



Northumberland County Council

Your ref:
Our ref:
Enquiries to: Andrea Todd
Email:
Tel direct: 01670 622606
Date: 18 July 2023

Dear Sir or Madam,

Your attendance is requested at the Annual Meeting of the **AUDIT COMMITTEE** to be held on **WEDNESDAY, 26 JULY 2023 at 10.15 AM in THE COUNCIL CHAMBER, COUNTY HALL, MORPETH, NE61 2EF.**

Please note:

- The period between 9.30 a.m. and 10.00 a.m. is restricted to only the Members of the Audit Committee and Internal and External Audit to allow discussion without the presence of senior officers.

Yours faithfully

Dr Helen Paterson
Chief Executive

To Members of the Audit Committee



Dr Helen Paterson, Chief Executive
County Hall, Morpeth, Northumberland, NE61 2EF
T: 0345 600 6400
www.northumberland.gov.uk



AGENDA

PART I

It is expected that the matters included in this part of the agenda will be dealt with in public.

1. MEMBERSHIP AND TERMS OF REFERENCE

The Committee is asked to note the membership and the election of Mr Stephen Watson as Chair of the Committee as appointed by Council on 17 May 2023 and the terms of reference stated within the redrafted Constitution 2023, for the ensuing year.

8 members (4:2:1 Ind Gp, 1 Min Gp)

Quorum – 3 (must be at least 2 opposition members)

Chair: S. Watson

Vice Chair: D. Towns

Conservative	Labour	Independent Group	Liberal Democrats	Green Party	Ind Non-Grouped
T. Cessford	L. Grimshaw	A. Dale	J. Reid		
P. Jackson	A. Wallace				
N. Oliver					
D. Towns					

Also:

3 Independent Members (non-voting) – P. Topping, S. Watson and TBC.

Terms of Reference and Powers:

Statement of Purpose

The committee's purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective. The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

Governance, risk and control

(a) To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.

(b) To monitor the effective development and operation of risk management

in the Council.

(c) To monitor progress in addressing risk-related issues reported to the committee.

(d) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

(e) To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code.

(f) To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

(g) To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

(h) To approve the Regulation of Investigatory Powers Act 2000 (RIPA) policy and procedures, monitor the Council's use of RIPA powers and to undertake the annual review of the Council's use of the Regulation of Investigatory Powers Act 2000 (RIPA) ensuring compliance with the Code of Practice.

(i) To monitor the counter fraud strategy, actions and resources.

(j) To review the governance and assurance arrangements for significant partnerships or collaborations.

Financial and governance reporting

(a) Governance reporting

(i) To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.

(ii) To consider whether the annual evaluation for the Annual Governance Statement fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

(b) Financial reporting:

(i) To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.

(ii) To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

(iii) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Arrangements for audit and assurance

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.

External audit

(a) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

(b) To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

(c) To consider specific reports as agreed with the external auditor.

(d) To comment on the scope and depth of external audit work and to ensure it gives value for money.

(e) To consider additional commissions of work from external audit.

(f) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

(g) To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

(h) Internal audit

(i) To approve the internal audit charter.

(j) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

(k) To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

(l) To approve significant interim changes to the risk-based internal audit plan and resource requirements.

(m) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

(n) To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to

limit such impairments.

(o) To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

(i) updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work

(ii) regular reports on the results of the Quality Assurance and Improvement Programme

(iii) reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

(p) To consider the head of internal audit's annual report, including:

(i) the statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that support the statement (these will indicate the reliability of the conclusions of internal audit)

(ii) the opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the Annual Governance Statement).

(q) To consider summaries of specific internal audit reports as requested.

(r) To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

(s) To contribute to the Quality Assurance and Improvement Programme and in particular to the external quality assessment of internal audit that takes place at least once every five years.

(t) To consider a report on the effectiveness of internal audit to support the Annual Governance Statement where required to do so by the accounts and audit regulations

(u) To provide free and unfettered access to the Audit Committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

(v) Accountability arrangements

(w) To report to those charged with governance on the committee's

findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.

(x) To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

(y) To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement.

(z) Designation of the County Council's Audit Committee as Group Audit Committee for all entities within Northumberland County Council's Accounting Group Boundary.

