

2022-23



Statement of Accounts

For the year ended 31 March 2023

I hope that this document proves to be both informative and of interest to readers. The council is keen to try to improve both the quality and suitability of information provided. On that basis your feedback would be welcome.

If you have suggestions or comments on either the format of the report or its content, or you would like any further information or further copies of this document, please contact:

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

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Narrative Report

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

Durham County Council remains committed to the delivery of its vision and priorities which have been developed in consultation with the public, our partners, and stakeholders. The council has continued to effectively manage its resources during a period of increasing cost pressures and a backdrop of many years of government funding reductions. The future funding outlook for the public sector and local government remains uncertain. The budgetary pressures as a consequence of the legacy issues linked to COVID-19 pandemic will undoubtedly impact on the council and its communities for a number of years to come.

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

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

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

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

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

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

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

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

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

This document presents the published accounts for Durham County Council for the year ended 31 March 2023 – the 'Statement of Accounts'.

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

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

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

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

Paul Darby CPFA
Corporate Director of Resources

2. Introduction

The purpose of the statement of accounts is to give members of the public, electors, those subject to locally levied taxes and charges, Members of the council, employees, and other interested parties clear information about the council's finances in order that they may:

- understand the financial position of the council and the outturn for 2022/23;
- have confidence in the council's stewardship of public money which has been used and accounted for in an appropriate manner; and
- be assured that the financial position of the council is sound and secure.

The statement of accounts begins with this narrative report and has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

This narrative report provides information about Durham, including key issues affecting the council and its accounts. It also provides a summary of the financial position as at 31 March 2023 and an executive summary of the non-financial performance of the council in 2022/23. The purpose is to provide an understandable guide of the most significant aspects of the council's financial performance, year-end financial position, and cash flows. The narrative report focuses on the matters that are of relevance to the principal users of the statement of accounts. As well as complementing and supplementing the information provided in the accounts, it also provides a forward look at the issues that have affected the council's development, performance, and position during 2022/23 and are likely to impact in the future. This foreword covers and is structured as below:

- 1 Message from the Corporate Director of Resources
- 2 Introduction
- 3 An Introduction to Durham
- 4 An Introduction to Durham County Council
- 5 Financial Performance of the council 2022/23
- 6 Non-Financial Performance of the council 2022/23
- 7 Significant Issues for 2022/23 and Beyond
- 8 Corporate Risks
- 9 Summary Position
- 10 Receipt of Further Information
- 11 Explanation of Accounting Statements

3. An Introduction to Durham

Many of our distinctive qualities can be explained by our history. In medieval times, Durham held great political importance as a buffer state between England and Scotland with its own autonomous ruler, the Prince Bishop of Durham, holding both spiritual and secular power in the region and having responsibility for protecting England's northern frontier. As a religious centre, Durham helped to illuminate the Dark Ages. Durham Cathedral was the site of the tomb of St Cuthbert, the great northern saint, and a popular site of pilgrimage in medieval times. The cathedral was also the home of the Lindisfarne Gospels, the oldest surviving translation of the Gospels into English and one of the finest illuminated manuscripts in existence. Today, Durham Castle and Cathedral are one of only a few World Heritage Sites in the British Isles and are a major tourist attraction for visitors from all over the world.

Later in our history when coal was king, our mines powered the Industrial Revolution. This area saw the birth of the railways and provided the coal, steel, and ships for economic growth across the country and the world. In the nineteenth century the growth of the mining industry transformed the landscape and the population of the county. Colliery villages sprang up and migrant workers from all parts of the British Isles swelled the workforce. Some of the housing erected in our old colliery villages to accommodate the large population increases of the boom years of coal remain, so the built environment in some parts of the county needs regeneration. Despite improvements in recent years, some of these communities still face significant challenges. The demise of mining and heavy industry in the 1980s hit the local economy hard, seeing significant increases in unemployment, with social and economic impacts still felt today. This led to large scale environmental reclamation work to restore the natural beauty of our county and the economic renaissance that continues today.

Today the county has one of the best natural environments in the country, boasting some wonderful countryside from the unspoilt Area of Outstanding Natural Beauty of the North Pennines to the Durham Heritage Coast. The county's industrial heritage is well served by museums such as Beamish, the largest open-air museum in the UK and Locomotion, the National Railway Museum at Shildon, the world's first railway town.

A partnership of public agencies working together with the private sector has redeveloped the economy of the county, investing in leisure and tourism, green technologies, creative industries, financial services, pharmaceuticals, and advanced engineering sectors. The University of Durham, the third oldest in England, is a member of the prestigious Russell Group of universities known for their world class teaching and research. Collaboration between local businesses and the University of Durham has led to developments in science, technology, and innovation. Over the last year the council and its partners have developed an Inclusive Economic Strategy, to frame future economic development and drive prosperity and growth for years to come.

The county enjoys good north-south connectivity being on the East Coast Mainline and is served by two airports and two maritime ports in the region. We enjoy relatively traffic free roads in comparison with the rest of the country. However, east-west connectivity within the county needs improvement. Accessibility remains a priority for residents, particularly in rural areas and areas of high deprivation with low car ownership. The county has poorer health outcomes in comparison to some UK measures, partly due to the legacy of heavy industry and the deprivation suffered in some of our communities, which means we have some challenges. There is a high dependency on benefits in some parts of the county and the introduction of Universal Credit has disproportionately affected County Durham. Children living in poverty and levels of fuel poverty are higher than national averages and the demand for children's social care has increased in line with national trends, putting significant pressure on our public services.

Interesting facts about your county:

- County Durham has a population of 522,100 making it the most populated local authority in the North East and the seventh most populated all-purpose local authority in England.
- 1 in 5 people are aged 0-17 years old.
- 1 in 5 people are aged over 65 years old. This has increased by circa 20.6% since 2011.
- The resident population in County Durham increased by 1.7% (8,800 people) between 2011 and 2021, compared to a 6.6% increase across England.
- The number of people aged over 65 is projected to increase by over 34% by 2043 and the number of people aged over 85, will increase by 93% over the same time period.
- The county covers an area of 862 square miles making it circa 20 times the size of Newcastle-upon-Tyne.
- Over a third of the county is made up of accessible green space.
- It has a rich history. Its Norman cathedral and castle were one of the first sites in the UK to be listed as a world heritage site by UNESCO.
- The University of Durham is highly regarded and is a top five UK university (Guardian 2023) and a world top 100 university (QS World Rankings 2023.)
- Durham Constabulary is ranked as good overall and outstanding at tackling organised crime and value for money for the people of County Durham and Darlington.
- There are over 250,000 households in the county with 2 in 5 living in rural areas.
- Over 15,000 homes are off the gas network.
- 35% of dwellings are in terraced properties.
- There are over 14,000 businesses registered in the county and this has increased by over 28% since 2010.
- 72.2% of our working age population are in employment.

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

4. An Introduction to Durham County Council

Durham County Council was established along with other county councils in England and Wales in 1888. The latest reorganisation of local government in Durham in 2009 saw the abolition of the seven district and borough councils in the county and the creation of Durham County Council (the council) as a single all-purpose authority providing the full range of local government services to the public.

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

Interesting facts about the council:

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

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

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

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

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

5. Financial Performance of the Council 2022/23

Revenue Outturn Position

The council's revenue outturn is shown in the table below. The original net budget requirement of £492.872 million was approved at the Council meeting on 23 February 2022. The original budget set out how the council planned to allocate its funding during the year to deliver services to the people and communities of Durham. During the financial year, amendments to the council's budget were approved by Cabinet who considered quarterly updates on the council's financial performance. Detailed quarterly reports were also considered by individual thematic Overview and Scrutiny Committees during the course of the year.

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

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

Narrative Report

	Original Budget 2022/23	Revised Budget	Service Groupings Final Outturn	Variance	Total Adjustments for Contingencies, Reserves and sums outside the cash limit	Final Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Service Groupings						
Adult and Health Services	136,741	137,989	140,846	2,857	-4,707	-1,850
Children and Young People's Services	141,886	162,835	151,202	-11,633	25,885	14,252
Neighbourhoods and Climate Change	112,985	116,184	96,471	-19,713	20,312	599
Regeneration, Economy and Growth	54,934	57,778	69,039	11,261	-10,563	698
Resources	25,249	25,944	33,371	7,427	-7,994	-567
	471,795	500,730	490,929	-9,801	22,933	13,132
Corporate Finance						
Contingencies	17,078	11,816	-	-11,816	9,231	-2,585
Corporate Costs	3,816	4,188	7,801	3,613	-3,940	-327
Capital charges	-61,873	-61,873	-20,700	41,173	-41,173	-
Gains / losses on disposal of fixed assets	-	-	-9,264	-9,264	9,264	-
HR accrual	-	-	-472	-472	472	-
DSG deficit reserve adjustment	-	-	-1,345	-1,345	1,345	-
Interest and Investment income	-2,900	-2,900	-10,272	-7,372	-	-7,372
Interest payable and similar charges	48,780	42,840	38,558	-4,282	-2,018	-6,300
Levies	16,176	16,185	16,172	-13	-	-13
	21,077	10,256	20,478	10,222	-26,819	-16,597
Net Expenditure	492,872	510,986	511,407	421	-3,886	-3,465
Funded By:						
Council tax	-252,142	-252,142	-252,139	3	-	3
Use of earmarked reserves	-25,072	-41,137	-32,757	8,380	-2,992	5,388
Estimated net surplus (-) / deficit on						
Collection Fund	9,788	9,788	9,788	-	-	-
Business Rates	-52,873	-52,873	-52,827	46	-	46
Top up grant	-72,780	-72,780	-72,780	-	-	-
Revenue Support Grant	-29,100	-29,100	-29,101	-1	-	-1
New Homes Bonus	-4,082	-4,082	-4,082	-	-	-
Section 31 Grant	-25,026	-25,026	-22,493	2,533	-	2,533
Section 31 Grant - Covid Additional Relief						
Fund	-	-	-4,540	-4,540	-	-4,540
Social Care Grant	-30,955	-30,955	-30,955	-	-	-
Lower Tier Services Grant	-786	-786	-802	-16	-	-16
Services Grant	-8,776	-8,776	-8,776	-	-	-
Levy Account Surplus grant	-	-	-1,068	-1,068	-	-1,068
Contribution to/from (-) Cash Limit						
Reserve	-1,068	-3,117	-3,509	-392	1,512	1,120
Contribution to/from (-) General Reserves	-	-	-	-	5,366	5,366
Total Funding	-492,872	-510,986	-506,041	4,945	3,886	8,831
Net Overspend	-	-	5,366	5,366	-	5,366
Further General Fund replenishment requirement in line with general reserves policy						119
2022/23 General Fund overspend						5,485
Transfer from MTFP Reserve to replenish overspend on General Fund						-5,485

	£'000
Use of Earmarked Reserves	-32,757
Use of Cash Limit Reserves	-3,509
Net overspend funded by transfer from MTFP reserve	-5,366
MTFP reserve utilisation re General Fund policy	-119
Revised Use of Earmarked Reserves	-41,751
Note 10 Statement of Accounts Earmarked Reserves	-44,808
Transfer of DSG reserve balance to unusable reserve	3,057
Total use of Earmarked and Cash Limit Reserves	-41,751

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

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

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

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

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

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

Capital Outturn Position

The original capital budget for 2022/23, taking into account the budgets approved by Council on 23 February 2022 and adjustments for the re-profiling of underspends from the previous year end was £267.920 million.

Throughout the year, the Capital Member Officer Working Group (MOWG) has continually reviewed progress in delivering the capital programme to take into account changes in planning and delivery timescales and analysis of changes in demands on resources. This has been particularly important throughout 2022/23 as the council has monitored the impact of the pandemic and global price rises upon the ability to deliver the capital programme effectively. Regular updates to the capital programme were reported to and approved by Cabinet as part of the quarterly budgetary control reports in year.

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

The capital programme was financed through a number of sources including borrowing, government grants, revenue contributions, earmarked reserves, and capital receipts. The following table shows the capital expenditure incurred during the year and how it was financed.

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

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

Other Key Financial Items in 2022/23

Material Assets and Liabilities:

- As at 31 March 2023, the council held:
 - £1,669.9 million of long term assets;
 - £459.7 million of current assets;
 - £231.3 million of current liabilities and
 - £984.4 million of long term liabilities.
- Long Term Assets have decreased slightly by £9.4 million, which is mainly due to decreases in the value of property, plant, and equipment and in long term investments.
- Current Assets have increased by £19.1 million, which is mainly due to an increase in short term debtors.
- Current Liabilities have remained relatively static with a £507,000 increase.
- Long Term Liabilities have decreased by £817 million, which is mainly due to a decrease in Pension Liabilities of £829 million.
- The General Fund Medium Term Financial Plan 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23 Report, approved by Council on 23 February 2022, details the 2022/23 borrowing limits for the council.
- The specific borrowing limits set relate to two of the prudential indicators that are required under the Prudential Code. The council is required to set borrowing limits for the following three financial years. The limits for 2022/23 were as follows:
 - Authorised limit for external debt of £784 million.

- Operational boundary for external debt of £729 million
- As part of the council's Treasury Management service, these indicators are monitored daily, and neither was exceeded during 2022/23 The highest level of external debt incurred by the council during the year was £468 million, significantly below both thresholds.
- The average interest rate of interest paid on external borrowing held at 31 March 2023 was 3.11% and the average rate of interest earned on cash investments held during the year was 4.01%
- The Net Debt position was £119 million at 31 March 2023 (external borrowing totalled £440 million and cash investments totalled £321 million).

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

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

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

The council continues to strive to provide the best services for people living in, working in, and visiting County Durham. To measure how we are doing and find where we need to improve, we monitor a set of performance indicators. This information is presented to Cabinet meetings every quarter. Key performance indicator progress is reported against two indicator types which comprise of:

- Key target indicators – targets are set for indicators where improvements can be measured regularly and where improvement can be actively influenced by the council and its partners; and
- Key tracker indicators – performance will be tracked but no targets are set for indicators which are long-term and/or which the council and its partners only partially influence.

Council Plan

We have a four year, high level plan which is underpinned by service planning arrangements and links closely with both the Medium Term Financial Plan (MTFP) and the County Durham Plan. The MTFP sets out how our priorities will be resourced; the County Durham Plan is a spatial representation of our ambitions contained within the council plan around housing, jobs, and the environment as well as the transport, schools, and

healthcare infrastructure to support it. It sets out how Durham County Council is to consider corporate priorities for improvement, and the key actions to be taken to deliver the longer-term goals in the Vision for County Durham 2035 and the council's own transformation agenda.

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

- **Our Economy** - Durham has a thriving and inclusive economy with more and better jobs and fewer people suffering from the hardships of poverty and deprivation.

Objectives

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

Achievements

- Positive discussions have taken place with other neighbouring authorities and the government to reach a provisional deal to unlock billions of pounds of investment and see additional powers transferred from Whitehall to the North East.
- £25 million investment and completion of phase 1 of Jade Business Park. Creating seven new units totalling more than 14,000 sqm of industrial space to accommodate 250 jobs.
- £75 million of private sector investment in new industrial and warehousing at Connect at Integra 61 creating 640,000 sq. ft of new industrial and warehousing space and contributing to the 4,000 jobs that will be accommodated on Integra 61.
- £271 million invested in one of Europe's leading technology parks at NETPark delivered and managed by Business Durham, with 16,000 sqm of office and laboratory space supporting 650 jobs.
- Planning approval to bring forward over 800,000 square feet of development at Forrest Park in Aycliffe to potentially build eight factory units.
- Developed an Inclusive Economic Strategy for the County to support future economic growth.
- Investment Plans submitted for UK Shared Prosperity Fund, Multiple Programme and the Rural England Prosperity Fund, bringing in £37.1 million to support Durham's economic growth over the next three years.

- Planning consent secured for over 400,000 sq. ft of office space at Aykley Heads site with the potential to create 4,000 jobs.
- Secured £20 million Levelling Up Fund for the Bishop Auckland Constituency Proposal. Also developed five proposals for the remaining constituencies
- Delivered a successful festivals and events programme including the Bishop Auckland and Seaham food festivals, Durham Book Festival and BRASS which were attended by over 95,000 people in 2022.
- Our Post 16 outcomes have improved steadily over time with average grades at A level above national averages from 2018.
- Over 13,500 children and young people with Special Educational Needs and Disabilities are supported to achieve good outcomes in our schools and colleges. Almost 85% of these are supported in their local mainstream nursery, school or college.
- The Percentage of our children and young people attending an Ofsted judged 'Good or Better' school is 91.2% at Nursery and Primary, 76.9% at secondary and 96.3% at special schools.

Our Economy: Statistics / Challenges

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

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- Day visitors to our county spend an average of £22.97 in the local economy per day, whilst overnight visitors will spend an average of £209.61 per trip. Only 9% of visitors will stop overnight within the county.
 - **Our Environment** – Durham has taken action to tackle the climate emergency, reduce the impact of pollution and waste on our economy and protect, restore and sustain our natural environment.

Objectives

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

Achievements

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

Our Economy: Statistics/Challenges

- The council is committed to exploring more sustainable transport choices and we are pursuing three bids for rail connections from Ferryhill to Teesside, Consett to Tyne and Darlington to Weardale to help realise environmental, social and economic benefits in County Durham and the wider region.
- Countywide contracts in place for waste disposal services are coming to an end.
- An Air Quality Management Area where national standards for levels of pollutants have been declared in parts of Durham City, with an action plan to improve air quality.

- The Environment Act 2021 will give the council more powers and responsibilities regarding air quality, nature conservation, waste and use of resources.
 - The council is committed to examining the decline of habitats and species has declared an ecological emergency in County Durham, to be accompanied by an action plan that enables a positive response to be delivered across council services.
 - We want to encourage and enable greater participation in cycling and walking across all demographic groups.
 - The government's Waste and Resources Strategy may have implications for the council such as the introduction of a separate food waste collection, free garden waste collection services, standardising domestic collection services across the country and introducing recycling targets.
 - We will continue to collaborate with our partners, Northumbrian Water and the Environment Agency to carry out work to reduce the risk of flooding and its impacts on residents and businesses.
 - The tonnage of domestic household waste collected has increased significantly during the pandemic, which is affecting the proportion of waste recycled and being diverted to landfill and increased contamination issues in our recycling collections.
 - The percentage of waste going to landfill has increased during the pandemic from less than 5% to nearly 10%.
- **Our People** – Durham is a place where people will enjoy fulfilling, long and independent lives.

Objectives

- Children and young people will enjoy the best start in life, good health, and emotional wellbeing.
- Children and young people with special educational needs and disabilities will achieve the best possible outcomes.
- All children and young people will have a safe childhood.
- Promotion of positive behaviours.
- Better integration of health and social care services.
- Tackle the stigma and discrimination of poor mental health and build resilient communities.
- People will be supported to live independently for as long as possible by delivering more homes to meet the needs of older and disabled people.
- Support people whose circumstances make them vulnerable and protect adults with care and support needs from harm.
- Protect and improve the health of the local population, tackling the leading causes of illness and death.

Achievements

- Under 18 years conceptions rate has reduced from 41.3 in 2011 to 17.4 in 2021 and continues to show a positive direction of travel.
- We have helped 3,000 people to access support for drug and alcohol issues and are now above the national average for those successfully completing treatment.
- We have excellent levels of satisfaction from clients in receipt of adult social care services compared to national figures.
- We have developed a public health driven planning policy to address the proliferation in hot food takeaways that is contributing towards levels of obesity in children and adults, and we are rolling out a healthy options takeaway scheme that will be provided free of charge to hot food takeaways across County Durham.
- To date (Dec 2022), we have achieved significant and sustained outcomes with 6,143 families and an additional 849 have maintained continuous employment – giving a combined total of 6,992 families turned around through our Stronger Families Programme since 2015.
- Durham County Council was highly commended in the Municipal Journal Digital Transformation Award for 2021, which recognised the introduction of the Health Call Digital Care Home system, allowing care workers to digitally share the results of their resident observations, such as blood pressure and heart rates, with health professionals.
- Durham County Council won the Local Government Chronicle Children’s Services Supportive Employer Award for 2022.
- Durham County Council has improved and expanded services to children since its last ILACS inspection from Ofsted and is now rated as ‘Good’ overall effectiveness and ‘Outstanding’ for leadership and management.
- Strong local offer for our care leavers which was confirmed by young people responding to a national benchmarking exercise. We have also opened the new care leavers hub.
- Strong adoption performance.
- Integrated Strategic Commissioning Team function for the county created, to ensure most effective use of resources, joint contract monitoring and improved quality of service provision.
- County Durham Care Academy created by the council to support and promote careers in social care, offering a range of courses from entry level right through to senior leadership and management qualifications.
- The Supporting the Provider Market programme piloted falls prevention interventions and supported wider rollout and mainstreaming of successful initiatives.
- One Touch Health system successfully rolled out to over 300 staff in County Durham Care and Support, ensuring that our care records are more secure, and data are readily accessible and reportable.

- Great North Care Record delivered, for sharing of health and social care data between professionals and patients
- Integrated pathways established with adult social care and primary and secondary care.
- Community equipment review completed, with revised and improved commissioning arrangements in place for people living in the community and care homes.
- Three of our regulated services rated by Care Quality Commission: Hawthorn House and Shared Lives are 'Outstanding' and Extra Care is 'Good'
- Finalists in the LGC 2022 Awards Public Health category for the County Durham Workplace Health Programme.
- Created the Protecting Health team to protect our residents through planning, prevention and management of infectious diseases and outbreaks, maximising uptake of vaccination and immunisations and preparing and planning for seasonal risks and public health emergencies. The Protecting Health team also leads the Public Health approach to vulnerabilities, and the emerging sustainability and climate change agenda.
- We administrated the £150 council tax energy rebate payment scheme which almost 93% of residential properties were eligible to receive.

Our People: Statistics / Challenges

- The impact of the pandemic is a factor that has led to male life expectancy falling by seven months and female life expectancy by six months.
- The cost-of-living crisis is disproportionately impacting people and families who are living in, or at risk of poverty.
- Smoking remains a significant cause of health inequalities and prevalence is to be reduced to 5% by 2030, meaning 49,600 must quit.
- Just under one in four children are overweight in reception year, rising to over one in three at Year 6 and to two in three in adulthood. These figures are above national levels.
- Levels of women who are still smoking in pregnancy in County Durham is significantly higher than the national average.
- Breastfeeding prevalence rates amongst new mothers remain nearly 17 percentage points behind national figures.
- Need to deliver on the Combating Drugs and Alcohol Strategy agenda to reduce harms from substances within local communities
- The numbers of children requiring the support of a social worker due to complex needs, which have increased during COVID-19. This is a national trend. It means ensuring sufficient local placement choice for our Children in Care and expanding capacity for short breaks is challenging
- The increasing numbers and complexity of children with SEND requiring wider support.

- An increase in the complexity of care and court of protection referrals.
 - Increased responsibilities, changing needs and reducing government funding are placing greater pressure on our ability to support children and young people with special educational needs and disabilities.
 - Mental health is a priority. Indicators are high for hospital admissions for self-harm, suicide rates and patients registered with depression.
 - The risk of an outbreak of an infectious disease could have major health impacts on people (particularly those who are vulnerable).
 - Life expectancy at birth is 1.7 years lower for males and 1.9 years for females in County Durham compared with the average for England.
 - Healthy life expectancy, the number of years a person lives in good health, is around five years lower than national figures and there is a 10-year difference in healthy life expectancy between the most and least deprived communities in County Durham.
 - A quarter of the population in the county will be aged 65+ by 2032.
 - We need to diversify the range of older persons' housing provision to meet growing demand from an ageing population and free up larger family accommodation.
 - Alleviating a pressured social care and health environment following the pandemic, with challenges associated with workforce (recruitment and retention), service demands and a challenging economic environment.
 - Implementing social care reforms, including Liberty Protection Safeguards; greater integration with the NHS; developing effective system working with the Integrated Care Board; Care Quality Commission regulation of local authority adult social care delivery; a new national performance dataset; charging reforms (delayed until 2025).
 - Sustaining a diverse and robust care market, to meet a broad range of social care needs.
 - Maintaining effective demand management, delivery standards and risk management, which includes areas of high demand or risk, such as hospital discharge, Mental Health Act assessments and safeguarding.
 - Strengthening the voice of people with lived experience, by improving approaches to user engagement and co-designing strategies when developing services / practice.
- **Our Communities** – Durham is a great county in which to live, with flourishing communities which are connected and supportive of each other.

