
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£147.634m	£119.756m
Debtors	Amounts due in respect of employers and employee contributions	£9.279m	£11.705m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.535m	£1.661m
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	£1.535m	£1.672m
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 = £43.059m Interest = £0.061m	Balance = £35.687m Interest = £0.030m

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 2022 there were 3 Members 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 Corporate Finance and Commercial Services, the Finance Manager - Revenue, Pensions and Technical and the Head of Pensions. The proportion of employee benefits earned by key management personnel relating to the Fund is set out below:

2020-21 £000		2021-22 £000
107	Short-term benefits	103
24	Post-employment benefits	18
131		121

21. Contingent Assets

a) Pension Contributions On Equal Pay Payments

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their equal pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain, 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.

22. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2019.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 17.9% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 18 years from 1 April 2020, is 21.8% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2019	Valuation as at 31 March 2016
Financial Assumptions		
Discount rate for periods in service	4.25% pa	4.5% pa
Discount rate for periods after leaving service	4.25% pa	4.5% pa
Rate of revaluation of pension accounts	2.1% pa	2.0% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.1% pa	2.0% pa
- post 1988 Guaranteed Minimum Pensions	1.9% pa	1.8% pa
Pensionable pay increase	3.1% pa	3.5% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women
Post-retirement mortality assumption - future improvements	CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5%	CMI 2014 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that total cash received is 85% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The 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 2019.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2016 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2016 £m
Fair value of net assets	2,982	2,321
Actuarial present value of the promised retirement benefits	4,512	3,365
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,044

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2019 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	2.4	3.4
CPI Inflation *	2.2	1.8
Rate of increase to pensions in payment	2.2	1.8
Rate of increase to deferred pensions *	2.2	1.8
Rate of general increase in salaries **	3.2	3.3

* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council's website at durham.gov.uk.

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

Annual Governance Statement 2021/22

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 2022.

COVID19 PANDEMIC

2. The review of effectiveness for 2021/22 was conducted during the advanced stages of the Covid-19 pandemic, when the focus of the Council's response had shifted from the impacts on day-to-day operations to long-term implications for issues such as employment, health and wellbeing, and communities. Any changes or developments to the Council's governance arrangements in response to either short- or long-term implications of Covid19 are incorporated into the relevant section of this statement.

CONTEXT

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

SCOPE OF RESPONSIBILITY

4. Durham County Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
5. The Accounts and Audit (England) Regulations 2015 require the Council to prepare an AGS, which must accompany the Statement of Accounts. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
6. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
7. In January 2022, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – "Delivering Good Governance in Local Government".

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

8. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.
9. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
10. The governance framework has been in place across the Council for the year ended 31 March 2022 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

11. The key elements of the Council's governance arrangements are detailed in the Council's [Local Code of Corporate Governance](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
12. The Constitution Working Group, which consists of the lead members of each political party, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in March 2022.
13. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the [Constitution](#). Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [County Durham Vision 2035](#). The Head of Corporate Policy, Planning and Performance 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 2021/22.

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 July 2022. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in five cases where limited assurance was reported. In the main, these issues related to specific areas and did not reflect weaknesses in the underlying governance arrangements.

20. We are satisfied that, whilst the coronavirus pandemic has 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 2021/2022. 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 2021/22 is included in **appendix A**. An update on improvements identified in the 2020/21 Annual Governance Statement is included in **appendix B**.
22. The ways in which the Council's governance systems have been deployed and adapted in response to the Covid-19 pandemic are incorporated into the body of the statement, aligned to the principles of good governance.

CONCLUSION

23. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2021/22 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 seven actions as part of ongoing improvements to further strengthen governance arrangements in 2022/23. 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 2021/22

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 2021/22.

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.
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.

Demonstrating strong commitment to ethical values

6. 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 July 2021. At its first meeting in 2022/23, the Committee will be asked to agree its work programme for the year.
7. 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.