Group Audit Committee

The Audit Committee is also designated as the Group Audit Committee for all entities within Northumberland County Council's Accounting Group Boundary. The detailed terms of reference for this function are contained within the Council's Constitution.

2. APOLOGIES FOR ABSENCE

3. MINUTES

(Pages 1
- 12)

Minutes of the meeting of the Audit Committee held on 29 March 2023, as circulated, to be confirmed as a true record and signed by the Chair.

4. DISCLOSURE OF MEMBERS' INTERESTS

Unless already entered in the Council's Register of Members' interests, members are required where a matter arises at a meeting;

a. Which **directly relates to** Disclosable Pecuniary Interest ('DPI') as set out in Appendix B, Table 1 of the Code of Conduct, to disclose the interest, not participate in any discussion or vote and not to remain in room. Where members have a DPI or if the matter concerns an executive function and is being considered by a Cabinet Member with a DPI they must notify the Monitoring Officer and arrange for somebody else to deal with the matter.

b. Which **directly relates to** the financial interest or well being of a Other Registrable Interest as set out in Appendix B, Table 2 of the Code of Conduct to disclose the interest and only speak on the matter if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain the room.

c. Which **directly relates to** their financial interest or well-being (and is not DPI) or the financial well being of a relative or close associate, to declare

the interest and members may only speak on the matter if members of the public are also allowed to speak. Otherwise, the member must not take part in discussion or vote on the matter and must leave the room.

d. Which **affects** the financial well-being of the member, a relative or close associate or a body included under the Other Registrable Interests column in Table 2, to disclose the interest and apply the test set out at paragraph 9 of Appendix B before deciding whether they may remain in the meeting.

e. Where Members have or a Cabinet Member has an Other Registerable Interest or Non Registerable Interest in a matter being considered in exercise of their executive function, they must notify the Monitoring Officer and arrange for somebody else to deal with it.

NB Any member needing clarification must contact monitoringofficer@northumberland.gov.uk. Members are referred to the Code of Conduct which contains the matters above in full. Please refer to the guidance on disclosures at the rear of this agenda letter.

5. MONITORING REPORT / ACTION LOG 2023-24 (Pages 13 - 20)

The Audit Committee operates under an agreed programme of core business, in accordance with its Terms of Reference as set out in the Council's Constitution. The Committee is asked to review and note its monitoring report/action log for the 2023/24 council year.

6. REPORT OF EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES AND S151 OFFICER (Pages 21 - 84)

International Lessons Learned Review

To report to the Committee the outcome of the international lessons learned review commissioned following the issue of the S151 Officer's S114 report in May 2022.

7. REPORT OF EXECUTIVE DIRECTOR OF TRANSFORMATION AND RESOURCES AND S151 OFFICER (Pages 85 - 98)

Review of Exit Payments

To bring to the attention of the Committee the views of the Chief Finance Officer (S151 Officer) on the lawfulness of exit payments to former senior officers.

8. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT (Pages 99 - 120)

2022/23 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

The purpose of this report is to provide the annual opinion from the Chief Internal Auditor on the overall adequacy and effectiveness of the

organisation's framework of governance, risk management and control, taking into account the expectations of the Council's Leadership Team, Audit Committee and other key stakeholders.

- 9. REPORT OF THE LEADER OF THE COUNTY COUNCIL** (Pages 121 - 166)
- Annual Governance Review and Draft Annual Governance Statement 2022/23**

The purpose of this report is to enable the Audit Committee to review the draft Annual Governance Statement for 2022-23 and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

- 10. REPORT OF DEPUTY LEADER AND PORTFOLIO HOLDER FOR CORPORATE SERVICES** (Pages 167 - 360)
- The Statement of Accounts for the year ended 31 March 2023**

To present the draft (unaudited) Statement of Accounts for the year ended 31 March 2023 and raise any significant issues arising from the accounts.

- 11. REPORT OF DEPUTY LEADER AND PORTFOLIO HOLDER FOR CORPORATE SERVICES** (Pages 361 - 370)
- Northumberland County Council – Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023**

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

- 12. EXTERNAL AUDIT REPORTS**

To consider the following reports:-

- (a) Audit Strategy Memorandum 2022/23
- (b) Audit Progress Report

Reports to follow

- 13. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 371 - 386)
- Strategic Audit Plan 2022/23 – Final Monitoring Statement**

The purpose of this report is to provide Audit Committee with a final

monitoring statement in respect of the Strategic Audit Plan for 2022/23.