Objectives

- Standards will be maintained or improved across County Durham's housing stock.
- Our towns and villages will be vibrant, well used, clean, attractive, and safe.
- People will have good access to workplaces, services, retail, and leisure opportunities.

- Communities will come together and support each other.
- Delivery of new high-quality housing which is accessible and meets the needs of our residents.
- Our rural communities will be sustainable whilst maintaining those characteristics which make them distinctive.
- Narrow the inequality gap between our communities.
- We will build inclusive communities.

Achievements

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

Our Communities: Statistics / Challenges

- There has been increased demand for services provided by voluntary and community sector organisations, just as the sector loses a considerable proportion of its revenue.
 - House prices have increased in recent years and there has been a drop in the number of properties in the private rented sector.
 - The national issue of high street decline, with the growth of online shopping and major retailers closing stores, has affected our town centres.
 - Internet sales as a percentage of total retail sales have risen nationally, from 2.5% in December 2006 to 30.2% in November 2022, posing increasing competition to high street shops and leading to major changes in our high streets and town centres.
 - The highly dispersed settlement pattern in County Durham with over 300 recognised settlements, 21 of which have a population of 5,000 or more, presents a challenge for the provision of transport and public services, particularly in rural areas.
 - The county has good north-south transport links with the A1(M) and East Coast Mainline but there are opportunities to improve east-west links.
- **Our Council** – Durham County Council has a reputation for listening to its residents, being well managed and getting things done.

Objectives

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

Achievements

- We have delivered £250 million overall savings from 2011/12 to 2022/23
- Over 100 council services are available digitally and more than half of residents access our services this way.
- We have started a major project to join together data from 18 of our major IT systems and lay the foundations for the council to become a more data driven organisation which will help deliver better outcomes for our residents.
- We have achieved the 'Maintaining Excellence' status in the Better Health at Work Award, helping employers regionally to address health issues within their workforce. 75 organisations are now signed up to the award programme.
- We have maintained the Disability Confident Leader status awarded by the Department for Work and Pensions, due to our commitment to being a good

employer of people with a disability and support local businesses to become Disability Confident.

- We have, in partnership, developed a network of more than 150 'Warm Spaces' where people worried about their heating bills can go to get warm, stay warm and enjoy a little company.
- We have reduced carbon emissions from council operations by 57% since 2008/09.
- We continue to receive accreditations and awards for our work. For example, for our new mobile repairs app (APSE) and our E-Learning course for those issued with a littering fixed penalty notice.
- We have achieved the highest level of 'green' in the Investors in the Environment accreditation scheme. The award recognises our environmental management system, which is helping us to achieve year on year efficiencies and a pathway to net zero. We have also won overall Outstanding Achiever award from the Investors in the Environment Programme.
- We have carried out the second in a series of planned 'working well' employee engagement surveys to assess organisational health and wellbeing as part of our workforce strategy.

Our Council: Statistics / Challenges

- The council is facing significant financial pressures due to the present high levels of inflation, greater service demand, increasing costs to deliver council services and decreasing income from discretionary services
- The cost-of-living crisis has led to more households experiencing financial difficulties which is driving demand for support services to residents.
- Continuing uncertainty in terms of future funding settlements for local government and how this will be shared between local authorities makes financial planning extremely problematic.
- An increase in interest rates will lead to future increased costs of borrowing.
- Superfast broadband and the national rollout of 5G networks will enable greater digital connectivity for our residents and offer opportunities for new digital services.
- Durham County Council declared a climate emergency in 2019. Our targets are to achieve net zero as an organisation by 2030 (from a 2008/09 baseline) through offsetting and further reductions in emissions and to contribute towards and work with others to achieve a carbon neutral county by 2045.
- Workforce instability is increasing across the council, with local and national skills shortages increasing competition within the jobs market.
- Our partners, especially the Voluntary and Community Sector and some commissioned services, are also experiencing issues with recruitment and retention.

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- The council has an ageing workforce. 43% of its staff are over the age of 50, which has an impact on sickness absence rates and requires effective workforce planning. In addition, an ageing population across the county is reducing the pool of young people from which we can recruit.
 - The most reported reason for employee sickness absence within the council is mental ill-health and fatigue.
 - Society is experiencing a technological revolution where progress is accelerating, and innovations can be identified and rapidly deployed, but we are finding it difficult to recruit staff with the right skill set to keep pace.
 - We, together with its partners, should seek to maximise the value of every pound spent and seek to deliver social value outcomes. We will deliver social, economic and environmental outcomes for our local communities by adopting a strategic approach during its commissioning, procurement, development and planning of projects.
 - We recognise the need to manage the customer data we hold more efficiently to better understand service users, generating benefits such as predicting and managing demand, providing the services residents want and supporting better decision-making. We also need to ensure residents are confident we will look after their data appropriately.

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

7. Significant Issues for 2022/23 and Beyond

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

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

Budget and Medium Term Financial Plan (MTFP) approved by Council on 22 February 2023.

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

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

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

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

The MTFP sets out the council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the council over the planning period and outlines the financial pressures it will face.

8. Corporate Risks

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

The council's key strategic risks are as follows:

- There is significant uncertainty in relation to future funding settlements from government, particularly from 2025/26 onwards which will significantly impact upon the medium-term financial plan.
- Limited product availability and price increases in the construction industry may disrupt the delivery of capital projects by the council either through external procurement

routes or through the in-house construction delivery arms within both Corporate Property and Land and Highway Services.

- Potential progressive land slippage near the A690 may develop to an extent where a major road closure is necessary for repairs to be undertaken.
- Potential adverse impact of energy price increases on council finances.
- Potential disruption to the council's and partners' urgent and emergency care services due to backlogs caused by COVID-19, increased demand and staff capacity issues.
- Potential withdrawal of Covid financial support to bus operators may result in reduced public transport coverage, leading to a lack of essential transport services for users and/or calls for financial assistance from the council.
- Risk of being unable to meet the authority's statutory sufficiency duty to provide sufficient accommodation in the local authority area to meet the needs of Children Looked After and children in need.
- Risk that the council fails, in its role as a community leader, to set an example and help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).
- Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.
- Failure to protect a child from death or serious harm (where service failure is a factor or issue).
- Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).
- If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves.

9. Summary Position

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

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

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

The capital outturn has been managed to minimise the level of re-profiling required at the year end and the council has sufficient reserves and balances to provide financial resilience for 2023/24 and future years.

In 2022/23 the council has again faced and dealt successfully with the significant challenges it has faced. The council is well placed to adapt to the challenges it faces and take advantage of opportunities offered as they arise. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the council is in a strong position as it moves into 2023/24.

10. Receipt of Further Information

If you would like to receive further information about these accounts please contact the Corporate Director of Resources at Durham County Council, County Hall, Durham, DH1 5UE.

11. Explanation of Accounting Statements

The Statement of Accounts comprises core and supplementary financial statements, and disclosure notes.

The **core statements** are:

- **Comprehensive Income and Expenditure Statement (CIES)**

This shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations. This may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **Movement in Reserves Statement**

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

- **Balance Sheet**

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

- **Cash Flow Statement**

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

The **supplementary statements** are:

- **Collection Fund**

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

- **Durham County Council Pension Fund Accounts**

Presents the expenditure and income of the Pension Fund during the year, its financial position at 31 March and the operation and membership of the Fund. Notes providing further information follow the Accounts.

- **Annual Governance Statement**

This provides assurance that the council has conducted a review of the effectiveness of its systems of internal control and that the appropriate mechanisms are in place for the maintenance of good governance across the activities of the council.

- **Glossary of Terms**

A glossary of financial terms is provided to assist the reader's understanding.

Notes to the Accounts are fundamentally important in the presentation of a true and fair view. They aim to assist understanding and have three significant roles:

- presenting information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclosing information required by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) that is not presented elsewhere in the financial statements, for example sub-classification of Property, Plant and Equipment; and
- providing information that is not provided elsewhere in the financial statements but is relevant to the understanding of any of them, this applies to information that is material in a qualitative rather than quantitative sense, for example, transactions with Related Parties.

Statement of Responsibilities for the Statement of Accounts

1. The Council's Responsibilities

The council is required to:

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

2. The Corporate Director of Resources' Responsibilities

The Corporate Director of Resources is responsible for the preparation of the council's Statement of Accounts which is in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the update to the Code and specifications for future Codes for Infrastructure Assets published November 2022.

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

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

The Corporate Director of Resources has also:

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

Certificate of the Corporate Director of Resources

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the council as at 31 March 2023 and its expenditure and income for the year ended 31 March 2023.

Paul Darby

Corporate Director of Resources

27 November 2023 (authorised for issue date)

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 at the meeting held on 27 November 2023.

Alex Watson

Chairman of the Audit Committee

Chair of the meeting approving the Accounts

27 November 2023

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

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Comprehensive Income and Expenditure Statement

2021-22			Note	2022-23		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
328,650	-200,036	128,614	Adult and Health Services	342,130	-200,589	141,541
589,364	-373,139	216,225	Children and Young People's Services	552,794	-386,433	166,361
140,076	-17,579	122,497	Neighbourhoods and Climate Change	158,459	-39,790	118,669
148,173	-61,147	87,026	Regeneration, Economy and Growth	167,572	-81,817	85,755
200,112	-162,092	38,020	Resources	188,069	-152,461	35,608
12,811	-25,356	-12,545	Corporate Costs	10,764	-5,435	5,329
1,419,186	-839,349	579,837	Cost of Services	1,419,788	-866,525	553,263
56,200	-5,879	50,321	Other Operating Expenditure	96,628	-75,517	21,111
51,707	-12,983	38,724	Financing and Investment Income and Expenditure	40,665	-18,636	22,029
-	-515,138	-515,138	Taxation and Non Specific Grant Income	-	-538,118	-538,118
		153,744	Surplus (-) or Deficit on Provision of Services			58,285
			Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services			
		81,088	Surplus (-) or deficit on revaluation of PPE / Heritage assets	14,15		-15,381
		4,188	Impairment losses on non-current assets charged to revaluation reserve	14		56
		-2,925	Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income	17		887
		-292,690	Remeasurements of the net defined benefit liability	26,44		-870,500
		-210,339	Other Comprehensive Income (-) and Expenditure			-884,938
		-56,595	Total Comprehensive Income (-) and Expenditure			-826,653

Movement in Reserves Statement

2022/23:

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 1 April 2022 brought forward	25,898	269,805	13	295,716	-208,514	87,202
Movement in Reserves during 2022-23						
Total Comprehensive Income and Expenditure	-58,285	-	-	-58,285	884,938	826,653
Adjustments between accounting basis and funding basis under regulations (Note 9)	16,653	-	27,977	44,630	-44,630	-
Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves	-41,632	-	27,977	-13,655	840,308	826,653
Transfer of Dedicated Schools Grant Reserve balances to DSG Adjustment Account (Notes 10 and 26)	-	-3,057	-	-3,057	3,057	-
Transfers to / from Earmarked Reserves (Note 10)	41,751	-41,751	-	-	-	-
Balance at 31 March 2023 carried forward	26,017	224,997	27,990	279,004	634,851	913,855

2021/22:

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £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

Balance Sheet

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

Cash Flow Statement

2021-22 £000		Notes	2022-23 £000
153,744	Net surplus (-) or deficit on the provision of services		58,285
-215,884	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	27	-86,242
5,872	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	75,446
-56,268	Net Cash flows from Operating Activities		47,489
132,884	Investing Activities	28	-23,645
-73,455	Financing Activities	29	-24,570
3,161	Net increase (-) or decrease in cash and cash equivalents		-726
40,126	Cash and cash equivalents at 1 April	21	36,965
36,965	Cash and cash equivalents at 31 March	21	37,691

Notes to the Accounts

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

1. Accounting Policies

1.1. General Principles

The Statement of Accounts summarises the council's financial performance for the 2022/23 financial year and its position at the year-end of 31 March 2023. The council is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts. In line with the Regulations, the Statement of Accounts is prepared in accordance with proper accounting practices.

Those practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) and the update to the Code and specifications for future Codes for Infrastructure Assets published November 2022, supported by International Financial Reporting Standards (IFRS).

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

The Code requires that local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting.

1.2. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000, other than in exceptional circumstances.

1.3. Business Improvement District Schemes

A Business Improvement District (BID) scheme applies across Durham City centre. The scheme is funded by a BID levy paid by city centre non-domestic ratepayers. The council acts as the billing authority for the scheme (collecting and distributing the levy income). The BID levy income is revenue due to The Durham BID Company Limited (the BID body) and as such the council has nothing to show in its Comprehensive Income and Expenditure Statement, since it is collecting the BID levy income as an agent on behalf of the BID body.

1.4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

1.5. Exceptional Items

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively,

i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

1.7. Charges to Revenue for Non-Current Assets

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

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue to reduce the overall borrowing requirement calculated by the council on a prudent basis and in accordance with statutory guidance. This annual contribution is known as the minimum revenue provision.

Therefore, so that council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision with the difference being transferred to the Capital Adjustment Account in the Balance Sheet.

1.8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are

recognised as an expense for services in the year in which employees render service to the council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

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

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

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The schemes are therefore accounted for as if they

were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Children and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

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

- The liabilities of the Durham County Council Pension Fund attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate provided by the actuary.
- The assets of Durham County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value, which are determined as set out in the Pension Fund accounting policies later in this document.

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

- Service cost, comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account

any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments. An amendment to IAS 19 requires that updated actuarial assumptions are used to remeasure the interest on the net defined benefit obligation (asset) for the remainder of the reporting period after special events, such as academy transfers (settlements). The council applies this where material.

- Gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.

Discretionary Benefits

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

1.9. Events After the Reporting Period

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

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

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

1.10. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure

Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Financial Assets

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

There are three main classes of financial assets measured at:

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

The council holds most of its investments solely to collect contractual cash flows, which means that the majority of its financial assets are measured at amortised cost. The council does not hold any financial assets that are measured at FVPL.

There are some exceptions e.g. where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. With these types of investments, the purpose of the contract is not solely concerned with the payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). For each of these investments a separate assessment has been made on the appropriate accounting treatment in relation to IFRS 9 for Financial Instruments.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The council has given small loans to external or voluntary organisations, but these are for trivial amounts. The council has not provided guarantees against loans they have received from financial institutions. However, the council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the council, for example where the council holds a legal charge against a property that enable sums to be reimbursed from sale proceeds at a later date. These are similar to loans at less than market rates and are referred to as soft loans. If any of the lost interest against the soft loan was significant then adjustments would be made to the relevant service revenue account and Balance Sheet. However, the impact on the council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements.

Expected Credit Loss Model

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a twelve month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of twelve month expected losses.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

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

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

1.11. Foreign Currency Translation

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.12. Government Grants and Contributions

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

- the council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.13. Heritage Assets

Tangible and Intangible Heritage Assets

A tangible heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

An intangible heritage asset is defined as an intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events. At present, the council has no assets of this nature to be recognised in the Balance Sheet.

A key feature of heritage assets is that they have cultural, environmental or historical associations that make their preservation for future generations important. Heritage assets are maintained principally for their contribution to knowledge and culture. Where an asset meets the definition of a heritage asset but is used for operational purposes, it is not classified as a heritage asset. For example, a historic building used as a museum is classified within land and buildings, as this is its primary purpose, but the exhibits within it may be classified as heritage assets.

Recognition and measurement

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the council's approach is as follows:

- Heritage assets' valuations are based on insurance values, where available, as this is the most appropriate and relevant basis. In some cases, these values are supported by professional valuations, for example by auction houses.
- Insurance values are reviewed regularly and assets will be revalued where a change is deemed to be significant.
- In the absence of insurance values, for example where an asset is either not insured or is self-insured, the asset's most recent valuation before reclassification is used. This is usually historic cost but some buildings and monuments were measured on an Existing Use Value (EUV) basis prior to reclassification.
- Where no appropriate valuation, or cost information is available, heritage assets are not recognised on the Balance Sheet, however they are disclosed in the narrative notes to the financial statements.

Items are recognised on the Balance Sheet where they are held by the council on long-term loan or where the council has the risks and rewards of ownership, as evidenced by the need to insure them. Similarly, items that the council has lent out long-term are not recognised. Items held on short-term loan, for example for temporary exhibitions, are not recognised.

The council is custodian or guardian of a number of monuments or sites. These are considered to be heritage assets; however, they do not usually have any appropriate valuation so they are not recognised on the Balance Sheet.

The council's collections of heritage assets are accounted for as follows:

Museum Collections and Artefacts

This includes museum exhibits and items such as books of remembrance and miners' banners. Some items in this collection are reported in the Balance Sheet at insurance value, others at the amount at which they have been valued by professional valuers.

Artwork, including Public Art and Sculptures

This includes paintings, sculptures and outdoor public art installations around the county. Some items in this collection are reported at insurance value, others at cost and some at the amount at which they have been valued by professional valuers. There are a number for which no value is available so they are not reported on the Balance Sheet.

The distinction between sculptures, monuments and statues can be subjective. However, for the purposes of classification, the council has determined that sculptures are generally modern, commissioned pieces of art, monuments can be modern or historic and are usually dedicated to people or events and statues are usually historical structures. Monuments and statues are included under the heading "Monuments, Statues and Historic Buildings" below.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county. Some items in this collection are reported at insurance value, some at existing use value and some at cost. There are a number for which no value is available and they are not reported on the Balance Sheet.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes, and are recorded at insurance value, or the amount at which they have been valued by professional valuers.

Geophysical / Archaeological

This includes pit wheel sites and Roman archaeological sites. No appropriate or relevant valuations are available for these assets so they are not recognised on the Balance Sheet.

Depreciation

Depreciation is not charged on heritage assets which have indefinite lives.

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment.

Disposal

Heritage assets are rarely disposed of. However, in such cases, disposal proceeds are accounted for in accordance with the council's general provisions relating to the disposal of property, plant and equipment. Proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

If you would like more information about Durham County Council's heritage assets, contact details can be found on the front page of this document.

1.14. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they

are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

1.15. Interests in Companies and Other Entities

The Code requires local authorities to produce group accounts to reflect significant activities provided to council tax payers by other organisations in which an authority has an interest. The council has reviewed its interests in companies and other entities that have the nature of subsidiaries, associates and joint arrangements against the criteria for group accounts, as set out in the Code, and has concluded that there are no such material interests that require the preparation of group accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

1.16. Inventories and Long Term Contracts

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

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.17. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at

arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

1.18. Joint Operations

Joint operations are arrangements where contractual agreements are in place under which the council and one or more other parties share control. The joint venturers have rights to assets and obligations in relation to liabilities. The council accounts only for its share of the assets, liabilities, revenue and expenses of the arrangement.

1.19. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

The council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. This annual contribution is known as the minimum revenue provision. Therefore, as council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision, with the difference being transferred to the Capital Adjustment Account in the Balance Sheet. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The County Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where there is a material cost in addition to the regular payments (e.g. there is a premium paid at the commencement of the lease or there are costs of negotiating and arranging the lease), then credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

1.20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2022/23 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate Costs. These are costs relating to the council's status as a multifunctional, democratic organisation, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

1.21. Property, Plant and Equipment (excluding Highways Infrastructure Assets)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment. See accounting policy 1.22 for specific provisions regarding Highways Infrastructure Assets.

Recognition

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

De-minimis Levels

For all capital expenditure, the de-minimis level is £10,000, with the exception of Plant, Vehicles and Equipment where the de-minimis level is £5,000. Expenditure on assets below the de-minimis levels are charged to the revenue account, i.e. the asset is not included in the balance sheet, unless it is part of an overall project costing more than the de-minimis level or relates to specific external funding requirements. The treatment of items below the de-minimis level in this way has no material impact on the accounts.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Expenditure Statement, they are reversed out of the General Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- All other assets (excluding Highways Infrastructure Assets – see policy 1.22) – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

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

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

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

All valuations have been undertaken by or under the supervision of a fully qualified Chartered Surveyor (MRICS – Member of the Royal Institution of Chartered Surveyors). The effective date for valuations is 1 April of the financial year and assets are revalued on a five-year rolling programme. All valuations undertaken in 2022/23 were either carried out by council staff or by suitably qualified external consultants. In addition to this rolling programme, assets which have been subject to potentially material change as a result of transactions or market conditions in any given year will be revalued as and when such changes occur.

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer up to a maximum of 50 years.
- Vehicles, plant, furniture and equipment – straight line allocation over the useful life of the asset as advised by a suitably qualified officer, mainly up to a maximum of 10 years, however, some specialised items are depreciated over periods up to 25 years.
- Surplus Assets – buildings up to 50 years, land not depreciated

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

Amounts received for a disposal are categorised as capital receipts. The value of capital receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund balance in the Movement in Reserves Statement.

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

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

1.22. Highways Infrastructure Assets

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

Recognition

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

Measurement

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

Impairment

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

Depreciation

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

Annual depreciation is the depreciation amount allocated each year.

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

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

Disposals and derecognition

When a component of the network is disposed of or decommissioned, the carrying amount of the component in the Balance Sheet is written off to the 'Other operating expenditure' line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement, also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

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

1.23. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

Non-current Assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.24. Provisions

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

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

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

1.25. Contingent Liabilities

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

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

1.26. Contingent Assets

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

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

1.27. Reserves

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

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

1.28. Revenue Expenditure Funded from Capital under 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.

1.29. Value Added Tax (VAT)

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

1.30. Schools

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

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

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

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

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

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

1.31. Collection Fund Statement

Council Tax Income

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

Business Rates Income

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

the General Fund balance Movement in Reserves Statement. Any balances owed to or from each preceptor or central government will be shown as a creditor or debtor in the council's accounts.

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

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

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

3. Critical Judgements in Applying Accounting Policies

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

Funding of Local Government

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

PFI

In 2009/10, the council signed a Private Finance Initiative contract for the provision of three sets of new school buildings: Sedgefield Community College (now an Academy), Shotton Hall School (now The Academy at Shotton Hall) and Shotton Hall Primary School. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the assets are recognised in the Balance Sheet as they are deemed to fall within the scope of the International Financial Reporting Interpretations Committee (IFRIC) 12. The total net value of land and buildings for these schools is £5.804m, but this does not include assets relating to Sedgefield Community College and the Academy at Shotton Hall. Further details can be found in Note 40a.

Accounting for schools – Balance Sheet Recognition

The council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, or the school or school governing body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an

entity other than the council, school or school governing body, they are not included on the council's Balance Sheet.

Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. The types of schools that have been assessed are shown as follows:

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	11	115	4	8	138
b)	Voluntary Controlled (VC)	-	12	-	-	12
b)	Voluntary Aided (VA)	-	8	-	-	8
c)	Foundation	-	-	1	-	1
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	Maintained Schools	11	136	5	9	161
e)	Academies	-	75	26	2	103
	Total	11	211	31	11	264

- a) All Community schools are owned by the council and the land and buildings used by the schools are included on the council's Balance Sheet.
- b) Legal ownership of Voluntary Controlled and Voluntary Aided school land and buildings usually rests with a charity, normally a religious body and schools are granted a licence to use the land and buildings. Voluntary Controlled schools are owned by the Diocese who has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the council's Balance Sheet.
- c) Foundation schools were created to give greater freedom to the Governing Body responsible for school staff appointments and who also set the admission criteria. For a Foundation school, as the school Governing Body has legal ownership of the land and buildings, they have been included on the council's Balance Sheet in line with the council's judgement.
- d) The Woodlands (Alternative Provision) and the Endowed Parochial School are owned by the council and the land and buildings used are included on the council's Balance Sheet.
- e) Academies are not considered to be maintained schools in the council's control. Thus, the land and building assets are not owned by the council and not included on the council's Balance Sheet.

Group Accounts

The council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 37. By applying certain criteria, the council must determine whether its interest in such bodies is significant enough to be included in the council's consolidated accounts. After consideration of these criteria, the council has determined that the consolidation of related companies would have no material effect on the council's financial position and therefore it is not necessary to produce Group Accounts for 2022/23.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the council's Balance Sheet at 31 March 2023 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	<p>The impact of a change in useful life would be to affect the carrying value of the asset in the Balance Sheet and the charge for depreciation or impairment in the CIES.</p> <p>These changes do not have an impact on the council's General Fund position as the council is not required to fund such non-cash charges from council tax receipts.</p> <p>The PPE carrying value (not including infrastructure assets) at 31 March 2023 was £1.167 billion.</p> <p>Accumulated depreciation (not including infrastructure assets) totalled £88m as at 31 March 2023 and a change in</p>

Item	Uncertainties	Effect if actual results differ from assumptions
		<p>methodology resulting in a 1% movement would only change the Balance Sheet by £0.880m</p> <p>The PPE carrying value for Infrastructure assets was £558 million with accumulated depreciation of £26.5m. A change in methodology resulting in a 1% movement would change the Balance Sheet by £0.265m.</p>
Property, plant and equipment	<p>Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the council.</p>	<p>If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets are next revalued.</p> <p>Should all asset classes be revalued, a 1% change in asset valuation (not including infrastructure assets) would equate to £11.666 million change in carrying value.</p> <p>Should all infrastructure assets be revalued then a 1% change in infrastructure asset valuation would equate to £5.583 million change in carrying value.</p>
Net Pensions Liability	<p>At 31 March 2023, the council had a net pensions liability of £470.420m. Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of funded benefits of £41.690m.</p> <p>In order to understand the magnitude of the possible volatility in the Balance Sheet position and to understand which assumptions are most important in determining the</p>

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

5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts in 2022/23.