8. An update on complaints against councillors, considered in accordance with the council's Local Assessment Procedure, is presented quarterly to [Standards Committee](#).
9. The [Slavery and human trafficking statement 2020-21](#) 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

10. 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.
11. 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 team was highly commended in the Institute of Revenues Rating and Valuation Awards 2021 in the Excellence in Counter Fraud category. The [Protecting the Public Purse – Annual Report 2020/2021](#) gives an account of the team's work between 1 April 2020 and 31 March 2021 and the Update Activity Report gives an account of their work between 1 April 2021 and 30 September 2021. Since its' creation in 2015, the team has uncovered or intercepted over £11.5m of fraud, investigating over 4,350 cases across the authority, handling a diverse range of investigations.
12. [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.
13. 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](#).

Principle B: Ensuring openness and comprehensive stakeholder engagement.

Openness

14. 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.

Engaging comprehensively with institutional stakeholders

15. 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 include: -

- (a) From April 2021, the Council entered a partnership arrangement with Cumbria County Council and Together for Children (Sunderland City Council) to form [Adopt Coast to Coast](#), which will speed up the adoption process and find the best match for the babies and children in our care.
- (b) To prepare for anticipated disruption to health and social care services during Winter 2021/22, a task and finish group was set up, including representatives from relevant in-house Council services, North East Ambulance Service and three NHS Foundation Trusts (County Durham and Darlington; Harrogate and District; and Tees, Esk and Wear Valley).
- (c) Other examples can be found in County Durham Partnership update reports to Cabinet in [July 2021](#) and [January 2022](#).

16. 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.

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

18. 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.

19. A refresh of the [Work Programme 2021/22](#) was presented to Corporate Overview and Scrutiny Management Board in June 2021. As with other committees, the scrutiny function adapted its work programme to the pandemic situation using new regulations that enabled virtual committee meetings. Agendas were kept short to focus on priorities, progress meetings smoothly and manage workloads efficiently and effectively.

20. 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

21. Due to the significant level of uncertainty associated with the [Medium Term Financial Plan 2022/23 to 2025/26](#), consultation focused on seeking views from Area Action Partnerships (AAPs) on the approach being taken by the council in planning for the budget process. Presentations were made to 14 AAP Boards between 5 January 2022 and 27 January 2022 providing a 2022/23 Budget and Medium-Term Financial Plan consultation and budget update.
22. Public consultation exercises were undertaken during the year on a range of issues, including our updated Tenancy Strategy, our library service, a review of Storm Arwen, and a review of 'drop-in' adult and health services (where people can access services without a referral). The full list can be found on the [Consultations](#) pages of the website.
23. 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.
24. All 14 [AAPs](#) have received increased resources of £1.4 million for Covid-19 recovery work. In February 2021, a workshop at the County Durham Partnership Forum relating to Towns and Villages focused on how we can work with AAPs to ensure the opportunity to revitalise their towns and villages is maximised. Each AAP has now received an additional funding allocation of £210,000 through the 'Towns & Villages Fund' that will add value to our local communities.
25. Since 2009, AAPs have been key to engaging on a more local level across a large Council area comprising over 530,000 people. In March 2022, Cabinet agreed the outline of a planned [review of the community engagement and funding processes](#) currently provided by our AAPs, together with the scope, governance arrangements and timescales for its completion. The review aims to ensure that our community engagement mechanisms are fit for the future, and that they continue to meet the corporate needs of the Council and our key partners and deliver outcomes for our communities and councillors.
26. [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](#).
27. The Council's website highlights Covid-19 [support for residents](#) (including financial support, testing, self-isolating, housing advice, bereavement support, service changes, mental health and wellbeing), [support for businesses](#) (including financial support, postponing business rates, personal protective equipment, information for suppliers, jobs support for affected businesses), and the latest statement from LA7 leaders.
28. The Voluntary and Community Sector has been critical to the success of the County's pandemic response in supporting individuals and local communities and helped

mobilise community networks and assets to provide an immediate response supporting the vulnerable in need during the lockdown.

29. As part of the Outbreak Control Plans for Covid-19 each local authority area needs to have in place a Local Outbreak Engagement Board, which is a public-facing Board led by council Members to communicate openly with the public. In County Durham this is the Health and Wellbeing Board.