- 14. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT** (Pages 387 - 406)

Key Outcomes from Internal Audit Assignment (Issued November 2022 to April 2023)

The purpose of this report is to advise Audit Committee of key outcomes from Internal Audit reports issued between November 2022 and April 2023 (Appendix 1).

- 15. REPORT OF DEPUTY LEADER AND PORTFOLIO HOLDER FOR CORPORATE SERVICES** (Pages 407 - 426)

Treasury Management Annual Report for the Financial Year 2022-23

This report provides details of performance against the Treasury Management Strategy Statement (TMSS) 2022-23 approved by the County Council on 23 February 2022. The report provides a review of borrowing and investment performance for 2022-23, set in the context of the general economic conditions prevailing during the year. It also reviews specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by the Authority in the TMSS.

- 16. URGENT BUSINESS (IF ANY)**

To consider such other business as, in the opinion of the Chair, should, by reason of special circumstances, be considered as a matter of urgency.

- 17. DATE AND TIME OF NEXT MEETING**

The next meeting is scheduled for Wednesday, 27 September 2023 at 10.15 am.

PART II

It is expected that matters included in this part of the Agenda will be dealt with in private. Reports referred to are enclosed for members and officers only, coloured pink and marked "Not for Publication".

- 18. EXCLUSION OF PRESS AND PUBLIC**

The Committee is invited to consider passing the following resolution:

- (a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and

- (b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Items	Paragraph of Part I of Schedule 12A
19	Paragraph 3 of Part 1 of Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding the information). Disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.

19. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

(Pages
427 -
448)

Group Audit Committee: Advance Northumberland Internal Audit Update

The purpose of this report is to update Group Audit Committee on the Chief Internal Auditor's Annual Opinion for 2022/23 on the Framework of Governance, Risk and Control for Advance Northumberland Group of Companies, provided at Appendix 1 together with the agreed Strategic Audit Plan 2023/24 at Appendix 2. Additionally, an Update on the Strategic Audit Plan for 2022/23 is provided at Appendix 3 which also includes a summary of work finalised since the previous update to Audit Committee in January 2023. These reports were presented to Advance Northumberland Audit Committee on 18 April 2023.

IF YOU HAVE AN INTEREST AT THIS MEETING, PLEASE:

- Declare it and give details of its nature before the matter is discussed or as soon as it becomes apparent to you.
- Complete this sheet and pass it to the Democratic Services Officer.

Name:		Date of meeting:	
Meeting:			
Item to which your interest relates:			
Nature of Interest i.e. either disclosable pecuniary interest (as defined by Table 1 of Appendix B to the Code of Conduct, Other Registerable Interest or Non-Registerable Interest (as defined by Appendix B to Code of Conduct) (please give details):			
Are you intending to withdraw from the meeting?		Yes - <input type="checkbox"/>	No - <input type="checkbox"/>

Registering Interests

Within 28 days of becoming a member or your re-election or re-appointment to office you must register with the Monitoring Officer the interests which fall within the categories set out in **Table 1 (Disclosable Pecuniary Interests)** which are as described in "The Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012". You should also register details of your other personal interests which fall within the categories set out in **Table 2 (Other Registerable Interests)**.

"Disclosable Pecuniary Interest" means an interest of yourself, or of your partner if you are aware of your partner's interest, within the descriptions set out in Table 1 below.

"Partner" means a spouse or civil partner, or a person with whom you are living as husband or wife, or a person with whom you are living as if you are civil partners.

1. You must ensure that your register of interests is kept up-to-date and within 28 days of becoming aware of any new interest, or of any change to a registered interest, notify the Monitoring Officer.
2. A 'sensitive interest' is as an interest which, if disclosed, could lead to the councillor, or a person connected with the councillor, being subject to violence or intimidation.
3. Where you have a 'sensitive interest' you must notify the Monitoring Officer with the reasons why you believe it is a sensitive interest. If the Monitoring Officer agrees they will withhold the interest from the public register.