6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director of Resources on 27 November 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event, which took place after 31 March 2023, as it provides information that is relevant to an understanding of the council's financial position but do not relate to conditions at that date:

Non-adjusting Event - Academy Schools

Eight local authority schools will convert to Academy Status during 2023/24. These conversions are non-adjusting events in 2022/23. This change in status will lead to the removal of these schools from the Balance Sheet in 2023/24 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £61.779 million, which is the carrying value of the assets in the Balance Sheet.

7. Expenditure and Funding Analysis

Expenditure and Funding Analysis

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

2021-22			2022-23			
Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
122,942	5,672	128,614	Adult and Health Services	139,930	1,611	141,541
114,501	101,724	216,225	Children and Young People's Services	142,518	23,843	166,361
88,990	33,507	122,497	Neighbourhoods and Climate Change	91,591	27,078	118,669
42,355	44,671	87,026	Regeneration, Economy and Growth	52,235	33,520	85,755
23,386	14,634	38,020	Resources	30,857	4,751	35,608
2,941	-15,486	-12,545	Corporate Costs	8,091	-2,762	5,329
395,115	184,722	579,837	Net Cost of Services	465,222	88,041	553,263
-439,618	13,525	-426,093	Other Income and Expenditure	-459,659	-35,319	-494,978
55,783	-55,783	-	Adjustments between Funding and Accounting basis outside the CIES	36,069	-36,069	-
11,280	142,464	153,744	Surplus (-) or Deficit	41,632	16,653	58,285
-306,983			Opening General Fund Balance (including earmarked reserves) at 1 April	-295,703		
-			Transfer of Dedicated Schools Grant Reserve to DSG Adjustment Account (Notes 10 and 26)	3,057		
11,280			Surplus (-) or Deficit on General Fund Balance in year	41,632		
-295,703			Closing General Fund Balance (including earmarked reserves) at 31 March	-251,014		

Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to net expenditure chargeable to the General Fund balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2021-22				2022-23				
Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments	Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
166	5,537	-31	5,672	Adult and Health Services	239	1,639	-267	1,611
84,198	21,220	-3,694	101,724	Children and Young People's Services	16,246	5,586	2,012	23,844
25,963	7,627	-83	33,507	Neighbourhoods and Climate Change	25,764	1,721	-408	27,077
36,199	8,507	-35	44,671	Regeneration, Economy and Growth	31,405	2,473	-358	33,520
5,015	9,718	-99	14,634	Resources	3,041	2,217	-507	4,751
-	-15,486	-	-15,486	Corporate Costs	-	-2,762	-	-2,762
151,541	37,123	-3,942	184,722	Net Cost of Services	76,695	10,874	472	88,041
-17,535	31,060	-	13,525	Other Income and Expenditure from the Funding Analysis	-55,739	20,420	-	-35,319
-42,070	-	-13,713	-55,783	Adjustments between Funding and Accounting basis outside the CIES	-31,422	-	-4,647	-36,069
91,936	68,183	-17,655	142,464	Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit	-10,466	31,294	-4,175	16,653

Adjustments for capital purposes

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

Net Change for the Pensions Adjustments

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

- **For services** this represents the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs.
- **Financing and investment income and expenditure** – the net interest on the defined benefit liability.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** this represents the movement in the accrual made for the cost of employee holiday entitlements.
- **Adjustments between Funding and Accounting basis outside the CIES:**
 - represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.
 - recognises adjustments to the General Fund for the timing differences for premiums and discounts.

Segmental Income

Revenue received from external customers is analysed on a segmental basis as follows:

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

8. Expenditure and Income Analysed by Nature

The following table analyses expenditure and income both within and outside of the cost of services in the Comprehensive Income and Expenditure Statement and reconciles to the surplus or deficit on the provision of services.

2021-22		2022-23
£000		£000
	Expenditure	
571,414	Employee benefits expenses	564,694
707,315	Other service expenditure	766,970
174,191	Depreciation, amortisation and other capital charges	108,708
29,742	Precepts and levies	30,369
26,458	Amounts of non-current assets written off on disposal	66,254
17,974	Interest payable	20,086
<u>1,527,094</u>	Total Expenditure	<u>1,557,081</u>
	Income	
-128,037	Fees, charges and other service income	-162,573
-5,879	Capital receipts	-75,517
-304,819	Council Tax and non domestic rates	-316,791
-912,754	Grants and contributions	-923,409
-21,861	Other income	-20,506
<u>-1,373,350</u>	Total Income	<u>-1,498,796</u>
<u><u>153,744</u></u>	Surplus (-) or Deficit on Provision of Services	<u><u>58,285</u></u>

9. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

General Fund Balance

This is the statutory fund into which all council receipts are required to be paid and out of which all liabilities of the council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. This balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

Capital Receipts Reserve

This holds the proceeds from the disposal of land or other assets which are restricted by statute from being used, other than to fund new capital expenditure or be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

2022-23:

	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Movement in Unusable Reserves
	£000	£000	£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)	-31,294	-	31,294
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	-1,134	-	1,134
• Council Tax and NDR (transfers to or from Collection Fund)	7,126	-	-7,126
• Holiday pay (transferred to the Accumulated Absences Account)	-472	-	472
• Dedicated Schools Grant deficit (transferred to the DSG Adjustment Account)	-1,345	-	1,345
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital items (these items are charged to the Capital Adjustment Account):			
○ Depreciation and amortisation of non-current assets	-62,766	-	62,766
○ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-9,800	-	9,800
○ Amounts of non-current assets written off on disposal or sale	-66,182	-	66,182
○ Revenue expenditure funded from capital under statute	-36,142	-	36,142
○ Capital grants and contributions credited to the CI&E Statement	78,493	-	-78,493
Total Adjustments to Revenue Resources	-123,516	-	123,516
<u>Adjustments between Revenue and Capital Resources</u>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	75,446	-75,446	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-5	5	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	17,195	-	-17,195
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	14,227	-	-14,227
Total Adjustments between Revenue and Capital Resources	106,863	-75,441	-31,422
<u>Adjustments to Capital Resources</u>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	48,074	-48,074
Cash payments in relation to deferred capital receipts	-	-610	610
Total Adjustments to Capital Resources	-	47,464	-47,464
Total Adjustments	-16,653	-27,977	44,630

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

10. Transfers to/from Earmarked Reserves

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

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

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

The significant earmarked reserves at 31 March 2023, together with a brief explanation of their purpose, were as follows:

Social Care Reserve: to fund future health and social care-related projects, in particular to support further integrated work with local NHS partners.

Public Health Reserves: mainly represents sums set aside to meet future costs associated with the decommissioning and recommissioning of various Public Health programmes.

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

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

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

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

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

Culture and Sport Reserve: to provide resources to support future cultural and sporting projects.

Town and Villages Regeneration Reserve: to provide resources to improve local communities within County Durham.

Budget Support Reserve: to be utilised to support budgets where inflation costs significantly exceed original budgets set.

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

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

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

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

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

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

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

11. Other Operating Expenditure

2021-22 £000		2022-23 £000
13,734	Parish council precepts	14,197
16,008	Levies	16,172
-	Payments to the Government Housing Capital Receipts Pool	5
20,579	Losses / - Gains on the disposal of non-current assets	-9,263
<u>50,321</u>	Total	<u>21,111</u>

12. Financing and Investment Income and Expenditure

2021-22 £000		2022-23 £000
17,974	Interest payable and similar charges	20,086
31,060	Pensions net interest on the net defined benefit liability	20,420
-4,238	Interest receivable and similar income	-10,586
-134	Impairment of Financial Investments	-92
356	Income and expenditure in relation to investment properties and changes in their fair value	-2,312
-6,294	Other investment income	-5,487
<u>38,724</u>	Total	<u>22,029</u>

13. Taxation and Non-Specific Grant Income

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

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

14. Property, Plant and Equipment

Movement on Balance 2022/23:

	Operational			Non-Operational		Total £000
	Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Community Assets £000	Surplus Assets £000	Assets Under Construction £000	
Cost or valuation						
At 1 April 2022	1,041,064	78,805	1,625	38,623	21,371	1,181,488
Additions	41,650	13,483	39	199	20,819	76,190
Revaluation increases/(decreases)	-20,372	-	-	420	-	-19,952
Derecognition - disposals	-65,407	-3,789	-	-1,110	-	-70,306
Assets reclassified (to)/from Held for Sale	-	-	-	-579	-	-579
Other reclassifications	7,938	-	27	-2,271	-5,694	-
Other movements in cost or valuation	-	-	-	-	-	-
At 31 March 2023	1,004,873	88,499	1,691	35,282	36,496	1,166,841
Accumulated Depreciation and Impairment						
At 1 April 2022	-41,683	-44,324	-88	-12	-	-86,107
Depreciation charge	-23,811	-10,520	-	-6	-	-34,337
Depreciation written out on revaluation	28,087	-	-	66	-	28,153
Impairment (losses)/reversals	-229	-1	-	-	-	-230
Derecognition - disposals	1,283	3,148	-	-	-	4,431
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-
Other movements in depreciation and impairment	53	-	-	-53	-	-
At 31 March 2023	-36,300	-51,697	-88	-5	-	-88,090
Net Book Value						
At 31 March 2023	968,573	36,802	1,603	35,277	36,496	1,078,751
At 31 March 2022	999,381	34,481	1,537	38,611	21,371	1,095,381
The Revaluations / Impairments above:						
Revaluation increases/(decreases)	-20,372	-	-	420	-	-19,952
Depreciation written out	28,087	-	-	66	-	28,153
Impairment (losses)/reversals	-229	-1	-	-	-	-230
	7,486	-1	-	486	-	7,971
Are recognised as follows:						
Revaluation / depreciation in the Revaluation Reserve	15,451	-	-	687	-	16,138
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-7,736	-	-	-201	-	-7,937
Impairment losses in the Revaluation Reserve	-56	-	-	-	-	-56
Impairment losses in the Surplus/Deficit on the Provision of Services	-173	-1	-	-	-	-174
	7,486	-1	-	486	-	7,971

Comparative Movements in 2021/22

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

Highways Infrastructure Assets

In accordance with the temporary relief offered by the update to the Code and specifications for future Codes for Infrastructure Assets published November 2022, this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements.

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

Movement on balances:

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

Reconciliation to the Balance Sheet:

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

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

Depreciation

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

- Land and Buildings – Buildings up to 50 years, Land not depreciated
- Vehicles, Plant, Furniture and Equipment – mainly up to 10 years, however some specialised items are depreciated of up to 25 years
- Infrastructure:
 - Structures – 100 years
 - Carriageways – 40 years
 - Street Lighting – 40 years
 - Street Furniture – other assets – 40 years
 - Street Furniture – Bus shelters – 25 years
 - Footways and Cycleways – 25 years
 - Traffic Management – 20 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Revaluations

Valuations as at 1 April 2022 have been carried out by RICS Chartered Surveyors and Registered Valuers under the direction and supervision of the Head of Corporate Property and Land. The valuations covered a range of assets, but focussed on assets in the Resources, Culture Sport & Tourism and Environmental Services – Leisure & Sport Assets, under the rolling programme whereby 20% of assets are valued each year. This provides a full revaluation every five years, in line with statutory requirements. Any valuations undertaken as part of the annual market review were carried out by Sanderson Weatherall.

All valuations relating to Surplus Properties and Assets Held for Sale were undertaken in-house as at 1 April 2022. Valuations relating to Investment Properties were undertaken by Capita Business Services Limited as at 1 April 2022.

The significant assumptions applied in estimating the values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the council to deliver services, but the property is of a specialist nature in that there is little or no market evidence to support value;
- Existing Use Value has been used where the asset is used by the council to deliver services but is not specialised and there is market evidence to support value;
- the condition and state of repair of the assets is acceptable for the purpose for which they are used. Given that the council has a regular maintenance programme for its assets, there will be no significant deterioration within the estimated life expectancy of each asset;

- the council has good title to each asset with no adverse or restrictive covenants which could affect the use or the asset;
- the assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulation;
- the current use will continue for the foreseeable future and the use will remain viable;
- the existing use has planning permission;
- the assets are not affected by any ground conditions / stability or contamination which would materially prejudice the valuation;
- the assets are free from contamination and deleterious or hazardous substances;
- no allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses;
- the assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose; and
- an assumption that the transaction takes place in the principal market, or in the absence of the principal market, the most advantageous market for the asset is used for assets valued at fair value.

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

	Land & Buildings	Vehicles, plant, furniture and equipment	Community Assets	Surplus Assets	Total
	£000	£000	£000	£000	£000
Carried at historical cost	43,654	88,498	1,556	223	133,931
Valued at current value as at:					
31 March 2023	472,591	-	-	34,843	507,434
31 March 2022	272,529	-	5	213	272,746
31 March 2021	63,540	-	-	-	63,540
31 March 2020	68,068	-	30	-	68,098
31 March 2019	84,492	-	101	-	84,592
	1,004,874	88,498	1,692	35,278	1,130,341

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

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

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

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

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

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

Surplus Property

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than those in Level 1 that are observable, directly or indirectly; and
- Level 3: unobservable inputs.

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar properties or the discounted cash flow model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets.

The fair value for the above properties at 31 March 2023 (£34.843m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Capital Commitments

At 31 March 2023 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £24.984 million in future years. Similar commitments at 31 March 2022 were £31.826 million. The commitments at 31 March 2023 are:

• Leisure Centre Transformation & Decarbonisation schemes	£10.233m
• Digital Durham	£3.973m
• Green Homes & Social Housing Decarbonisation schemes	£2.917m
• NETPark Phase 3	£2.877m
• The Story (Durham History Centre)	£2.401m
• Bishop Auckland Bus Station & Car Park	£1.051m
• Belmont New School	£0.874m
• Bishop Auckland Infrastructure – Heritage Sites	£0.658m

15. Heritage Assets

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

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

Museum Collections and Artefacts

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

Artwork, including Public Art and Sculptures

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

Monuments, Statues and Historic Buildings

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

Civic Regalia and Silverware

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

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

16. Investment Properties

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

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

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

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

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

The fair value for the above properties at 31 March 2023 (£5.820m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

17. Financial Instruments

Categories of Financial Instruments

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

Financial Assets

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

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

- Financial assets held at amortised cost - these are assets where cash payments are receivable on specified dates. The amount in the Balance Sheet represents the

outstanding balance owed (which for a loan will include principal and accrued interest receivable) net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the council.

- Fair Value Through Other Comprehensive Income (FVOCI) – these assets are measured and carried at fair value. All gains and losses due to changes in fair value are accounted for through the Financial Instruments Revaluation Reserve.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value are recognised in the CIES as they occur.

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

Financial Liabilities

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

The values for financial instruments carried in the Balance Sheet are as follows:

Financial Assets

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

The current investments include cash and cash equivalent balances.

Financial Liabilities

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

Soft Loans

The council can sometimes make loans at less than market rates, where a service objective justifies making a concession (soft loans). The Code requires the discounted interest rate to be recognised as a reduction in the fair value of the asset when measured for the first time. This treatment reflects the economic substance of the transaction, i.e. the council is locking itself into an arrangement where it will incur an effective loss on interest receivable over the life of the instrument.

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

2021-22			2022-23	
Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000		Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000
		Net gains / losses on:		
-134		Financial assets measured at amortised cost	-92	
	-2,963	Investments in equity instruments designated at fair value through other comprehensive income		-887
-134	-2,963	Total net gains/losses	-92	-887
-2,439	-	Interest revenue	-10,071	-
17,974	-	Interest expense	20,086	-

Fair Value of Financial Assets and Financial Liabilities

Fair Value Through Profit or Loss

The council has no assets that fall in this category. This follows a decision to reclassify a number of its investments in equity instruments, that fall under the definition of Fair Value Through Profit or Loss, as Fair Value through Other Comprehensive Income as these investments are held for strategic economic development purposes and not for trading.

This decision protects council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

Amortised Cost

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

31 March 2022			31 March 2023	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
291,063	291,063	Short term investments	308,480	308,480
2,548	2,548	Long term investments	2,340	2,340
60,767	60,767	Short term debtors	72,255	72,255
11,796	11,796	Long term debtors	12,724	12,724
366,174	366,174	Total Investments and Debtors	395,799	395,799

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

Fair Value Through Other Comprehensive Income

Financial assets measured at fair value

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

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.

Significant Observable Inputs – Level 3

The fair value for Newcastle International Airport is based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations and other observable and unobservable

factors. The last full valuation took place at 31 March 2022. Further information on the council's interest in Newcastle International Airport is disclosed within Note 37 Related Parties.

The investment in Teesside International Airport remains unchanged from the previous year, as the airport continues to make a loss (£11.883m before and after taxation at 31 March 2022). The company accounts for the year ending 31 March 2023 are not yet available.

The investment in Atom Bank is carried at cost and has not been valued, as a fair value cannot be measured reliably. No dividend was received for the year ended 31 December 2022 (£nil was received for the year ended 31 December 2021).

Financial Liabilities

Financial liabilities are carried on the Balance Sheet at amortised cost (in long term liabilities with accrued interest in current liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (level 2), using the following assumptions:

- For all loans, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Values have been calculated using a financial model provided by Link Asset Services. This valuation applies the net present value approach, which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. This is a widely

accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

The fair values calculated are as follows:

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

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

If the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £313.79m on 31 March 2023.

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels in the fair value hierarchy during the year.

18. Nature and Extent of Risks Arising from Financial Instruments

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

The council's activities expose it to a variety of financial risks, including:

- credit risk – the possibility that other parties might fail to pay amounts due to the council
- liquidity risk – the possibility that the council might not have funds available to meet its commitments to make payments
- refinancing and maturity risk – the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous rates or terms

- market risk – the possibility that financial loss may arise for the council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions and credit exposures to the council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings from the three major credit ratings agencies. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each rating category and country.

Risk also arises from loans to local businesses, to encourage regeneration and economic development in the area. Any new investments are only agreed after significant due diligence checks have been carried out and is agreed through the Annual Investment Strategy, which is contained within the council's approved Treasury Management Strategy.

Amounts Arising from Expected Credit Losses

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

The only loan against which a loss has been calculated is the loan to Newcastle International Airport Limited. This is a loan for £9.385m which is the council's maximum exposure to credit loss against the loan. Due to major curtailments in the airport operations because of the Covid-19 pandemic the council has agreed to modify the terms of these loans. The current assumption is that six interest payments will be missed and that repayments will start again in full in 2023/24 with the missed payments being recouped over a 3-year period from 2027/28.

Under the loan agreement the council is entitled to compound interest for any late payments, and this has been factored into the repayments the airport will make once the catch-up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.519m (£0.684m in 2021/22) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.228m (£0.156m in 2021/22) in the event all repayments are not made or further delayed at some time in the future.

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

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

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

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

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

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

	Lowest long term rating	Balance at 31 March 2022	Historical rate of default	Estimated maximum exposure to default at 31 March 2022
		£000	%	£000
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>

Other loans are generally issued to subsidiaries and joint ventures so are all low credit risk arrangements by nature. Each of the bodies to which loans have been issued have been considered to assess their ongoing financial stability and viability. Consideration has been given to whether there has been any late payment against contractual cashflows as well as looking at the current financial position of each organisation. An assessment of the likelihood of default within the next twelve months has been determined for each loan.

The council does not generally allow credit for customers, although £26.820m of the £50.284m balance of Other Debtors (Note 20) is past its due date for payment and the council has made an impairment allowance totalling £11.407m to allow for expected credit losses. The balance that is past its due date for payment can be analysed by age as follows:

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

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

Collateral and Other Credit Enhancements

The council holds legal charges on properties where clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2023 was £1.214m (£1.734m at 31 March 2022).

Liquidity Risk

The council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk

The council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The council approved treasury and investment strategies address the main risks and the Treasury Management team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows, (as approved by Council in the Treasury Management Strategy):

31 March 2022		31 March 2023
£000		£000
(restated)		
13,840	Less than one year	26,649
20,004	Between one and two years	35,568
32,516	Between two and five years	23,279
93,923	Between five and ten years	94,159
20,006	Between ten and fifteen years	39,312
-	Between fifteen and twenty years	11,554
13,000	Between twenty and twenty five years	18,487
228,509	More than twenty five years	194,273
<u>421,798</u>	Total Short and Long Term Borrowing	<u>443,281</u>

The profile breakdown has been reallocated for 2021/22 with no impact on the overall total.

Market Risk

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

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

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

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy, a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The Treasury Management team monitors the

market and forecasts interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rate borrowing would be postponed.

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

According to the council's assessment strategy, at 31 March 2023, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £33.478m in the fair value of fixed rate borrowings, although this would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the note – Fair Value of Assets and Liabilities carried at Amortised Cost.

19. Inventories

	Balance outstanding at start of year	Purchases	Recognised as an expense in the year	Balance outstanding at year-end
	£000	£000	£000	£000
Year to 31 March 2023				
Consumable Stores	4,884	15,430	-15,194	5,120
Maintenance Materials	542	225	-307	460
Client Services Work in Progress	-	-	-	-
Rechargeable Works	896	833	-847	882
Total	6,322	16,488	-16,348	6,462
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

20. Short Term Debtors

31 March 2022		31 March 2023
£000		£000
10,734	Central government bodies	30,506
7,806	Other local authorities	9,313
5,082	NHS bodies	5,201
	Other entities and individuals:	
33,444	Council Tax	35,526
2,892	Non-Domestic Rates	3,086
53,450	Other	50,284
	Less Impairment Allowance:	
-20,940	Council Tax	-21,761
-2,154	Non-Domestic Rates	-2,252
-8,464	Other	-11,407
<u>81,850</u>		<u>98,496</u>
5,794	Payments in advance	6,519
<u>87,644</u>	Total Debtors	<u>105,015</u>

21. Cash and Cash Equivalents

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

22. Assets Held for Sale

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

23. Short Term Creditors

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

24. Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential at some point in the future, and a reliable estimate can be made of the amount of the obligation. The estimated cost is charged as an expense to the appropriate service in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation. When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and any provisions which are no longer required are credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

The provisions at 31 March 2023 were as follows:

Insurance Provision

The council operates a self-insurance scheme for the following risks:

- Claims below the excess level for externally insured risks
- Schools contents
- Theft of cash
- Flood damage

The provision is based on external insurers' estimates of the cost of identified claims for damages and associated costs in respect of fire, public and employer's liabilities, to be borne by the council. Settlement of the claims will continue over the coming years and the provision will be reassessed on an annual basis. The following table sets out the movement on the insurance provision during 2022/23.

Equal Pay

The council has outstanding equal pay complaints from existing and former staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid. A significant number of grievances and claims have been settled in earlier years and agreements regarding the remaining cases are expected to be settled in the future. These have therefore been included as a short-term provision in the Balance Sheet, as set out in the following table.

NDR Appeals

Local authorities are liable for successful appeals against business rates charged to businesses. A provision has been recognised for the best estimate of the amount that will be successfully appealed in relation to 2022/23 and previous years. In general the estimate is calculated using the Analyse Local system designed specifically to forecast the effects of outstanding appeals and other threats to rateable values in local lists. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the VOA relating to the 2010 list and historic estimates for likely appeals raised relating to the 2017 list. Whilst the settlement of these appeals is outside of the council's control, it is considered likely that 2010 list appeals will be settled within the next financial year and are therefore classified as a short-term provision.

The provision included in the following table represents the council's share of the provision held for successful appeals against business rates.