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

Defining outcomes

30. 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.
31. In January 2022, Corporate Overview and Scrutiny Management Board considered a report on the progress of the Council and partners in addressing and alleviating [poverty](#), including our response to the negative financial impacts of the COVID-19 pandemic. In the same month, Children and Young People's Overview and Scrutiny Committee considered a report on the progress of the Child Poverty Working Group in addressing [Child Poverty in County Durham](#) since October 2020. A revised Poverty Action Plan will be brought to Cabinet for approval in April 2022.
32. 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.

33. Despite this very challenging financial period and the significant base budget pressures faced by the Council, the [Medium Term Financial Plan 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23](#) report includes some very positive outcomes for the people of County Durham including: -
- (a) significant new investment of £10 million funded by earmarked reserves to enable levelling up bid feasibility studies to be developed and for investment in Durham City heritage assets, rural and urban footways, public rights of way and country parks;
 - (b) continued support to protect over 34,000 working age households in receipt of low incomes through the continuation of the Council Tax Reduction Scheme, where 80% of affected households will continue to be entitled to 100% relief and where those left with a bill will receive up to £150 of additional support next year;
 - (c) 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; and
 - (d) significant capital investment in school provision, town centres and infrastructure, including new transport schemes and maintenance of our highways and pavements. In total, additional capital investment of £112.7 million was approved by the council.
34. In June 2021, Cabinet endorsed the [Joint Health and Wellbeing Strategy 2021-2025](#), 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.
35. There are clear links between the Financial Management Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes.
36. 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.
37. In January 2022, Adults, Wellbeing and Health Overview and Scrutiny Committee received an update on the [COVID-19 Local Outbreak Management Plan](#), the overarching focus of which is to protect the health of local residents and reduce any onward transmission of the virus. This report also included an update on the Government's Autumn and Winter Plan, Contain Framework and Plan-B guidance.
38. 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.

Sustainable economic, social and environmental benefits

39. The Council declared a Climate Emergency in February 2019, and, in February 2020, Cabinet adopted a [Climate Change Emergency Response Plan](#) (CERP). In October 2021, an update on progress of the [CERP Year 2](#) was presented to Environment and Sustainable Communities Overview and Scrutiny Committee (ESC OSC), who also considered future challenges for meeting long-term Council and countywide targets.
40. The ESC OSC continues to oversee the progress on environmental improvement actions including reducing single use plastics and the strategic waste management service. In [October 2021](#), Cabinet considered a report on the international and national declines in natural habitats and species, the findings of which were overwhelmingly confirmed in a review by ESC OSC and, 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.
41. 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.
42. 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.
43. The [Gender Pay Gap Report 2021](#) sets out Durham County Council's gender pay gap data, analysis and plans for long term improvements.
44. 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.

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

Determining interventions

45. 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. Example reports include: -
- (a) [Leisure Transformation New Build Site Selection Update](#) to Cabinet, September 2021.
 - (b) [Greenfield Community College - Future Options](#) to Cabinet, October 2021.
46. In December 2021, the council's Cabinet agreed the process for developing a new [Inclusive Economic Strategy](#) using a three-stage process (economic review, economic

statement, conversation on strategy development), and this was considered by [Economy and Enterprise Overview and Scrutiny Committee](#) (E&E OSC) in March 2022. A large-scale public consultation, called the Big Econ-versation ran until April 2022, prior to developing the strategy taking account of the feedback. Prior to engaging with the development of the Inclusive Economic Strategy, E&E OSC had considered reports on the [Strategic Job Creation Plan](#), [Strategic Employment Sites in County Durham](#), and [County Durham's Visitor Economy](#).

47. To inform decision-making on interventions, the Service Restoration Group received weekly updates from the Covid-19 Policy Monitoring and Analysis sub-group, including an overview of new and updated policies, and those requiring action. This report was also provided for information to Corporate Management Team, Health Protection Assurance Board and Recovery Group.
48. [Corporate Overview and Scrutiny Management Board](#) played a key role in a review by Cabinet of the options for the future storage, care and display of the Durham Light Infantry Collection and Archive, the findings of which were approved by [Cabinet](#) in September 2021.