Non participation in case of disclosable pecuniary interest

4. Where a matter arises at a meeting which directly relates to one of your Disclosable Pecuniary Interests as set out in **Table 1**, you must disclose the interest, not participate in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest, just that you have an interest.

Dispensation may be granted in limited circumstances, to enable you to participate and vote on a matter in which you have a disclosable pecuniary interest.

5. Where you have a disclosable pecuniary interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Disclosure of Other Registerable Interests

6. Where a matter arises at a meeting which **directly relates** to the financial interest or wellbeing of one of your Other Registerable Interests (as set out in **Table 2**), you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Disclosure of Non-Registerable Interests

7. Where a matter arises at a meeting which **directly relates** to your financial interest or well-being (and is not a Disclosable Pecuniary Interest set out in **Table 1**) or a financial interest or well-being of a relative or close associate, you must disclose the interest. You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation. If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

8. Where a matter arises at a meeting which **affects** –
 - a. your own financial interest or well-being;
 - b. a financial interest or well-being of a relative or close associate; or
 - c. a financial interest or wellbeing of a body included under Other Registrable Interests as set out in **Table 2** you must disclose the interest. In order to determine whether you can remain in the meeting after disclosing your interest the following test should be applied

9. Where a matter (referred to in paragraph 8 above) **affects** the financial interest or well- being:
 - a. to a greater extent than it affects the financial interests of the majority of inhabitants of the ward affected by the decision and;
 - b. a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest

You may speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise, you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

If it is a 'sensitive interest', you do not have to disclose the nature of the interest.

Where you have an Other Registerable Interest or Non-Registerable Interest on a matter to be considered or is being considered by you as a Cabinet member in exercise of your executive function, you must notify the Monitoring Officer of the interest and must not take any steps or further steps in the matter apart from arranging for someone else to deal with it.

Table 1: Disclosable Pecuniary Interests

This table sets out the explanation of Disclosable Pecuniary Interests as set out in the [Relevant Authorities \(Disclosable Pecuniary Interests\) Regulations 2012](#).

Subject	Description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain. [Any unpaid directorship.]
Sponsorship	Any payment or provision of any other financial benefit (other than from the council) made to the councillor during the previous 12-month period for expenses incurred by him/her in carrying out his/her duties as a councillor, or towards his/her election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract made between the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners (or a firm in which such person is a partner, or an incorporated body of which such person is a director* or a body that such person has a beneficial interest in the securities of*) and the council — (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land and Property	Any beneficial interest in land which is within the area of the council. ‘Land’ excludes an easement, servitude, interest or right in or over land which does not give the councillor or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners (alone or jointly with another) a right to occupy or to receive income.
Licenses	Any licence (alone or jointly with others) to occupy land in the area of the council for a month or longer
Corporate tenancies	Any tenancy where (to the councillor’s knowledge)— (a) the landlord is the council; and (b) the tenant is a body that the councillor, or his/her spouse or civil partner or the person with whom the councillor is living as if they were spouses/ civil partners is a partner of or a director* of or has a beneficial interest in the securities* of.
Securities	Any beneficial interest in securities* of a body

	<p>where—</p> <p>(a) that body (to the councillor’s knowledge) has a place of business or land in the area of the council; and</p> <p>(b) either—</p> <ul style="list-style-type: none"> i. the total nominal value of the securities* exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the councillor, or his/ her spouse or civil partner or the person with whom the councillor is living as if they were spouses/civil partners has a beneficial interest exceeds one hundredth of the total issued share capital of that class.
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* ‘director’ includes a member of the committee of management of an industrial and provident society.

* ‘securities’ means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

Table 2: Other Registrable Interests

You have a personal interest in any business of your authority where it relates to or is likely to affect:

- a) any body of which you are in general control or management and to which you are nominated or appointed by your authority
- b) any body
 - i. exercising functions of a public nature
 - ii. any body directed to charitable purposes or
 - iii. one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union)

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Agenda Item 3

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

At a meeting of the Audit Committee held in the Council Chamber, County Hall, Morpeth on Wednesday, 29 March 2023 at 10.15 a.m.

