Audit Committee

29 February 2024

CIPFA Finance Review

Report of Paul Darby, Corporate Director of Resources

Councillor Richard Bell, Deputy Leader and Portfolio Holder for Finance

Electoral division(s) affected:

Countywide

Purpose of the Report

1 To present members of the Audit Committee with update on the outcome of the CIPFA Finance Review, carried out during September and October 2023.

Executive summary

2 In August 2023 the council decided that CIPFA should be commissioned to carry out an independent Finance Review as part of the emerging Office of Local Government (OFLOG) requirement for local authorities to fulfil their Best Value Duty.

3 The review included the provision of reports and strategies followed by interviews and on-line surveys of a range of key staff and members. The output from this work has enabled CIPFA to assess the council against their CIPFA Financial Management Code.

4 CIPFA have assessed the council as a strong 3* star against a maximum score of 4*. The final score is 3.25 out of 4 with at least 3 scored in 11 of the 12 scoring criteria and a score of 4 in the other. A small number of actions have been identified by CIPFA to seek to bring the councils rating up to a 4*.

5 Three of the actions are identified as high priority, with one of these actions relating to the need for the council to identify sufficient savings options to balance the MTFP over the four year period to ensure clear plans are in the place. The council's view is that CIPFA have not sufficiently taken into account the fact that there has been a succession of single year and late settlements in recent years nor the national and

local political landscape, which hinders medium terms financial planning at this time.

6 CIPFA have advised the council to consider the size and scope of its capital programme in light of its financial forecasts. This is something that is addressed within the MTFP(14) report considered by Cabinet on 14 February 2024 and County Council on 28 February 2024, alongside the revised Capital Strategy, which makes a more overt and clearer link between capital investments to the Council Plan priorities and desired outcomes.

7 CIPFA identified that our people are our key strength. At a senior level it was recognised that there is strong financial governance and grip within the council with many areas of the finance function identified as being best practice such as our Business Partnering model and our strategy of staff transfer within the finance function to help with career development and business continuity.

8 There are some subjective judgements / comments made in the covering report with regards to this financial grip potentially stifling innovation, but having discussed this at Corporate Management Team and within the Extended Management Team this is not seen as a particular barrier to innovation, with many examples of the corporate finance function enabling services to deliver transformation and invest to save and self-financing schemes.

9 Progress will continue over the coming twelve months on the eight actions identified by CIPFA to seek to move the Finance function towards a 4* rating.

Recommendation

10 It is recommended that Audit Committee;

(a) Note the outcome of the CIPFA Finance Review (copy of their report is attached); and

(b) Note the Action Plan actions, and progress already made against the identified actions as set out in the report.

Background

11 New statutory guidance has been consulted on by the Department for Levelling Up, Housing and Communities (DLUHC). The focus is on expectations of how to fulfill the councils Best Value Duty - what constitutes best value, the standards expected by the Department, and the models of intervention at the Secretary of State's disposal in the event of failure to adhere to these standards.

12 Of the seven best value themes outlined by DHLUC, 'Use of Resources' refers specifically to an effective internal control environment to safeguard resources and ensure value for money. A well functioning authority must have proper financial management, reporting, and regulation arrangements in line with CIPFA's Financial Management Code and have consideration of CIPFA’s Financial Resilience Index.

13 The guidance clearly identifies that a local authority is expected to undergo a corporate or finance peer challenge at least once every five years. Although the council has self assessed itself against the CIPFA Financial Management Code for the past three years and undergone a peer review by South Tyneside Council, the Corporate Director of Resources in consultation with the Corporate Management Team agreed in August 2023 that the council would undergo an independent CIPFA Finance Review.

Purpose of the Review

14 The review assessed how the council scored against the CIPFA Financial Management model, which is based on a range of best practice statements, concluding in a report which scores the council against the CIPFA '4 star' rating. The review provided an independent assessment of where the council currently sits against this best practice model.

15 The review included an assessment of the finance team structure, activities, roles and how it delivers the finance function within the council. The outcomes of the review will aid the finance leadership team in developing an improvement plan to ensure it is both fit for purpose and can respond to future challenges.

16 The output from the review was to be a report and road map. The review would focus also upon Finance within the wider organization. i.e., not just the Finance function.

Review Process

17 The CIPFA Financial Management Model is a diagnostic toolkit specifically designed for use with public body organisations where they undertake a complete assessment of an authority's financial management arrangements. It comprises of thirty statements of good practice covering the full spectrum of Financial Management.

18 Prior to the review beginning CIPFA provided the council with a comprehensive list of documents and reports they needed, to enable them to remotely assess the council's financial governance framework and the quality of finance reporting. The council supplied all of the documentation requested and also provided a suite of additional documents to give the review team additional background information.

19 The core element of the review consisted of a series of one-to-one interviews with key staff, elected members, and stakeholders – all identified by CIPFA. In total, twenty-five colleagues were interviewed. In addition, sixty-seven colleagues were asked to complete a comprehensive on-line survey.

20 The output from the review of documentation, the interviews and the on-line surveys resulted in an independent judgement-based assessment against an overarching matrix indicating scores against a series of management dimensions and financial management styles. There are three financial management styles, and each is assessed against four management dimensions. The financial management styles and dimensions are detailed below.

Financial Management Styles

(a) Delivering Accountability;

(b) Supporting Performance and

(c) Enabling Transformation

Management Dimensions

(a) Leadership;

(b) People;

(c) Processes and

(d) Stakeholders

21 Each of the 12 scoring areas are scored out of 4. To score 4 in the CIPFA FM Model, an organisation must have in place strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term and is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most of the organisation's investment programmes will be delivered to time and cost. The organisation will also have strong insight into cost drivers with highly evident commercial capabilities with strategic and operational planning.

22 A score of 3 indicates that an organisation has sound financial management capability and arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop. However, these arrangements will not be sufficient for challenging times or driving transformational change. An organisation rated as 3 will have a medium-term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. The organisation will have commercial capabilities exist, but these will be only partially developed.

Outcome of the Review

23 The interviews and on-line surveys were completed during September and October 2023 with a draft report provided by CIPFA in November 2023. The council sought amendments to some of the text (there were a range of subjective statements in the covering report that in isolation appear to be at odds with the scoring matrix outcome) and also to some of the scores provided against the criteria as it was felt to be slightly harsh. CIPFA were content to amend some of the wording in the report but did not choose to change any of the scores provided. The final report is appended to this report.

24 Overall, a score of 3.25 against a maximum score of 4 was provided. Across the 12 different scoring criteria (the three financial management styles across four management dimensions) the council scored three in all but one. The council scored the maximum score of 4 for the Supporting Performance financial style and People management dimension.

25 CIPFA's overall view on finance in the council was that financial management at Durham County Council is good and scores a strong 3. This means that the Council has sound financial management capability and can support the organisation in stable conditions. CIPFA did not feel that the council had yet reached the stage where it can provide the support required in challenging times or to drive transformational

change. CIPFA felt that there were measures that the council could take to improve these areas to achieve a score of 4. This improvement would normally take 2 - 3 years. However, given the strength of the council's financial management, CIPFA believed the council could potentially achieve this in 12 months.

26 CIPFA advised they had seen evidence of sound financial management, and that strong foundations are in place. However, in their view, the council had not quite reached the stage where financial management is actively supporting transformational change. One key 4* criterion that the council does not meet is delivering its investment programme to time and cost. There were also some gaps in strategic planning that needed to be filled, with CIPFA suggesting the council developed a 10 year capital strategy / capital investment programme and make clearer links between the capital strategy and the council priorities and desired outcomes as set out in the Council Plan.

27 In CIPFA's view, the council demonstrates many of the key characteristics of a successful Finance function, and they had seen examples of best practice in the council's approach. CIPFA identified the following key strengths in the review:

(a) The council has a strong presence within the Northeast region. The Corporate Director of Resources is the North East Combined Authority Section 73 Officer and chairs the LA7 Directors of Resources Group. He is also the strategic lead for collaborative procurement across the region and oversees the North East Purchasing Organisation.

(b) The council's people stood out as a real strength (as reflected in the score of 4 in this area). Finance staff are competent and respected and have excellent working relationships with service colleagues. The Finance Business Partner structure has been successfully implemented and Finance Managers are seen as trusted advisers. They also act as "critical friends" to services, providing both challenge and support. Finance managers have been key in establishing the team in this way and in fostering confidence in Finance. Interviewees told us how responsive, and solution driven the finance team is.

(c) There is evidence of strong financial leadership from the Chief Executive down, which emphasises the importance of financial management to strategic decision making. CIPFA found that the Council's financial leadership is respected by the officers and members we interviewed. Senior Finance officers are impactful in their approach and are held in high regard across service areas for providing strong financial leadership. It is also a strength that the Chief Executive is a former s151 officer, with experience of financial matters, who ensures that financial management has an appropriate platform. The Corporate Director of Resources and the Head of Corporate Finance and Commercial Services have a depth of experience and are a key figures in financial planning assumptions and control of the budgetary position. Over the years there has been successful implementation of systems and processes. Consistent effort has been made to engage politicians in financial matters so that they can make informed decisions and members feel supported and informed by officers.

(d) the council has a well-understood and complied with MTFP process. Budget setting expectations are clear, and non-compliance is low. For the most part, service managers take ownership of their own budgets. Financial competency is embedded within service manager job descriptions, and we understand that financial competency is sought in Budget Manager recruitment. Savings proposals are underpinned by a proforma, which includes consideration of options, relevant consultation, lead-in requirements and equality impact assessments.

(e) Annual accounts are published on time each year and have received full sign off by 30 September. There were exceptions to this due to the pandemic, and this year due to delays in the external audit sign off. This is a seen as a “feather in the cap” for the council and a key priority for the Finance team. The ability to close the accounts on time, and past strong annual audit outcomes, is evidence that effective systems, processes, and checks and balances are in place. There is appropriate resource and a skilled Finance team in place to enable this quick and smooth year-end process.

(f) the council has developed and built a highly regarded and deeply embedded Finance Business Partner structure with Finance Managers as an integral part of service management teams (although, it was noted that different levels of engagement / self-service are evident across the organisation). Colleagues spoke very positively about their Finance Business Partners due to their solution focus, financial expertise, knowledge of the organisation, and their commercial skills. The average length of service in the Finance team is around 20 years; however, from interviews, length of service did not seem to detract from motivation or enthusiasm for the job. Finance staff are rotated to different roles which enables new skill sets to be developed and helps with knowledge retention. The rotation approach also embeds technical skills such as treasury management within the wider team, and knowledge of customer needs in technical functions. It also prevents the development of siloes. While rotation is not universally popular, it may be one of the factors in the council being able to retain such an experienced team (along with respect for senior leadership and a sense of organisational pride, which came across in interviews). CIPFA's view is that appropriate and well managed rotation of Finance Business Partners is best practice, and the council is a good example of this.

(g) there is a commitment to learning and development for Finance colleagues. Staff are supported to complete relevant qualifications (including CIPFA) and have been offered CIPFA Finance Business Partner training.

(h) there is a positive culture within the Council, which is not antagonistic or "them and us" between Finance and services. There is a sense that everyone is "singing from the same hymn sheet". While this is a positive in many respects, there are potential downsides, which are discussed in this report.

Development Areas

28 CIPFA's feedback identified that in common with most UK local authorities, the council faces financial uncertainty and, without additional government funding, the possibility of having to cut frontline services to achieve a balanced budget. The Council has a strong balance sheet, which has allowed it to weather the storms of austerity and recent cost of living challenges. CIPFA felt that the council is handling these risks well and that its strong financial management puts it on a firmer footing than many other authorities. However, there are areas where financial management could be strengthened to further cement the council's organisational resilience (and build on the good work that has already been done).

29 Financial leadership was identified has been very strong and has established good and effective financial management. CIPFA observed that seems to be a strong reliance on the financial leadership, guided by the Head of Corporate and Commercial, the Section 151 Officer, and the Chief Executive, with little evidence in their interviews and from the survey outcomes that service colleagues challenge the financial status quo or provide different ideas.

30 CIPFA felt that there appeared to be a cultural perception within the Council (among officers and members) that "everything will be OK because it has been in the past". They gauged that there was a certain optimism, among Finance and service colleagues, that the council

would be able to balance its budget no matter what happens. CIPFA's view was that this could lead to complacency in an increasingly challenging environment where difficult decisions need to be made. They observed that there a risk in taking a "wait and see" approach and this messaging could be preventing / delaying the council from taking decisive action to safeguard its financial position for the long term.