Planning interventions

49. Following a change in administration in May 2021, a new Council Plan is being drafted for consideration by Cabinet in April 2022 and for approval by Council in June 2022. 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 [Medium Term Financial Plan 2022/23 to 2025/26 \(MTFP12\)](#), which was approved by the Council in February 2022, 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 MTFP12 underwent scrutiny and challenge by [Corporate Overview and Scrutiny Management Board](#).
51. 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 MTFP12: -
- (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.

52. [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](#).
53. The Business, Economy, Regeneration Strategy Recovery Group (a subgroup of the County Durham Economic Partnership) was established to assess and address the economic implications of the pandemic for County Durham to provide the assistance that businesses need to restart and grow the economy of County Durham. It is focusing on six key areas: business support; employability and skills; infrastructure; intelligence; strategy and lobbying; communication.
54. In February 2021, Cabinet approved the [Towns and Villages Investment Plan](#). In November 2021, Economy and Enterprise Overview and Scrutiny Committee considered a report outlining the process for [Managing Change in County Durham's Towns and Villages](#), including planned interventions through Masterplans and Targeted Delivery Plans, and the development and alignment of funding programmes to facilitate change and improvement.
55. In November 2021, the Health and Wellbeing Board received the [Policy Framework and Planning Requirements for the Better Care Fund \(BCF\) 2021-22](#). 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.
56. In November 2021, Cabinet agreed phase 2 of the [Council House Building Programme](#), including the Council's strategy for the development of new council homes within the rural west of the County.

Optimising achievement of intended outcomes
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57. The Company Governance Group oversees the Council's companies governance arrangements, including consideration of the strategic approach to and structure of its' companies and joint venture arrangements. Updates on the Group's work are periodically presented to Corporate Management Team, which considered proposals to amend the governance arrangements to ensure appropriate member oversight of Council companies in their capacity as shareholder. Cabinet is being briefed on these proposals with a view to implementation in the near future. In March 2021, training was delivered to all senior officers who work with, or who are appointed as, directors to ensure that they understand roles and responsibilities, and can identify and manage conflicts. Having sufficient officers trained in this regard will help provide resilience in the Council's resourcing of the Companies. Company governance training has been included in the Council's Workforce Learning and Development Plan.
58. The Council submitted a [bid for UK City of Culture 2025](#), with principal partner Durham University on behalf of Culture Durham, a partnership of organisations united by their

belief in the power of culture to transform lives. More than half a million residents to join its big conversation on issues which matter to them most, helping to create a new and ambitious economic strategy that provides opportunities for everyone. Although the bid was not successful, the Council and its partners are determined to deliver on the [ambitious plans within the bid](#) creating a county of culture that attracts tourists from across the UK and beyond, delivers thousands of new jobs and improves wellbeing. This will ensure the whole county is connected and celebrated through art, sport, food and science.

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 Inspire Programme seeks to enable flexible working through digital and mobile technology, make our workspaces more cost effective and productive, and support collaboration between teams across the organisation. Projects supporting these aims that have been completed during the last year include: -
- (a) Ensuring staff were equipped with the necessary technology to allow them to work virtually from home during the Covid19 pandemic, including access collaboration and communication applications, a device click and collect service and the implementation of telephony software.
 - (b) The design and implementation of a digital democracy programme providing elected members with the necessary digital skills and tools to work virtually and enabling over 200 remote meetings of the council, involving 120 Councillors and chief officers, to be broadcast to the public through the Council's YouTube Channel.
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) The implementation of an enhanced service delivery model for customer access with an increased choice of contact channels, and revisions to service standards and the customer charter.
 - (b) In line with a review of our digital response to the pandemic, a comprehensive assessment of the Council's communications technology systems was completed. Standardisation and harmonisation approaches have supported integration of systems, leading to enhanced experiences for customers and operational efficiencies for system users.
 - (c) Waves 1 and 2 of the Department for Education's national Connect the Classroom programme, were delivered. The programme, which aims to replace networking equipment in over 40 schools in the county, will see over £1.1m invested in network infrastructure across the estate.
 - (d) Community digital development and inclusion activity has included bringing community centres online and free access to Internet connected computers in libraries and hubs.