PRESENT

S. Watson
(Chair, in the Chair and Co-opted Member)

COUNCILLORS

Dale, A.
Grimshaw, L.
Jackson, P.

Oliver, N.
Reid, J.
Wallace, A.

CO-OPTED MEMBERS

Topping, P.

OFFICERS IN ATTENDANCE

Candlish, T.
Curry, A.
Denyer, L.
Hartwell, A.

Henderson, C.
Hodgson, A.
Kingham, A.

McDonald, K.

Todd, A.
Willis, J.

Group Assurance Manager
Senior Manager - Commissioning
Senior Manager – Legal Services
Senior Manager - Performance and
Systems Support
Group Assurance Manager
Corporate Fraud Manager
Executive Director - Children,
Young People and Education
Head of Internal Audit and Risk
Management
Democratic Services Officer
Interim Executive Director of
Finance and S151 Officer

ALSO IN ATTENDANCE

Waddell, C.
Earl, R.

Mazars (External Audit)
Advance Northumberland Chief
Operating Officer (observing)

1 member of the press was present.

72. APOLOGIES FOR ABSENCE

Ch.'s Initials.....

Apologies for absence were received from Councillors T. Cessford and D. Towns.

73. MINUTES

RESOLVED that the minutes of the meeting of the Audit Committee held on 25 January 2023, as circulated, be confirmed as a true record and signed by the Chair.

74. DISCLOSURE OF MEMBERS' INTERESTS

Councillor L. Grimshaw declared an interest in agenda item 8 (Statement of Accounts – Group Boundary Review) as she was still listed as a director of the dissolved Northumberland Enterprise Holdings Limited company.

Councillor Reid declared an interest in agenda item 8 (Statement of Accounts – Group Boundary Review) and agenda item 14 (Group Audit Committee) as Chair of Advance Northumberland.

75. MONITORING REPORT / ACTION LOG 2022-23

The Committee was asked to review and note its monitoring report/action log for the 2022/23 council year (a copy of which had been filed with the signed minutes).

Members were informed that the International Review report was going through the relevant legal processes. Extracts of the report had now been shared with those individuals named for comment before being finalised. It was noted that this was a complex process, but it was hoped that by the middle of April officers would be in a better position to confirm when the report would be available.

Regarding action 5, Councillor Jackson felt that more was needed to be added to the action to ensure members did not lose sight of all the issues identified within the initial report including employment and dismissal practices around senior directors as well as exit packages. He commented that as an Audit Committee there was a responsibility to ensure that the Council was operating legally, and good governance was being observed. He briefly spoke about a past exit package which he thought should also be examined. The Chair responded by confirming there were two pieces of work currently taking place; the further work taking place on individual cases and the substantial review of recruitment and retention processes governing changes to terms and conditions and how employees leave the organisation. It was advised that the review of recruitment and retention was programmed to be presented to Audit Committee once complete and could be expanded to include more detailed information than a normal summary report, if required.

J. Willis stressed the need to differentiate the work of Internal Audit on providing assurances around the adequacies of controls and the S151 and Monitoring Officers work to consider the lawfulness of individual transactions. It was noted that any further transactions that had come to light would be added to their file. However, she reported that at some point there needed to be a resolution to this issue. The Council

Ch.'s Initials.....

needed to move forward and focus more on the strength of the controls and arrangements in place to safeguard the organisation here and now.

Councillor Oliver agreed that there needed to be a line drawn but stated the best way to do that was to reach a conclusion about what had happened to ensure controls going forward were robust. He asked about timescales as these issues had been identified as significant matters within the 2020/21 audit report on the agenda. He questioned whether External Audit had all the information required from the Council to reach a decision on these significant matters.

C. Waddell, External Auditor advised that first and foremost External Audit needed to ensure that the numbers in the accounts were those that should be there and that there had been no disclosures made that anything was missing. It was noted that there had been some amendments that External Audit were working through with officers. The second aspect was to ensure that the numbers within the accounts and the amount being paid out were correct. It was confirmed that generally External Audit were comfortable with the 2020/21 and 2021/22 accounts. Regarding the International allowance, External Audit concluded following internal advice, that as long as the Council amended the disclosure within the accounts then there would be no issue in terms of qualification. A form of words for the disclosure had been agreed. A similar process would probably be needed once a decision was made on the lawfulness or otherwise of exit packages.