31 CIPFA advised that the council needs to have sufficient options agreed with members, including the difficult decisions, so that whichever administration is elected in 2025 has enough scope to deliver a balanced budget and MTFP. Due to the lead in time that may be necessary to deliver these transformational changes, the council cannot wait until after the elections before it seeks to make more significant savings. The council's view is that CIPFA have not sufficiently taken into account the fact that there has been a succession of single year and late settlements in recent years nor the national and local political landscape, which hinders medium terms financial planning at this time.

32 Survey participants and interviewees indicated that there is a degree of inconsistency of engagement of service managers with financial management across different services, which can be linked to different levels of financial literacy (and willingness to engage). There are also services that are less self-service than CIPFA would have expected. CIPFA were of the view that finance staff should be focused on value-add activities, not taking time to enter data on behalf of services and talk through forecasts in such detail. There is scope for further training and development within services, at all levels, to ensure that financial literacy and engagement is at an appropriate level and Finance staff are used in the most efficient way and freed up to focus on more strategic issues.

Action Plan

33 The areas for improvement and action plan suggested by CIPFA is included in the detailed report received. There were three high priority and five medium priority actions identified to enable the council to move to a 4* rating. Actions are detailed below;

(a) **High Priority** - cascade financial knowledge down through the levels of management and into services to enable transformation.

(b) **High Priority** - develop appropriate savings plans that will be workable in any scenario post-2025 and ensure balanced MTFP without over-reliance on reserves.

(c) **High Priority** - consider scope of Capital Programme; further develop business case guidance to ensure sufficient options considered.

(d) **Medium Priority** - further develop capital strategy and investment strategy documents to be shared across the organisation. These should align with the Capital Strategy and Asset Management Plans. We would recommend at 10-year capital strategy. The Council could consider commissioning a capital strategy review given that the capital strategy and capital investment plan are part of best practice.

(e) **Medium Priority** - undertake benchmarking exercise for back office and implement efficiency programme with clear targets and timeframe, where appropriate.

(f) **Medium Priority** - training and development at all levels and in all services to ensure consistent level of understanding and use of systems.

(g) **Medium Priority** - conduct gap analysis of Finance team competencies e.g., using CIPFA Finance Competency Framework.

(h) **Medium Priority** - Greater use of data for more detailed forecasting and modelling to inform strategic decision-making

34 The service will seek to make progress on the priorities identified above over the coming twelve months. Progress is being made already on the high priority areas on the MTFP and the scope of the capital programme, with the Capital Strategy and capital programme proposals that were considered at Cabinet on 14 February and Full Council on 28 February 2024 taking on board the CIPFA recommendations. Progress is also being made on some of the medium priorities in relation to back-office benchmarking with LA7 authorities and on greater use of data via the Corporate Business Intelligence project.

Conclusion

35 CIPFA have identified the council has a strong 3* rating with the ability to move quickly to a 4* rating. CIPFA were particularly concerned that the council did not have agreed set of medium term financial plan savings identified of sufficient magnitude to balance the MTFP notwithstanding they noted where the council is presently in the political cycle (both nationally and locally).

36 It is particularly reassuring that CIPFA’s view was that our finance strength comes from the quality of our people from the Chief Executive all the way through the finance function.

37 There are some subjective judgements / comments made in the covering report with regards to the financial grip that exists within the Council potentially stifling innovation, but having discussed this at Corporate Management Team and within the Extended Management Team this is not seen as a particular barrier to innovation, with many examples of the corporate finance function enabling services to deliver transformation and invest to save and self-financing schemes.

38 Progress will continue to be made over the next 12 months on the actions identified by CIPFA to move the council to a 4* star rating.

Background papers

- None

Other useful documents

- CIPFA Review final report

Author(s)

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Appendix 1: Implications

Legal Implications

None

Finance

The report provides details on the outcome of the CIPFA finance review.

Equality and Diversity / Public Sector Equality Duty

None

Climate Change

None

Human Rights

None

Crime and Disorder

None

Staffing

None

Accommodation

None

Risk

The CIPFA report identifies improvements the finance function should seek to make to move to a 4* star rating. CIPFA particularly identified the lack of a savings plan to balance the council’s budget across the next four years as a risk.

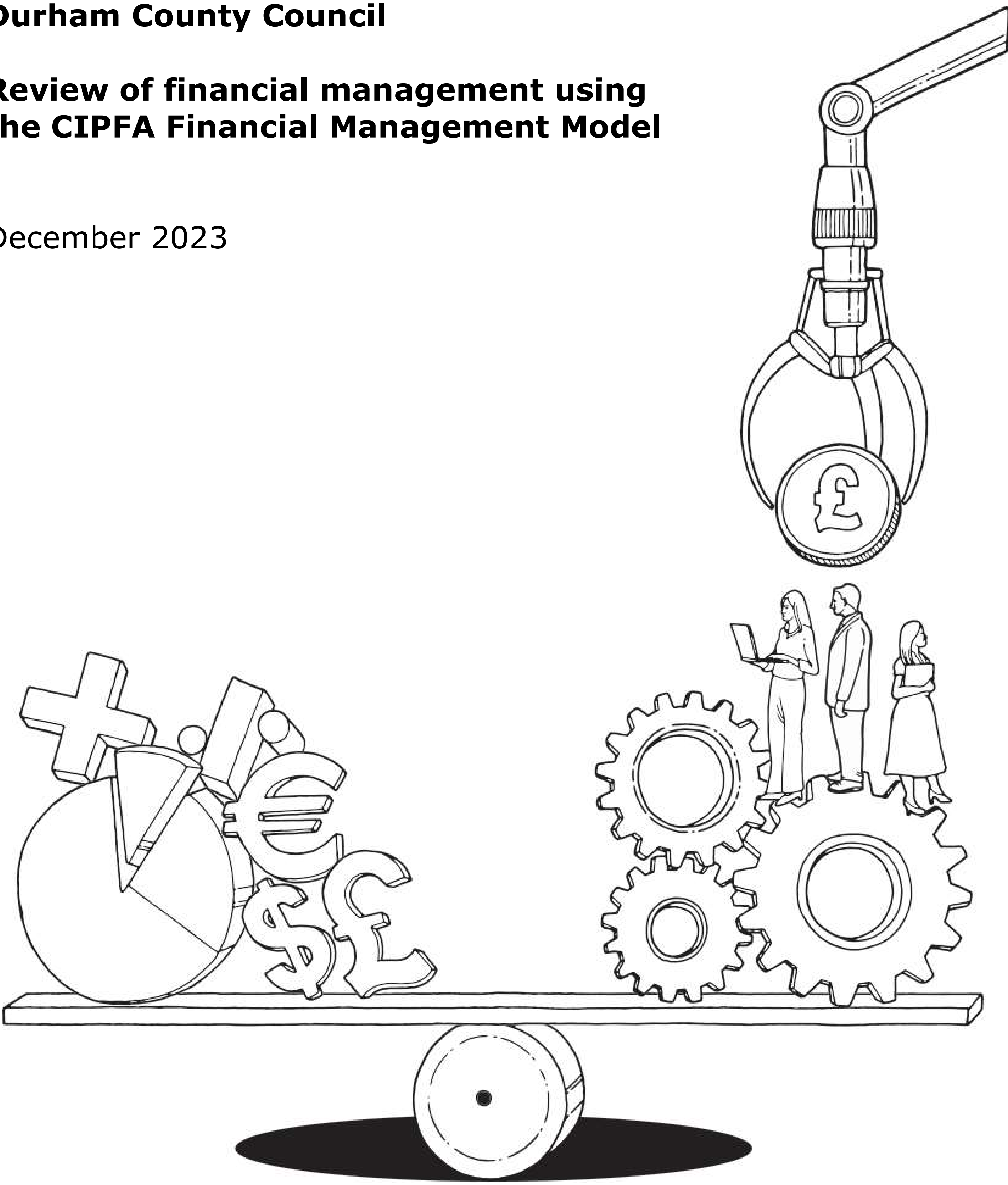
Procurement

None

Durham County Council

Review of financial management using the CIPFA Financial Management Model

December 2023



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1. Executive summary

In October 2023, Durham County Council undertook a review of financial management.

In order to establish a financial management baseline, provide a comparison with other organisations and prioritise financial management improvements, the Council decided to use the CIPFA Financial Management Model (herein referred to as the FM Model) as a framework for the review.

The Council was created in 2009 as a unitary authority and is responsible for the County Durham district of Northeast England.

1.1 The CIPFA Financial Management (FM) Model

The CIPFA FM Model is recognised by HM Treasury (UK) as setting out the fundamentals of best practice financial management within a public sector organisation. It has been chosen by HM Government (HMG UK) Finance Leadership Group (FLG) as the framework to be used for financial management self-assessments. The Model uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses, and areas for improvement. Importantly, the review measures the whole organisation's attitude to financial management not just the performance of the finance team. The assessment is based on a mix of evidence obtained through survey[1], interview[2] and document review.

The CIPFA FM Model is based on 30 statements of best practice. Each of these statements is supported by a series of questions which both explain the scope of the statement and help evaluate the extent to which the statement applies to the organisation. This assessment is scored on a scale from 0-4 to aid aggregation and comparison. Survey groups are asked to respond to different statements, depending on their role, and the survey is tailored to each survey group.

While we have commented in this report on some aspects of the Council's financial resilience (as relevant to the issues identified) we have not undertaken a resilience review in addition to the FM Model. This review is not a substitute for appropriate detailed audit of high-risk areas.

1.2 Best practice matrix

The matrix overleaf aggregates assessments for individual statements of best practice in the FM Model and summarises CIPFA's assessment of the Council's financial management arrangements. Using the matrix, the key findings of the review can be summarised across the three financial management styles and four management dimensions. Details on relevant financial management styles and dimensions can be found in Section 3.3 below.

The scores given in the matrix have been moderated using the responses given by survey participants, our findings from the interviews, our document review, and our knowledge of the Council. As such, they are based on the totality of the moderated evidence available to us.

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[1] 64 out of 68 participants (94%) completed the electronic survey.
[2] 25 contributors were interviewed.

FM Model key findings chart for Durham County Council on 26 October 2023

	Management dimensions			
Financial management styles	Leadership (A)	People (B)	Process (C)	Stakeholders (D)
Delivering Accountability (1)	***	***	***	***
Supporting performance (2)	***	****	***	***
Enabling transformation (3)	***	***	***	***
Overall	***			

No matter how well an organisation performs, there is always room for improvement. The rest of this report, in particular, the areas highlighted for development, need to be read in this context.

1.3 Strengths and areas for further development

As indicated in the matrix above, financial management at Durham County Council is good and scores a strong 3. This means that the Council has sound financial management capability and can support the organisation in stable conditions. We do not feel that Durham has yet reached the stage where it can provide the support required in challenging times or drive transformational change. There are measures that the Council could take to improve these areas to achieve a score of 4. This improvement would normally take 2-3 years. However, given the strength of the Council's financial management, we believe Durham could potentially achieve this in 12 months. More detail on the star rating key criteria and characteristics is set out in Appendix 3 to this report.

To illustrate this, it is helpful to consider the criteria for each score:

To score 4 in the FM Model, an organisation must have in place strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term and is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most of the organisation's investment programmes will be delivered to time and cost. The organisation will also have strong insight into cost drivers with highly evident commercial capabilities with strategic and operational planning.

A score of 3 requires an organisation to have sound financial management capability and arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop. However, these arrangements will not be sufficient for challenging times or driving transformational change. A 3* organisation will have a medium-term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. The organisation will have commercial capabilities exist, but these will be only partially developed.

Based on our review, Durham meets the 3* criteria. We have seen evidence of sound financial management, and the foundations are in place. However, in our view, the Council has not quite reached the stage where financial management is actively supporting transformational change. One key 4* criterion that the Council does not meet is delivering its investment programme to time and cost. There are also gaps in strategic planning that need to be filled.

We have set out a proposed Action Plan in section 1.7 of this report, which will help the Council to achieve a 4* rating. We do not feel that Durham is far away from scoring a 4, and implementing our recommended actions will enable it to meet the criteria and put the Council in a stronger position to face future challenges and implement transformational change. CIPFA would be happy to re-run the FM Model in 12 months to provide assurance as to whether the criteria have been met.

1.3.1 Strengths

In our view, the Council demonstrates many of the key characteristics of a successful Finance function, and we have seen examples of best practice in Durham's approach.

We identified the following key strengths in our review:

1. Durham has a strong presence within the Northeast region. The Corporate Director of Resources is the North East Combined Authority Section 73 Officer and chairs the LA7 Directors of Resources Group. He is also the strategic lead for collaborative procurement across the region and oversees the North East Purchasing Organisation.