- (e) The continued delivery of the Integrated Customer Service programme to enhance the customer experience and drive improvements across customer services.
- (f) Support for remote learning in education to over 200 schools using Google Classroom and Microsoft Team.

61. Changes to services affected by the national lockdown were set out on the Council's website.

62. The focus of the Adults Wellbeing and Health Overview and Scrutiny Committee has been driven by the impact of the Covid19 pandemic on residents of County Durham, the management of outbreaks and the delivery of the vaccination programme. In February 2022, a special meeting was held to explain to members how increased operational demand across [999/111 services](#) impacts capacity and performance.

63. Roll-out of the MiContact Centre Ignite project was completed. This project involved deploying software which allows the council's contact centre agents to work from anywhere with an adequate internet connection, thus increasing flexibility of our workforce and the ability to respond to customer demand.

64. Following a cyber self-assessment and analysis of our current position and market conditions, options for appropriate cyber insurance cover are being explored. Market conditions are currently unfavourable due to several recent global hacks and 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. 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.

65. The trade unions' rejection an offer of a 1.75% pay increase temporarily increased the likelihood of widespread industrial action by Council employees. A Council-wide Working Group was convened and developed contingency plans, informed by consultation with, and involvement of, trade unions and employees.

Developing the capability of the Council's leadership and other individuals
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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 which are outlined in the [Overview and Scrutiny Annual Report](#) and the [Overview and Scrutiny Six Monthly update to Council](#). Examples include: -

- (a) [State of the County Report, 2020/21](#)
- (b) [Overview of Child Protection Process](#)
- (c) [Child and Adolescent Mental Health Services Update](#)
- (d) [SEND Overview and Focus on SEND in Mainstream Schools](#)
- (e) [County Durham Environment & Climate Change Partnership Overview](#)
- (f) [Adult Social Care Service Overview and Current Position](#)
- (g) Overview of the Domestic Abuse Act 2021 and Whole System Approach to Domestic Abuse

(h) Strategic Overview of Resources and Waste Management Services in County Durham

67. 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 2021/22, 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.
68. 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.
69. 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.
70. The Council achieved the Maintaining Excellence Better Health at Work Award and surveyed staff to inform future health and wellbeing campaigns. As part of World Mental Health Day in October 2021 we gave employees an additional day of leave as a 'wellbeing day' for employees' efforts during Covid-19.
71. The Council's Apprenticeship Strategy has been reviewed and was approved by Cabinet in April 2022. Apprenticeship recruitment continues to support and grow our own approach to meet future skills requirements.
72. 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.
73. Following elections to the County Council in May 2021, members received induction training, including a range of generic and role-specific modules, through the Member Learning and Development Programme.
74. A new portal was created on the Durham Learning and Development system bringing 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. Officers of the corporate management team and extended management team completed a development programme comprising up to eight mandatory briefing sessions over the course of the year.

75. Following the cessation of Covid Plan B measures in February 2022, a hybrid working model was introduced, 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

76. Risk management continues to be embedded in decision making and key business processes and the [Risk Management Policy and Strategy](#), which defines key roles and responsibilities and is reviewed annually, underpins this. The Audit Committee has gained assurance that the Council's strategic risks are being effectively managed through reports issued in [July 2021](#), [November 2021](#) and [February 2022](#). In October 2021, the Council received a report from the [Chairman of the Audit Committee](#) on its work between September 2020 and August 2021, and how the Committee continues to provide for good governance across the Council.

77. Officers from the Council's corporate risk management group met monthly to oversee the management of risks arising from the pandemic and continually report the latest position to corporate management team.

78. 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 2022 gave an account of the response by the Council and its partners to Storm Arwen.

79. The Pension Fund Committee has gained assurance that pension fund risks are being effectively managed through a report issued in [December 2021](#).

80. 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) Long-term implications of the Covid-19 pandemic for issues such as employment, health and wellbeing, and communities.
- (e) 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).

Managing performance

81. 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.