J. Willis reported that work was taking place to ensure the King's Counsel (KC) had all the information needed before reaching an opinion on the exit packages issue. As this would be a separate opinion on each individual transaction it was difficult to give a definitive timeframe. She advised Members that there were two separate issues for her to consider. One was to determine if any of the transactions made to individuals were unlawful and secondly if they were unlawful would that then trigger a S114 or 114a report. Ultimately this was a matter of judgement for the S151 Officer taking into account a whole range of things including the KC advice. The Monitoring Officer would also need to take into consideration the advice of KC in relation to her Section 5 reporting. Members were assured that this was being worked though as quickly as possible with the intention that it would be concluded before the new Monitoring Officer was in post in early June.

The Chair thanked all for their updates and asked that Audit Committee be kept informed of progress made on these issues within Action No. 5. He commented that an additional meeting of the Audit Committee could be convened if necessary.

Regarding Action No. 2 Councillor Oliver suggested that the Chair of Audit Committee be invited to the next meeting of the Scrutiny Chairs Group. The Chair stated that he would be happy to liaise with Scrutiny on this issue.

RESOLVED that the monitoring report/action log and comments made be noted.

76. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Audit Committee Work Programme 2023/24

Ch.'s Initials.....

K. McDonald introduced the report which proposed a programme of core business for the Audit Committee for 2023/24, in accordance with its Terms of Reference as set out in the Council's Constitution (a copy of which had been filed with the signed minutes).

Members were advised that work was underway with the Chair of the Audit Committee to undertake a review of Audit Committee arrangements, in consultation with member and officer stakeholders, taking into account the most recent 'Position Statement on Audit Committees in Local Authorities and Police' and accompanying good practice guidance for local authorities issued by CIPFA in October 2022. The outcome of the review, and any proposals to update the Committee's work programme in response to the review's findings, would be reported to a future meeting of Audit Committee.

Councillor Oliver asked if the terms of reference of Audit Committee could change following the current review being carried out on the Council's Constitution. It was confirmed that depending on the review of the Constitution and/or changes to the CIPFA guidance amendments may be needed.

RESOLVED that Audit Committee agrees:

- (a) the proposed 'core business' work programme set out within the report, for 2023/24;
- (b) that it may be necessary to change or adapt the proposed reports to be considered, to ensure optimum timing of consideration of governance issues, and to respond to emerging trends during the year;
- (c) that the Committee will receive additional reports on any ad-hoc items of business arising during the year, as these relate to its responsibilities under its Terms of Reference, in the usual way; and
- (d) that work is underway to undertake a review of Audit Committee arrangements, in consultation with stakeholders, taking into account the most recent good practice guidance for local authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in October 2022, with the outcome reported to a future meeting of Audit Committee and this work programme updated as appropriate.

77. JOINT REPORT OF THE CABINET MEMBERS FOR CHILDREN AND YOUNG PEOPLE AND ADULTS WELLBEING

Review of External Inspection Reports – Adult Social Care and Children's Services

Members were informed of the activity pertaining to Adults Social Care and Children's Services regarding external inspections and associated actions. The report covered the period from 1st July 2022 to 31st December 2022. (A copy of the report has been filed with the signed minutes).

A. Hartwell, Senior Manager, Performance and Systems Support and A. Curry, Senior Manager, Commissioning presented the overall positive report. They informed members that 84.8% of all Northumberland-based Adults Social Care providers had been rated as Good or Outstanding at the end of December 2022. Inspections of children's residential homes had continued and there had been three

Ch.'s Initials.....

inspections during the period. All five units were judged to be Good or better. Inspections of schools recommended in the summer term of 2021 and the findings had been positive overall, leading to an increase in the proportion judged Good or Outstanding in both the primary and secondary sectors. Inspections of early years providers continued, and the vast majority are judged to be Good or Outstanding, similar to the national average.

Councillor Dale highlighted the Adult Social Care CQC inspection statuses and the worry that some of the ratings had deteriorated from July to December 2022. It was confirmed where this had happened the local authority would work with the management of the settings to implement the actions required. Where a service had been rated inadequate, the volume and complexity of issues would require more intensive and prolonged officer input. This could also require the Council to restrict new placements into a service for safety reasons to ensure the service could direct resources to rectifying problems.