2. Durham's people stood out as a real strength (as reflected in the score of 4 in this area). Finance staff are competent and respected and have excellent working relationships with service colleagues. The Finance Business Partner structure has been successfully implemented and Finance Managers are seen as trusted advisers. They also act as "critical friends" to services, providing both challenge and support. The Head of Corporate Finance and Commercial has been key in establishing the team in this way and in fostering confidence in Finance. His knowledge of the Council was noted to be almost encyclopaedic, and interviewees told us how responsive, and solution driven he and his team are.

3. There is evidence of strong financial leadership from the Chief Executive down, which emphasises the importance of financial management to strategic decision making. We found that the Council's financial leadership is respected by the officers and members we interviewed. Senior Finance officers are impactful in their approach and are held in high regard across service areas for providing strong financial leadership. It is also a strength that the Chief Executive is a former s151 officer, with experience of financial matters, who ensures that financial management has an appropriate platform. The Corporate Director of Resources and the Head of Corporate Finance

and Commercial have a depth of experience and are a key figures in financial planning assumptions and control of the budgetary position. Over the years there has been successful implementation of systems and processes. Consistent effort has been made to engage politicians in financial matters so that they can make informed decisions and members feel supported and informed by officers.

4. The Council has a well-understood and complied with MTFP process. Budget setting expectations are clear, and non-compliance is low. For the most part, service managers take ownership of their own budgets. Financial competency is embedded within service manager job descriptions, and we understand that financial competency is sought in Budget Manager recruitment. We also understand that savings proposals are underpinned by a proforma, which includes consideration of options, relevant consultation, lead-in requirements and equality impact assessments (although we have not seen this proforma).

5. Annual accounts are published on time each year and have received full sign off by 30 September. There were exceptions to this due to the pandemic, and this year due to delays in the external audit sign off. This is a seen as a "feather in the cap" for the Council and a key priority for the Finance team. The ability to close the accounts on time, and past strong annual audit outcomes, is evidence that effective systems, processes, and checks and balances are in place. There is appropriate resource and a skilled Finance team in place to enable this quick and smooth year-end process.

6. The Council has developed and built a highly regarded and deeply embedded Finance Business Partner structure with Finance Managers as an integral part of service management teams (although, we note that different levels of engagement / self-service are evident across the organisation). Colleagues speak very positively about their Finance Business Partners due to their solution focus, financial expertise, knowledge of the organisation, and their commercial skills. The average length of service in the Finance team is around 20 years; however, from our interviews, length of service does not seem to detract from motivation or enthusiasm for the job. Finance staff are rotated to different roles which enables new skill sets to be developed and helps with knowledge retention. The rotation approach also embeds technical skills such as treasury management within the wider team, and knowledge of customer needs in technical functions. It also prevents the development of siloes. While rotation is not universally popular, it may be one of the factors in the Council being able to retain such an experienced team (along with respect for senior leadership and a sense of organisational pride, which came across in interviews). Our view is that appropriate and well managed rotation of Finance Business Partners is best practice, and Durham is a good example of this.

7. There is a commitment to learning and development for Finance colleagues. Staff are supported to complete relevant qualifications (including CIPFA) and have been offered CIPFA Finance Business Partner training.

8. There is a positive culture within the Council, which is not antagonistic or "them and us" between Finance and services. There is a sense that everyone is "singing from the same hymn sheet". While this is a positive in many respects, there are potential downsides, which are discussed in this report.

1.3.2 Development areas

In common with most UK local authorities, Durham faces financial uncertainty and, without additional government funding, the possibility of having to cut frontline services to achieve a balanced budget. The Council has a strong balance sheet, which has allowed it to weather the storms of austerity and recent cost of living challenges. However, the Council is forecasting a c.£50m budget gap at the end of its current MTFP period. We understand that this is based on the worst-case scenario and that the financial modelling assumes no further CPI uplifts or additional government funding from 2025/26 onwards. However, there are some opportunities to further reduce expenditure on discretionary services (e.g., investment in community developments / AAPs, libraries, leisure services, and others) where other local authorities have already made significantly more cuts. We understand that making savings in these areas could be politically unpalatable and could be difficult for members to agree. There is also the issue of the general election in 2024 and all-out Council elections in 2025, which may change the political landscape, causing further uncertainty and compounding the difficulty in planning savings for the long term.

We feel that the Council is handling these risks well and that its strong financial management puts it on a firmer footing than many other authorities. However, there are areas where financial management could be strengthened to further cement Durham's organisational resilience (and build on the good work that has already been done).

Leadership

Financial leadership within the Council has been very strong and has established good and effective financial management. There seems to be a strong reliance on the financial leadership, guided by the Head of Corporate and Commercial, the Section 151 Officer, and the Chief Executive, with little evidence in our interviews and from the survey that service colleagues challenge the financial status quo or provide different ideas. Financial leadership has an "iron grip" on the organisation, which may stifle innovation. While a stable leadership team is a positive in many ways, especially when things are stable, there is a risk that it would be difficult for the Council to respond to radical change in the external environment and to be agile. The Council has a strong starting position; however, this tight grip could be refined to enable transformation. By cascading financial responsibility down the tiers of management and into the weaker areas, the Council would be able to embed financial understanding and competency to support leadership to focus on transformation projects that could improve efficiency and move the Council forward.

There appears to be a cultural perception within the Council (among officers and members) that "everything will be OK because it has been in the past". There is a certain optimism, among Finance and service colleagues, that the Council will be able to balance its budget no matter what happens. While we appreciate that this may be based on the Council's track record of delivering savings post-LGR and during austerity, there is a risk of complacency in an increasingly challenging environment where difficult decisions need to be made. The one-year funding settlement also seems to be highlighted as the main risk for the Council's finances and, while we recognise that this is an issue across the sector, it is not within the Council's control. There is risk in taking a "wait and see" approach and this messaging could be preventing / delaying the Council from taking decisive action to safeguard its financial position for the long term. It has widely been mentioned that there is a real pressure point in 2025/26 and that earmarked reserves might need to be called upon to balance the budget. We are aware that the Council has been implementing evidence-based change, for example, in Children's and Young People's Services (building additional children's homes) and undertaking some benchmarking. However, the Council needs to have sufficient options agreed with members, including the difficult decisions, so that whichever administration is elected in 2025 has enough scope to deliver a balanced MTFP. Due to the lead in time that may be necessary to deliver these transformational changes, the Council cannot wait until after the elections before it seeks to make more significant savings.

It is our understanding that there has been much discussion between officers and members in relation to the use of available reserves. An earmarked budget support reserve was used to support the 2022/23 outturn. Based on current forecasts, it is likely that earmarked reserves (including the MTFP Support Reserve) may need to be used to smooth in future savings plans to ensure that balanced budgets are set. The £15m of savings under consultation for MTFP 14 are not sufficient to balance the forecast 2024/25 budget shortfall at this stage. Reserves should not be used to avoid making necessary cuts, as this puts greater pressure to find even deeper cuts later in a tighter timescale. This tighter timescale becomes increasingly important once an organisation must implement challenging transformational savings, which take a long time to plan and deliver. Reserves are best used to cover unexpected shocks and can also be used effectively to smooth over and manage implementation of a clear, strategically thought out, savings programme. It is widely known that it is more difficult to set a tough budget at the end of the political cycle; however, the gap in savings should not be plugged by reserves, as this is not a sustainable approach and does not allow room for unexpected issues.

On the strategic side, there are some gaps in the documentation prepared by the Council. We understand that the annual budget report includes a capital strategy and a property investment strategy, and that capital priorities are well understood within the Council and aligned to strategic and political priorities as set out in the Corporate Plan. However, a more robust approach would provide greater clarity and focus the capital budget setting process and avoid any wasted effort filtering out capital bids that are unlikely to be approved (which we understand is done at a service and CMT level). In addition, the Capital Programme does not always match planned delivery, which indicates an optimism bias in the timing of projects and constraints in capacity to deliver capital investment aspirations. The MTFP forecasts include £14.8m of new prudential borrowing commitments across the next four years, which is a significant commitment, representing approximately 20% of the Council's budget shortfall. While slippage in delivery of capital investments is not uncommon, and we recognise that there are elements which are outside the Council's control, the Council needs to achieve a balanced position on its MTFP, which may require reconsideration of the scale of the Capital Programme.

We heard from some members that there is a perception of inefficiency in the Council's back office and that, politically, cuts to frontline services will not be palatable unless efficiencies have been made, where feasible, within the Council. We understand that benchmarking has been carried out against other local authorities to see where cuts can be made in line with the service offerings elsewhere, and that Durham back-office services are bottom quartile or below average (although we have not seen this analysis). We would recommend that future benchmarking includes back-office staffing levels to ensure that these are appropriate, bearing in mind resource required for future transformation work. We note that work has been done to improve data in Adult's and Health Services and Children's and Young People's Services to improve efficiency in service delivery, and that this has led to the development of dashboards that provide valuable data for Finance and the services. We understand that a wider corporate BI project is underway to develop this further. This should be structured in such way to enable the Council to track progress towards this, monitor performance against efficiency targets (identified through benchmarking), and set a clear timeline for this work. This benchmarking can help provide a strategic steer on where to direct savings, which can inform savings targets/plans for future years.

People

Survey participants and interviewees indicated that there is inconsistency of engagement of service managers with financial management across different services, which can be linked to different levels of financial literacy (and willingness to engage). There are also services that are less self-service than we would expect. Finance staff should be focused on value-add activities, not taking time to enter data on behalf of services and talk through forecasts in detail. There is scope for further training and development within services, at all levels, to ensure that financial literacy and engagement is at an appropriate level and Finance staff are used in the most efficient way and freed up to focus on more strategic issues. The impact of this, combined perhaps with the Leadership issues identified above, can be seen in the outcome of the bottom-up savings process for MTFP 14 period from 2024/25 to 2027/28. We understand that this was an opportunity for services to identify any savings that could or should be made. This approach did not achieve the level of savings that a top down/target setting approach would have done. This may be due to lack of understanding from service managers of the financial pressures and there is a sense that some managers did not fully grasp the new level of challenge and individual ownership in delivering against that challenge.

We have not seen evidence of a comprehensive competency framework for financial management across the organisation, or specifically for the Finance team. Staff Transfer, support of qualification routes, and internal Learning and Development provide opportunities for professional development of Finance staff, but it would be beneficial for the Finance team to conduct a competency gap analysis to identify where there are development opportunities, areas of overlap and/or efficiencies that can be made. The CIPFA Finance Competency Framework can assist with this, and we would be happy to discuss this further.

Processes

While the Council's financial systems are good and should, in theory, support it to deliver transformational change in savings and the Capital Programme, there is evidence (as set out above) that this is not being achieved more recently. There is scope for greater use of scenario forecasting, modelling, and benchmarking to target areas best placed for transformation. This would enable the Council to prepare scenarios for different eventualities, enabling it to adapt agilely to any change in circumstances (and, for example, any political outcome of the 2025 election). We understand that the data available for Children's and Young People's Services and Adult's and Health Services is comprehensive and provides trend analysis and other insight, but that this is not available across all services. The more (accurate) data the Council has at its fingertips, the more easily it will be to model for different outcomes and monitor and respond to unexpected movements and trends. We note that there is a BI project underway that is working on bringing this data together.

The aim of this review is to help improve financial management within the organisation. As a consequence of this review, the organisation will develop and implement an action plan to respond to the development areas identified above. To facilitate this, we attach at the end of this Executive Summary a framework action plan for discussion.

1.4 Direction of travel

As highlighted above, Durham has good financial management and has set itself a strong foundation. To maintain and strengthen this position and make improvements, it will need to continue to innovate and develop, especially in the areas of data management, analysis and modelling. The BI project is a very positive step in this direction and the first results (in Children's and Young People's Services and Adult's and Health Services) are encouraging.

There is a danger that the Council will not be fully prepared for the challenges that could arise in the future. The officers we met were very competent, and Cabinet members seem engaged and keen to act in the best interests of constituents. However, there are areas of improvement, as set out in the Action Plan below, that would put the Council in an even stronger position to weather potential financial shocks. It will be important to ensure that the organisation is not complacent and does not place undue reliance on reserves and/or the assumption of increased government funding.

1.5 Overall conclusions

The Council's financial management is in a good position thanks to strong leadership and an embedded Finance Business Partner structure. Finance has a strong grip on the organisation and financial matters are central to strategic decision making. Despite the challenging financial situation that has faced local authorities under austerity and funding cuts, Durham maintains a strong balance sheet.

However, there are ways in which Durham could improve its financial management, as detailed above. The key challenge ahead for Durham, is to harness its strong financial leadership and its highly embedded Finance Business Partner function to ensure it presents and delivers a sufficient level of evidence-based savings plans across the life of the MTFP that the Cabinet can support.

1.6 Concluding comments

We would like to take this opportunity to thank all the interviewees and survey participants who contributed to the review. Particular thanks to Jeff Garfoot, Lesley Swallow and Joanne McMahon for their support with interviews, survey participation and document provision.