82. 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.
83. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the [County Durham Vision 2035](#) and the [Council Plan](#). The format of performance reports has been realigned to the ambitions in the new Council vision. We are developing online (near) real-time performance dashboards using business intelligence and reporting services tools to provide more immediate views and visualisations of performance as part of a business intelligence programme. Examples available in children's social care and customer services.
84. 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.
85. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the [annual report](#), decisions and actions of the Police and Crime Commissioner. An update on activity from the Panel is presented to each meeting of the Council's [Safer and Stronger Communities Overview and Scrutiny Committee](#).
86. 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 [June 2021](#), [September 2021](#), [November 2021](#) and [February 2022](#).

Robust internal control

87. Revised versions of the [Internal Audit Strategy, Charter and Plan 2021/22](#) were approved by Audit Committee in June 2021.
88. [Fighting Fraud and Corruption Locally - a strategy for the 2020's](#) is the updated counter fraud and corruption strategy for local government, produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders. The Council's [Counter Fraud & Corruption Strategy, Fraud Response Plan](#), Sanctions Policy, Confidential Reporting Code (Whistleblowing) and the [Anti-Money Laundering Policy](#) were last presented to Audit Committee in June and July 2018 but remain valid.

Managing data

89. 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. A mandatory data protection e-learning training module was issued in 2021/22 for completion by all relevant employees.

Strong public financial management

90. 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.

91. 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.

92. In February 2022, an update was given to Audit Committee on the Council's [accounting policies](#) to be applied in the preparation of the 2021/22 Statement of Accounts. The following reports provide assurance that the Council's financial management supports both long-term achievement of outcomes and short-term financial and operational performance: -

- (a) [Treasury Management Outturn 2020/21](#)
- (b) [Final Outturn for the General Fund and Collection Fund](#)
- (c) [Audit Completion Report 2020/21 - Pension Fund](#)
- (d) [Update on Progress towards achieving MTFP\(11\) savings](#)
- (e) [Forecast of Revenue and Capital Outturn 2021/22](#)
- (f) [Medium Term Financial Plan 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23](#)
- (g) [Report under Section 25 of Local Government Act 2003 - Reserves](#)

93. A value for money self-assessment against the National Audit Office (NAO) Code of Practice was completed, with input from Internal Audit, and sent to the external auditors for review by 30 September 2021. The external auditor's completion report, reported to the Audit Committee in November 2021, concluded that the Council achieved full compliance with the NAO Code of Practice.

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

Implementing good practice in transparency

94. 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.

95. Reports about complaints against members are included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information).

Implementing good practices in reporting

96. The Council's commitment to regular reporting to stakeholders on performance, value for money and stewardship of resources is evidenced throughout this statement. Other examples include: -

- (a) [Director of Public Health Annual Report 2021](#)
- (b) [Health Protection Assurance Annual Report](#)
- (c) [Durham Safeguarding Children Partnership Annual Report 2020/21](#)
- (d) Corporate Parenting Panel Annual Report 2020-2021
- (e) [Durham Safeguarding Children Partnership Children Looked After Update](#)
- (f) [Fostering Service Annual Report 2020-21](#)
- (g) [Annual Report on the Adoption Service: April 2020 - March 2021](#)
- (h) Virtual School Annual Report Summary
- (i) [Children Looked After with a Disability Annual Update](#)
- (j) [Protecting the Public Purse Annual Report 2021/2022](#)

97. The Local Code of Corporate Governance is reviewed annually before being considered for approval by the Audit Committee and County Council.

98. The [Statement of Accounts 2020/21](#), incorporating the [Annual Governance Statement for 2020/21](#), was approved by the Audit Committee in September 2021, 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.

99. 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 Statement of Accounts was received by the [Pension Fund Committee](#) in December 2021. 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

100. 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 2022. 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.

101. 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.

102. 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 conform 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.

103. 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 \(Statement of Accounts\)](#) summarises the external auditor's conclusions for the year ended 31 March 2021.
- (b) The [External Audit Strategy Memorandum](#) sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2022.
- (c) External Audit Progress reports in [November 2021](#) and [February 2022](#).
- (d) The [Audit Completion Report \(Pension Fund\)](#) summarises the external auditor's conclusions for the year ended 31 March 2021.