Councillor Grimshaw welcomed the report and the positive inspection results. She asked about contingency plans if care homes lost power, staff retention problems and who paid for training costs. It was confirmed that in Storm Arwen there had been an issue with some care homes not having access to generators when powerlines had been damaged. Many lessons had been learnt since the storm and care homes and similar providers were now encouraged to purchase generators, mobile heaters and have an approved emergency contingency plan in place. Retention and recruitment of staff remained the biggest issue being faced by the sector. The Council continued to support with local and national initiatives to resolve this although it remained a problem throughout the country. Regarding training this was sometimes paid for by the home or by the staff depending on the individual setting.

Councillor Grimshaw reported that some care homes had been offered generators, but they could not accept them as they were not PAT tested. The PAT testing was something that had not been brought to officers' attention before but would be investigated. It was stated that the Council was always looking at ways to improve services and the care provided in establishments.

P. Topping asked how the information and findings following a CQC inspection was fed into a risk assessment or register held by the Council. In response it was advised that individual risks would not be incorporated but issues such as staffing would be included into the corporate risk register. Regarding lessons learnt from Storm Arwen these were reported to the relevant overview and scrutiny committee and had been used to inform services and contracts going forward.

RESOLVED that Audit Committee assess the effectiveness of the actions the Council takes in response to external inspections, and confirm an assurance that the Council is taking appropriate action in respect of any issues.

78. REPORT OF THE CABINET MEMBER FOR CORPORATE SERVICES

Corporate Fraud Interim Report

Ch.'s Initials.....

A. Hodgson, Corporate Fraud Manager presented a report which updated Audit Committee on Corporate Fraud activity undertaken during the period 1 April – 30 September 2022. (A copy of the report has been filed with the signed minutes).

Members were advised on the Single Person Discount (SPD) Project which was a proactive 2-year project launched with the aim of risk assessing and reviewing all households within Northumberland where SPD was applied to Council Tax liability. Following review, home visits were undertaken to households identified as potentially high risk. Early indications were that the project would meet predicted financial targets, and updates would be provided in future reports to Audit Committee.

Councillor Dale commented on the Right to Buy Scheme and the issues associated with this including the reduction in housing stock.

Members discussed the preventable activity. It was noted the Corporate Fraud Team had worked with several external and internal departments to help assess their fraud risk and implement measures to deter fraudsters and prevent fraud and error entering the system. However, it was widely acknowledged that prevention was a far more cost-effective measure to reduce fraud and error than detection, however it was far more difficult to measure.

Councillor Wallace welcomed the preventable measures particularly that of the work of Planning and the Section 106 Officers regarding the more robust application process for discounted marked value sales in the private sector. He commented that he would like to see the Corporate Fraud Team get involved in viability.

K. McDonald, Head of Internal Audit and Risk Management reported that discussions had been taking place around developing a risk assessment for the whole organisation to look at where some targeted work on preventative measures would be best served. Once this work was complete then a report would be drafted for Audit Committee's attention.

Councillor Oliver commented on the discounted market value work and felt that this scheme did not benefit many as often the homes were in an expensive area. He reported that he would rather see a Section 106 planning condition be created that required houses to be built to rent rather than to sell at a discount. He felt this would also help with the diminishing housing stock partially due to the right to buy scheme and the potential abuse of the discounted marked values.

Councillor Grimshaw noted that Council Tax and tenancy fraud were by far the largest areas of investigation for the Corporate Fraud Team. Council Tax alone took up 55% of the referrals. It was asked if Members could be provided with training on the overall work of the Team.

The Chair reported that he had been in discussions about increasing training opportunities for Audit Committee. He reported that he would like Members to widen their knowledge and understanding of issues discussed at meetings which could only further assist Audit Committee to fulfil its role and responsibilities. He agreed a session with the Corporate Fraud Team would be beneficial to all. K. McDonald concurred with the Chair and suggested that the preventative plan work as well as awareness training could be added to this workstream. He reported that discussions

about how to further raise awareness of counter fraud with all employees, elected members and Audit Committee members was being looked at.