1.7 Action plan

Actions arising from the review of financial management using the CIPFA FM Model.

Theme	Issue	Required action(s)	Priority
Financial grip	Financial leadership has a strong grip and potentially lacks challenge / new ideas.	Cascade financial knowledge down through the levels of management and into services to enable transformation.	**H**
Savings	Optimism within the Council that savings can be made due to previous track record. However, the financial situation for local authorities is becoming increasingly challenging and difficult decisions will have to be made. The Council should avoid delaying savings plans to "wait and see" regarding the funding settlement and should avoid undue reliance on reserves.	Develop appropriate savings plans that will be workable in any scenario post-2025 and ensure balanced MTFP without over-reliance on reserves.	**H**
Capital Strategy	Delays in delivery of capital projects due to capacity and optimism bias.	Consider scope of Capital Programme; further develop business case guidance to ensure sufficient options considered.	**H**
Strategy documents	Capital strategy and investment strategy lack clarity on objectives and links to Council priorities, which leads to non-priority bids being considered.	Further develop capital strategy and investment strategy documents to be shared across the organisation. These should align with the Capital Strategy and Asset Management Plans. We would recommend at 10-year capital strategy. The Council could consider commissioning a capital strategy review given that the capital strategy and capital investment plan are part of best practice.	**M**
Benchmarking	Back-office efficiency needs to be demonstrated to allay member concerns when considering any frontline service impacts.	Undertake benchmarking exercise for back office and implement efficiency programme with clear targets and timeframe, where appropriate.	**M**
Engagement with services	Inconsistency of engagement from some services, including self-service of finance systems.	Training and development at all levels and in all services to ensure consistent level of understanding and use of systems.	**M**
Financial competencies	Workforce Development Plan needs to be strengthened through formal competency-based assessment to ensure that the Finance team has the required competencies.	Conduct gap analysis of Finance team competencies e.g., using CIPFA Finance Competency Framework.	**M**
Use of data	Greater use of data for more detailed forecasting and modelling to inform strategic decision-making	Part of ongoing BI project	**M**

2. Introduction

In October 2023, Durham County Council completed the CIPFA FM Model to provide the basis for a review of financial management arrangements within the organisation.

The CIPFA FM Model sets out the fundamentals of best practice financial management within a public sector organisation and uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses, and areas for improvement. A more detailed explanation of the CIPFA FM Model is provided at **Appendix 1**.

2.1 Understanding the organisation

The Council was created in 2009 when seven former district councils were merged with the city council into a single purpose upper tier authority with responsibility for service provision in County Durham.

The Council is a large organisation, particularly in financial terms (the seventh largest unitary authority in the UK) and is responsible for a budget of £1.3bn, providing services for 513,000 people. The Council has 16,681 staff (11,882 FTE), including maintained schools' staff (9,983 staff (7,302 FTE) without maintained schools' staff).

Durham is a large and diverse country with a widely dispersed settlement pattern, which creates specific issues and challenges for the Council. County Durham has over 300 recognised settlements, 23 of which have a population of 5,000 or more.

The Council has delivered £260m of savings and efficiencies since LGR, including making a reduction in staffing of 30% (3,000 staff).

Durham is a low tax base authority, with 83% of households residing in properties that are in Bands A-C, compared with the national average of 65%.

The Index of Multiple Deprivation lists Durham as the 48th most deprived local authority area in the country out of 151 upper tier authorities, yet the Council's CSP is lower than the national average.

3. Key findings

This section outlines findings from the assessment and supports the action plan included in the Executive Summary. It is anticipated that the Council may address and prioritise some of the issues raised within existing plans for the continuing development of financial management within the organisation.

3.1 Applying the CIPFA Financial Management (FM) Model

In applying the CIPFA FM Model evidence was gathered from three main sources:

- document review/evidence
- interviews
- survey

Information from these different sources has been brought together to give an assessment for each of the best practice statements relevant to the Council. Further details of the methodology used are shown in **Appendix 2**. Within this section of the report, direct quotes from interviews and the survey are included but are not attributed to the individuals concerned.

3.2 Summary of CIPFA Financial Model Scores

The matrix below summarises CIPFA's evaluation of the Council's financial management arrangements against the best practice in CIPFA's FM Model, with each area being awarded a score from 0-4 (where 0 means the underlying statements of best practice do not apply at all and 4 means they fully apply). It should be noted that this takes into account the document review, interviews and electronic survey. The matrix is based upon CIPFA's scores for each statement, summarised across the three financial management styles and four management dimensions as shown below.

3.3 Best practice matrix

FM Model key findings chart for Durham County Council on 26 October 2023

	Management dimensions			
Financial management styles	Leadership (A)	People (B)	Process (C)	Stakeholders (D)
Delivering Accountability (1)	3.5	3.5	3.5	3.5
Supporting performance (2)	3.25	4	3.25	3
Enabling transformation (3)	3	3	3	3
Overall	**3.25**			

The high-level matrix measures Financial Management Styles with Management Dimensions. The styles of financial management are intended to be progressive, with a general expectation that organisations are likely to firstly establish the building blocks of control and adherence to regulations through the 'Delivering Accountability' style. This leads on to financial management contributing towards 'Supporting Performance' by assisting decision-making and supporting the delivery of organisational objectives. 'Enabling Transformation' would then be likely to represent the next stage, with financial management supporting the change agenda, innovation and re-engineering of systems and processes, where appropriate.

The Model is also organised by four management dimensions of Leadership, People, Processes and Stakeholders. These cover both "hard edged" attributes that can be costed/measured, as well as "softer" features such as communications, motivation, behaviour and cultural change.

Each element of the matrix shows not only the score assessed but also identifies the individual statements that contribute to that score e.g., L1 and L2. Later in this report we include the scoring and evidence for each statement grouped in the same way.

3.4 Overview – Styles of financial management

The Council scored highly on the Delivering Accountability style of financial management. There are clear frameworks in place for financial management and the Council delivers against regulatory requirements.

The Council also scores well on the Supporting Performance style of financial management. Recent activities, for example, the BI project, demonstrate a commitment to improving service delivery. The Council also seems to have taken steps towards being a customer-focused organisation. The Council scored very highly in this area in the People management dimension due to the strength of its Finance team and its clear financial leadership.

Our review identified areas of improvement within the Enabling Transformation style of financial management. The Council is in a strong position to deliver good financial management in stable conditions. However, we feel that there is room for improvement in several areas, as outlined in section 1. We feel that the Council is on its way to achieving this but needs to develop in a few areas. We note that savings have been delivered in the past, and that the Council responded to the financial challenges it faced during austerity. However, there is significant uncertainty in the financial landscape for local authorities (including lack of clarity over future funding and upcoming elections). The Council needs to ensure that it is able to respond to any potential financial shocks that may arise. While this is not a resilience review, our recommendations are designed to ensure that the Council can put itself in a strong position to respond to any such shocks.

3.5 Overview – Management dimensions

All the Council's management dimensions are good. It has good leadership, which understands the importance of the Finance function and its role in strategic decision-making. It has good, competent people who work well together. The Finance team provides appropriate support and challenge, and services are accepting of its input. The Council's financial processes are sound, and the Oracle system is widely used and, for the most part, provides the outputs required. Stakeholder management is good, including in relation to

Area Action Partnerships and the NHS. There are also very good relationships between Finance and Cabinet members.

Areas for improvement were identified in relation to all management dimensions. These improvements would resolve some areas of weakness identified in our review and consolidate the strong position the Council is already in. As mentioned above, the Council is in a good position and there are ways that it can further cement its position to ensure that it can withstand any future challenges and deliver transformational change.

3.6 Statement scoring and assessments

In this section of the report, we show scores for individual statements and summarise the evidence upon which the assessment is based. These statements are grouped in the same way as on the summary matrix, e.g., L1 and L2 together immediately below. The only exception to this is in relation to PR1 to PR9 where this large group of statements is broken down further at the Delivering Accountability level as explained later.

3.7 Leadership – Delivering Accountability

Delivering Accountability	**L1**	Financial capability is regarded as integral to supporting the delivery of the organisation's objectives. The CFO is an active member of the board, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team.	3.5
	L2	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the board through executive and non-executive directors to front line service managers.	3.5
	L3	Within an annual budget setting process the organisation's leadership sets income requirements including tax and allocates resources to different activities in order to achieve its objectives. The organisation monitors the organisation's financial and activity performance in delivering planned outcomes.	3.5

For the Delivering Accountability style there are three statements that consider the elements of an effective framework of financial management.

It is clear from the survey results, and from our interviews, that financial management is central to how Durham operates and is a key support to the delivery of its objectives. The Chief Executive (a former s151 Officer), the Corporate Director of Resources (who also acts as s151 Officer), and the Deputy s151 Officer form a core management function at the heart of the Council, disseminating good financial practice throughout the organisation through clear messaging, direct engagement with all areas, and strong direction. The Finance function is embedded within the organisation and Finance Business Partners (FBP) sit on service management teams, providing early-stage support and challenge.

There is a clear understanding across the organisation of the financial framework in place. Service managers are engaged directly with their counterpart accountants, and there is a clear process for budget setting, capital bids and savings. Interviewees described a robust structure from service management teams through to CMT, through which budgets are challenged and refined before being presented to Cabinet. This process seems to run smoothly and has become a well-established part of BAU at Durham.

We understand that the Council operates a "cash limit" process to encourage multi-year planning and to promote accountability across services. Services retain underspends from year to year in an earmarked reserve and are responsible for managing in-year pressures and one-off initiatives as they arise. We also understand that the Council monitors financial activity on a quarterly basis through service management teams, CMT, Cabinet and thematic overview and scrutiny committees, with a focus on projected outturn and year-end reserves and balances.

There are challenges for Durham in income generation given its relatively low Council Tax base and the level of deprivation in some parts of the County. However, budget parameters are set clearly, and services are aware of the money available to them. Forecasting has become more sophisticated recently with increased use of dashboards and future demand modelling. Children's and Young People's Services and Adult's and Health Services have been prioritised initially given the size of their budgets (these services account for around 60% of the Council's spending) and the complexity and cost of meeting the demographic demands in these areas. The ongoing BI project will create similar opportunities in other service areas. This additional level of detail will only improve the Council's ability to forecast and monitor its activities and join up wider data sets in future to better understand and answer "what if" scenarios.

There are some issues with effective delivery by service managers in some areas. For example, there are some services where financial literacy and engagement is lower, where more reliance is placed on Finance. Lack of financial competency may also hinder the robustness of challenge in some areas of the Council.

3.8 Leadership – Supporting Performance

Supporting Performance	**L4**	The organisation has a developed financial strategy to underpin medium and longer term financial health. The organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.	3.25
	L5	The organisation develops and uses financial/leadership expertise in its strategic decision-making and its performance management based on an appraisal of the financial environment and cost drivers.	3.25

For the Supporting Performance style there are two statements which consider financial planning, financial management strategy and the way financial management expertise is used in strategic decision-making.

Finance is integral to strategic decision making at Durham. There is strong financial expertise at the corporate level and Finance has a strong grip on the direction of the Council, being well integrated into service management teams and CMT, and having a strong presence with Cabinet. The MTFP is a standing item on the CMT agenda, and we understand that there have already been 9 or 10 discussions with Cabinet regarding the 2024/25 budget and the MTFP for the period 2024/25 to 2027/28.

The MTFP planning process is well structured and embedded across the organisation. All areas of the Council are aware of what is expected of them in the planning process, which begins early (almost as soon as the previous year's budget is finalised). As noted by a survey respondent, "*The Council has a strong track record of ensuring medium term* *financial plan commitments are delivered as far as possible. That begins at the early stages where savings proposals are considered, as well as checking the political sensitivity, deliverability is also closely scrutinised so that they are realistic and achievable. Once agreed an in place there is a reporting and scrutiny process to ensure they are delivered."*

However, we noted that the organisation did not deliver the expected outturn in 2022/23 and we have not seen evidence of corrective action. The Council has explained its cash limit approach, and that inflationary pressure was the primary driver for overspends. This is a reasonable explanation in principle. We also note that there were also some demand pressures and that a reserve was set up to fund inflationary pressures and a contingency budget used to ease these pressures.

However, we note that the Council's Financial Procedure Rules state that, where a service grouping's cash limit is in deficit, the relevant service is required to make savings/underspends the following year to bring the reserve back into balance. We are unclear how this works when the same service overspends again in the following financial year by an even greater amount. If services do not pull back deficits, this erodes the principles of the cash limit approach to a certain extent. It may also have been possible to mitigate more of the cost pressures in-year through management actions.