104. Regulatory inspections

- (a) Each Children's home is inspected by the regulator, Ofsted.
- (b) In November 2021, Children and Young People's Overview and Scrutiny (CYP OSC) Committee considered a report that provided members with information in relation to the key findings and actions in response to the [Ofsted focused visit](#) in July 2021.

105. In March 2022, CYP OSC received a presentation providing information on The Independent Inquiry into Child Sexual Abuse into Child Sexual Exploitation by Organised Networks and providing information on the actions taken by Durham Constabulary, Durham County Council and the Durham Children's Safeguarding Partnership to address areas within the report.

APPENDIX B: Update on improvements identified in the 2020/21 Annual Governance Statement

Following the production of the Annual Governance Statement for 2020/21, eight improvement actions were identified for 2021/22. Progress against each action is shown in the tables below.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
1	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Developing the Council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38).	Head of Corporate Property and Land	December 2021

Update:

This action is substantially complete.

The new service is now embedded across the Council. The principles of the Corporate Landlord Model have been adopted across service groupings. The new arrangements will be continually kept under review to ensure that they are all embracing, fit for purpose and in line with the corporate direction of travel to meet best practice and deliver service needs.

2	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	September 2021
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Update:

Of the 64 actions in the plan, 61 are complete or on schedule and 3 have been rescheduled or reviewed.

Fostering Peer Review completed in December 2021. Actions and recommendations have been incorporated into wider service improvement plan and broader service review.

Peer review of quality assurance processes and Independent Reviewing Officer function is partially complete with interim report expected mid-April 2022. Further scoping and improvement work to build on recommendations is underway.

Review of children's commissioning functions is underway and mid-way report received in March 2022 with further work and recommendations identified.

No.	Actions to be taken	Links to the Local Code of	Lead Officer	Timescale
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		Corporate Governance (ref)		
3	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 (2023).	D3.1 Optimising achievement of intended outcomes (4.34)	Head of Integrated Commissioning	March 2022

Update:**This action is behind schedule.**

This work has been slightly delayed as a result of the ongoing pandemic and the requirement to divert the activities of the team to pandemic response. A draft model has now been developed (two months behind schedule) which includes detailed analysis of several years of care home activity. This data has been linked to NHS data to provide a comprehensive picture of capacity and demand across the county. The model can review demand based on level of need, complexity of health care condition, type of care home bed required and locality. Demand projections can be modified based on a range of variables linked to planned market changes.

Alongside this, housing colleagues have undertaken a detailed analysis of housing stock for older people across the county which will accompany the care home demand model. The housing data shows capacity and demand on the same footprints as the care home data. Early engagement has taken place with registered social landlords via the housing forum and follow up meetings are scheduled to share views on accommodation gaps for older people across the County.

4	Development and embedding of the County Durham Together model to promote joined up service delivery and enable easier access to preventative services available in local communities.	Sustainable economic, social and environmental benefits: ensure fair access to services (4.29)	Deputy Director of Public Health	March 2023
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Update:**This action is on schedule.**

Work around developing County Durham Together continues. Several pieces of work are being progressed within individual workstreams. A presentation has been developed and agreed at County Durham Together Partnership Board to take through DCC senior management teams and onward to CMT and Cabinet Transformation on a date to be confirmed. This presentation will also be shared by CDT partners in their relevant senior management groups.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
5	Undertake a review of Home to School Transport policy and commissioning arrangements to better understand and address escalating budget pressures.	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 Education and Skills	March 2022

Update:**This action is on schedule.**

The review has been completed and a new Home to School Travel Board has been established to lead the programme. The recommendations from the review have been considered by the Travel Board and will be discussed more broadly within the Council in March 2022. The final set of proposals are scheduled for presentation to Cabinet in May 2022. A new Home to School Transport policy is also in development with planned publication in May 2022.

6	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 2022
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Update:

Of the 26 actions in the plan, 24 are complete or on schedule and two have been rescheduled.

The strategy contains 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).

During 2021/22, the Fostering Service recruited 29 new fostering households, against a target of 30. A new marketing and recruitment campaign has been launched focusing on the recruitment of new foster carers for 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. The Mockingbird Model is being developed which will provide enhanced support to foster carers, improving the stability of children's foster placements and the retention of carers. The regional framework for Independent Fostering Agencies has been recommissioned, with bids being evaluated in April 2022 and a framework operational date of July 2022.