	Insurance £000	Equal Pay £000	NDR Appeals £000	Total £000
Balance at 1 April 2022	8,239	67	7,306	15,612
Additional provisions made in 2022/23	2,777	-	7,019	9,796
Amounts used in 2022/23	-1,294	-	-5,247	-6,541
Unused amounts reversed in 2022/23	-1,198	-	-	-1,198
Balance at 31 March 2023	8,524	67	9,078	17,669
As shown in Balance Sheet				
Long Term Provisions	6,697	-	8,891	15,588
Short Term Provisions	1,827	67	187	2,081
Balance at 31 March 2023	8,524	67	9,078	17,669

25. Usable Reserves

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

31 March 2022 £000		31 March 2023 £000
13	Usable Capital Receipts Reserve	27,989
25,898	General Fund Balance	26,017
269,805	Earmarked Reserves	224,997
<u>295,716</u>	Total	<u>279,003</u>

Usable Capital Receipts Reserve

Proceeds of non-current assets' sales available to meet future capital investment.

General Fund Balance

Resources available to meet future running costs for services other than council housing.

Earmarked Reserves

Earmarked reserves are shown in more detail in Note 10 and are resources set aside for future spending plans.

26. Unusable Reserves

31 March 2022 £000		31 March 2023 £000
486,119	Revaluation Reserve	476,425
10,465	Financial Instruments Revaluation Reserve	9,578
636,820	Capital Adjustment Account	644,938
-1,064	Financial Instruments Adjustment Account	-2,198
1,889	Deferred Capital Receipts	1,280
-12,627	Accumulated Absences Account	-13,099
-1,309,626	Pensions Reserve	-470,420
-11,647	Collection Fund Adjustment Account	-4,521
-8,843	DSG Deficit Adjustment Account	-7,131
<u>-208,514</u>	Total	<u>634,852</u>

Revaluation Reserve

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

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

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

2021-22 £000		2022-23 £000
593,414	Balance at 1 April	486,119
67,822	Upward revaluation of assets	105,212
-153,098	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-89,888
-85,276	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	15,324
-10,919	Difference between fair value depreciation and historical cost depreciation	-10,138
-11,100	Accumulated gains on assets sold or scrapped	-14,880
-22,019	Amount written off to the Capital Adjustment Account	-25,018
486,119	Balance at 31 March	476,425

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the council arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

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

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

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs, because depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2021-22 £000		2022-23 £000
708,047	Balance at 1 April	636,821
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-51,260	Charges for depreciation and impairment of non-current assets	-60,752
-81,800	Revaluation losses on Property, Plant and Equipment	-9,550
-1,811	Amortisation of intangible assets	-2,013
-36,512	Revenue expenditure funded from capital under statute	-36,143
-26,451	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-66,182
<u>-197,834</u>		<u>-174,640</u>
22,019	Adjusting amounts written out of the Revaluation Reserve	25,018
<u>-175,815</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>-149,622</u>
	Capital financing applied in the year:	
7,363	Use of Capital Receipts Reserve to finance new capital expenditure	50,329
-2,800	Write down of capital loan repaid in year as a capital receipt	-2,256
60,763	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	78,494
15,791	Statutory provision for the financing of capital investment charged against the General Fund	17,195
26,279	Capital expenditure charged against the General Fund	14,227
<u>107,396</u>		<u>157,989</u>
<u>-2,807</u>	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	<u>-250</u>
<u>636,821</u>	Balance at 31 March	<u>644,938</u>

Deferred Capital Receipts Reserve

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

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

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not

taken in the year, e.g., annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

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

2021-22		2022-23
£000		£000
-16,569	Balance at 1 April	-12,627
16,569	Settlement or cancellation of accrual made at the end of the preceding year	12,627
-12,627	Amounts accrued at the end of the current year	-13,099
3,942	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-472
<u>-12,627</u>	Balance at 31 March	<u>-13,099</u>

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Further detail can be found in Note 44.

2021-22 £000		2022-23 £000
-1,534,133	Balance at 1 April	-1,309,626
292,690	Remeasurements of the net defined benefit liability	870,500
-133,570	Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	-101,190
65,387	Employer's pensions contributions and direct payments to pensioners payable in the year	69,896
<u>-1,309,626</u>	Balance at 31 March	<u>-470,420</u>

Collection Fund Adjustment Account

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

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

Dedicated Schools Grant Adjustment Account

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

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

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

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

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

27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2021-22		2022-23
£000		£000
17,974	Interest paid	20,086
-2,439	Interest received	-10,071
-1,802	Dividends received	-538

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

2021-22		2022-23
£000		£000
-51,260	Depreciation	-60,752
-81,800	Impairment and downward revaluation	-9,550
-1,811	Amortisation	-2,013
-3,942	Transfer to/from Accumulated Absences account	472
-925	Increase/decrease in the provision for bad debts	-2,943
-29,389	Increase/decrease in creditors	10,258
-20,832	Increase/decrease in debtors	20,217
754	Increase/decrease in inventory	139
-68,183	Pension liability	-31,294
-26,451	Carrying amount of non-current assets sold	-66,182
67,954	Other non-cash items	55,406
<u>-215,885</u>		<u>-86,242</u>

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

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

28. Cash Flow Statement – Investing Activities

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

29. Cash Flow Statement – Financing Activities

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

30. Reconciliation of Liabilities Arising from Financing Activities

2022/23:

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

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

2021/22:

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

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

31. Agency Services

The council provides a range of services to other bodies such as Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority, Academies, Colleges, Arm's Length Management Organisations, Parish Councils, Registered Social Landlords, Primary Care Trusts and Ofsted. Charges for these services are made through a number of Service Level Agreements.

In 2022/23 £10.899 (£9.102m in 2021/22) was received for services including Finance, Information and Communications Technology, Human Resources, Legal Advice and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

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

The cost of providing the services is met by the income received.

32. Members' Allowances

The council paid the following amounts to Members of the council during the year.

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

33. Officers' Remuneration

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

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

Payments to council employees receiving more than £50,000 remuneration in year (excluding employer's pension contributions) are set out in the following table (which excludes details of the senior employees, shown in the previous table).

The 'Other Staff' column in the table includes employees which provide educational support services within schools. Of the 354 'Other Staff' in 2022/23 there are 12 employees paid on Leadership Teacher grades and 33 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through Service Level Agreements from schools within County Durham and also a number of schools outside of the Durham area.

Remuneration band	2021-22 Number of Employees			2022-23 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	131	84	215	131	155	286
£55,000 - £59,999	73	35	108	103	48	151
£60,000 - £64,999	54	52	106	49	52	101
£65,000 - £69,999	39	40	79	40	39	79
£70,000 - £74,999	30	6	36	30	17	47
£75,000 - £79,999	7	3	10	12	3	15
£80,000 - £84,999	3	4	7	4	6	10
£85,000 - £89,999	4	3	7	6	12	18
£90,000 - £94,999	3	1	4	1	3	4
£95,000 - £99,999	-	3	3	2	1	3
£100,000 - £104,999	2	-	2	1	-	1
£105,000 - £109,999	-	5	5	-	6	6
£110,000 - £114,999	1	2	3	-	1	1
£115,000 - £119,999	2	1	3	1	1	2
£120,000 - £124,999	-	8	8	3	3	6
£125,000 - £129,999	-	-	-	-	3	3
£130,000 - £134,999	-	-	-	-	1	1
£135,000 - £139,999	-	1	1	-	-	-
£140,000 - £144,999	-	1	1	-	2	2
£145,000 - £149,999	-	-	-	-	-	-
£150,000 - £154,999	-	-	-	-	1	1
	<u>349</u>	<u>249</u>	<u>598</u>	<u>383</u>	<u>354</u>	<u>737</u>

The cost of exit packages comprises two elements: redundancy costs payable to the employee and early access costs, where the employee is also taking early retirement. The latter element is payable to the Pension Fund and is charged to the General Fund in the year of retirement.

The following table sets out the number and total cost of exit packages by type and cost band:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22 £000	2022-23 £000
£0 - £20,000	3	1	2	5	5	6	30	81
£20,001 - £40,000	-	2	-	5	-	7	-	188
£40,001 - £60,000	1	-	1	8	2	8	100	347
£60,001 - £80,000	-	-	1	7	1	7	69	489
£80,001 - £100,000	-	-	2	4	2	4	171	377
£100,001 - £150,000	1	-	2	4	3	4	353	506
£150,001 - £250,000	-	-	-	3	-	3	-	490
£200,001 - £250,000	-	-	-	-	-	-	-	-
£250,001 - £300,000	-	-	-	1	-	1	-	285
Total	5	3	8	37	13	40	723	2,763

34. External Audit Costs

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors during. These fees consider the PSAA fee scales and approved variations for 2022/23. The appointed auditor for 2022/23, and up to 2023/24, is Mazars LLP.

2021-22 £000	2022-23 £000
238 Fees payable with regard to external audit services carried out by the appointed auditor for the year	206
20 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	22
- Previous year (2021-22) fees payable within year with regard to external audit services carried out by the appointed auditor for the year	66
258 Total	294

35. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2022/23 are as follows:

2021-2022			2022-2023			
Central Expenditure £000	ISB £000	Total £000		Central Expenditure £000	ISB £000	Total £000
		448,071	A			469,248
		<u>177,755</u>	B			<u>201,944</u>
		270,316	C			267,304
			Plus			
		-3,922	D			-5,785
			Less			
		-	E			-
<u>94,804</u>	<u>171,590</u>	<u>266,394</u>	F	<u>70,719</u>	<u>190,800</u>	<u>261,519</u>
			G			
-902		-902		594		594
<u>93,902</u>	<u>171,590</u>	<u>265,492</u>	H	<u>71,313</u>	<u>190,800</u>	<u>262,113</u>
			Less			
-99,687		-99,687	I	-78,445		-78,445
			Less			
	171,590	171,590	J		190,800	190,800
			Plus			
			K			
	-	-	L			
<u>-5,785</u>		<u>-5,785</u>		<u>-7,132</u>		<u>-7,132</u>
			Plus			
			M			
		-	N			-
		<u>-5,785</u>				<u>-7,132</u>
			O			
		-8,047				-8,843
			P			
		-796				1,711
			Q			
		-8,843				-7,132
			R			
		<u>-5,785</u>				<u>-7,132</u>

New provisions have been put into Regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, so that local authorities are required to carry forward overspends of DSG to their schools budget either in the year immediately following or the year after. They can apply to the secretary of state to disregard this requirement. In the case of the secretary of state giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

All of the deficit will be carried forward into the financial year following the new year, using Regulation 8(7)(c).

This reflects the statutory requirement that a deficit must be carried forward to be funded from future DSG income, unless the secretary of state authorises the local authority not to do this.

36. Grant Income

Grant Income

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

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

Grant and Contribution Income Credited to Services

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

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

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

Capital Grants and Contributions Receipts in Advance

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the provider. The balances at the year end are as follows:

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

37. Related Parties

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

Central Government

Central government has effective control over the general operations of the council – it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many

of the transactions that the council has with other parties (e.g. council tax bills, housing benefits).

Members

Members of the County Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2022/23 is shown in Note 32.

It is the nature of local government that the majority of members and sometimes a close family member are involved in the local community through various organisations such as voluntary bodies, youth groups and community associations as well as holding positions such as school governors or being a member of a Local Parish or Town Council. Details of all these organisations are recorded in the Register of Members' Interest, open to public inspection at County Hall during office hours. Following a review of the declarations made by members, it was established that there were no material transactions.

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

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.204m in 2022/23 (£0.141m in 2021/22). In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Members are also involved in:

- the Citizens Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.532m in 2022/23 (£0.753m in 2021/22)
- Cornforth Partnership £0.258m in 2022/23 (£0.151m in 2021/22)
- Easington Regeneration Partnership £0.028m in 2022/23 (£0.008m in 2021/22)
- Pelton Fell Community Partnership £0.020m in 2022/23 (£0.034m in 2021/22)
- Arts Council £0m in 2022/23 (£0.001m in 2021/22)
- ATOMS Education £0.032m in 22/23 (£0.046m in 2021/22)
- Apollo Pavilion Projects £0 in 2022/23 (£0.010m in 2021/22)
- Woodham Village Community Association £0 in 2022/23 (£0.022m in 2021/22)
- LIVIN £1.017 in 2022/23 (£0.048m in 2021/22)
- Durham University £0.582m in 2022/23 (£0.151m in 2021/22)
- Horden & Peterlee Rugby Club £0.029M in 2022/23
- Charter Trustees for City of Durham £0.057M in 2022/23
- Newton Hall Community Partnership £0.007M in 2022/23
- Quaking Houses Village Hall £0.013M in 2022/23
- PACT House Stanley £0.066M in 2022/23

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

During 2022/23, works and services to the value of £0.070m (£0.019m 2021/22) were commissioned from companies in which some members had an interest. Contracts were entered into in full compliance with the council's Standing Orders.

Chief Officers

Chief Officers of the council are also required to complete a Related Party Declaration. It should be noted that the following declarations have been made:

Chief Officer	Related party declaration
Corporate Director of Resources	Designated Section 73 Officer for North East Combined Authority and the Joint Transport Committee Board Member of the North East First Credit Union Close family members in senior positions at LIVIN

Entities Controlled or Significantly Influenced by the Council

The Code of Practice requires local authorities to produce Group Accounts to reflect significant activities provided to council taxpayers by other organisations in which the council has an interest. The council has considered its interests in its subsidiaries, associates, joint ventures and other bodies, both quantitatively and qualitatively, and has concluded all entities are not considered to be material and therefore have not been consolidated into the Group Financial Statements.

The council has financial relationships with a number of related companies. Those considered significant, for example due to the level of investment, are detailed below.

Chapter Homes

Chapter Homes Durham Limited was established as a private company limited by shares on 10 August 2015 and is owned 100% by Durham County Council. The Company has been established as a trading company to develop council owned land for market housing sale and private market rent to generate revenue income, capital receipts and contribute to housing regeneration in County Durham.

The audited draft company accounts for the full year 2022/23 have been prepared. In 2022/23 Chapter Homes Durham Limited had turnover of £6.246m (£7.621m in 2021/22), made a profit before taxation of £0.166m (£1.646m in 2021/22) no taxation has yet been determined (£0.321m in 2021/22), a dividend of £0.095m was paid to Durham County Council. Chapter Homes had net assets of £6.218m at 31 March 2023 (£6.176m at 31 March 2022).

Forrest Park (Newton Aycliffe) Limited

This is a joint venture arrangement of which the council owns 51% of the share capital of the Company. The Company has been established to develop Forrest Park as a prime location for manufacturing, logistics and administration. The aims of the Company will be to develop the site and maximise economic benefits from the commercial developments. The Company was established on 31 March 2016. The audited draft company accounts for the full year 2022/23 have been prepared. In 2022/23 Forrest Park (Newton Aycliffe) Limited had a loss of £0.032m before taxation (loss of £0.015m in 2021/22). The net assets of the company total £2.690m at 31 March 2023 (£2.722m at 31 March 2022).

Durham Villages Regeneration Limited

This is a joint venture arrangement of which the council has 50% of the voting rights of the Company and 49% of the share capital. The Company operates as a public-private partnership formed to regenerate communities. The Company's principal activities during the year were private house building and property development. The Company accounts for 2022/23 are not yet available, however the audited management accounts for 2021/22 show at 31 March 2022 Durham Villages Regeneration Limited made an operating profit

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

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

Central Durham Crematorium

The Central Durham Crematorium was built in 1960 and is overseen by the Central Durham Crematorium Joint Committee, comprising Durham County Council and Spennymoor Town Council. The net assets of the crematorium at 31 March 2023 are £3.846m (31 March 2022: £3.691m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Central Durham Crematorium Joint Committees Annual Governance and Accountability Return is still subject to limited assurance review and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

Mountsett Crematorium

The Mountsett Crematorium was built in 1964 and is overseen by the Mountsett Crematorium Joint Committee, comprising Durham County Council and Gateshead Council. The net assets of the crematorium at 31 March 2023 are £0.762m (31 March 2022: £0.928m). Durham County Council is the administrative body and employing authority for the crematorium.

It should be noted that the Mountsett Crematorium Joint Committees Annual Governance and Accountability Return is still subject to limited assurance review and copies can be obtained from the Registered Office at County Hall, Durham, DH1 5UT, or alternatively accessed via the DCC website.

Service Direct NewCo Limited

Service Direct NewCo Limited is a Local Authority Trading Company established to provide services to non local authority customers initially focused around building maintenance, civil engineering, grounds maintenance, vehicle fleet services and domestic services. Durham County Council owns 100% of NewCo, which began trading in 2007/08. The audited draft company accounts for the full year 2022/23 have been prepared. In 2022/23 Service Direct NewCo Limited had turnover of £1.584m (2021/22: £1.892m), £0.013m operating profits before taxation (£0.006m: 2021/22), no dividend was paid, and had net assets of £0.039m at 31 March 2023 (£0.028m at 31 March 2022).

NIAL Holdings Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the “LA7”) created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by InfraBridge (previously known as AMP Capital Investors Limited) following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The council holds a 12.15% interest in NALAHCL, valued at £9.742m (£10.629m in 2021/22). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially impair the valuation. The spread of Covid-19 across the world towards the end of 2019/20 led to a sudden decline in air travel prompting the value of the shareholding to be impaired. This continued throughout 2020/21 but subsequent vaccine rollout and a lifting of restrictions has seen the travel sector experience a resurgence in passenger numbers. As a result, the majority of the impairment recognised has been reversed.

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

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

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

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

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

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

Teesside International Airport Limited

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

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

Durham County Cricket Club

As at 31 March 2023 the council holds £2.340m (£2.650m at 31 March 2022) in redeemable preference shares in Durham Cricket Community Interest Company. This is on the condition that the company will repay the amount of share capital within the fixed period of 10 years from June 2017 or even earlier at the discretion of the company. For the year ended 30 September 2021, the Company made a profit before tax of £1.055m and a profit after tax of £1.023m. In the previous year the Company made a profit before tax of £0.344m and a profit after tax of £0.362m. The Company accounts for year ending 30 September 2022 are not yet available.

Durham County Council Pension Fund

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

38. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases and PFI/ PP contracts),

together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

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

39. Leases

Council as Lessee

Finance leases

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

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

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

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

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

31 March 2022			31 March 2023	
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000
6,474	5,162	Not later than one year	7,313	5,770
15,386	11,171	Later than one year and not later than five years	17,647	12,748
42,556	30,737	Later than five years	40,785	30,250
<u>64,416</u>	<u>47,070</u>		<u>65,745</u>	<u>48,769</u>

There are no contingent rents payable in respect of the leases.

The council has not sub-let any of the vehicles and equipment under finance leases, but it has sub-let properties at Freemans' Reach that were acquired under a finance lease. The total of future minimum sublease payments expected to be received under these leases was £17.365m at 31 March 2023 (£19.577m at 31 March 2022). This forms part of the balance in the table below showing operating lease income receivable where the council is the lessor.

The council is facilitating a major regeneration scheme in the centre of Durham City comprising a mixed use development of homes, offices, restaurants, shops, a cinema and hotel. The development is being delivered and funded by the private sector. The council is committed to taking a 35 year lease on practical completion of the development. In accordance with the council's accounting policy, assets held under finance leases are recognised at the commencement of the lease, but this has not yet taken place. The lease will be recognised and accounted for when the lease is actually completed which is anticipated to be at the time of practical completion of the development Autumn 2023.

Operating Leases

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

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

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

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

Council as Lessor

Finance Leases

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

Operating leases

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

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

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

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

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 Sedgfield Community College) are not reflected in the council's Balance Sheet as the assets were written out in 2010/11 and 2019/20 retrospectively.

During the operational phase the contractor is responsible for the following services:

- Buildings and Grounds Maintenance
- Caretaking
- Cleaning
- Energy and Utilities

The contractor is not responsible for the provision of education services or governance and management of the schools, which remain the responsibility of their governing bodies and staff.

In return for providing school buildings the contractor receives monthly payments from the council during the operational phase. These payments can be reduced where the buildings are not provided to the standard defined in the contract.

The council's Balance Sheet includes both assets and liabilities arising from the contract.

Value of Assets

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

In addition to the net book value of £5.404m in respect of the PFI assets, the Balance Sheet also includes the value of the land on which the schools are built. The value of the land is £0.400m and the total net value of land and buildings for these schools carried forward is £5.804m.

Value of Liabilities

The assets included in the Balance Sheet are offset by a liability equal to the initial value of the assets financed by contractor. This liability is written down over the life of the contract by charging part of the annual payments to the contractor against the liability.

Movements in the values in 2022/23 are summarised as follows:

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

Estimates of Future Payments Due

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

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates continue to assume that RPIX increases at 2.5% a year for the remainder of the contract.

Other reasons why costs might vary in future years are:

- The provision of facilities management (FM) services is subject to benchmarking and / or market testing every five years. Payments to the contractor will be adjusted to reflect the outcome of these exercises, which could reduce or increase costs.
- Once PFI contracts are operational it is sometimes possible to 're-finance' the contract which reduces the cost of borrowing incurred by the contractor. The council recognised a cash lump sum gain of £2.881m from a re-financing exercise in 2018/19 and there are no plans for further re-financing at this stage.

41. Impairment and Revaluation Losses

There has been a net decrease of £120.590m in the value of the council's assets (£295.921m in 2021/22), charged partly to services in the Comprehensive Income and Expenditure Statement (CIES) and partly to the Revaluation Reserve. This decrease is significantly lower than last year but reflects that the schools were a part of the revaluation programme carried out during 2021/22 and are a significant share of the balance sheet.

42. Termination Benefits

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

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

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

43. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the council are members of the Teachers' Pension Scheme, administered by Capita Business Services Limited. The scheme provides teachers with specified benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

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

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. The costs are accounted for on a defined benefit basis and detailed in Note 44.

NHS Pension Scheme

NHS staff who transferred to the council in 2013/14 have maintained their membership in the NHS Pension Scheme, administered by the NHS Business Services Authority. The scheme provides these staff with specified benefits upon their retirement and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is an unfunded defined benefit scheme. However, the council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2022/23, the council paid £0.116m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 16.88% of pensionable pay (£0.082m or 16.88% in 2021/22). There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £0.113m.

44. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Durham County Council – this is a funded defined benefit career average revalued earnings scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The Durham County Council Pension Fund is operated under the regulatory framework for the LGPS and responsibility for the Pension Fund has been delegated from Durham County Council to the Pension Fund Committee. The Corporate Director of Resources

has a statutory duty to ensure the Pension Fund remains solvent and is administered effectively, adhering to the LGPS regulations in order to meet any current and future liabilities. The Pension Fund has five investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Investment Strategy Statement and in compliance with applicable legislation. Further information on Durham County Council's Pension Fund can be found in the Pension Fund Accounts later in this document.

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

Discretionary Post-retirement Benefits

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

Transactions Relating to Post-employment Benefits

The council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2021-22			2022-23	
Local Government Pension Scheme	Discretionary Benefits Arrangements		Local Government Pension Scheme	Discretionary Benefits Arrangements
£000	£000		£000	£000
Comprehensive Income and Expenditure Statement				
Cost of services:				
Service cost comprising:				
117,420	-	- Current service cost	83,770	-
630	-	- Past service cost (including curtailments)	1,260	-
-15,540	-	- Settlement	-4,260	-
Financing and Investment Income and Expenditure:				
29,950	1,110	- Net interest on net defined benefit liability	19,130	1,290
132,460	1,110	Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	99,900	1,290
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising:				
-36,520	-	- Return on plan assets (excluding the amount included in the net interest expense)	193,550	-
-229,660	-1,130	- Actuarial gains(-)/losses due to changes in financial assumptions	-1,292,490	-7,110
-36,070	-790	- Actuarial gains(-)/losses due to changes in demographic assumptions	5,110	-1,260
11,280	200	- Actuarial gains(-)/losses due to liability experience	227,410	4,290
-158,510	-610	Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	-766,520	-2,790
Movement in Reserves Statement				
-132,460	-1,110	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-99,900	-1,290
Actual amount charged against the General Fund Balance for pensions in the year:				
60,632	-	- Employer's contributions payable to the scheme	65,496	-
-	4,755	- Direct retirement benefits payable to pensioners	-	4,400

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2021-22			2022-23	
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements
£000	£000		£000	£000
-3,571,660	-50,120	Present value of the defined benefit obligation	-2,605,670	-42,930
2,322,060	-	Fair value of plan assets	2,178,180	-
-1,249,600	-50,120	Net liability arising from defined benefit obligation	-427,490	-42,930

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

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

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

2021-22			2022-23		
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements	
£000	£000		£000	£000	
2,278,630	-	Opening fair value of scheme assets	2,322,060	-	
47,450	-	Interest Income	84,440	-	
36,520	-	Remeasurement gain / loss (-)	-193,550	-	
50,040	4,680	Contributions from employer	55,590	4,400	
16,250	-	Contributions from employees into the scheme	17,980	-	
-95,980	-4,680	Benefits paid	-101,840	-4,400	
-10,850	-	Settlements	-6,500	-	
2,322,060	-	Closing fair value of scheme assets	2,178,180	-	

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

2021-22			2022-23		
Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements		Funded Liabilities: Local Government Pension Scheme	Unfunded Liabilities: Discretionary Benefits Arrangements	
£000	£000		£000	£000	
3,736,780	55,410	Opening balance at 1 April	3,571,660	50,120	
117,420	-	Current service cost	83,770	-	
77,400	1,110	Interest cost	103,570	1,290	
16,250	-	Contributions by scheme participants	17,980	-	
		Remeasurement gains (-) and losses:			
-229,660	-1,130	Actuarial gains and losses due to changes in financial assumptions	-1,292,490	-7,110	
-36,070	-790	Actuarial gains and losses due to changes in demographic assumptions	5,110	-1,260	
11,280	200	Actuarial gains and losses due to liability experience	227,410	4,290	
-95,980	-4,680	Benefits paid	-101,840	-4,400	
630	-	Past service cost (including curtailments)	1,260	-	
-26,390	-	Settlements	-10,760	-	
3,571,660	50,120	Closing balance at 31 March	2,605,670	42,930	

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

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

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

The principal assumptions used by the actuary are:

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2021/22.