3.9 Leadership – Enabling Transformation

Enabling Transformation	**L6**	The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.	3

For the Enabling Transformation style there is one statement covering the integration of financial management approach and resources driving the change agenda.

We have some concerns about the use of reserves to achieve a balanced budget in recent MTFPs. We would normally expect reserves to be used in response to an unexpected financial shock, not as part of the budgetary planning process. There is a risk that this erosion of reserves leaves the Council exposed if a significant financial risk arose in 2025/26, when the Council already expects to face a pressure point. This, coupled with the Council's low tax base, and potential political resistance to increasing council tax and making frontline service reductions, makes the Council vulnerable.

We observed that Children's and Young People's Services had overspent for 2 years running, with significant budget uplifts being provided the following year to offset, despite the policy set out in the Council's constitution which suggests that services make up for shortfalls in the following year. These overspends undermine the Council's ability to achieved savings. Although there is a valid point around inflation and demand in this area, this is difficult to argue as making savings. In addition, the SEN transport issues is an example of the kind of provision where, with the best of intentions, the cost is higher than ideal when children are taken to school in individual taxis and this can have an impact when the financial situation is strained (although we note that it is not always avoidable). We also observed that the savings plans produced by the "bottom-up" approach that was adopted in MTFP 14 (rather than the target-based savings approach used previously) are below the level required to achieve a balanced budget and an alternative approach will need to be adopted in order to plug the gap. We have seen a schedule of MTFP (14) saving options, which shows total savings of £28m over 4 years; £10m in 2024/25, £7m in 2025/26, £4m in 2026/27, and £6m in 2027/28. £12m of these savings are identified as firm and deliverable on the schedule and £15m are identified as secondary savings. It is extremely challenging to close the size of gap Durham has identified, and an insufficient quantity of proposals appears to have been presented to members to enable them to make decisions to cover the full c. £52m gap.

We have been told that there have been confidential discussions with members about further savings that could be achieved, and that these are not yet in the public domain. We have been provided with a list of these savings, but we do not have evidence of the extent of the discussions with members or the appetite for these savings to be delivered. However, it is encouraging that these discussions seem to be happening.

The findings of our review suggest that the Council believed that a balanced budget position was set in 2022/23 with no need to increase core council tax (a 3% increase in the Adult Social Care Precept was applied) and no reliance on reserves. Core council tax was not increased, and the Cabinet budget paper explained this meant losing approximately £4.5m from the base budget capacity. The organisation then reported an adverse variance outturn of £5.4m. This is net of a £14.3m overspend in Children's and Young People's Services that has to be financed corporately. This, combined with the savings targets not being met, indicates that the good financial management framework is not currently delivering the required MTFP budgetary results.

It has widely been mentioned that there is a real pressure point in the 2025/26 MTFP, where the current budget deficit would mean that the Council would have to fully utilise its MTFP Support Reserve to balance the budget if not further savings and no additional resources are available. We are aware that the Council has been implementing evidence-based change such as its investment in its Sufficiency Strategy to provide additional children's homes to increase capacity and reduce reliance on expensive out-of-County placements. Increasing the use of the Council's data capabilities to come up with more evidence-based changes is part of the solution and will support the Council to make difficult decisions with confidence.

We know Durham undertakes some benchmarking (and has strong networks with 11 Northeast Councils, of which data sharing and benchmarking is a feature), particularly in its MTFP setting, but we feel that more detailed benchmarking with comparable councils would be helpful to identify the areas where savings can, and perhaps should, be made during the next round of MTFP planning. This would enable a strategic challenge to be set out on which members should be consulted to ensure it is aligned with political reality. Adopting a bottom-up approach aligned to strategically set targets may then yield a better outcome from a small number of well thought out savings proposals. Ultimately, members need to be presented with enough options to balance the MTFP position, at which point it is likely that tough decisions will need to be taken. The next general election must be held by January 2025 and, at this point in time, it is not possible to know the impact on funding. However, the Council needs to shore up its position now in order to make sure it is able to withstand any future financial shocks and, indeed, balance its budget in 2025/26.

There is evidence that budgeted outturns have not been met in the past (which is common for a lot of local authorities). The savings shortfall is shown in the table below.

	Savings Requirement £m	**Less Total Potential Savings £m**	**Shortfall £m**
2024/25	16.308	(8.000)	8.308
2025/26	20.432	(3.433)	16.999
2026/27	20.002	(3.046)	16.956
2027/28	10.860	(0.851)	10.009

TOTAL	**67.602**	**(15.330)**	**52.272**

Figures from October Cabinet paper

These shortfalls in achieving savings targets need to be considered when setting future savings targets.

There have been successful changes implemented at Durham and teams have been recognised for good project work, including:

- Community Asset Transfers of a number of leisure centres, which resulted in savings of £2m.

- Review of Home to School Transport policies, which resulting in a £1m saving.

- Review of Adult Social Care practice to ensure consistent application of eligibility criteria to reduce over-commissioning of social care services, leading to a £14.6m savings since 2011.

- Garden waste charging – Finance engaged with the service to model the impact on customer uptake of the service to ensure that charging was sustainable, with the service not generating £2m towards its overall operating costs.

- Move to alternate weekly refuse collection, which resulted in a £1m saving.

- Social Value Award for Best Public Sector Project in 2023 for the Durham Pound project.

- Association for Public Service Award for Best Commercialisation and Entrepreneurship Initiative for work to commercialise and grow SLA income.

However, we feel that there is room for improvement in this area.

We have not seen evidence of a consolidated and clear capital strategy, setting out the Council's long-term objectives and how capital projects tie to them. While it is possible to extrapolate some of this information from the Council Plan and supporting documents, this could be clearer and more widely communicated within the Council. Similarly, while there are investment strategies at Directorate level (particularly Regeneration, which we understand has a 10-year investment strategy), there is no Council-wide investment strategy. We understand that the Council's investment position, including short-term investments and loans to organisations (including Council-owned companies) is reported monthly at treasury management meetings. There are regular briefings for the Chief Executive, the Deputy Leader and Portfolio Holder for Finance. There is six-monthly reporting to Council, and quarterly reporting to Cabinet against prudential indicators.

Benchmarking is carried out against regional neighbour authorities. We understand that the wider local authority picture is well understood at the corporate level, but there was a suggestion in the survey responses that there could be wider benchmarking against a more diverse range of authorities, rather than just nearest neighbours, to ensure best practice in financial management. This benchmarking should also be used to look at the Council's back-office functions to see if further efficiencies can be made. Given the political priorities of its members, the Council will need to make a very strong case if cuts to frontline services are required, and back-office inefficiency is unlikely to be tolerated in this context. Balanced against this is the need to ensure that service efficiencies are also considered to ensure that value for money is being achieved, and the need for sufficient staffing to enable transformation to support the achievement of those efficiencies.

We note that the Council has deferred borrowing in response to high interest rates and to reduce the impact of overspending on the income and expenditure account. If the I&E is coming in on target each year, it provides a bit more wiggle room for the large capital programme and to fund the higher interest costs of debt and MRP costs if borrowing is required. We note that future capital spend that is not grant funded will be based on necessity.

3.10 People – Delivering Accountability

Delivering Accountability	**P1**	The organisation identifies its financial competency needs and puts arrangements in place to meet them.	3
	P2	The organisation has access to sufficient financial skills to meet its business needs.	4

For the Delivering Accountability style these two statements cover the financial competencies required by the organisation and the skills that match these needs.

The Finance team appears to be well-resourced (106 staff), and expertise is distributed across ten layers from apprentice to Head of Service. Finance Managers interviewed feel that they have the competencies within their teams to provide the required level of financial support to the Council. We have not seen a formal competency framework, although we understand that competencies are addressed through the annual PDR process. A formal competency analysis would assist the Council in identifying any gaps or areas for development within the Finance team to ensure its long-term sustainability.

The introduction of apprenticeships, and the newly appointed graduate positions, have provided opportunities for new joiners and brought fresh faces into the team. There is a track record of apprentices progressing quickly through the ranks within the Finance team and we were given the example of a Principal Accountant who started as an apprentice 8 or 9 years ago. There seems to be an emphasis on developing home-grown talent within the Finance team. This is positive in terms of encouraging staff retention and creating a stable team, but there is scope to consider whether "fresh" ideas in the middle levels of the Finance team (public or private sector) might be beneficial.

Finance Managers spoke positively in interviews about the 'Staff Transfer' programme where Finance staff are rotated between departments. This is not a formal process but happens every few years. Finance Managers noted the benefits this provides in terms of professional development for staff, exposure to different services and managers, and the opportunity to develop knowledge. One Finance Manager noted that Staff Transfer had contributed to their promotion to their current role. While services are broadly supportive of Staff Transfer, some managers noted that it can create issues with continuity of Finance support. One manager noted that there had been several changes to their dedicated Finance support in a short space of time, meaning that they had had to bring new staff up to speed on service issues. Another noted that, "*Whilst I recognise the value in moving the financial business accountants around, I would balance that with the needs of a complex service… every time they do move on I wish them well, but from a selfish perspective don't want them to leave!*". This arguably speaks to the quality of Finance staff and their ability to adapt to new services; however, there is an underlying issue in relation to consistency for services.

There is mixed financial literacy across the organisation and, as we would expect, some services are more used to dealing with financial information than others. Finance staff tailor their support, and the training they provide, to provide support at all levels. We understand that the team adopts a risk-based budgetary control approach, focusing on volatile and high value budgets. It should be noted that several survey respondents noted that the presentation of budget analysis is not always user-friendly for non-Finance staff and that, "*…the ways of presenting financial analysis is very accounting led at the detriment of simplification for the wider organisation.*" Job descriptions for Budget Managers include an expectation of financial competency and Budget Managers are clear on their responsibilities in relation to financial management. They are aware that they own their budgets, and they take ownership of any business cases they produce. "*The ethos is very much that service managers are expected to lead on finance in their respective areas… Where there are issues with cost overspends… it is service managers that are responsible and take the lead.*" There is a risk that Finance do too much for their services and that this may hamper the more experienced managers from "getting on with it". For example, we understand that Finance Managers do not allow Budget Managers to enter their own data into the Oracle system. If Finance staff are spending their time doing these kinds of tasks, they are unable to spend their time on more value-add, strategic activities. In addition to this, if managers were sufficiently strong in terms of financial management and use of the systems, there would be less need for challenge of financial figures at the point of updating forecasts.

Different levels of financial engagement can lead to variable engagement with FBPs across services. One survey respondent noted that financial analysis in CMT reports can be inconsistent depending on the level of engagement by the service, and that it is not clear that there is a consistent approach to performance/target management across the Council. While this seems to be an outlying comment, it is something of which Finance should be mindful.

There is some suggestion that further training/support may be beneficial. For example, use of the Oracle and other Finance systems varies between managers. One survey respondent noted that, "*While we do provide support and training on the use of BI, it is difficult to get managers to engage with the system regularly as a 'self service' tool.*" Another noted that, "*Experience of (and therefore confidence with) managing budgets is mixed… I am not sure that the financial management training needs are consistently clearly identified and met across the Council.*" It was also suggested that finance training could be cascaded further down the organisation to the front line. This has the double benefit of ensuring that financial knowledge is shared widely across the organisation and freeing up Finance staff for more strategic work. We understand that a new financial management training tool is being rolled out in the near future, which may address these concerns.

There is anecdotal evidence that Finance Managers are comfortable that they have the skills and capabilities within their teams to support the organisation. However, without a deeper dive, this is difficult to substantiate. For example, we have not seen a formal competency framework for Finance staff. We also understand that Finance staff are doing a certain amount of "hand holding" for service staff in some areas, suggesting that their own skills are not being utilised to their maximum extent. A review of competencies against the FM Code and the CIPFA Finance Competency Framework would enable the organisation to identify any gaps in competencies and create a sold competency framework for the Finance team.

3.11 People – Supporting Performance

Supporting Performance	**P3**	The organisation manages its finance function to ensure efficiency and effectiveness.	3.75
	P4	Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions.	4
	P5	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	3.75

The three Supporting Performance related statements cover the assessment of the effectiveness of the finance function, finance support on key decisions, the enforcement of accountability and the degree of diffused financial management.

It is clear from the interviews and the survey results that, for the most part, the Finance team provides effective FBP support. Finance Managers are described as "critical friends" who provide robust challenge, as well as pragmatic and value-add support. As several interviewees commented, FBP support at Durham compares very positively with other places they have worked.

Finance is not just involved in purely financial matters. As embedded members of service management teams (at Budget Manager and Corporate Director level), Finance provides input on all service decision-making, bringing a broader perspective to service issues and pressures. Positive feedback was given by managers on this aspect, for example, "*we are very well supported by our finance lead with budget monitoring, forecasting and identifying opportunities to create savings/reserves to put towards new demands/projects.*" Survey respondents noted that FBPs provide input beyond the purely financial and respond to exceptional issues as they arise, for example, providing relevant support during legal proceedings.