The Adopt Coast to Coast Regional Adoption Agency (RAA) for Durham, Sunderland and Cumbria was launched in April 2021. The agency has continued to work collaboratively with RAA partners in developing practice around linking and matching so children can be matched to their forever family within a shorter timeframe.

Capacity has increased during 2021/22, with the development of a new smaller children's home. Work is ongoing to develop a further smaller children's home which will care for up to two young people which is due to open later in 2022. The Edge of Care home has been identified with a forecast operational date of mid-2023. Work is ongoing to re-provide a home for three young people with a target date of 2023. A Lean Review is considering the end-to-end process in relation to developing new children's home, from identifying the property to opening the home and the first child moving in. The review will consider the roles and responsibilities across a range of services within the Local Authority, where improvements can be made, and processes streamlined and areas where additional capacity is proposed.

In relation to care leavers, the Supported Living Preferred Provider Panel will be extended and opened up in September 2022, enabling new providers to join. As information is released by Ofsted in relation to the regulatory framework for support accommodation providers, we will work closely with providers to prepare them and to understand any emerging gaps within the provider marketplace. Two actions have been deferred from December 2021 to December 2022, (a) review the marketing and recruitment strategy for supported lodging provision, and (b) recommission our Supported Living Provider Panel for young people with needs that challenge services.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
7	Development of a post Covid Economic Development / Recovery Plan for the County, factoring in opportunities and issues presented through the Levelling Up, ensuring a robust and ambitious economic plan that is co-developed with the community, focused on inclusive growth and prosperity.	Planning interventions: arrangements for planning the interventions for the achievement of its intended outcomes (4.33)	Corporate Director of Regeneration, Economy and Growth	October 2022

Update:

This action is on schedule.

Consultation titled 'Our Big Conversation' started on 31 January 2022 and continues until 22 April 2022. This includes a wide range of workshops and meetings with varied stakeholders. The website is now live and online surveys are available for residents, businesses and young people. A full report on the consultation outcomes will be compiled in May 2022 and drafting of the first strategy will start in May/June 2022.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
8	Assess ongoing medium financial impacts of Covid in terms of additional recurring costs and reduced income to inform future MTFP planning.	Strong public financial management: FM supports long-term outcomes/short-term financial and operational performance. FM is integrated at all levels of planning and control (4.58)	Corporate Director of Resources	March 2022

Update:**This action is complete.**

Any ongoing impact of COVID upon the council's budget is continually reviewed. As part of the development of MTFP12, an additional base budget pressure has been included in the 2022/23 base budget in relation to waste volumes. During lockdown periods waste volumes increased and it was expected that after lockdown waste volumes would reduce to pre-pandemic levels. This has not occurred however and to ensure the base budget reflects this a budget uplift has been agreed for 2022/23.

At this stage no other ongoing increased expenditure sums have been considered for inclusion in the base budget and income levels in areas such as leisure, car parking and theatres will continue to be closely monitored during 2022/23. If income levels do not return to pre-pandemic levels, then consideration may need to be given for inclusion of base budget uplifts in the 2023/24 base.

Any ongoing impact within 2022/23 will be covered either from within cash limit budgets, contingencies or from reserves dependent upon the sums experienced.

APPENDIX C: Proposed Governance Improvements required during 2022/23

As a result of the review of governance arrangements, and the work of both internal and external audit, seven improvement actions have been identified to further strengthen governance arrangements in 2022/23. 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 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
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 (2023).	D3.1 Optimising achievement of intended outcomes: optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning March 2023
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
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)	B3.2 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

5	Review of the Council's community engagement functions, including the work of area action partnerships (Our Communities)	B2.1 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
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)	F2.1 Managing performance: service delivery is effectively monitored (4.52)	Head of Adult Care 2022
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)	G3.2 Assurance and effective accountability: welcome peer challenge, reviews & inspections from regulatory bodies and ensure that recommendations are implemented (4.67)	Head of Corporate Policy, Planning and Performance December 2023

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.