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

Discount rate assumption

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

Rate of general increase in salaries

Adjustment to salary increase rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	2,610,880	2,605,670	2,600,460
Change in present value of total obligation	0.2%		-0.2%
Projected service cost (£000)	56,150	56,150	56,150
Approximate change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption

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

Post retirement mortality assumption

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

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

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over 16 years from 1 April 2023. Funding levels are monitored on an annual basis.

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

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

Pensions: McCloud Judgement

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

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

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

The necessary LGPS Regulations covering the remedy have not yet been laid. Whilst at this stage, it is unknown what impact this will have on future employer pension contributions, the Pension Fund's Actuary has calculated a potential IAS 19 accounting liability which has been included in the current service cost. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012.

45. Contingent Liabilities

a) Pension Contributions on Equal Pay Payments

Equal pay settlements were not originally deemed to be pensionable however, this has now changed, and an element of choice has been introduced. Individuals can choose to have their settlements considered to be pensionable, which would lead to a liability for the council to make employer contributions to the Pension Fund. This provision has now been added to agreements that individuals with pending Equal Pay Settlements will sign up to. There is no certainty that an individual will decide to pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an

individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain.

b) Equal Value Claims

Solicitors representing a number of individuals have lodged claims under the Equality Act 2010 in relation to "work of equal value". These types of cases are complex and it is likely that the council will have to make settlement payments however, it is unclear as to how many claimants have live claims and the settlement values.

c) Municipal Mutual Insurance

Historically, the Municipal Mutual Insurance Company (MMI) was the principal provider of insurance to the council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The council signed up to this agreement and as remaining assets have proven to be insufficient to cover potential future liabilities, the Scheme of Arrangement was invoked on 13 November 2012. At the current time, the council's maximum potential liability that can be clawed back is £7.4m.

The council's insurance adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI Balance Sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. Based upon further information received from our Insurance Adviser during 2017/18, the provision was increased to 50%. As the provision is not for the total amount of the potential liability, there is the possibility of future claims, the council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

Any increase in the provision in respect of the Scheme of Arrangement will be met from the Insurance Reserve.

d) Tribunal and Court Claims

The council is currently involved in a small number of tribunal and court claims where potentially damages may be awarded against the council. The council feels it has a strong case to defend the claims. However, there is no certainty of the outcome of these cases, or of amounts involved therefore a contingent liability has been included in the accounts.

e) Warranties in relation to LSVT of Housing Stock

The council has given Believe Housing (formerly known as County Durham Housing Group (CDHG)) certain warranties in relation to staff transferring, property and environmental pollution. These warranties to both Believe Housing and its Funders are for

a maximum period of 30 years. The potential liability to the council is unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts. Insurance cover for environmental risks has been purchased to protect the council.

f) Milburngate Development

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

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

46. Contingent Assets

LSVT - VAT Shelter

The council and a number of registered providers in Durham have in place VAT shelter arrangements agreed at the time when the stock was transferred to those registered providers under LSVT, to enable them to reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. The council is entitled to a 50% share of VAT recovered by the registered providers from this VAT shelter arrangement. Under the VAT shelter arrangements, during 2022/23, the council received and recognised £3.382m from three registered providers, namely Believe, Livin and North Star.

47. Heritage Assets: Further Information on the Council's Collection

Museum Collections and Artefacts

This includes:

- Museum exhibits owned by or on long-term loan to the council at Killhope Lead Mining Museum, Durham Town Hall and Shildon Locomotion Museum (excluding items belonging to the National Railway Museum). The museums are open to the public. Killhope holds the national collection of spar boxes, ornate mineral creations developed by miners in the North Pennines. Further details of the collections can be found on the museums' websites.
- Artefacts held by the council's Learning Resources service. These items are not on public display but are available for schools and other educational establishments to borrow via an online catalogue.

- Items held by Durham County Record Office, including documents, photographs, films and sound recordings. Public access to the record office is by appointment and an online catalogue is available. The records are stored securely with appropriate temperature and humidity control. Most of these items are not recognised on the Balance Sheet as they have no separate insurance values but one collection (the Londonderry Archives) has been valued as it was offered to the nation in lieu of inheritance tax, with a preference for it to remain with the Durham County Records Office.
- Books of remembrance and miners banners held in civic buildings.

Artwork, including Public Art and Sculptures

This includes items of art, including paintings and murals, many of which are open to the public, and public art and sculptures around the county which are publicly accessible. A number of public artworks are not recorded on the Balance Sheet as they have no insurance value and there is no recent cost information available.

Items of art in the public and administrative areas of civic buildings are not recorded on the Balance Sheet as their insurance value cannot be separately distinguished from the buildings and contents insurance values.

Paintings held at Durham Town Hall and by Durham Learning Resources are included in the Museum Collections category above.

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county, which are all publicly accessible. Included here are the historic buildings at Killhope Lead Mining Museum, although they could also be classed as museum exhibits.

A number of monuments and statues are not recorded on the Balance Sheet as they have no insurance value.

Civic Regalia and Silverware

This includes civic chains, badges of office and silverware used for civic purposes. These items are held in safe storage when they are not being used for official purposes.

Geophysical / Archaeological

This includes pit wheel sites around the county and excavations at Binchester Roman Fort (the council is the guardian of the site). They are not recorded on the Balance Sheet, as they have no insurance value and the land has no cost or market value. Binchester is

open to the public from Easter Saturday until the end of September. The pit wheel sites are publicly accessible.

Various archaeological items found around the county are on deposit at Bowes Museum, Barnard Castle. They are not recognised as heritage assets by the council as they are held by the museum.

Preservation and Management

Since the Local Government Reorganisation in 2009 the council has developed a strategy in order to rationalise office accommodation throughout the county. The office accommodation project team has produced procedural guidelines to set out the agreed approach to dealing with heritage assets during office accommodation moves and/or refurbishments, including working with other local museums, services and specialists where needed, to assess the feasibility, and make suggestions for re-homing of other items.

Options for re-homing items that need to be relocated include:

- adding to the museums service collection
- temporary removal then reinstating in the refurbished building (where possible and suitable security measures can be made)
- relocation to another civic or community building
- gifting the item to a local museum
- disposal (in line with the council disposal procedure)

Some items are currently in safe storage until they can be returned for display at a suitable location.

48. Exceptional Items

There were no exceptional items in 2022/23.

49. Pooled Budget – Better Care Fund

The council has entered into a Pooled Budget arrangement under the Better Care Fund (BCF) Agreement for Health and Social Care initiatives. The BCF was introduced by the Government on 1 April 2015 and the Pooled Budget arrangement supports the BCF vision of improving the health and wellbeing of the people of County Durham and reducing health inequalities.

The pooled fund is subject to an agreement under Section 75 of the Health Service Act 2006.

The Pooled Budget partners consist of Durham County Council (Local Authority) and NHS County Durham Clinical Commissioning Group up to 30th June 2022. From 1 July 2022 the NHS County Durham Clinical Commissioning Group has become part of the North East and North Cumbria Integrated Care Board (NE & NC ICB).

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

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

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

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to council tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Central Government, Durham Police, Crime and Victims' Commissioner, County Durham and Darlington Fire and Rescue Authority and to Durham County Council General Fund. Notes to the statements follow.

The Collection Fund

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

Notes to the Collection Fund Accounts

1. The Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the council. The Collection Fund accounts independently for income relating to council tax and Non Domestic Rates on behalf of those bodies (including the council's own General Fund) for which the income has been raised. The costs of administering the Collection Fund are accounted for in the General Fund.

2. Council Tax

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

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

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

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

The following table shows the property value bandings and the Band D equivalent properties in 2022/23.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent Properties
Up to £ 40,000	Band A	143,884	6/9ths	95,923
Over £ 40,000 up to £ 52,000	Band B	35,129	7/9ths	27,323
Over £ 52,000 up to £ 68,000	Band C	31,409	8/9ths	27,919
Over £ 68,000 up to £ 88,000	Band D	22,238	9/9ths	22,238
Over £ 88,000 up to £120,000	Band E	10,832	11/9ths	13,239
Over £120,000 up to £160,000	Band F	4,245	13/9ths	6,132
Over £160,000 up to £320,000	Band G	2,221	15/9ths	3,702
Over £320,000	Band H	274	18/9ths	548
		250,232		197,024
Net effect of discounts, reliefs, exemptions and premiums				53,328
Chargeable Properties (Taxbase) 2022/23				143,696
The Council Tax Base for 2021/22 was:				141,623

In 2022/23, the Band D charge was £2,104.62 (£2,041.37 in 2021/22) made up of Durham County Council £1,754.69 (£1,703.58 in 2021/22), Durham Police, Crime and Victims' Commissioner £230.24 (£230.24 in 2021/22) and County Durham and Darlington Fire and Rescue Authority £109.69 (£107.55 in 2021/22). In addition, Band D town and parish precepts between £0 and £304.81 (£0 and £304.07 in 2021/22) were chargeable and there were some areas with no town or parish council.

Any surplus or deficit on the Collection Fund – Council Tax (estimated in mid-January each year) is normally taken into account when setting the following year's council tax by those authorities precepting upon the fund and either collected from or paid over to those bodies during the following financial year. In July 2020 the government announced that repayments to meet any Collection Fund deficits accrued in 2020/21 will instead be phased over a three-year period (2021/22 to 2023/24) to ease immediate pressures on budgets.

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

Allowance for Non-Collection

Each year the impairment allowance made for uncollectable amounts on council tax is revised by examining the aged debt analysis and applying the basis outlined below.

Arrears at 31 March 2023 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage allowance applied:

Category of Arrears	Year	Percentage allowance applied
1. No reminders yet sent	2022/23	20%
	2021/22	25%
	2020/21	50%
	2019/20	70%
	2018/19 & 2017/18	90%
	2016/17 & older	100%
2. First, second or final reminder	2022/23	25%
	2021/22	30%
	2020/21	50%
	2019/20	50%
	2018/19 & 2017/18	95%
	2016/17 & older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2022/23	40%
	2021/22	60%
	2020/21	80%
	2019/20	85%
	2018/19 & 2017/18	95%
	2016/17 & older	100%

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

Collection Fund – Council Tax Balance

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

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

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

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

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

3. Business Rates (Non Domestic Rates)

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

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

From 1 April 2013, the Business Rates Retention Scheme (BRRS) was introduced. Instead of paying into a central pool, the business rates income for the Durham County Council administrative area is shared between Central Government (50%), Durham County Council (49%) and County Durham and Darlington Fire and Rescue Authority (1%). Any income from certain business areas, e.g. Renewable Energy, accrues only to Durham County Council. This scheme aims to give authorities a greater incentive to grow businesses but also increases the financial risk due to volatility and non-collection of rates.

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

The estimated outturn for 2022/23 was included on the NNDR1 for 2023/24, submitted in January 2023. This predicted a deficit of £3.848m (deficit of £11.217m estimated for 2021/22) of which Durham County Council's share would be £1.886m (deficit of £5.496m for 2021/22). As with council tax the in year deficit calculated in January 2021 was eligible to be spread over a three year period (2021/22 to 2023/24) to ease pressures on budgets. Therefore, this deficit includes a credit of £0.379m as calculated in 2020/21. The difference between the estimated outturn and the actual at 31 March is carried forward and taken into account in a future financial year. At 31 March 2023, the actual outturn was a deficit of

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

Allowance for Non-Collection

Each year the impairment allowance made for uncollectable amounts on Business Rates is revised by examining the aged debt analysis and applying the basis outlined below.

Arrears at 31 March 2023 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage allowance applied.

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

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

Provision for Appeals

Business Ratepayers are entitled to appeal to the VOA against the rateable value applied to their property at any time during the validity of the Rating List. Such appeals, if successful, may be back dated to 1 April 2010. Prior to 1 April 2013, the cost of all such appeals would have been borne by Central Government. However, under the BRRS, the cost is also shared by Durham County Council and County Durham and Darlington Fire and Rescue Authority. In an attempt to stabilise the expected income from Business Rates, a provision against successful appeal has been introduced. Based on previous success of appeals, an estimate of the expected future repayment of reduction of bills already raised is made and charged to the Collection Fund - Business Rates.

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

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2023 amounted to a deficit of £4.557m (deficit of £10.386m at 31 March 2022). Durham County Council, central government and County Durham and Darlington Fire and Rescue Authority each account for a share of the Collection Fund - Business Rates in proportion to their allocated share of business rates income under the BRRS. This also applies to the balances for arrears and prepayments on the business ratepayers accounts, the allowance for non-collection and the provision for appeals.

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

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	2,233	-2,252	3,141	-1,572	-9,077
Central Government	2,278	-2,298	3,149	-1,604	-9,263
County Durham & Darlington Fire & Rescue Authority	46	-46	63	-32	-185
Total Allocated	4,557	-4,596	6,353	-3,208	-18,525

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

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Durham County Council Pension Fund Accounts

1. Fund Account

2021-22			2022-23		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-119,756		Contributions Receivable	8	-131,120	
-7,842		Transfers in from Other Pension Funds		-9,410	
-4		Other Income		-4	
	-127,602				-140,534
137,698		Benefits Payable	9	144,687	
6,232		Payments to and on Account of Leavers	10	8,866	
	143,930				153,553
	16,328	Net Withdrawals /(Additions) from Dealings with Members, Employers and Others			13,019
	22,427	Management Expenses	11		13,297
	38,755	Net Withdrawals /(Additions) Including Fund Management Expenses			26,316
RETURN ON INVESTMENTS					
-28,231		Investment Income	12	-20,288	
-129,994		Profit and Losses on Disposal of Investments and Change in Value of Investments	14	170,000	
	-158,225	Net (Gain)/Loss on Investments			149,712
	-119,470	NET (INCREASE)/DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			176,028

Net Assets Statement

31 March 2022				31 March 2023	
£000	£000		Notes	£000	£000
INVESTMENT ASSETS					
240,159		Equities	14	243,968	
3,289,424		Pooled Investment Vehicles	14	3,109,345	
	3,529,583				3,353,313
193		Loans	14	27	
		Other Cash Deposits:			
19,072		Fund Managers	14	19,123	
46,274		Short Term Investments	14	54,074	
-		Derivative Contracts	14	1,478	
	65,539				74,702
	<u>3,595,122</u>				<u>3,428,015</u>
Other Investment Assets					
1,296		Dividend Accruals	14	1,733	
204		Tax Recovery	14	265	
17		Other Investment Balances	14	298	
	1,517				2,296
	<u>3,596,639</u>	Total Investment Assets			<u>3,430,311</u>
INVESTMENT LIABILITIES					
-1,504		Derivative Contracts	14	-	
-1,781		Other Investment Balances	17	-	
	<u>-3,285</u>	Total Investment Liabilities			<u>-</u>
	<u>3,593,354</u>	NET INVESTMENT ASSETS			<u>3,430,311</u>
Current Assets					
11,705		Contributions Due from Employers		10,142	
1,285		Other Current Assets		2,110	
	12,990				12,252
Current Liabilities					
-6,330		Current Liabilities		-18,577	
	<u>-6,330</u>				<u>-18,577</u>
	<u>3,600,014</u>	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			<u>3,423,986</u>

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 22.

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

Notes to Durham County Council Pension Fund Accounts

1. Fund Operation and Membership

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

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

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director of Resources is responsible for the administration of the Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pension benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

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

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

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 109 at 31 March 2023), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 9 and 8 accordingly.

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

2. Basis of Preparation

The Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years.

The Actuary completed the most recent triennial valuation as at 31 March 2023, the results of which determined the contribution rates effective from 1 April 2023 to 31 March 2026. Details of the latest valuation are included in Note 21.

3. Accounting Standards issued but not yet adopted

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

No such accounting standards have been identified for 2022/23 that are applicable to the Fund accounts.

4. Statement of Accounting Policies

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by

the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the members' liability transfers, where the transfer value is agreed by Durham County Council Pension Fund. Where the transfer value has not been agreed in the year in which the member liability transfers, the transfer will be accounted for in full in the year in which the transfer value is agreed.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Fund as administrative expenses.

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

Oversight and governance costs include costs relating to the Fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

Investment Income

Investment income is accounted for as follows:

- dividend income is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis using the effective interest rate of the financial instrument as at the date of acquisition;
- distributions from pooled investment vehicles and private markets are accounted for on an accruals basis on the date of issue;

- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- accumulated profit income is reinvested within the pooled investment vehicle and reflected in both the unit price and the change in market value of the investment;
- 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. Accrued income is first recognised on the transaction date, with any foreign exchange gain or loss recognised separately until settlement;
- 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.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- quoted equity securities and fixed interest securities traded on an exchange are accounted for at bid market price;

- index linked securities traded on an exchange are valued at bid market value;
- unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
- unitised, unquoted managed property funds are valued at the most recently available net asset value adjusted for cash flows, where appropriate, or a single price advised by the fund manager;
- each of the partners in Border to Coast Pension Pool (BCPP) have an equal shareholding in BCPP which have been valued at cost i.e. transaction price, as an appropriate estimate of fair value. This is reviewed and assessed each year. Relevant factors include that there is no market in the shared held, disposal of shares is not a matter in which any shareholder can make a unilateral decision, and the company is structured as to not make a profit. As at 31 March 2023, taking into consideration the audited accounts for the company at 31 December 2022, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that costs remain an appropriate proxy for fair value at 31 March 2023. All investments managed by BCPP are valued at their fair value;
- investments in private equity funds, private credit funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund, private credit fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows; and
- derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets and Contingent Liabilities

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.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 20.

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 22).

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 18 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.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events After the Reporting Period

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

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

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

5. Critical judgements in applying accounting policies

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

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

The Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Fair Value of Investments	The Accounts are as at 31 March 2023 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments could reduce / increase in value during the 2023/24 reporting. The total value of Level 3 investments (explained in Note 15) is £397.493m at 31/03/23 (£303.967m at 31/03/22). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure and Private Credit. In line with the market risk section within Note 16, there is a risk that the value of the Fund may reduce / increase during the 2023/24 reporting period by £59.899m at 31/03/23 (£46.133m at 31/03/22), which represents the potential market movement on the value of the above investments.

7. Events after the Reporting Period

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

8. Contributions Receivable

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

9. Benefits Payable

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

10. Payments To and On Account of Leavers

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

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.

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

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2022/23 of £0.022m (£0.036m in 2021/22). The 2021/22 audit fee includes £0.016m in fee variations relating to 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 2022/23 is £0.008m (£0.008m in 2021/22). No fees have been paid to Mazars in 2022/23 in respect of non-audit work.

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

12. Investment Income

2021-22			2022-23	
£000			£000	
-84	Interest from Bonds		-31	
-6,837	Dividends from Equities		-7,421	
-34	Interest on Cash Deposits		-974	
-20,313	Income from Pooled Investment Vehicles		-8,364	
-963	Income from Private Markets		-3,498	
<u>-28,231</u>			<u>-20,288</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 2022/23 to manage the Fund's assets:

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

Durham County Council is one of eleven equal partners in the Border to Coast Pension Partnership Ltd (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools.

It is anticipated that all assets belonging to the Fund will be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the Fund's Investment Strategy and asset allocation requirements.

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

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

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

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

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

31 March 2022		Investment Manager	Asset Class	31 March 2023	
£000	%			£000	%
<u>Investments managed by BCPP asset pool:</u>					
1,560,269	44.00		Global Equities	1,416,597	41.99
34,421	0.97		Private Equity	55,931	1.66
21,800	0.61		Private Credit	49,307	1.46
477,124	13.45		Bonds	407,005	12.06
31,566	0.89		Infrastructure	62,907	1.86
515,831	14.54		Multi Asset Credit	516,144	15.30
204,575	5.77		Listed Alternatives	154,480	4.58
-	-		Climate Opportunities	8,479	0.25
2,845,586	80.23			2,670,850	79.16

<u>Investments managed outside of BCPP asset pool:</u>					
175,313	4.94	AB	Global Bonds	173,617	5.15
137	-	BlackRock	Cash Only	-28.00	-
282,242	7.96	CBRE	Global Property	281,138	8.33
242,691	6.84	Mondrian	Emerging Market Equities	244,750	7.25
1,182	0.03	BCPP	Unquoted UK Equity	1,182	0.04
-	-	Foresight	Private Equity	2,405	0.07
701,565	19.77			703,064	20.84
3,547,151	100.00			3,373,914	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 2023 excludes loans of £0.027m, cash invested by the administering authority of £54.074m, other investment assets of £2.296m and other investment liabilities of NIL (£0.193m, £46.274m, £1.517m and £1.781m respectively as at 31 March 2022).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2023, £3,374m (98.74%) is invested through Investment Managers (£3,547m or 98.71% at 31 March 2022).

Reconciliation of Movements in Investments 2022/23

Investment Category	Value at 31 March 2022	Reclassification	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2023
	£000	£000	£000	£000	£000	£000
Equities	240,159	-	56,857	-48,040	-5,008	243,968
Pooled Investment Vehicles	3,289,424	-	315,800	-334,320	-161,559	3,109,345
	3,529,583	-	372,657	-382,360	-166,567	3,353,313
Derivative Contracts:						
Futures, Margins & Options	-	-	-	-	-	-
Forward Foreign Currency	-1,504	-	27,406	-21,433	-2,991	1,478
	3,528,079	-	400,063	-403,793	-169,558	3,354,791
Other Investment Balances:						
Loans	193					27
Other Cash Deposits	65,346				-442	73,197
Dividend Accruals	1,296					1,733
Tax Recovery	204					265
Other Investment Balances	-1,764					298
Net Investment Assets	3,593,354				-170,000	3,430,311

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

Reconciliation of Movements in Investments 2021/22

Investment Category	Value at 31 March 2021	Reclassification	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2022
	£000	£000	£000	£000	£000	£000
Equities	387,003	-	99,944	-229,391	-17,397	240,159
Bonds	48,905	-	32,088	-80,776	-217	-
Pooled Investment Vehicles	2,941,246	-	955,387	-755,550	148,341	3,289,424
	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	-1,089,011	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

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

31 March 2022			31 March 2023	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS & POOL				
	240,159	Equities		243,968
		Pooled Investment Vehicles		
1,168,268		Bonds	1,096,766	
1,764,844		Equities	1,571,076	
268,526		Property	264,879	
31,566		Infrastructure	62,907	
21,800		Private Credit	49,307	
34,420		Private Equity	55,931	
-		Climate Opportunities	8,479	
	<u>3,289,424</u>			<u>3,109,345</u>
		Derivative Contracts		
-		Assets	1,478	
-1,504		Liabilities	-	
	<u>-1,504</u>			<u>1,478</u>
	<u>19,072</u>	Fund Managers' Cash		<u>19,123</u>
3,547,151		NET ASSETS INVESTED		3,373,914
OTHER INVESTMENT BALANCES				
46,274		Short Term Investments (via DCC Treasury Management)		54,074
193		Loans		27
1,517		Other Investment Assets		2,296
-1,781		Other Investment Liabilities		-
	<u>3,593,354</u>	NET INVESTMENT ASSETS		<u>3,430,311</u>

Analysis of Derivatives

Objectives and policies for holding derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and its Investment Managers.