While there is no formal SLA for Finance, this does not seem to detract from the role played by the team. As one survey respondent commented, "*Who needs an SLA? We are ONE team.*" This gives a powerful sense of how integrated Finance is into the organisation as a whole and supports testimony from interviewees that there is no "them and us" culture between Finance and service areas. Rather than an SLA, it is regular dialogue between Finance Managers and Heads of Service and Budget Managers that ensures that the needs of each service are met.

Finance staff were praised for their willingness to tailor reports to their services. Where financial literacy is not as strong, Finance staff will go to extra lengths to ensure that financial information is clear and accessible. Finance staff also spend time with service colleagues to talk them through their dashboards and other financial reporting to ensure that it is understood. However, this must take additional time for Finance staff, and it would be preferable if non-Finance staff were able to access information easily and in an understandable format in the first instance.

3.12 People – Enabling Transformation

Enabling Transformation	**P6**	The organisation develops and sustains its financial management capacity to help shape and support its transformational programme.	3

The Enabling Transformation statement covers the extent to which financial management capacity and resources can drive transformational change.

In terms of the Finance team, there are opportunities for development and colleagues have been supported to complete AAT and CIPFA qualifications, and FBP training, to advance their professional development. There are also other courses, for example in management, available via Durham Learning and Development.

There have been some recent issues with recruitment where (in common with local government more widely), external candidates have been difficult to find, and internal candidates are not in the right position to apply for more senior roles. While we note that there have been internal promotions in recent years, there is a perception from some within the team that there is also a growing backlog of staff in more senior positions who are not seeing opportunities to move to the next level.

The imminent departure of the Deputy s151 Officer creates a potential opportunity, and we understand that internal and external recruitment is being explored. However, there is no clear succession plan for this role, or for the wider team. This will become an increasingly pressing issue as several Finance Managers and Principal Accountants are approaching retirement age. Some efforts have been made to introduce new talent with the recruitment of apprentices and graduates, but this will take time to work through to the point where these individuals can step up through the levels. It was also noted that there are big gaps between some roles, for example, Principal Accountant and Finance Manager and Finance Manager and Head of Service, which can be difficult to manage. A flatter structure may help with this by removing some of the levels and hierarchy to allow for more flexibility within the team.

The Finance team has done a lot of excellent work in bringing people into the organisation and supporting them to progress through the levels within the team. However, we note that there are several senior staff who are coming to the end of the career, and who may be difficult to replace internally, particularly given that, as a survey participant noted, "*There is a large gap, both in terms of grade and salary, between some grades (for example, Principal Accountant to Finance Manager and Finance Manager to Head of Finance), which can be difficult for individuals to bridge.*" There may be opportunities for development at this level to ensure that the team has the right competencies in place when the time comes, particularly in the light of the difficulties in public sector recruitment more widely.

Although we heard that there is an informal approach to replacing staff that retire, which is based on good faith, there is also a Workforce Plan in place to support this. We also understand that retiring Finance staff are moved into supernumerary posts for 2-3 months after their replacement is in post to allow for a smooth transition. In the longer term, there is likely to be a loss of knowledge and depth of experience within the organisation that will not be easily replaced. The Council needs to continue to be mindful of the challenges in external recruitment in the industry to ensure that Finance team staffing is sustainable.

There is a perception from some quarters that Finance processes can be bureaucratic (although this is not a universally held view). There is the potential that, if this is the case, this could stifle transformation efforts. One survey respondent commented that, "*… there is a very Durham-centric approach to finance which can take some time to navigate, and at times impacts on creativity in financing new activity.*" There is always a need to balance financial governance against the ability to be agile; however, in the current circumstances of uncertainty over the funding settlement and increasing cost pressures, a firm grip is justified. We understand that there has been recent pushback from Regeneration around the control exerted by Finance over financial modelling assumptions, for example, corporate property has been more assertive on some assumptions (e.g., voids).

More widely, there was a suggestion that Resources is not sufficiently resourced to support the size and scale of the Council's current Capital Programme. We understand that this may be a result of the prioritisation of back-office functions for higher levels of cuts in order to protect frontline services. For example, on the project to redevelop the County Hall site, for which a JV partner is sought, there is one lawyer working on this one day a week, with external legal support engaged to supplement the in-house team. This is expected to be a 12- to 14-month procurement and is a significant draw on available resource across the organisation. We understand that Regeneration and Assets functions are also not sufficiently resourced and that there is high reliance on external advisers to support these programmes.

3.13 Processes – Delivering Accountability

For the Delivering Accountability style of financial management the score combines nine individual statements. This is typically one of the highest scoring areas of the FM Model across public sector bodies.

As there are so many statements here, they are most easily considered in a series of thematic groups dealing with different aspects of financial management. Each group is introduced by a series of scores.

Delivering Accountability	**PR1**	Budgets are accrual-based and robustly calculated	3.5
	PR2	The organisation operates financial information systems that enable the consistent production of comprehensive, accrual based, accurate and up to date data that fully meets users' needs.	3
	PR3	The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g., creditor payments, income collection, payroll, and pensions' administration).	3
	PR4	The organisation's treasury management is risk based. It manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.	3.75

The first four Delivering Accountability statements deal with foundational requirements across annual budget setting, transactional finance, treasury management arrangements, as well as integrity and performance of financial systems.

We often find that data and systems are a significant issue for local authorities, which can hinder their effectiveness; however, we have not found this to be the case at Durham. The Council's financial processes are well-established and embedded. They also appear to be well-understood across the organisation and some budget managers have access to a range of real time financial dash boards via the Oracle BI reporting tool, and can drill into items of expenditure. As one survey participant noted, "*The approach to budget setting is perhaps the most thorough I have encountered in a local authority.*" This enables the Council to have access to up-to-date financial information and for the Finance team to provide appropriate support to services. We heard that there is early scenario planning, careful consideration of the likely funding settlement, and benchmarking against other authorities' assumptions. This is led by the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services, and we felt that there may be a little too much reliance on these individuals coming up with what are, in some respects, best estimates (although colleagues noted that these have, to date, been fairly accurate). We understand that these estimates are developed through the Finance Management Team and discussed with other Corporate Directors and their management teams and compared with assumptions being made by peer authorities. Given the importance of these areas, it may benefit the Council if some additional documentation around the approach was prepared to support succession planning.

In the main, the Oracle and Hyperion systems appear to be working well in meeting the data needs of the organisation. The Council has always been able to produce year end accounts within the deadline, although it does not produce accrual accounts in-year. This is not best practice, but we understand that minimising time-consuming journal preparation has contributed to providing an efficient Finance service. CIPFA encourages accruals accounting and, at an appropriate time, perhaps improvements in the Council's systems could enable more automated accruals in-year. It can be more difficult for managers to understand the actual to-date position when it does not include costs incurred for the activity to date. We note that this has not be selected as an option, but that it may be considered as part of a review of Oracle.

Service managers are largely happy with the system and reports are actively managed by Finance. We have observed that there is some shielding of managers from having to use the systems to enter forecasts and budgets as this is done by FBPs. This may obscure whether the forecasting system is user-friendly for those managers. We note that not all service managers use dashboards as much as they should (activity which is monitored by Finance). It is not clear whether this is from a lack of engagement / financial literacy, or an issue with how the systems operate. We understand that Finance staff are consulted about changes to systems, and can submit enhancement requests to meet needs, but that some service managers feel that they are not given this opportunity. This may contribute to a lack of understanding / engagement. Budget Managers cannot necessarily request specific reports through the system; these would have to be provided by their FBP. Some managers require reports generated outside the system, which Finance provide. The Finance systems are used as much as possible, but there is some reliance on Excel for bespoke reports, for example, when using case level data. The corporate BI project will improve this, for example, by incorporating more trend data.

There are some areas of data where the finances need to be greater integrated into the finance system. This is being addressed, for example, through the recent roll out of the Oracle system to schools. There were some issues highlighted in our review with different systems interfacing effectively. For example, the Synergy system for high needs block SEN, which maintains records and controls the data, does not interface naturally with Oracle. This means that Finance has to extract the data and refines this into Oracle to make payments and send information to schools. The Council should continue to progress towards getting complete coverage, including automatic interfacing of all subsidiary systems with Oracle, creating a single version of the truth.

A potential challenge for the Council is that it is reaching a point where it needs to transfer to a cloud-based version of Oracle. Given that the old version is working well and is fit for purpose, a smooth transition is vital so as not to lose this current strength. The transition may provide an opportunity to further enhance both the Finance team's and the wider business's use of the Oracle.

The annual dashboard we saw supports that 96% of invoices were paid within 30 days against a target of 93%. Rates of council tax and business rates recovery in the order of 96% which is comparable with appropriate benchmarks.

The treasury management process and cash flow forecasting has been reviewed recently. This used to be Excel-based but the system and data has been refined and consultants were used to improve the Council's treasury management strategy and KPIs. The strategy is reviewed on a 6-monthly basis with a strict governance process and is forward looking, factoring in interest rate fluctuations. We understand that monthly reports are presented to the Corporate Director of Resources and that a dedicated treasury management meeting is held to discuss strategy movements in the market. This is supplemented by routine briefings with the Chief Executive, the Deputy Leader and the Portfolio Holder for Finance. Compliance is monitored through the internal audit process. Any KPIs not met are reported to Audit Committee. We understand that this has only happened once when a pension scheme investment led to exceeding the counterparty limit, which happened on a Friday afternoon and was not picked up. A system change has been made to prevent this from happening again.

Delivering Accountability	**PR5**	The organisation actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action.	3.25
	PR6	The organisation maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	3.25

These statements cover critical budget performance monitoring and associated responsive agility, as well as how the balance sheet contributes to the effective management of the organisation's assets and liabilities.

We found a well embedded budget monitoring process that has a timetable for reporting to senior staff through to Cabinet. Forecasting is predominantly done on a quarterly basis, although higher risk areas undergo additional scrutiny on a risk-based budget assessment. For example, Children Looked After Placements (a source of significant budget growth in recent years – the LAC budget has increased from £25.1m to £63m in the last 5 years) are monitored weekly and monthly updated forecasts are presented to the Childrens Overview and Assurance Performance Board, chaired by the Chief Executive and involving CMT and key strategic officers within the Children and Young People's Services directorate.

Below the corporate level, Finance Managers have regular meetings with Corporate Directors and Heads of Service to discuss upcoming issues and are seen as trusted advisors who sit on management teams within the services.

In addition to member and CMT oversight, there are boards with oversight of capital programmes, including (MOWG) a non-decision-making group that meets eight times a year and makes recommendations to Cabinet, and full Council. MOWG's key duties include receiving reports outside the annual MTFP capital bidding process to consider additional capital investment to be submitted to Cabinet and receiving reports on progress with the Council's land disposal programme, any land sales at less than best value, and any other matters relating to the Capital Programme which are deemed to require MOWG consideration. This provides an additional level of challenge and oversight with regards to asset management. There is also a Company Governance Group that discusses governance issues related to Council-owned entities and a Shareholder Working Group where Cabinet members meet with key strategic leads overseeing the activities of the companies in which the Council has an interest, to discuss their performance.

The findings from our review of audit outcomes, discussion with auditors, and interviews with senior Finance staff, support that there is generally a suitable level of information and internal process, and appropriate financial control / reconciliations and valuation approach of key assets and liabilities in relation to the balance sheet. We understand that internal audit has discussed how to better align valuations with external audit, who made some recommendations. This approach has been described as "*belt and braces*".

While this review is not a resilience review, we feel that the draft annual accounts highlight some areas of the balance sheet that could potentially present some risk. Durham also provided a loan of £9.4m to NIAL, which is repayable in 2032, and on which it was agreed interest would not be paid for 4 years. The accounts note that:

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.

We note that this loan is held by seven partners, of which the Council is one. We have not been provided with details of the partnership arrangements, but we note in the above extract the Council's maximum exposure of £9.385m. If this loan had to be written off, it would make it even more challenging for the Council to balance its books. This, and any other similar arrangements, will need to be monitored closely.

Delivering Accountability	**PR7**	Management understands and addresses its risk management and internal control governance responsibilities.	3.75
	PR8	Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s).	4
	PR9	The organisation's financial accounting and reporting are accrual based and comply with international standards and meet relevant professional and regulatory standards.	4

The first two statements here address key aspects of critical internal risk management and internal control arrangements together with more independent organisational scrutiny processes. The final statement assesses the effectiveness of financial reporting, including compliance with relevant professional and regulatory standards.

The Internal Audit function at Durham has a wide remit, which includes risk and governance, insurance, and corporate fraud. The Council also has and an external income generating arm within this team, which provides audit services to the crematoria, other public sector bodies (including police), a range of local housing associations, and schools. We understand that there is regular reporting of risk-related matters to Audit Committee. There is a strategic risk register and risks are reported to CMT. Risks are reported to the Audit Committee three times a year, which we understand provides a good level of scrutiny. We understand that Internal Audit is about to undertake an effectiveness review of Audit Committee to ensure that scrutiny of risk is appropriate.

The annual assurance opinion for 2022/23, issued by the Chief Internal Auditor, gave a 'moderate' level of assurance as some weaknesses had been identified and there were some instances of non-compliance. We understand that this opinion was stated as a positive, and that there were areas where 'substantial' assurance was noted (including key financial systems), but that the size and diversity of the organisation meant that 'substantial' assurance could not be given overall.

"*Reviews undertaken during 2022/23 have largely resulted in substantial audit opinions being issued, particularly for the key financial systems, which is positive. Some reviews have however referred to unsatisfactory compliance with the Council's Policies and Procedures in some instances and identified weaknesses with regards to the management oversight over the operational working practices in place in some areas. It is recognised that the Council is on a continuing never ending journey in terms of strengthening it governance arrangements and internal controls.*" (Extract from 'Annual Internal Audit Opinion and Report 2022 / 2023')

We also asked for confirmation around the approach taken to Chapter Homes as an example of a Council-owned company structure. It was explained to us that appropriate tax, legal and anti-competition advice was taken when the company was set up. We were also told that advice was taken to ensure that the loan arrangements were appropriate. We have not reviewed this advice.

Supporting Performance	**PR10**	The organisation's medium-term financial planning process underpins fiscal discipline, is focussed upon the achievement of strategic priorities and delivers a dynamic and effective business plan.	3.5
	PR11	Forecasting processes and reporting are well developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making.	3.5

The first Supporting Performance statement addressed the critical area of medium-term financial planning and how financial strategy is underpinned by key funding assumptions, strategic service planning and analysis. The second statement tests the effectiveness of forecasting and the influence of such processes upon decision making.

There is a timetabled and disciplined process for setting the organisation's annual budget and rolling four-year MTFP. Benchmarking is carried out to ensure that reasonable estimates of the funding position are achieved and areas with known high level financial impacts are considered. We understand that this includes information produced by the CCN, SIGOMA and Pixel, and peer discussions across the region. Key assumptions are pulled together, and appropriate scenarios (including best, base and worst case) are worked through to inform top-down assumptions. Service groups work on savings and capital bids and there are separately documented approaches set out for these that run in tandem within the overall MTFP process.

At a more detailed level, budgets are, in the main, set to reflect the impact of the previous year's outturn i.e., mostly incremental budget setting with appropriate adjustments factored in for inflation and growth etc. We have heard some FBPs explain that they go through the service area on a line-by-line basis to review the position with the relevant managers and that there is internal challenge within service areas by service directors. Service directors have the opportunity to put forward bids for growth for consideration as part of the process and the underlying business case and costing of these bids is supported by the FBP.

There are EMT MTFP sessions where heads of service are kept up to date with the MTFP planning assumptions and forecasts and where they present their plans and challenge is made. Various rounds of scrutiny and approval are undertaken prior to the budget and MTFP proposals going to Cabinet and full Council for approval each February. The budget and MTFP process fall within the remit of the Corporate Overview and Scrutiny Committee. We understand that the Council undertakes public consultation on the Council's MTFP forecasts, its council tax setting and its proposed savings.

During the forecasting process, there are meetings where FBPs and Budget Managers meet to consider spending and income raised in the year to date and to do the forecasts to year end. FBPs challenge and support Budget Managers, who then update the forecasting system.

In general, Corporate Directors, Heads of Service and Budget Managers came across as very knowledgeable regarding their service's financial position. The wider organisational issues were well known, and they understand and are engaged with the FBP model and set up. In the main, we felt that it is recognised that Budget Managers are accountable for their budgets. FBPs support managers in areas of business case formulation and there is strong challenge from Finance Managers at service management team meetings. We understand that this is supplemented by business partnering arrangements in Legal and Human Resources and that FBP work with colleagues in other support services to co-ordinate support to services.

What stands out it that there is a real effort made at service level, working closely with their Finance Managers to ensure that high quality forecast and decision related information is filtered up through strategic finance to senior finance leadership then onto CMT and Cabinet.

3.14 Processes – supporting performance

Supporting Performance	**PR12**	The organisation systematically pursues opportunities to reduce costs and improve value for money in its operations.	3
	PR13	The organisation systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management.	3.5

Both Supporting Performance statements cover the extent to which arrangements to secure value for money are embedded within the organisation. The first statement considers the systematic delivery of value for money in ordinary activities, whereas the second statement tests the effectiveness of procurement commissioning and contract management in securing value for money.

While there is evidence that the Council undertakes benchmarking in order to measure whether it is delivering value for money, and the Head of Corporate Finance and Commercial Services has advised that the Council is aware of areas in which it is high cost, we found room for improvement in this area. We found that end to end business reviews were not undertaken by the organisation in all areas in order to maximise efficiency and use of resource. We note that there is a Digital Strategy that has undertaken a number of prioritised reviews. We also found evidence that resource allocation does not always match strategic priorities and/or the needs of the organisation and that this is not always agile.

The organisation incorporates an approach to delivering savings into its business planning process and makes requests for invest to save initiatives in its capital bidding programme. There is a systematic attempt to reduce cost and improve value for money. However, we feel that more use could be made of benchmarking, for example by widening the benchmarking to national comparators and drilling down more into detailed areas of value for money.

3.15 Processes – enabling transformation

Enabling Transformation	**PR14**	The organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised.	3
	PR15	The organisation's financial management processes support organisational change.	3

The Enabling Transformation statements test the extent to which financial processes contributes to improved outcomes through transformational change.

We came across examples where the organisation has re-engineered its financial process to ensure delivery of agreed outcomes in terms of systems. For example, a new treasury management system was implemented to move away from a spreadsheet-based approach and Oracle has been rolled out to schools, and the Finance team uses Hyperion to build budgets and calculate initial forecasts. The corporate performance pack is also an example of a high-quality output containing both financial and non-financial information.

An example of a re-engineered process that did not quite deliver optimised outcomes or organisational management change was the change from top-down savings targets being required of services, to a more bottom-up approach where services proposed their own savings for MTFP 14. There were instructions that set the scene for this process, and templates and a timeframe were provided within the MTFP process. However, this process did not deliver the level or type of savings required to balance the MTFP. A further exercise was undertaken to identify further savings, which we understand has identified an additional £9.5m of savings. Several interviewees commented that a target-based approach may have been better in reaching a stronger savings position and we understand that there are plans to revert to a target-based process for MTFP 15. This approach would support organisational change and maximising the use of management time as savings are likely to be service led, rather than reflecting wider organisational issues.

The capital bidding process appears to be top-down in terms of calculating capita resource availability and setting out guidance and timetables and bottom-up in terms of developing capital investment proposals. This may not be optimal in terms of supporting organisational change or use of management time. Bids are likely to be service led, rather than reflecting wider organisational issues. However, there is evidence that services submit bids linked to service priorities, which should match corporate priorities. It seems to have been accepted that "nice to have" bids would not be accepted, but clearer guidance on capital prioritisation needs to be documented in the capital strategy, to help steer service level effort in the right direction for the Council as a whole. We did not see a 10-year capital investment plan setting out the financial position and plan for capital beyond the time period of the MTFP. Given that the lifespan of capital assets, for example buildings, is 40 years a longer timeframe is appropriate. A 10-year strategy may be less detailed in later years, but should give a good idea of the financial position in the medium term. For example, the strategy could set out a story of capital needs over the long term and an MTFP of 5 years capital expenditure. The 10-year capital strategy is a link between the story of capital needs for the organisation, which should be in a capital strategy, and the shorter term capital plan.

There is a mismatch between the scale of the original Capital Programme budget and in-year expenditure, which is at much lower levels than the budget. While this is not uncommon for local authorities, it suggests that important planned activity is not happening when it should. We understand that there are complex reasons for slippage in the capital programme, including for example, impact of procurement / planning or outcomes and capacity within relevant teams.

We understand that the organisation uses the HM Treasury approach for business cases and FBPs support the process well. On one business case we reviewed (for the new Council headquarters), there seemed to be a very narrow range of options in the shortlisted items, which is not best practice in application of the HM Treasury approach. It was unclear why refurbishment of County Hall had been shortlisted as an option (when it probably could have been excluded earlier), rather than different options being explored. However, we have seen further evidence of a much more detailed and thorough business case methodology applied, with more options considered.

On the positive side, there is a good level of challenge from service level management teams, including on the policy, Finance and Legal side, so less viable bids are filtered out. There is also robust challenge at a senior level.

There is work currently being undertaken to improve systems and enhance the data available to Finance and services. This has already been done for Childrens and Young Peoples Services and Adults and Health Services, which has given them access to dashboards that provide valuable insight, including trend information. For the organisation to fully enable transformation, its services across the board need to provide this insight. to drive efficiencies and make the Council more agile.

3.16 Stakeholders management dimension

The CIPFA FM Model combines a number of stakeholder elements here, including the views of external stakeholders, on value for money, financial integrity, compliance with statutory and regulatory obligations and the ability to influence decisions on resource allocation.

Delivering Accountability	**S1**	The organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations.	3.5
	S2	The organisation demonstrates that it achieves value for money in the use of its resources.	3
	S3	The organisation is responsive to its operating environment, seeking and responding to customer and stakeholder service and spending priorities that impact on its financial management.	3.5

The first statement examines the degree to which external stakeholders receive assurance on financial integrity from a number of sources including processes and publications. Financial impacts and factors that influence stakeholder confidence are key to this dimension. The second statement seeks to test the assurance provided to external stakeholders on the delivery of value for money. The final statement uncovers stakeholder engagement and the degree to which this relationship influences financial strategy and organisational priorities.

The Council engages with stakeholders through its Area Action Partnerships (AAPs) and via the County Durham Partnership Forum. We understand that the 14 AAPs are consulted to understand local priorities and to inform the actions the Council will take to address them.

Through AAPs, the Council allocates funding to local organisations and monitors how that funding impacts communities. The 2024/25 budget is currently out for consultation with AAPs and through the County Durham Partnership Forums. There was some suggestion in the survey responses that decision-making could be more collaborative with communities and that presentation of financial information could give way to more focus on joint challenges and opportunities to meet priorities.

We understand that there is a particularly strong relationship between the Council and the County Durham Health and Care Partnership (with integrated teams at an operational level) and that joint plans have been made for the Better Care Fund and other joint funds. The Council also has a joint commissioning function with the NHS which enables joint proposals to drive value for money. The Council seeks to strike a balance in contract negotiations, being fair to the Council, the NHS and providers, and to ensure that the Council and the NHS are not paying different rates. As it is challenging to pool Council and NHS money, there is a Social Care Fund to which both parties contribute.

We found it difficult to identify clear evidence of value for money being demonstrated to stakeholders. While value for money is referenced in the Annual Statement of Accounts, and external audit provides a judgement on value for money, we felt that how value for money is achieved could be more clearly set out for stakeholders.

Council-owned company governance has been strengthened in recent years and an officer-led Company Governance Group has been established to ensure that wholly and partially owned companies are managed effectively. There is a stringent process in place for new companies, including development of a business case. There is also a Shareholder Working Group, which we understand consists of key Cabinet members to oversee the activities of the various companies. Company boards are comprised of officers (with one former officer serving as a director of Chapter Homes following their retirement from the Council), with appointments based on role profiles for the particular role. Shareholder leads have been identified to act as interface with the Council via the Shareholder Working Group. There is a recognition that company management is an involved role that needs proper resource allocation, particularly where the Council is working with commercial joint venture partners.

There seems to be an increased focus on customer service and engagement. For example, leisure centres have been updated to make them more appealing to residents (including laser tag and soft play) and are being marketed more commercially to increase footfall.

The Council’s external auditors were very complimentary about the working relationship between them and the Council, and the Council’s responsiveness to recommendations.

4. Concluding comments

4.1 Survey completion

The electronic survey completion rate for this roll out of the CIPFA FM Model was 94% (which is well above the minimum level of evidence needed of 50%) with 64 out of 68 participants submitting data/evidence.

4.2 Interviews

The roll out of the CIPFA FM Model relies heavily on interviews to cover specialist areas (such as internal audit, year-end financial reporting, and procurement) and to probe further into areas covered by the electronic survey. We completed 25 interviews with Council staff and welcomed their openness and transparency.