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

31 March 2022		Derivative Contracts	31 March 2023	
£000	£000		£000	£000
-		Forward Foreign Currency		
-1,504		Assets	1,478	
	-1,504	Liabilities	-	
		Net Forward Foreign Currency		1,478
	-1,504	Net Market Value of Derivative Contracts		1,478

The Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (CBRE) on 31 March 2023 and 31 March 2022. Please note Blackrock transitioned over to BCPP in February 2022 and there were no forward foreign currency contracts held with Blackrock on 31 March 2023 or 31 March 2022.

31 March 2023

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	1,634,527	EUR	-1,628,872	6	
1 to 3 months	GBP	1,834	USD	-1,814	0	
1 to 3 months	GBP	874,070	AUD	-866,993	7	
1 to 3 months	GBP	750,385	SEK	-741,193	9	
1 to 3 months	GBP	66,812,419	USD	-66,151,265	661	
1 to 3 months	GBP	92,977	USD	-92,018	1	
1 to 3 months	GBP	31,400,353	JPY	-30,947,506	453	
1 to 3 months	GBP	306,448	USD	-303,139	3	
1 to 3 months	GBP	62,491,931	EUR	-62,322,365	170	
1 to 3 months	GBP	17,230,521	AUD	-17,105,012	125	
1 to 3 months	GBP	2,976,058	JPY	-2,932,895	43	
					1,478	-
Net Forward Foreign Currency Contracts at 31 March 2023					1,478	-

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

ii. Futures

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

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, had previously bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested. As Blackrock transitioned over to BCPP in February 2022 there were no equity option contracts as at 31 March 2023 or 31 March 2022.

Investments Exceeding 5% of the Net Assets available for Benefits

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

Net gains and losses on financial instruments

31 March 2022 £000		31 March 2023 £000
	Financial Assets	
119,506	Fair Value through Profit and Loss	169,558
10,488	Financial assets measured at amortised cost	442
<u>129,994</u>	Total	<u>170,000</u>

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, exchange traded derivatives and unit trusts. Listed investments are shown at bid prices.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted property funds, private equity, infrastructure and private credit, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2023 and 31 March 2022, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable:

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31 March 2023	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,438,493	518,804	397,494	3,354,791
Net Financial Assets at Fair Value	2,438,493	518,804	397,494	3,354,791

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 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.

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2022/23	Market Value 31 March 2022 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2023 £000
Pooled Investment Vehicles	216,181	24,728	-26,027	1,885	1,697	218,464
Private Equity	34,420	21,222	-	2,694	-	58,336
Infrastructure	31,566	19,709	-	11,633	-	62,908
Private Credit	21,800	25,949	-	1,557	-	49,306
Climate Opportunities	-	8,574	-	-94	-	8,480
	303,967	100,182	-26,027	17,675	1,697	397,494

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2021/2022	Market Value 31 March 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	8,610.00	20,326	-	5,484	-	34,420
Infrastructure	10,750.00	25,666	-	-4,850	-	31,566
Private Credit	3,255.00	17,407	-	1,138	-	21,800
	201,419	99,577	-18,567	21,298	240	303,967

Disclosures

- 1) In line with the Fund's rebalancing policy, £17.0m was transferred from BCPP Global Equity Alpha (Level1) to BCPP Multi Asset Credit (Level 2) in December 2022.
- 2) There has been no change in valuation techniques.
- 3) There are no assets or liabilities within the fund of a non-recurring nature.

Fair Value – Basis of Valuation

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 red book') current as at the valuation date.	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Private/Unquoted equity (pooled funds in Alternative Assets)	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material event occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Fair Value – Sensitivity of Assets values at Level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 instruments are likely to be

accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2023.

FAIR VALUE - SENSITIVITY ANALYSIS OF LEVEL 3

Period 2022/23	Assessed valuation range (+/-)	Value at 31 March 2023	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Investment Vehicles				
Property	14.1%	218,465	249,269	187,661
Private Equity	24.1%	58,336	72,395	44,277
Infrastructure	15.4%	62,907	72,595	53,219
Private Credit	8.2%	49,307	53,350	45,264
Climate Opportunities	15.4%	8,479	9,785	7,173
		397,494	457,393	337,595

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

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 at 31 March 2023 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	173,617	7.0%	185,770	161,464
CBRE	Unlisted Property	218,465	14.1%	249,269	187,661
CBRE	Listed Property	46,413	21.2%	56,253	36,573
Foresight	Private Equity	2,405	24.1%	2,985	1,825
Mondrian	Emerging Market Equity	240,381	23.6%	297,111	183,651
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,416,597	18.2%	1,674,418	1,158,776
BCPP	Private Equity	55,931	24.1%	69,410	42,452
BCPP	Infrastructure	62,907	15.4%	72,595	53,219
BCPP	Private Credit	49,307	8.2%	53,350	45,264
BCPP	Climate Opportunities	8,479	15.4%	9,785	7,173
BCPP	UK Index Linked Bonds	407,005	9.6%	446,077	367,933
BCPP	Multi Asset Credit	516,144	9.0%	562,597	469,691
BCPP	Listed Alternatives	154,480	18.2%	182,595	126,365
	Loans	27		27	27
	Cash	73,197		73,197	73,197
	Net Derivative Liabilities	1,478		1,478	1,478
	Net Investment Balances	2,296		2,296	2,296
Total Change in Net Investment Assets Available		3,430,311		3,940,395	2,920,227

Manager	Asset Type	Asset Value at 31 March 2022 £000	Potential Market Movements %	Value on Increase £000	Value on 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

Interest Rate Risk

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

The UK has been experiencing its highest rates of inflation for nearly 40 years with CPI peaking around 11% during 2022/23. The Bank of England, to combat this, has continually raised interest rates during the year resulting in higher return on investments.

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

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the Fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2023 and the effect of a +/- 500 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset Type	Asset Values at 31 March 2023 £000	Change in Year in the Net Assets Available to Pay Benefits	
		+500 BPS	- 500BPS
		£000	£000
Cash and Cash Equivalents	74,702	3,735	-3,735
Total Change in Net Investment Assets Available	74,702	3,735	-3,735

Asset Type	Asset Values at 31 March 2022 £000	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and Cash Equivalents	65,346	653	-653
Total Change in Net Investment Assets Available	65,346	653	-653

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 23	Value on Increase	Value on Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	173,617	173,617	173,617
CBRE	Global Property	18%	10%	264,878	269,646	260,110
Mondrian	Emerging Market Equity	100%	15%	240,381	276,438	204,324
Foresight	Private Equity	0%	0%	2,405	2,405	2,405
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	100%	10%	1,416,597	1,558,257	1,274,937
BCPP	Private Equity	100%	10%	55,931	61,524	50,338
BCPP	Infrastructure	100%	10%	62,907	69,198	56,616
BCPP	Private Credit	100%	10%	49,307	54,238	44,376
BCPP	Climate Opportunities	100%	10%	8,479	9,327	7,631
BCPP	UK Indexed Linked Bonds	0%	0%	407,005	407,005	407,005
BCPP	Multi Asset Credit	6%	0%	516,144	516,144	516,144
BCPP	Listed Alternatives	100%	10%	154,480	169,928	139,032
	Loans	0%	0%	27	27	27
	Cash	8%	10%	73,197	73,810	72,584
	Net Derivative Assets	0%	0%	1,478	1,478	1,478
	Net Investment Balances	0%	0%	2,296	2,296	2,296
Total Change in Net Investment Assets Available				3,430,311	3,646,520	3,214,102

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 Assets	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

ii. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the Balance Sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative Balance Sheet management and a high and stable credit rating. As at 31 March 2023, this level of exposure to the Custodian is 0.6% of the total value of the portfolio (0.5% as at 31 March 2022).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits. The Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £54.074m as at 31 March 2023 (£46.274m as at 31 March 2022). This was held with the following institutions:

Rating	Balances		Rating	Balances
as at 31 March 2022	£000		as at 31 March 2023	£000
Bank Deposit Accounts				
F1+	2,874	Handelsbanken	F1+	1,896
F1	1,189	Bank of Scotland	F1	-
F1	1,902	Lloyds	F1	3,191
	-	Barclays	F1	1
Fixed Term Deposits				
F1	1,189	Leeds Building Society	F1	-
F1	1,784	Yorkshire Building Society	F1	-
F2	2,973	Close Brothers	F2	3,723
F1	2,378	Nationwide Building Society	F1	-
F1	3,567	National Bank of Canada London	F1	4,787
F1	1,784	Goldman Sachs	F1	4,787
F1+	2,973	First Bank of Abu Dhabi	F1+	6,915
F1	4,161	Sumitomo Mitsui Banking Corp.	F1	1,064
F1	2,378	Santander UK Plc	F1	3,723
F1+	5,946	Landesbank Hessen-Thueringen	F1+	532
F1	4,161	Girozentrale (Helaba)	F1	1,064
		Standard Chartered	F1	4,255
		National Bank of Kuwait	F1	3,191
		Natwest (RFB)	F1	1,064
		Natwest Markets (NRFB)	F1	1,064
N/A	7,015	UK Local Authorities	N/A	1,064
	<u>46,274</u>	Total Short Term Cash Deposits with Lloyds Bank		<u>41,257</u>
	-	Cash at Bank		<u>12,817</u>
	<u>46,274</u>	Total Short Term Investments		<u>54,074</u>

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

17. Analysis of Creditors

As at 31 March 2022 £000	Included in the Net Assets Statement as:	As at 31 March 2023 £000
-1,781	Investment Liabilities - Other balances	-
-6,330	Current Liabilities	-18,577
<u>-8,111</u>		<u>-18,577</u>

All of the £18.577m is expected to be paid by the Fund within 12 months after the year end.

18. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Fund offers two types of AVC arrangement:

purchase of additional pension, which is invested as an integral part of the Fund's assets;

money purchase scheme, managed separately by Utmost (formerly Equitable Life), Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2022 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2023 £000
Utmost (formally Equitable Life)	1,378	9	166	-68	1,153
Prudential	8,961	1,396	1,283	-617	8,457
Standard Life	1,947	238	306	-52	1827
Total	12,286	1,643	1,755	-737	11,437

* Purchases represent the amounts paid to AVC providers in 2022/23

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

19. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Fund or to be controlled or influenced by the Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Fund fall into three categories:

- Employer related
- Member related
- Key management personnel

a) Employer Related

There is a close relationship between an employer and the Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2021/22	2022/23
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£119.756m	£131.119m
Debtors	Amounts due in respect of employers and employee contributions	£11.705m	£10.142m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.661m	£1.762m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.672m	£1.773m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £35.687m Interest = £0.030m	Balance = £40.968m Interest = £0.677m

b) Member Related

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Fund.

As at 31 March 2023 there was 1 Member of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected Members are no longer allowed to be active members of the Fund.

c) Key Management Personnel

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Fund or their close families.

There were no material related party transactions between any officers or their families and the Fund.

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Pensions, the Head of Corporate Finance and Commercial Services, and the Finance Manager - Revenue, Pensions. The proportion of employee benefits earned by key management personnel relating to the Fund is set out below:

2021-22 £000		2022-23 £000
103	Short-term benefits	134
18	Post-employment benefits	24
<u>121</u>		<u>158</u>

20. 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) 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.

There are no contingent liabilities as at 31 March 2023.

21. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2022.

The key elements of the funding policy are to:

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

At the 31 March 2022 actuarial valuation the Fund was assessed as being 98% funded (94% at 31 March 2019). This corresponded to a deficit of £93.1m (£195.5m at 31 March 2019).

The aim is to achieve 100% solvency over a period of 16 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 18.9% of pensionable pay.

Across the Fund as a whole, the secondary contributions required to remove the deficit over a recovery period of 16 years from 1 April 2023 are 1.3% of Pensionable Pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 16 years from 1 April 2023, is 20.2% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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

Financial assumptions:

Scheduled body and subsumption funding target	2019 Valuation	2022 Valuation
Discount rate (p.a.)	4.25%	4.40%
Long-term CPI inflation (pension increases/revaluation) (p.a.)	2.10%	2.30%
Post 88 GMP pension increases (p.a.) where full CPI does not apply	1.90%	2.00%

Low risk (exit) funding target	2019 Valuation	2022 Valuation
Discount rate (p.a.)	1.30%	1.70%
CPI inflation (pension/revaluation) (p.a.)	2.10%	3.40%
Post 88 GMP pension increases (p.a.) where full CPI does not apply	1.90%	2.60%

Intermediate funding target	2019 Valuation	2022 Valuation
In service discount rate (p.a.)	4.25%	4.40%
Left service discount rate (p.a.)	3.80%	3.95%
CPI inflation / Post 88 GMP increases as for the scheduled bodies and subsumption funding target		

Ongoing orphan funding target	2019 Valuation	2022 Valuation
In service discount rate (p.a.)	4.25%	4.40%
Left service discount rate (p.a.)	1.60%	1.30%
CPI inflation / Post 88 GMP increases as for scheduled bodies and subsumption funding target		

Assumption	2019 Valuation	2022 Valuation
Pay Increases (in addition to promotional increases)	CPI + 1.00%	CPI + 1.00%
Administration expenses (% of pay)	0.5%	0.5%

Mortality assumptions:**Other demographic assumptions:**

Pre/Post Retirement Mortality	Mortality Assumptions	Members currently in this category	Future contingent dependants of members currently in this category
Pre	Active males	40% of S3NMA	n/a
Pre	Active females	40% of S3NFA	n/a
Post	Active and deferred males -(normal health)	115% of S3NMA	145% of S3NFA
Post	Active and deferred females -(normal health)	125% of S3NFA	135% of S3NMA
Post	Active and deferred males - (ill health)	130% of S3IMA	145% of S3NFA
Post	Active and deferred females – (ill health)	125% of S3IFA	135% of S3NMA
Post	Pensioner males – (normal health)	110% of S3NMA	135% of S3NFA
Post	Pensioner females – (normal health)	115% of S3NFA	125% of S3NMA

Post	Pensioner males – (ill health)	130% of S3IMA	135% of S3NFA
Post	Pensioner females – (ill health)	120% of S3IFA	125% of S3NMA
Post	Dependant Males	110% of S3NMA	n/a
Post	Dependant females	130% of S3NFA	n/a
n/a	Projection model	CMI 2021 with long-term improvement rate of 1.50% p.a./ sk of 7.0/ A parameter of 0.5%/ w 2020 and w 2021 of 0	

Demographic	Allowance
Ill health Tier 1/2/3 proportions	85%/5%/10%
Commutation	Each member is assumed to surrender pension on retirement, such that the total cash received is 85% of the permitted maximum
Family details (males)	85% of non-pensioners are assumed to have a partner at retirement or earlier death. 85% of pensioners are assumed to have a partner at age 65. Surviving widow assumed to be three years younger.
Family details (females)	75% of non-pensioners are assumed to have a partner at retirement or earlier death. 75% of pensioners are assumed to have a partner at age 65. Surviving widower assumed to be one year older.
Take up of 50:50 scheme	All members are assumed to remain in the scheme they are in at the date of the valuation
Discretionary benefits	No Allowance

22. 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 21 to these accounts).

The Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts.

This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2022.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2019 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2022 £m
Fair value of net assets	2,982	3,606
Actuarial present value of the promised retirement benefits	4,512	5,473
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,867

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

	31 March 2019 (% p.a.)	31 March 2022 (% p.a.)
Discount rate	2.4	2.7
CPI Inflation *	2.2	3.0
Rate of increase to pensions in payment *	2.2	3.0
Rate of increase to deferred pensions **	2.2	3.0
Rate of general increase in salaries ***	3.2	4.0

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** We recommend the assumption for the revaluation rate of pension accounts is set equal to the assumption for pension increases

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

23. 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 2022/23

1. INTRODUCTION

1. This statement meets the requirements of Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS). It explains how the Council's arrangements for the governance of its affairs complied with its [Local Code of Corporate Governance](#) for the year ended 31 March 2023.

2. CONTEXT

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

3. SCOPE OF RESPONSIBILITY

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

4. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

7. The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have

led to the delivery of sustainable economic, social and environmental benefits for the people of County Durham.

8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks occurring and the impact should they occur, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place across the Council for the year ended 31 March 2023 and up to the date of approval of the Statement of Accounts.

5. THE GOVERNANCE FRAMEWORK

10. The key elements of the Council's governance arrangements are detailed in the Council's [Local Code of Corporate Governance](#). This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the seven core principles of the CIPFA/ SOLACE Framework.
11. The Chief Executive, Chief Financial Officer and Head of Legal and Democratic Services meet as statutory officers twice a month to discuss matters relevant to their statutory functions and governance of the Council generally.
12. The Constitution Working Group, which consists of the lead members of each political group and the Chair of Corporate Overview and Scrutiny Management Board, and is chaired by the Leader of the Council, proposed amendments to the [Constitution](#) during the year which were approved by the Council. Changes following the annual review of the [Constitution](#) were approved by the Council in [May 2023](#).
13. The arrangements and rules of procedure for the Overview and Scrutiny function, including the membership, functions and scope of the Overview and Scrutiny Board and each Committee is set out in detail in the Constitution. Terms of Reference for the Board and Committees are set within the context of the [Council Plan](#) and the [County Durham Vision 2035](#). The Democratic Services Manager is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.
14. The following sections demonstrate assurance that the Council has complied with each of these principles in practice, and also highlights where we have further improved our corporate governance arrangements during 2022/23.

6. REVIEW OF EFFECTIVENESS

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

assurance that there is a sound system of control in place, but there are some weaknesses and evidence of non-compliance with controls or ineffective controls.

21. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2022/23 is included in **appendix A**. An update on improvements identified in the 2021/22 Annual Governance Statement is included in **appendix B**.

7. CONCLUSION

22. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee. In conclusion, we are satisfied that the Council's corporate governance arrangements in place during 2022/23 were fit for purpose in accordance with the governance framework. Through the review of governance arrangements, and the work of both internal and external audit, we have identified eleven actions as part of ongoing improvements to further strengthen governance arrangements in 2023/24. These are shown in **appendix C**.

APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed:

Amanda Hopgood
Leader of Durham County Council

John Hewitt
Chief Executive

Paul Darby
Corporate Director of Resources

APPENDIX A: Governance Arrangements during 2022/23

A full description of the Council's governance arrangements is set out in the [Local Code of Corporate Governance](#) aligned to the seven principles of good governance. The following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2022/23. Note that hyperlinks to committee reports are routed through the relevant meeting page, rather than directly to the report, as this enables the reader to navigate to other related documents, such as the appendices and minutes.

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

<p>Behaving with integrity</p>

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

Demonstrating strong commitment to ethical values

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

Respecting the rule of law

12. The [Environment, Health & Consumer Protection enforcement policy](#) sets out the standards and guidance applied by officers authorised to act on behalf of the Council in its role as regulator and enforcement agency. Officers must have regard to codes of conduct, legislation and other statutory provisions, and adhere to the 'principles of good regulation' when exercising regulatory functions to improve outcomes without imposing unnecessary burdens on individuals and businesses.
13. The Council has a [Counter Fraud & Corruption Strategy](#), through which it is committed to a zero-tolerance approach to fraud and corruption against the Council and its partners. The Corporate Fraud team examines all reports of fraud, vigorously pursuing sanctions and prosecutions and, where possible, publicising successful cases. The [Protecting the Public Purse Annual Report 2022/2023](#) gives an account of the team's work between 1 April 2022 and 31 March 2023 and the Update Activity Report gives an account of their work between 1 April 2022 and 30 September 2022. Since its' creation

in 2015, the team has uncovered or intercepted over £14.8m of fraud, investigating over 4,500 cases across the authority, handling a diverse range of investigations.

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

Principle B: Ensuring openness and comprehensive stakeholder engagement.

Openness

18. The Council seeks to make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes, with a presumption for openness and, where relevant, giving reasons for keeping any decision confidential. Clear reasoning and evidence are provided for decisions, being explicit about the criteria, rationale and considerations used, to ensure that the impact and consequences of those decisions are clear. These commitments are demonstrated, for example, by the decisions made by Cabinet in [March 2022](#) and [April 2022](#) in relation to reports on,
 - (a) Review of Durham Light Infantry (DLI) Collection and Archive and the potential future use of the former DLI Museum & Art Gallery and Grounds at Aykley Heads; and
 - (b) Review of Durham County Council Headquarters.
19. Lists of key decisions to be considered by the Council's Executive were submitted to Corporate Overview and Scrutiny Management Board in [June 2022](#), [September 2022](#), [October 2022](#), [December 2022](#) and [January 2023](#), as required by the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Engaging comprehensively with institutional stakeholders

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

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

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

21. The Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. In January 2023, [Cabinet](#) considered a report of the Chief Executive, which provided a summary of the discussions with Government and the LA6 Councils relating to devolution in County Durham; and information relating the opportunities and impact of a devolution deal on County Durham.

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

23. The [Statement of Community Involvement](#) sets out our advice on how town and parish councils and Neighbourhood Forums should seek to involve and consult on the preparation of Neighbourhood Plans.

24. Following the Covid19 pandemic and the removal of legislation permitting virtual committee meetings, the Council reverted to face-to-face meetings from 1 March 2022.

25. The [framework for good workforce mental health in County Durham Businesses](#) supports small and medium sized businesses and voluntary and community sector organisations, which are less likely to have equitable access to good quality training and support for owners and employees. Also, the negative impact of poor mental health and wellbeing in these workplaces is likely to be bigger in terms of staff absence and reduced productivity.

Engaging with individual citizens and service users effectively
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26. Consultation on the [Medium Term Financial Plan 2023/24 to 2026/27](#) in October and November 2022 involved residents and partners and considered proposals to balance the council's budget for the next financial year (2023/24) that were published in the Cabinet report in October 2022. Presentations were made to the 14 Area Action Partnership Boards, and officers attended meetings of the County Durham Partnership, County Durham Association of Local Councils (CDALC) and the Youth Council and met with Trade Unions representatives during the period of the consultation.
27. In March 2023, an update was given to Health and Wellbeing Board on the findings from the independent consultant on the review of the council's [community engagement function](#) and our approach to a public county wide consultation.
28. Public consultation exercises were undertaken during the year on a range of issues, including Pharmaceutical Needs Assessment, our Physical Activities Strategy, Veterans Health Needs Assessment, Growing Up in County Durham Strategy, Anti-Social Behaviour Strategy, Regeneration projects in Bishop Auckland and Horden, Supplementary Planning Documents that support our County Durham Plan, the Inclusive Economic Strategy, Leisure Transformation, Public Space Protection Orders, our Customer Services Review and Poverty Action Plan. The full list can be found on the [Consultations](#) pages of the website.
29. The Council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) to reach out to and meet the needs of its communities.
30. Through our Integrated Customer Service initiative and Unified Communications Strategy, we continue to drive improvements across customer services to enhance the customer experience and reduce complaints. Automatic Call Distributor technology prompts telephone callers to 'describe in a few words' why they are calling and connects the person to the correct agent or department as well as offering a text message with a link to the appropriate information on the corporate website. The system also enables a holistic view of demand and performance statistics for all telephony contact, which is reported quarterly through Corporate Overview and Scrutiny Management Board.
31. The following reports evidence the methods used by the Council to communicate with citizens and service users to provide feedback, publish information and to collect and evaluate their views, experiences and future needs: -
- (a) Questions from the public received by the County Council at its meetings in [June 2022](#), [July 2022](#), [October 2022](#), and [December 2022](#).
 - (b) Updates in relation to petitions received by the Council reported to Corporate Overview and Scrutiny Management Board (COSMB) at its meetings in [September 2022](#) and [December 2022](#).
 - (c) Customer Feedback Report, Year End update, 2021/22 ([COSMB, July 2022](#)).
 - (d) Adults and Health Services Annual Statutory Representations Report 2020/21 ([COSMB, October 2022](#)).
 - (e) Presentation by the Director of Public Health on various public health campaigns ([Health and Wellbeing Board, January 2023](#)).

32. [Durham County News](#), the Council's magazine for residents is issued to every household in the County four times a year in line with the [recommended code of practice for local authority publicity](#).
33. Following the publication of the government Living with Covid guidance, the County Durham health protection governance arrangements were reviewed to align the robust Covid-19 assurance arrangements with wider health protection governance, capturing the learning and the successful approaches and interdependencies established during the Covid-19 response. The Health Protection Assurance and Development Partnership membership and Terms of Reference were revised accordingly.