4.3 Summary conclusion

We have been impressed by Durham's financial management and with the systems, data and processes it has in place to support financial decision-making. We believe that Durham's financial management is good and that, with some improvements, could be even stronger, placing the Council in a good position to respond to challenges and deliver transformation.

There are Significant levels of savings proposals that we have seen in a "summary spreadsheet" as evidence that the Council are working towards bridging the gap. We have been told that these have been discussed with members, although we are not clear on the status of these discussions and the appetite among members to implement savings. We note that there are some barriers in that the Council seems to need certainty on the funding settlement before implementing the required level of savings plans. However, long-term settlements have not been available for several years and, as such, the safest approach to delivering savings targets is to base them on the best assumptions available during the MTFP process.

In the current political and economic climate, having a sufficient cushion of reserves is more important than ever. Building up reserves has bought Durham some time when dealing with significant financial shocks such as inflation. However, there are still future risks that could test the reserves position that Durham has built up. To protect Durham's financial resilience, we encourage the formulation of robust savings plans with due regard to the impact on levels and quality of service provision.

Durham should be able to use its strengths of technological capabilities and highly integrated business partnering expertise to 1) make any easy savings that are politically acceptable as soon as possible 2) build on the way the financial leadership have worked with the Cabinet and members so that they are presented with enough appropriate sustainable savings plans to enable the Council to deliver a balanced MTFP position over the coming years.

This is not a resilience review; however, we have felt compelled to comment on some aspects of resilience in this report. Local authorities are operating in an uncertain financial environment, and there is more the Council could do to set itself up to withstand any future shocks.

Appendix 1 - CIPFA FM Model - Summary

The CIPFA FM Model was originally released in July 2004 and describes a model for best practice in financial management within the public sector. This is the fourth iteration of the FM Model. Version 4 has been specifically developed to incorporate the very latest best practice initiatives as well as the emerging financial management issues associated with the current financial environment. The Model recognises that using money well leads to more and better front-line services and that effective financial management in the public sector now requires financial responsibilities to be more widely diffused throughout the whole of the organisation.

Budget holders/managers therefore need to be financially literate and finance professionals need to contribute through challenge, interpretation and advice. Good financial management is no longer just about accounting for expenditure and demonstrating probity, but finance must be placed in the wider organisational context, in terms of how it supports the delivery of the organisation's strategic objectives.

The CIPFA FM Model is structured around three styles of financial management:

- **Delivering Accountability**– an emphasis on control, probity, meeting regulatory requirements and accountability.
- **Supporting Performance** – responsive to customers, efficient and effective, and with a commitment to improving performance.
- **Enabling Transformation** – strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

The styles are intended to be progressive and it is expected that all three styles will be present in an organisation exhibiting best practice financial management characteristics. For example, accountability alone is not sufficient to enable an organisation to drive performance and to develop its transformational capacity and, conversely, performance or transformation programmes that are not founded in a robust approach to controlling and accounting for resources are unlikely to succeed.

The CIPFA FM Model is also organised by four management dimensions. These cover both hard edged attributes that can be costed or measured, as well as softer features such as communications, motivation, behaviour and cultural change. These are:

- **Leadership** – focuses upon strategic direction and business management, and the impact on financial management of the vision and involvement of the organisation's Board members and senior managers.
- **People** – includes both the competencies and the engagement of staff. This aspect generally faces inward to the organisation.
- **Processes** – examines the organisation's ability to design, manage, control and improve its financial processes to support its policy and strategy.
- **Stakeholders** – deals with the relationships between the organisation and those with an interest in its financial health, whether Treasury, inspectors, auditors, taxpayers, suppliers, customers or partners. It also deals with customer relationships within the organisation, between finance services and its internal users.

A matrix approach is therefore used in the Model, combining the three styles of financial management and four management dimensions. The organisation's current financial management position is assessed through comparing its arrangements against 30 statements of best practice, with a set of supporting questions sitting behind each statement. The table below shows how the 30 statements fit into the Best Practice Matrix.

Table 1 – Management styles/dimensions matrix

	Management Dimensions			
Financial Management Styles	Leadership	People	Processes	Stakeholders
Delivering Accountability	L1 – L3	P1 - P2	PR1 – PR9	S1
Supporting Performance	L4 – L5	P3 – P5	PR10 - PR13	S2
Enabling Transformation	L6	P6	PR14 - PR15	S3

Each statement is scored from 0-4 with half point increments, to establish an overall picture of strengths and weaknesses in terms of financial management, as shown in the following table.

Table 2 – How far does the best practice statement apply?

Score	How far does the best practice statement apply?
0 / 0.5 / 1	Hardly
1.5 / 2	Somewhat
2.5 / 3	Mostly
3.5 / 4	Strongly

The methodology used to undertake the review of financial management within Durham County Council is described in **Appendix 2**.

Appendix 2 – Review methodology

Introduction

The aim of the review is to form a view on the extent to which the statements of best practice in financial management apply to the organisation and the approach aims to gather evidence for this in the most economical way.

The high-level stages involved in the review are set out in further detail below.

Application of best practice statements

Assessment methodology requires contributors to the electronic survey to approach the scoring for their relevant best practice statements and supporting questions by allocating scores from 0-4 to each of the statements.

The approach includes the categorisation of five survey groups as follows:

Table 1 – Survey groups

Group	Survey group	Description
SG1	Strategic finance	This group would comprise senior finance staff at the core of the corporate strategic finance function and include deputy/assistant CFOs, chief accountants, senior corporate financial performance specialists, long term finance and funding specialists, special project investment specialists, technical financial reporting specialists, etc.
SG2	Operational finance	This group is generally made up from the corporate core finance function but can include finance specialists from devolved arrangements with operational departments/functions. Members would typically include group accountants, budget monitoring teams, departmental business partners and corporate transactional finance staff.
SG3	Service directors	This group is aimed at service directors/heads of service – the objective is to capture evidence on strategic financial capability from an operational non-Finance perspective at the most senior operational level. Such contributors would typically be members of the organisational corporate management team/senior management team.
SG4	Operational managers	Typically, but not exclusively, budget Holders. This group would include any operational manager that is empowered to make decisions consuming organisational resources that have financial implications. Such decisions are typically taken supported by management information or decision support advice provided by finance colleagues.
SG5	Board, Stakeholders and external contributors	The senior stakeholders group comprises the chief finance officer, Chief Executive/Permanent Secretary, board non-executives, Audit Committee chairs and members, other external stakeholders or partner organisations, external audit representation and external supervisory representation – e.g., external auditor.

For the Durham County Council survey, participants were drawn from SG2, SG3 and SG4. A selection of the most relevant statements and questions for each of the survey groups were determined and tailored accordingly. This "culling" process produces the most relevant application of the best practice statements designed to extract the optimal information from each specialised survey group. Benefits include relevancy and the minimisation of time exposure for participants and allowed a categorisation of evidence capture between:

- Document review/evidence.
- Interviews.
- Electronic survey.

Document review/evidence

An integral aspect of the review was the assessment of a number of key documents for the Council (including material specifically made available as part of this assessment process, as well as publicly available material). This served two main purposes; to enable the assessor to familiarise him/herself with the structure, processes and culture of the Council, and to confirm factual information relating to the best practice statements and supporting questions e.g., whether or not a specific policy was in existence.

Interviews

Interviews with 25 contributors were used to supplement the document review as well as substantiating the evidence generated from the survey.

Interviewees were largely from within the Council (with a sample of staff with financial management responsibilities, including Corporate Directors and Budget Managers), both officers and members. Interviewees also included the Operations Manager of Chapter Homes, the Council’s property management company, and the Council’s external auditor.

Table 2 – List of interviewees

Group	Survey group	Name	Job Title
SG1	Strategic finance	Paul Darby	Corporate Director Resources (s151 Officer)
		Jeff Garfoot	Head of Corporate Finance and Commercial Services (Deputy s151 Officer)
SG2	Operational finance	Joanne McMahon	Finance Manager – Revenue
		Andrew Baldwin	Finance Manager – Capital, Systems and Commercial
		David Watchman	Finance Manager – Childrens
		Phil Curran	Finance Manager – Neighbourhoods
		Andrew Gilmore	Finance Manager – Adults
		Ed Thompson	Finance Manager – Regeneration and Resources
SG3	Service directors	John Pearce	Corporate Director Children and Young Peoples Services
		Alan Patrickson	Corporate Director Neighbourhoods and Climate Change
		Amy Harhoff	Corporate Director Regeneration and Economic Development
		Jane Robinson	Corporate Director Adult and Health Services
		Tracey Henderson	Chief Internal Auditor and Fraud Manager
SG4	Operational managers	Ian Hoult	Operational Budget Manager – NCC
		James Etherington	Operational Budget Manager – RES
		Lynn Hall	Operational Budget Manager – REG
		Karen Davison	Operational Budget Manager – CYPS
		Neil Jarvis	Operational Budget Manager – AHS
SG5	Stakeholders	John Hewitt	Chief Executive
		Councillor Amanda Hopgood	Leader of the Council

		Councillor Richard Bell	Deputy Leader of the Council – Finance Portfolio
		Councillor Rob Crute	Chair of Overview and Scrutiny Management Board (Shadow Cabinet Member for Finance)
		Councillor Alex Watson	Chair of Audit Committee
		Richard Roddam	Chapter Homes Operations Manager
		Mark Outterside	External Audit Lead

Electronic Survey

A powerful component of the CIPFA FM Model is the electronic survey. Across a range of staff with differing financial management roles the electronic survey is used to test best practice statements against the actual prevailing conditions and practice within the organisation. Such scope would include e.g., the robustness of budget setting, the integration of business and financial planning, financial management competencies, the extent to which finance supports strategic decision making etc.

Contributors complete the electronic survey and submit their results online over a prescribed period of time. In addition to scoring the statements, contributors were given the facility to record observations and evidence which provide valuable insight as well as substantiating their scoring.

The overall response rate for the electronic survey was 64 out of 68 participants submitting data/evidence. The minimum level acceptable as evidence is normally 50% for each survey group. Response rates for each of the survey groups are set out in the chart below:

Table 3 – Survey groups

Group	Survey Groups	Invited	Completed
SG1	Strategic finance	N/A	N/A
SG2	Operational finance	30	30
SG3	Service directors	23	22
SG4	Operational managers	15	12
SG5	Board, Stakeholders and external contributors	N/A	N/A
	Total	**68**	**64**

Master scoring

In terms of high-level representation of the scores we have used a "traffic light" approach as follows:

Colour	Score
Red	0.0 – 1.9
Amber	2.0 – 2.9
Green	3.0 – 4.0

The assessor concluded the independent assessment of the score for each best practice statement, taking into account the range of evidence gathered from all sources[3] during the review. The key findings of the review are set out in section three of the main report.

[3] Electronic Survey, interview and document review.

Appendix 3 – Star rating key criteria and characteristics

Rating	Assessment
*****	The organisation has in place leading edge financial management capability that allows it to anticipate both challenges and key opportunities, driving transformational change in order to optimise its performance and deliver optimal outcomes. Financial strategy is robust and covers medium to longer term and the organisation is fully agile in adapting to unforeseen events without impacting key outcomes. Investment programme management including commercial capabilities are fully integrated with operational requirements and highly effective with significant returns being achieved on improved service delivery. Financial management capability meets global best practice standards.
****	The organisation has in place strong financial management capability which enables it to deliver effective outcomes in challenging times, provides stability through to the medium term, is agile in adapting to unforeseen events, continually identifies opportunities to improve its performance and contributes to organisational transformational change. Most investment programmes are delivered to time and cost. The organisation has strong insight into cost drivers and commercial capabilities are highly evident with strategic and operational planning.
***	The organisation has sound financial management capability and has arrangements in place that are adequate in supporting the organisation under stable conditions and enables it to incrementally develop but is not sufficient for challenging times or driving transformational change. There is a medium term financial strategy and competent investment programme management that ensures that most programmes are implemented although invariably not all projects will come within budget and timescales. Commercial capabilities exist but are only partially developed.
**	The organisation has basic financial management capability. Financial management arrangements are in place that allows the organisation to meet the minimum of practice standards and provides functional capability in the short term, a minimum level of support in the delivery organisational outcomes but does not support organisational transformational change. Financial management style is predominantly stewardship in nature rather than supporting effective decision support. Investment Programme management is rudimentary and there is a disconnect between operational and financial strategies.
*	The organisation has some financial management arrangement in place, but they are inadequate and provide only minimal financial management capability with reactive short term solutions. Basic accountability obligations are minimally covered, and financial management does not meaningfully support effective organisational outcomes of transformational change. Basic stewardship responsibilities are a challenge and financial management capability is not fully embedded within basic decision support.