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

Defining outcomes

34. The [County Durham Vision 2035](#) was agreed by the County Durham Partnership and Cabinet in September 2019. This vision will be delivered through an integrated framework of partnership and organisational plans and strategies across the County Durham Partnership. The vision is structured around three externally focused results-based ambitions of *more and better jobs*, *long and independent lives* and *connected communities*.
- (a) The More and Better Jobs ambition has a wide-ranging focus which includes not only development of the economy and creating jobs, but also working with young people and adults to help them into work, through good quality education and training.
 - (b) The Long and Independent Lives ambition focuses strongly on the health and wellbeing of the local population, including ensuring that all of our children and young people get the best start in life, and services for children with special educational needs and disabilities (SEND) are improved. The ambition has a strong focus on improving mental as well as physical wellbeing.
 - (c) The Connected Communities ambition focuses on making life better in local communities across the County. On how we ensure that children and young people have safe lives in safe communities where people support each other, and have access to high quality housing, good transport links and vibrant town and village centres. As it is a broad ambition, performance reporting is split into two areas of focus: safer communities, and sustainable communities.
35. In February 2022, Cabinet approved the updated [Tenancy Strategy 2022 - 2027](#), which sets out the Council's expectations to the registered providers of social housing operating within the County regarding the types of tenancy they should offer to their tenants.
36. Despite this very challenging financial period and the significant base budget pressures faced by the Council, the [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24](#) report includes some very positive outcomes for the people of County Durham including: -

- (a) continued support to protect the 54,700 working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme, where 80% of eligible households will continue to be awarded 100% relief against their Council Tax payments and where those left with a bill will receive up to £50 for pensioners and up to £110 for working age claimants of additional support next year,
- (b) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide,
- (c) significant investment in capital expenditure including investment in school provision, in our town centres and infrastructure, including new transport schemes and maintenance of our highways and pavements. In total, additional capital investment of £121.9 million is recommended in this report.

37. In May 2023, the Health and Wellbeing Board endorsed the Final Joint Local Health and Wellbeing Strategy 2023-2028 which is a legal requirement under the Health and Social Care Act 2012, to ensure health and social care agencies work together to agree services and initiatives which should be prioritised.

38. There are clear links between the Financial Management Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes.

39. In April 2022, Cabinet adopted the [Special Educational Needs and Disability \(SEND\) Strategy](#) for the period 2022-24. At the heart of our approach to the strategy, which was developed through extensive stakeholder engagement and public consultation, is a vision for children and young people with special educational needs and disabilities that is the same as for all children and young people in County Durham: that they are safe and part of their community, have the best start in life, have good physical and mental health, and gain the education, skills, and experiences to prepare them for adulthood.

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

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

Sustainable economic, social and environmental benefits

41. In [April 2022](#), Cabinet declared an ecological emergency for County Durham. Accordingly, actions to address the ecological emergency will be reflected in future MTFP planning cycles and other projects and programmes. In December 2022, the Cabinet considered a report which outlined an initial strategy and action plan for

Council activities in response to the declaration of an ecological emergency made in April 2022.

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

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

Determining interventions

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

Care Academy; the establishment of a care home provider panel with a range of provider representatives; and widened scope of provider forums to include system issues relevant to local markets.

Planning interventions

49. Following a change in administration in May 2021, a new Council Plan was considered by Cabinet in April 2022 and approved by Council in June 2022. A [refreshed version of the plan](#) covering the four-year period 2023 – 2027 was approved by Council in February 2023. The Council Plan is the primary corporate planning document for the county council and details the Council’s contribution towards achieving the objectives set out in the [Vision for County Durham 2035](#) together with its own objectives and change agenda. The Council Plan aligns to both the council’s Medium-Term Financial Plan and the County Durham Plan, which is a spatial representation of our ambitions contained within the Council Plan around housing, jobs and the environment until 2035, as well as the transport, schools and infrastructure to support it. The Council Plan is underpinned by a series of corporate strategies and service planning arrangements providing more detailed information on the actions being undertaken to deliver on our priorities and to avoid duplication.
50. The Head of Corporate Affairs delivered a presentation to Audit Committee on the council’s approach to planning, performance, major projects, and change. It was noted that, as a result of the Transformation Programme 2017 – 2022, the Council had delivered a successful change programme including:
- A workforce benefiting from modern technology and flexible ways of working plus improved employee engagement.
 - A model for partnership working based around a shared vision and County Durham Together Partnership.
 - redesigned our services to better meet customer’s needs at reduced cost to the Council.

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

51. The [Medium Term Financial Plan 2023/24 to 2026/27 \(MTFP13\)](#), which was approved by the Council in February 2023, provides a financial framework associated with the [Council Plan](#) that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes. It also enables the continued provision of value for money. Prior to being approved by Council, the MTFP13 underwent scrutiny and challenge by [Corporate Overview and Scrutiny Management Board](#). In addition, the [Adults Wellbeing and Health OSC](#) and [Children and Young Peoples OSC](#) established working groups to identify potential efficiencies and income generation initiatives as part of the process.
52. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT). The drivers for the council’s financial strategy, which were agreed by Cabinet on 28 June 2010 for MTFP1, and still underpin the strategy in MTFP13: -

- (a) set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;
- (b) fund agreed priorities, ensuring that service and financial planning are fully aligned with council plans;
- (c) deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum;
- (d) strengthen the council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes; and
- (e) ensure the council can continue to demonstrate value for money in the delivery of its priorities.

53. [Quarterly performance reports](#), which answer key performance questions rather than rely on performance indicators, have been aligned to the new [Council Plan](#) and [County Durham Vision 2035](#).
54. In November 2022, the Health and Wellbeing Board received a report on the [Better Care Fund Plan 2022-23 \(BCF\)](#). The BCF is one of the government's national initiatives for driving health and social care integration and requires Clinical Commissioning Groups and local government to agree a joint plan for using pooled budgets to support integration.
55. In [June 2022](#), Cabinet considered a report, which provided an overview of the guidance and bidding requirements to access Round 2 of the Levelling Up Fund and sought approval for the submission of five proposals across County Durham for the parliamentary constituencies of City of Durham, Easington, North Durham, North West Durham and Sedgfield.
56. In [July 2022](#), Cabinet considered a report, which provided an update on the approach and progress made so far in the development of an Investment Plan for the UK Shared Prosperity Fund, and sought approval for the submission of the UKSPF Investment Plan for Durham.

Optimising achievement of intended outcomes
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57. The Council has established a Shareholder Working Group comprising the Leader, Deputy Leader and relevant portfolio holders, the Chief Financial Officer and Monitoring Officer and Head of Finance to oversee performance and proposals in relation to the Council's companies. Shareholder decisions rest with Cabinet or the relevant Corporate Director in accordance with the Officer Scheme of Delegation within the Constitution. The Company Governance Group supports the work of the Shareholder Working Group with the oversight of the Council's companies' governance arrangements, including consideration of the strategic approach to, and structure of, its' companies and joint venture arrangements. The Group seeks to ensure that officers who work with, or who are appointed as, directors of Council companies understand their roles and responsibilities, identify and manage conflicts of interests, and provide resilience in the Council's resourcing of companies. Company governance training is included in the Council's Workforce Learning and Development Plan. Updates on the Group's work are periodically presented to the Corporate Management Team.

58. The following reports outline measures taken by the Council to optimise the achievement of outcomes included in the Council Plan: -

- (a) Climate Emergency Response Plan 2022-24 Update, [Health and Wellbeing Board, September 2022](#) (OUR ENVIRONMENT)
- (b) Finance Durham – the First Five Years, [Cabinet, November 2022](#) (OUR ECONOMY)
- (c) Humanitarian Support in County Durham, [Cabinet, October 2022](#) (OUR PEOPLE)
- (d) Local Council Tax Reduction Scheme 2023/24, [County Council, October 2022](#) (OUR ECONOMY)
- (e) Scope 3 Emissions, [Environment and Sustainable Communities Overview and Scrutiny Committee, May 2022](#) (OUR ENVIRONMENT)
- (f) Supporting Solutions Update, [Corporate Parenting Panel, September 2022](#) (OUR PEOPLE)
- (g) Unaccompanied Asylum-Seeking Children, [Corporate Parenting Panel, October 2022](#) (OUR PEOPLE)

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

Developing the Council's capacity

59. The Council's Digital Strategy seeks to enable flexible working through digital and mobile technology, make our workspaces more cost effective and productive, and support collaboration between teams across the organisation. Projects supporting these aims that have been completed during the last year include: -

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

60. The [Digital Strategy](#) sets out the Council's digital ambitions for the County. It provides a framework within which these ambitions can be delivered and aligns to the interlocking objectives of the revised Council Vision. The strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities. Projects supporting delivery of Digital Strategy outcomes that have been completed in the last year include: -

- (a) Digital Customer
 - i. Website improvements: Accessibility, digital channel shift / Customer Relationship Management
 - ii. Contact Centre: conversational AI (artificial intelligence), chatbots
 - iii. Digital Durham: Better broadband programmes
- (b) Digital Organisation
 - i. Hybrid Working: Technology support, remote access projects
 - ii. Service Desk: Incident management, self-service/self-help

- iii. Applications Review to establish direction for provision of major applications
- iv. Office 365: Expanded suite of productivity applications
- v. Hosting Review to set direction for provision of data centre, hosted and cloud services
- vi. Commercial Services Review to ensure services to external bodies are appropriate, profitable and sustainable
- vii. MTFP Financial review to set budgets and achieve efficiencies
- viii. Capital Schemes totalling over £4million to ensure that digital infrastructures remain fit for purpose
- ix. Cyber Security Framework to provide a blueprint and associated policies for the secure provision of ICT services.

(c) Digital Communities

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

61. The Community Assets Steering Group was re-established to develop a new policy and process to oversee new and existing asset transfers, which were previously managed under the Durham Ask programme.

62. Following a cyber self-assessment and analysis of our current position and market conditions, options for appropriate cyber insurance cover continue to be explored. Market conditions are currently unfavourable due to several recent global hacks and continued uncertainty following Russia's invasion of Ukraine. Local authorities are regarded as high-risk with only a limited number of companies willing to provide insurance on a case-by-case basis, subject to a detailed assessment of our risks and mitigations. Costs have increased significantly, cover is limited if available, and insurance brokers have advised to invest the money that was earmarked for premiums in to improving defences. During the year, resilience was enhanced through a review of our current programme, the development of the Council's corporate [Cyber Security Strategy](#) and framework in addition to the delivery of a mandatory programme of cyber-security training and awareness for relevant employees. To further reduce the risk of a cyber-attack, our remote access policy was changed recently to reduce the number of countries from which staff can connect to DCC systems, applications and electronic resources. We continue to monitor and respond to the changing cyber-security landscape and emerging threats.

63. In December 2022, the Council received a report of the Chief Executive regarding the decision of the Chief Officer Appointments Committee to create a new Head of Service role, [Head of Corporate Affairs](#), which would report directly to the Chief Executive. The postholder will lead on the council's management of corporate affairs and provide support to the Chief Executive and Corporate Management Team to deliver the strategic priorities of the council. This new post includes responsibility for corporate communications and media as well as corporate strategy, planning and performance.

64. The following reports set out measures taken by the Council to develop the capabilities of members and senior management to enable a successful response to change and risks: -

- (a) Counter Terrorism - Prevent Awareness Session, [Safer and Stronger Overview and Scrutiny Committee, April 2022](#)
- (b) Impact of the Education White Paper – Opportunity for all: Strong schools with great teachers, [Children and Young People's Overview and Scrutiny Committee, May 2022](#)

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

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

66. The Corporate Overview and Scrutiny Management Board, supported by its five committees, makes decision-making processes transparent, accountable and inclusive and seeks to improve services for people by being responsive to their needs. Where appropriate, members have scrutinised the decisions of the Council, demonstrated by a number of key reviews and consultation responses both within the Council and with key partners, which are outlined in the [Overview and Scrutiny Annual Report](#) and the [Overview and Scrutiny Six-Monthly Update](#). Examples include: -
- (a) The Inclusive Economic Strategy (E&E OSC¹)
 - (b) Ecological Emergency Review and Declaration (ESC OSC²)
 - (c) Leisure Transformation Programme (ESC OSC and E&E OSC)
 - (d) Climate Emergency Response Plan (CERP) (ESC OSC)
 - (e) Durham County Council Allotments Policy (ESC OSC)
 - (f) Library Transformation (ESC OSC)
 - (g) Developing a new Special Educational Needs and Disabilities Strategy (CYP OSC³)
 - (h) County Durham Children, Young People and Families Strategy (CYP OSC)
 - (i) Contextualised Safeguarding (CYP OSC and SSC OSC⁴)
 - (j) Safer Durham Partnership ASB Strategy (SSC OSC)
 - (k) County Durham and Darlington Fire and Rescue Service Community Risk Management Plan
 - (l) Pharmaceutical Needs Assessment (AWH OSC⁵)
 - (m) Access to Primary Care in County Durham (AWH OSC)
 - (n) Quality Accounts for County Durham and Darlington NHS Foundation Trust; North East Ambulance Service NHS Foundation Trust and Tees, Esk and Wear Valleys NHS Foundation Trust (AWH OSC)
 - (o) Oral Health Strategy (AWH OSC)
 - (p) Joint Health and Wellbeing Strategy (AWH OSC and CYP OSC).

¹ Economy and Enterprise Overview and Scrutiny Committee

² Environment and Sustainable Communities Overview and Scrutiny Committee

³ Children and Young People's Overview and Scrutiny Committee

⁴ Safer and Stronger Communities Overview and Scrutiny Committee

⁵ Adults, Wellbeing and Health Overview and Scrutiny Committee

67. A refresh of the Corporate Overview and Scrutiny Management Board [work programme 2022/23](#) was agreed in June 2022.
68. The Durham Learning and Development system hosts our new Performance and Development Review scheme, which was launched for leaders, managers and core employees in 2019. The Durham Leadership Way programme outlines the expectations of leaders and managers together with a development and support offer. The Durham Leadership and Management Development Programme includes several mandatory courses, including coaching as a management style and mental health awareness for managers. Other courses are linked to corporate priorities, management skills and personal development. During 2022/23, managers attended mandatory training throughout the year to develop their skills as part of the corporate learning programme. Senior leadership development programmes were relaunched for Corporate Management Team, Extended Management Team and strategic managers.
69. Employees' needs, in terms of training, development, health and wellbeing, are delivered through our Workforce Strategy and the Health, Safety and Wellbeing Strategy. Workforce Plans are being developed for all service areas to support current and future workforce challenges. In addition, the feedback and high-level results from the 2022 Working Well Survey will help inform key corporate actions and themes for the Council to address as well as service specific actions.
70. A revised Health, Safety and Wellbeing Strategy for 2022-2025 was introduced following consultation and agreement by Corporate Management Team in August 2022. The revised strategy now focuses on six key areas which are control, compliance, culture, cooperation, competence, and communication. A series of key milestones for each of the indicators has been attributed and will be implemented and monitored through the Corporate Health and Safety Group on a quarterly basis. The second employee working well survey was undertaken to collect information about the views of employees on workplace wellbeing issues. The Council also signed up to the workplace menopause pledge which supports the Menopause Workplace Pledge campaign. In doing so, the Council has committed to recognising that the menopause can be an issue in the workplace that needs support, talking openly, positively and respectfully about the menopause and actively supporting and informing employees affected.
71. The Council continues to support employees through the change process with, for example, confidential counselling services through the Employee Assistance Programme. A Wellbeing Portal has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.
72. The Council achieved the Maintaining Excellence Better Health at Work Award and surveyed staff to inform future health and wellbeing campaigns.
73. The Council's [Apprenticeship Strategy 2022 - 2025](#) was approved by Cabinet in April 2022. Apprenticeship recruitment continues to support and grow our own approach to meet future skills requirements.

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

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

Managing risk

78. Risk management continues to be embedded in decision making and key business processes and the [Risk Management Policy and Strategy](#), which defines key roles and responsibilities and is reviewed annually, underpins this. The Audit Committee has gained assurance that the Council's strategic risks are being effectively managed through reports issued in [September 2022](#), [November 2022](#) and [February 2023](#). In September 2022, the Council received a report from the [Report of the Audit Committee](#) on its work between September 2021 and August 2022, and how the Committee continues to provide for good governance across the Council.
79. The Council is jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and the Covid-19 pandemic) through the County Durham and Darlington Local Resilience Forum. The [strategic risk management progress report](#) to Audit Committee in February 2023 gave an account of work by the Council and its' partners to scale up preparedness for, and protection from, a potential terrorist attack and to ensure that the council will be able to meet the new requirements of Martyn's Law, which follows campaigning after the Manchester Arena terror attack in May 2017 and is expected to come into force in August 2023.
80. The Pension Fund Committee has gained assurance that pension fund risks are being effectively managed through a report issued in [June 2022](#).

81. The Council's insurance policy has been enhanced to provide additional cover for third party computer fraud and network security. The Corporate Insurance Team is working to ensure that the Tree Management Policy meets the requirements of the insurance policy. Insurance-related challenges include increasing costs of cover linked to inflation and projected property portfolio increases of 20%.
82. Several challenges and uncertainties lie ahead, and these are being monitored through the Council's strategic risk management reporting arrangements: -
- (a) The financial outlook for the council and the whole of local government remains extremely challenging.
 - (b) Capacity issues caused by nationwide labour shortages.
 - (c) Funding pressures in adult social care.
 - (d) The Council's role as a community leader, to help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).
 - (e) Potential disruption to the Council's and partners' urgent and emergency care services due to backlogs caused by Covid, increased demand and staff capacity issues.
 - (f) Inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.

Managing performance

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

88. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective. Internal audit progress updates were provided to Audit Committee in [May 2022](#), [September 2022](#), [November 2022](#) and [February 2023](#).

Robust internal control

89. The Internal Audit service has continued to face ongoing recruitment and retention challenges throughout 2022/23 year which impacted on the delivery of the overall plan. As such, the service regularly reviewed the content of the plan to ensure that the work carried out was prioritised on a risk basis and to ensure that all key financial systems and high-risk areas of activity are reviewed on an annual basis. The recruitment and retention challenges resulted in changes being made to the service structure taking place in January 2023.

90. Revised versions of the [Internal Audit Strategy, Charter and Plan 2022/23](#) were approved by Audit Committee in May 2022.

91. The Council's [Counter Fraud & Corruption Strategy](#) and companion documents, the Fraud Response Plan, Sanctions Policy, Confidential Reporting Code (Whistleblowing) and the [Anti-Money Laundering Policy](#) have all been reviewed and presented to Audit Committee in 2021/2022. A comprehensive communications and awareness plan to help launch these is planned throughout 2023.

92. The Corporate Fraud Team received Cabinet Office approval to progress a Northeast Fraud Hub Pilot with Gateshead and Newcastle Councils. The Hub uses Part 5 of the Digital Economy Act to share data and fraud intelligence to increase our capability to uncover potential and actual fraud across the region. The Cabinet Office have acknowledged that it would be beneficial for as many local authorities to be part of the Hub and have suggested that if the pilot is successful then the concept could be used nationally as a model of best practice.

Managing data

93. The designated Senior Information Risk Officer is the Corporate Director of Resources, and the designated Data Protection Officer is the Strategic Manager, Executive Support. Information governance and data management continues to be maintained through the Data Protection Policy, the Data Quality Policy, records management guidance for staff, registers of data assets, and various data sharing protocols. Developments planned for 2023/24 will be overseen by an Information Governance Group and include a new improvement programme linked to the council's use of data, reviews of performance and resource requirements, and a series of business process reviews.
94. A mandatory data protection e-learning training module was issued in 2021/22 for completion by all relevant employees. A mandatory freedom of information awareness e-learning training module is available for completion by all relevant employees.

Strong public financial management

95. The Council has appointed the Corporate Director Resources as Chief Financial Officer and Section 151 Officer (Local Government Act 1972) to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the Corporate Management Team (CMT) and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications.
96. The Government's responses to the recommendations made in the [Redmond review](#) into the oversight of local audit and the transparency of local authority financial reporting are reported regularly to Members of the Audit Committee.
97. The following reports provide assurance that the Council's financial management supports both long-term achievement of outcomes and short-term financial and operational performance: -
- (a) [Update on Progress towards achieving MTFP \(12\) savings](#)
 - (b) [Mid-Year Review Report on Treasury Management for the period to 30 September 2022](#)
 - (c) [Forecast of Revenue and Capital Outturn 2022/23](#)
 - (d) [Forecast of Revenue and Capital Outturn 2022/23 – Period to 31 December 2022 and Update on Progress towards achieving MTFP \(12\) savings](#)
 - (e) [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue Budget 2023/24](#)
 - (f) [Medium Term Financial Plan 2023/24 to 2026/27 and Revenue and Capital Budget 2023/24](#)
98. Following the Government's publication in May 2022 of [statutory guidance](#) in relation to special severance payments, the Council's decision-making process for authorising such payments was reviewed and updated to ensure that the Council complies with the statutory guidance. The changes will be reflected in the annual review of the Constitution being considered by the Council in May 2023.

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

<p>Implementing good practice in transparency</p>
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99. The Council is committed to being open and transparent about how it works and how decisions are made. In line with the Local Government Transparency Code, information is published on a [transparency and accountability web page](#) about how money is spent, how services are purchased, land and assets owned, structures and salaries, and fraud. As required by law, the sum paid to each county councillor is also published. The Council has also been publishing open datasets through the Data Mill North website.
100. Reports about complaints against members are included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information). The Committee receives a quarterly report on national issues relating to ethical governance relevant to the work of the Committee and considers whether to make recommendations in response so that the Council maintains best practice and learns lessons from experiences elsewhere.

<p>Implementing good practices in reporting</p>
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101. The Council's commitment to regular reporting to stakeholders on performance, value for money and stewardship of resources is evidenced throughout this statement. Other examples of reports to relevant committees include: -
- (a) [Annual Performance Update](#) (Health and Wellbeing Board, July 2022)
 - (b) [Annual Report of Durham County Council's Fostering Service](#) (Corporate Parenting Panel, September 2022)
 - (c) [Annual Report on the Adoption Service 2021/2022](#) (Corporate Parenting Panel, December 2022)
 - (d) [Annual Summary Report of the Children Looked After Strategic Partnership](#) (Corporate Parenting Panel, December 2022)
 - (e) [Corporate Parenting Panel Annual Report 2021-22](#) (County Council, September 2022)
 - (f) [County Durham Plan Annual Monitoring Report 2021/22](#) (Cabinet, December 2022)
 - (g) [Director of Public Health Annual Report 2022](#) (County Council, December 2022)
 - (h) [Domestic Abuse and Sexual Violence Executive Group Annual Report 2021/22](#) (Safer and Stronger Communities Overview and Scrutiny Committee, November 2022)
 - (i) [Durham Safeguarding Adults Partnership Annual Report 2021/22](#) (Health and Wellbeing Board, January 2023)
 - (j) [Durham Safeguarding Children Partnership Annual Report 2020/21](#) (Health and Wellbeing Board, January 2023)
 - (k) [Health and Wellbeing Board Annual Report 2021/22](#) (Cabinet, October 2022)
 - (l) [Health Protection Assurance Annual Report](#) (Cabinet, May 2022)
 - (m) [Virtual School Annual Report Summary](#) (Corporate Parenting Panel, January 2023)
102. The [Local Code of Corporate Governance](#) is reviewed annually before being considered for approval by the Audit Committee and County Council.

103. The [Statement of Accounts for the year ended 31 March 2022](#), incorporating the [Annual Governance Statement for 2021/22](#), was approved by the Audit Committee in November 2022, taking account of the views of the External Auditor, in line with the Accounts and Audit Regulations 2015. External Audit also provides an independent opinion on whether the Annual Governance Statement is materially accurate.
104. In February 2023, the External Auditor presented Audit Committee with the [Audit Planning Update and Progress Report](#), which covered the 2020/21, 2021/22 and 2022/23 audits. The report notes that the Council's 2021/22 opinion was successfully delivered by the publishing date despite uncertainties concerning the valuation of infrastructure assets, and significant ongoing challenges of recruiting and retaining sufficient staff with the requisite knowledge, skills and experience to both prepare and audit the accounts to the required standard.
105. The Council endeavours to publish financial statements in a timely manner and in accordance with financial reporting standards. Examples include: -
- (a) [Compliance with CIPFA Financial Management Code](#)
 - (b) [Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2022](#)
 - (c) [Audit Completion Report 2021/220/21 - Pension Fund](#)
 - (d) [Treasury Management Final Outturn 2021/22](#)
 - (e) [Final Outturn for the General Fund and Collection Fund 2021/22](#)
 - (f) [Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23](#)
 - (g) [Agreement of Accounting Policies for Application in the 2022/23 Financial Statements](#)
 - (h) [Budget 2023/24 – Report under Section 25 of Local Government Act 2003](#)
106. In February 2023, Audit Committee was provided with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (item f, above). The report highlighted a mid-year update to the Code, due to exceptional circumstances, by the CIPFA/LASAAC Code Board, which is overseen by the Financial Reporting Advisory Board. The amendment relaxed the reporting requirements for infrastructure assets temporarily, until the 2024/25 financial year. The Council has chosen to apply this relief and, as required by the Code, will provide the rationale for this decision in the Statement of Accounts.
107. Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme governed by regulations made under the Public Service Pensions Act 2013 and administered by Durham County Council. The Pension Fund Annual Report and Accounts for the year ended 31 March 2021, which contains the Pension Fund audited statement of accounts, was authorised by the responsible financial officer on 30 September 2021 and published on the council's website on 28 October 2021. The [Pension Fund Accounts for the year ended 31 March 2022](#) were received by the Pension Fund Committee in December 2022. The Pension Fund's [Annual Report](#) includes a Governance Compliance Statement which sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State and the provisions of regulation 55 of the Local Government Pension Scheme Regulations 2013.

Assurance and effective accountability

108. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in July 2023. This review concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor and Corporate Fraud Manager to be relied upon.
109. In May 2019, Audit Committee approved revised [Terms of Reference](#) incorporating the Chartered Institute of Public Finance and Accountancy's model Terms of Reference defined in the Practical Guidance for Local Authorities 2018. The Committee also completed a core knowledge and [self-assessment](#) against the good practice for Audit Committees in Local Authorities guidance, and no significant gaps were identified.
110. An external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and the CIPFA* Local Government Application Note during 2021/22 was carried out by CIPFA. The opinion delivered concluded that the Internal Audit Service fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Some improvement opportunities have been identified and an action plan has been developed to address these.
- * Chartered Institute of Public and Finance and Accountancy.
111. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services: -
- (a) The [Audit Completion Report 2021/22 - Durham County Council](#) summarises the external auditor's conclusions for the year ended 31 March 2022.
 - (b) External Audit Progress reports in [September 2022](#) and [February 2023](#).
 - (c) The [Audit Completion Report 2021/22 - Pension Fund](#) summarises the external auditor's conclusions for the year ended 31 March 2022.
112. Regulatory inspections
- (a) Each Children's home is inspected by the regulator, Ofsted - [Regulation 44 Visits and Regulatory Body Ratings of Children's Residential Homes](#).
 - (b) [Inspecting Local Authority Children's Services Update](#).
 - (c) [The Approach to Wellbeing Recommendations arising from the final evaluation](#).

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

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

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
1	Brought forward Implement the actions identified in the Children's Social Care Services improvement plan agreed with Ofsted.	The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).	Head of Children's Social Care	March 2023

Update:

The action is complete.

We have clarified the response required and reported this to Ofsted as part of our Action Plan. All actions identified in the improvement plan have been completed or incorporated into the new Improvement Plan being developed by Children and Young Peoples Services in response to the most recent ILACS Inspection in May 2022, when the Council was judged to be 'good' for overall effectiveness with 'outstanding' leadership.

The actions are being progressed by CYPS and Commissioning Teams with regular updates on progress, which show improvements have been and continue to be made.

2	Brought forward Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a sustainable and high-quality care market.	D3.1 Optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning	March 2023
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Update:

This action has been carried forward to 2023/24 with a revised timescale of March 2025.

The Government announced a far-reaching reform of social care funding in Spring 2022. Following the update provided on this action in May 2022, full details were received by local authorities (LAs). The reforms set out changes to the way individuals pay for care, i.e., the 'care cap', and linked initiatives to move towards a Fair Cost of Care (FCOC) for

older persons care homes. LAs were required to carry out cost exercises with their local markets using set national parameters and provide both these and a detailed Market Sustainability Plan (MSP) to the Department of Health & Social Care (DHSC). However, the 2022 Autumn Statement both delayed the charging reforms to late 2025 and reprofiled national funding allocated to LAs for those markets in scope for FCOC and wider adult and children's social care services. DCC completed and submitted FCOC market exercises in Autumn 2022 and a comprehensive MSP in March 2023, as required by DHSC. In terms of sustainability issues, these national requirements effectively cover the same areas of the planned review we had already anticipated carrying out; therefore, a decision was made to avoid duplication and concentrate fully on the FCOC exercise and MSP. These are now complete. Integrated Commissioning have also completed modelling on care home activity and housing stock as part of the above work.

Commissioners have also recently successfully negotiated a two-year fee uplift agreement with local older persons care homes, following an extended period where contracts had not been signed. As part of this agreement, it has been agreed with the market that the Council will build on the successful FCOC and MSP work locally to take forward further market shaping during 2023-24 and 2024-25.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
3	Brought forward Deliver the actions set out within the Looked After Children Placement Sufficiency Strategy to ensure best outcomes and cost-effective placement costs to address escalating budget pressures within Children's Social Care.	Developing the Council's capacity: improve the use of resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)	Head of Children's Social Care and Head of Integrated Commissioning	March 2023

Update:

The action plan is substantially complete and four remaining actions of the original 26 have been incorporated into a new strategy.

The Looked After Children Placement Sufficiency Strategy action plan has been superseded by the new [Sufficiency and Commissioning Strategy for Looked After Children and Care Leavers 2022-2024](#), which was approved by Cabinet in January 2023.

The original plan contained 26 actions over a three-year period (2020-2023), each aligned to one of four objectives relating to in-house foster carers (9), adopters (2), residential homes (11) and care leavers (4). As of 31 March 2023, 18 actions were complete, six were incorporated into the new strategy, and two have been removed as they are no longer considered fit for purpose. The new strategy includes two new objectives, Unaccompanied Asylum-Seeking Children and Short breaks.

During 2022/23, the **Fostering Service** recruited 11 new foster carer households, against a target of 35. When taking into account the number of foster carer de-registrations (30) there has been a loss of 19 foster carer households during the year, in comparison with 29 households (net) recruited during 2021/22. The reduction in the number of foster carers

recruited is due to a number of aspects, including operating in a highly competitive market with Independent Fostering Agencies, the cost-of-living crisis and the loss of a Marketing Officer that worked within the Fostering Team who directly managed advertising campaigns and provided additional capacity. The marketing and recruitment campaign continues to focus on sibling groups, children with a disability, teenagers and unaccompanied asylum-seeking children. Work is ongoing to develop a new website which provides a 'one-stop-shop' for prospective foster carers and it is anticipated that this will be live later in the year. The Mockingbird Model has launched its first set of hub carers during the year, which has enhanced support to foster carers and improved the stability of children's foster homes. A second hub is due to be rolled out over the next 3 months. The Payment for Skills Review has been concluded, which seeks to improve our sufficiency of foster carers through the review of payments and incentives to carers. This will be launched in April 2023. Durham continues to work regionally as part of Tyne Tees Independent Fostering Agency Solution, with the contract opened on a monthly basis, to enable new IFAs to join.

The **Adopt** Coast to Coast Regional Adoption Agency (RAA) continues to operate across the Durham, Sunderland and Cumbria area, however from April 2023 Cumbria will move away from the arrangement. The practice around early linking and matching continues to be monitored to ensure children do not wait longer than necessary. There is evidence that Link Maker is enabling matches across the spokes. The number of prospective adoptive households approved by the Durham spoke remains good. Adoption approvals in 2022/23 are 38 in comparison with 40 in 2021/22.

During 2022/23 we have continued to make good progress in the development of new smaller children's **residential homes**. A home for one child / young person has been established (Hudson House - Coxhoe) which is currently going through a registration process with Ofsted. We are in the process of opening another children's home which will accommodate up to two children / young people (Elderhurst – Meadowfield). This home has been subject to an extensive refurbishment programme which has now been completed and is due to open over the next two months. We continue to progress with the development of an Edge of Care home in Seaham. The purchase price has been agreed and the fire service have agreed the sale of the building. Following a change of planning use, it is anticipated that the new home will open later in 2023. DfE funding of £256,020 has also been secured to support the development costs of this new home. A number of different properties had been previously identified for the re-provided home (Tow Law), but unfortunately offers had to be withdrawn due to complications encountered i.e. issues identified in the survey, challenge from members or the police. A property has since been identified which we will purchase over the coming weeks. This property will provide a home for up to two children / young people (Lincoln House – Castleside), which we aim to open later in the financial year. We are working in partnership with the registered social landlord, Livin Homes, to develop a short-term / emergency home for one young person. A property has been identified and a lease is being developed. It is anticipated that the home will open later in 2023. Recommendations from the Children's Home LEAN Review (which considered the end-to-end process of setting up homes) were approved at CMT and Cabinet. This resulted in the delegated limit for children's home property purchases being increased to £500K, enabling the Council to purchase properties without a change of planning use in place (subject to due diligence) and sets out a clear process for developing children's homes with all supporting teams/services clear about the importance of the new homes and the need to prioritise this area of work (where possible).

The Staying Close Pilot Programme was rolled out during 2022/23 using funding secured from the DfE and to date has supported four young people. The Staying Close Programme focuses on our young people in children's home provision, providing ongoing, consistent,

familiar support from their residential staff, when they leave their children’s home as care leavers. The programme aims to deliver a series of improved outcomes for young people, including, accommodation stability, reduction in eviction, improved emotional wellbeing and mental health. Young people who will be supported through year 2 are being considered.

In relation to **care leavers**, the Supported Living Preferred Provider Panel has been recommissioned for a further 12 months, until September 2023, when we will then consider the new regulatory framework for supported accommodation providers prior to recommissioning. We will work closely with providers to prepare them and to understand any emerging gaps within the provider marketplace. We meet frequently with supported accommodation providers as part of a provider engagement forum. One action, *review the marketing and recruitment strategy for supported lodging provision*, has been re-profiled to June 2023. Additional capacity is now in place to drive this work forward.

4	Change our social care model and ensure that people have access to robust advice and information to enable them to live healthy and independent lives in their community and to prevent delaying the need for formal service provision (Our People)	Engaging with individual citizens and service users effectively: effective communication methods to collect and evaluate the views, experiences and future needs (4.23)	Head of Adult Care	2022
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Update:

This action is complete.

Our ‘front of house’ service remains highly effective at sign-posting and re-directing people to available support in their community. 35% of all calls are resolved without the need for a formal referral for full assessment.

Following completion of baseline review, a project is now being developed to take forward the recommendations to consolidate our Locate and FIS directories and review the supporting governance to ensure we have vibrant and community focused assets.

Our locality social work teams have strengthened links with the Wellbeing for Life service and Health Facilitators work as part of a network of Community Connectors to advise and signpost people to use the assets available in their local communities.

Integrated Commissioning Service have also developed an Integrated Involvement Strategy which includes our shared vision for integration, involvement, and co-production. Working with the North East regional ADASS People with Lived Experience Group, we are developing more effective methods of engaging with users of our services and our citizens to ensure that their experiences shape our service improvement work.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
5	Review of the Council's community engagement functions, including the work of area action partnerships (Our Communities)	Engaging with institutional stakeholders: engage & develop formal/informal partnerships to ensure that the purpose, objectives & intended relationship outcomes are clear (4.21)	Head of Partnerships and Community Engagement	2023

Update:**The action is complete.**

Independent consultants ERS have completed a review of the Council's community engagement functions including engagement and consultation with staff, elected members and key partners. The final report, including findings and recommendations, was reported to Community Engagement Review Steering Group on 10th January 2023.

A consultation period will now take place, followed by a report to Cabinet in June 2023 to propose a way forward, including any potential changes to the organisational structure and service delivery model.

6	Implement a new performance management framework for Adult and Health Services, to enable more timely analysis of data, improved business intelligence and real time presentation of data (Our Council)	Managing performance: service delivery is effectively monitored (4.52)	Head of Adult Care	2022
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Update:**This action is complete.**

The new Adult and Health Services performance management framework has been in place since Spring 2022. This involves bi-monthly cycles of performance clinics with operational teams and strategic managers, Head of Adult and Social Care, the Corporate Director of Adult and Health Services and Corporate Management Team. Throughout these cycles, performance is discussed within the context of demand, complexity and other pressures and significant issues are escalated for oversight, assurance and support. The rollout is complete and will be reviewed and refreshed regularly as the Care Quality Commission inspection framework emerges and wider health and social care integration takes place.

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer	Timescale
7	Undertake a corporate peer challenge with the Local Government Association to help us identify strengths and areas for improvement within the council (Our Council)	Assurance and effective accountability: welcome peer challenge, reviews & inspections from regulatory bodies and ensure that recommendations are implemented (4.67)	Head of Corporate Affairs	December, 2023

Update:**This action is postponed.**

A corporate peer challenge working group had been established and some work undertaken to prepare for a Peer Review, with meetings having been held with the lead officer from the Local Government Association. The corporate peer challenge was scheduled to take place in February 2023 but has now been postponed due to the work underway to plan for savings should the Councils current MTFP projections prove correct, given the uncertainty surrounding local government funding and the implications for the Council. It is intended to defer undertaking the peer challenge at this stage and discussions are underway to find a mutually convenient time for the Council and the LGA to undertake the review.

APPENDIX C: Proposed Governance Improvements required during 2023/24

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

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer & Timescale
1	Brought forward Review the approach to residential and nursing care, taking into account market reshaping required as a result of capacity in the market, the Covid-19 pandemic and changing preferences in terms of care, with the aim of ensuring a sustainable and high-quality care market.	Optimising achievement of intended outcomes: optimise the achievement of outcomes (4.34)	Head of Integrated Commissioning March 2025
2	Develop a new corporate cyber recovery plan for key digital services with prioritised recovery targets and business continuity plans to further strengthen the Council's resilience to a successful cyber-attack.	Developing the Council's capacity: ensures the continuing effectiveness of its operations, performance, and use of assets (4.37)	Head of Digital Services March 2024
3	Implement our Poverty Strategy and Action Plan to help protect residents most at risk of poverty and exclusion, increase equality of opportunity and ensure fewer people are affected by poverty and deprivation (Our Economy).	Sustainable economic, social, and environmental benefits: ensure fair treatment and fair access to services and opportunities (4.29)	Head of Transactional and Customer Services March 2026
4	Deliver Actions from the Growing up in County Durham Strategy 2023-25, including working with the strengths and opportunities in local communities to develop a network of family hubs which can support the delivery of a range of local community support and services to children, young people and families (Our People).	Planning interventions: arrangements for planning the interventions for the achievement of intended outcomes (4.33)	Corporate Director Children and Young Peoples Services March 2025
5	Through the Health, Safety and Wellbeing (HSW) Strategy, deliver the HSW programme to support the development of a positive culture and to ensure that our employees and those who may be affected by what we do, go home safe and well every day.	Developing the capability of the Council's leadership and others: maintain effective arrangements to	Head of Corporate Property and Land March 2024

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer & Timescale
		meet employees' needs of training, development, health, and wellbeing (4.46)	
6	Develop a digital skills programme and invest in smarter working (Our Council).	Developing the Council's capacity: improve the management of resources to ensure that they are allocated and utilised in a way that realises outcomes effectively and efficiently (4.38)	Head of Digital Services / Head of Human Resources & Employee Services March 2024
7	Develop & implement the Workforce Development Offer and programmes for 2023/24, including utilising opportunities to upskill the workforce.	Developing the Council's capacity: maintain an effective workforce plan, through the Workforce Strategy, to enhance the strategic allocation of resources (4.39)	Head of Human Resources & Employee Services March 2024
8	Increase self-service of management and performance data by developing a range of business intelligence products (Our Council).	Developing the Council's capacity: improve the management of resources to ensure that they are allocated and utilised in a way that realises outcomes effectively and efficiently (4.38)	Head of Corporate Affairs March 2024
9	Implement the Council's response to the Community Engagement and Funding processes review (Our Council).	Engaging with institutional stakeholders: engage & develop formal/informal partnerships to	Head of Partnerships and Community Engagement March 2024

No.	Actions to be taken	Links to the Local Code of Corporate Governance (ref)	Lead Officer & Timescale
		ensure that the purpose, objectives & intended relationship outcomes are clear (4.21)	
10	Further strengthen the alignment of the processes for service planning, financial planning, performance management and service development to deliver increased value for money.	Planning interventions: arrangements for planning the interventions for the achievement of its intended outcomes (4.33)	Head of Corporate Affairs March 2024
11	Review and refresh the DCC Workforce Strategy	Developing the Council's capacity: maintain an effective workforce plan, through the Workforce Strategy, to enhance the strategic allocation of resources (4.39)	Head of Human Resources & Employee Services March 2024

Glossary of Terms used in the Accounts

Academy School

Academy Schools are directly funded by Government and are independent of the council's control.

Accounting Period

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the Balance Sheet date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting Standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains or Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated). A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

Agency Services

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work. Also known as 'Third Party Payments'.

Annual Governance Statement

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the council.

Amortisation

Amortisation is the equivalent of depreciation, for intangible assets.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Assets

An item having a monetary value to the council, e.g. property, investments or cash.

Assets Held for Sale

Long term assets that are surplus to the council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

Assets under Construction

Capital expenditure on assets, where the work is incomplete.

Associate

An associate is an organisation over which the council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

Audit of Accounts

An independent examination of the council's financial affairs.

Authorised Limit

This is the maximum limit of external borrowings or other long term liabilities.

Balance Sheet

This is a financial statement that shows the financial position of the council at a point in time, the Balance Sheet date, which for the council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

Bid Price

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

Billing Authority

Durham County Council is the billing authority responsible for the collection of council tax and non-domestic rates. The council tax includes amounts for precepting authorities.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

Borrowing

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the council.

Budget

The council's plans and policies for the period concerned, expressed in financial terms.

Building Schools for the Future (BSF)

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

Business Improvement District (BID)

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

Capital Adjustment Account (CAA)

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charge

Charges made to local authority services to reflect the 'cost' of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

Capital Expenditure

Expenditure on the acquisition or construction of non-current assets that have a value to the council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

Capital Financing Costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement (CFR)

This sum represents the council's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the council. This figure is then used in the calculation of the council's minimum revenue provision.

Capital Grants Unapplied

Grants that have been recognised as income in the Comprehensive Income and Expenditure Statement (CIES) but where expenditure has not yet been incurred.

Capital Receipts

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

Carrying Amount

The Balance Sheet value recorded of either an asset or a liability.

CYPS

Children and Young People's Services

Cash Flow Statement

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Collection Fund

An account kept by the council into which council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

Community Assets

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of e.g. parks, historic buildings.

Componentisation

The process by which assets are analysed into various components that have significantly different estimated lives.

Comprehensive Income and Expenditure Statement (CIES)

This statement reports the net cost of services for which the council is responsible and demonstrates how that cost has been financed.

Constitution

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

Contingency

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Asset

Potential benefits that the council may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the council may incur in the future due to something that has happened in the past.

Corporate Governance

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Council Tax Requirement

This is the estimated revenue expenditure on General Fund services that needed to be financed from the council tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

Creditors

Persons or bodies to whom sums are owed by the council.

Current Service Cost

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

Current Value

The current value of an asset reflects the economic environment prevailing for the service or function the asset is supporting at the reporting date.

Curtailment

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Debtors

Persons or bodies who owe sums to the council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Defined Contribution Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current year and prior periods.

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

DLUHC

Department for Levelling Up, Housing and Communities – the government department that directs local authorities in England. Formerly Ministry of Housing, Communities and Local Government (MHCLG or CLG).

Depreciation

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age, and obsolescence.

Derecognition

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

Direct Revenue Financing (DRF)

The cost of capital projects that is financed directly from the annual revenue budget.

Earmarked Reserves

The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings.

Exceptional Items

Material items deriving from events or transactions that fall within the ordinary activities of the council, but which need to be separately disclosed by virtue of their size and/or incidence to give a fair presentation of the accounts.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Finance Lease

A lease that transfers substantially all of the risks, and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

Financial Instrument

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

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Financial Instruments Revaluation Reserve

This reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

Financial Regulations

These are the written code of procedures approved by the council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Foundation Schools

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

Funding Strategy Statement

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

Futures

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

GAAP

Generally Accepted Accounting Practice.

General Fund

This is the main revenue fund of the council and includes the net cost of all services financed by local taxpayers and Government grants.

Going Concern

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

Government Grants

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the council.

Group Accounts

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

Heritage Assets

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

Historical Cost

The original purchase cost of an asset.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

IAS

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ICT

Information and Communications Technology

IFRIC

Interpretations originating from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code).

Income

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in reserves or net worth.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Infrastructure Assets

A non-current asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

Intangible Assets

Intangible assets do not have physical substance but are identifiable and controlled by the council through custody or legal rights, for example software licences.

Intangible Heritage Asset

An intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

Inventory

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

Large Scale Voluntary Transfer (LSVT)

A Large Scale Voluntary Transfer involves the council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

Leasing

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee and falls within the capital system.

Levy

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

Long-Term Investments

Investments intended to be held for use on a continuing basis in the activities of the council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Market Value

The monetary value of an asset as determined by current market conditions.

Mid-Market Price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minimum Revenue Provision (MRP)

The minimum amount that the council must charge to the income and expenditure account to provide for the repayment of debt. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Movement in Reserves Statement

This statement is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It shows the movement in reserves held by the council analysed into 'usable' reserves and 'unusable' reserves.

MTFP

Medium Term Financial Plan.

Myners' Principles

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

National Non-Domestic Rates (NNDR)

The means by which local businesses contribute to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

Net Book Value

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

Net Cost of Service

The actual cost of a service to the council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

Net Debt

Net debt is the council's borrowings less cash and liquid resources.

Net Expenditure

The actual cost of a service to the council after taking account of all income charged for services provided.

Net Realisable Value

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non-Current Assets

Tangible or intangible assets that yield benefits to the council and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the council through custody or legal rights, for example software licences.

Non Distributed Costs

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

Non-Operational Assets

Non-operational assets are those held by the council but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the council. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

Operating Lease

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

Operational Assets

Property, plant and equipment held and occupied, used or consumed by the council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Operational Boundary

This is the expected level of debt and other long term liabilities during the year.

Outturn

Actual expenditure within a particular year.

Past Service Cost

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Precept

An amount charged by another Authority to the council's Collection Fund. There are two major preceptors in Durham County Council's Collection Fund: Durham Police and Crime Commissioner and County Durham and Darlington Fire and Rescue Service.

Prior Period Adjustment (PPA)

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)

A government initiative that enables local authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Property, Plant and Equipment (PPE)

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

Related Party

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Remuneration

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reporting Standards

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

Reserves

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the non-current assets held by the council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Revenue

Income arising as a result of the council's normal operating activities.

Revenue Contributions

See 'Direct Revenue Financing'

Revenue Expenditure and Income

Expenditure and income arising from the day-to-day operation of the council's services, such as salaries, wages, utility costs, repairs, and maintenance.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a non-current asset. This expenditure is charged to the relevant Service revenue account in the year. Examples of this are grants and financial assistance to others, expenditure on assets not owned by the council and amounts directed by the Government.

Revenue Support Grant (RSG)

A Government grant that can be used to finance expenditure on any service.

RICS

Royal Institution of Chartered Surveyors.

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the council and the preparation of the council's Statement of Accounts.

Service Reporting Code of Practice (SeRCOP)

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

Service Recipient

A party that has contracted with the council to obtain goods or services that are an output of the council's normal operating activities in exchange for consideration.

Specific Grant

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

Statement of Investment Principles (SIP)

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Subsidiary

An entity is a subsidiary of a reporting entity if the council is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Properties

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

Tangible Heritage Asset

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Third Party Payments

See 'Agency Services'.

Transfer Agreement – Housing Stock Transfer

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and Believe Housing. It also contains all the necessary arrangements to enable Believe Housing to receive and manage the properties and the council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

Transfer Payments

The cost of payments to individuals for which no goods or services are received in return by the council, for example Adult Social Care direct payments or Housing Benefit payments.

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Trust Funds

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

Unit Trusts

A pooled fund in which small investors can buy and sell units. The pooled fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Unsupported (Prudential) Borrowing

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

Unusable Reserves

Unusable reserves are reserves that the council is not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Capital Receipts Reserve

Represents the resources held by the council from the sale of non-current assets that are yet to be spent on other capital projects.

Usable Reserves

Usable reserves are reserves that the council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include earmarked reserves and the general reserve.

Useful Life

The period in which an asset is expected to be useful to the council.

Variance

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

Work-in-Progress

The value of rechargeable work that had not been recharged at the end of the financial year.