P. Topping stated that he understood the reasons why the Corporate Fraud Team now sat more closely within Internal Audit but questioned if there were any disadvantages from moving away from the Revenue and Benefits Service. It was reported that this was a relatively new arrangement but so far there had been no issues and was working well. It was envisaged this change in structure would create the opportunity for a more corporate look at potential risks across the whole organisation, prioritising work on a risk basis. By carrying out this exercise it would enable officers to see if the priority remained with revenue and benefits or wider issues and would be reported to Audit Committee once complete.

RESOLVED that Audit Committee notes and considers the update on work undertaken by the Corporate Fraud Team, as part of Audit Committee's role in maintaining governance oversight of counter-fraud activity as part of the overall framework of governance, risk management and control.

79. REPORT OF THE CABINET MEMBER FOR CORPORATE SERVICES

Statement of Accounts - Group Boundary Review

The purpose of this report was to provide members of the Audit Committee with details of the boundary review which had been undertaken to determine those organisations which should have their financial statements consolidated into the Council's Statement of Accounts for the financial year ended 31 March 2023. Particular consideration was given to the position of Active Northumberland. (A copy of the report has been filed with the signed minutes).

Councillor Reid declared an interest in this item, withdrew from the meeting and did not return.

Councillor L. Grimshaw declared an interest in this item and took no part in the discussion.

J. Willis, Interim Executive Director of Finance and S151 Officer outlined the key points of the report. It was noted there had been no material change to the relationships between the Council and the companies considered in the report in 2022/23 and the recommendations in relation to consolidation were the same as in 2021/22, noting that the new jointly-owned Energy Central Campus Limited would need to be assessed for inclusion in the Council's Statement of Accounts once operational.

Councillor Wallace sought clarification about the location of the new Energy Central Campus as the name was similar to that of an established enterprise in Sleekburn. He reported that this could cause confusion with members of the public. It was confirmed that the Energy Central Campus was to be situated in Blyth near the Commissioners Quay.

In response to a question raised by Councillor Dale it was confirmed that Active Northumberland did not own their buildings and instead these were classed as Council assets.

P. Topping asked about Active Northumberland. It was advised that Active Northumberland was a registered charity and as such was subject to those relevant accounting procedures. However, the Council was responsible for the value for money arrangements.

RESOLVED that Audit Committee:

- (a) Note the contents of the report;
- (b) Note that the financial statements of Advance Northumberland Limited will continue to be consolidated with the Council's Statement of Accounts for the financial year ended 31 March 2023;
- (c) Note that Northumberland Enterprise Holdings Limited's financial statements will be consolidated into the Council's Statement of Accounts;
- (d) Note the creation of Energy Central Campus Limited, and that the Council's share is likely to need to be included in the Council's Statement of Accounts once it becomes material, and that the findings of ongoing work in this area will be reported back to Audit Committee in May; and
- (e) Agree that Active Northumberland's financial statements should not be consolidated into the Council's Statement of Accounts for the financial year ended 31 March 2023.

The Committee agreed to a short adjournment.

80. REPORT OF THE CABINET MEMBER FOR CORPORATE SERVICES

Statement of Accounts 2020-21

The purpose of the Statement of Accounts 2020-21 report was to seek approval of the Council's Statement of Accounts for the financial year ended 31 March 2021.

Members were advised that the Statement of Accounts 2020-21 item had been withdrawn from the agenda.

RESOLVED that the information be noted.

81. REPORT OF THE EXTERNAL AUDITOR

Audit Completion Report 2020-21 and Progress Report

Members received the external auditor's reports (a copy of which has been filed with the signed minutes).

C. Waddell, External Auditor drew members' attention to the main points of each report.

Ch.'s Initials.....

Regarding the Audit Completion Report it was confirmed that most of the work was now complete for the year ended 31 March 2021. One key piece of work still to be resolved was infrastructure. National guidance on this matter had been received and work was ongoing. As the 2020/21 audit was still open officers needed to adjust the numbers through 2020/21 and 2021/22 accordingly. There was also some work to be done to review the Advance Northumberland audit file that had been halted and exit packages.

External Audit were liaising with officers around the wording within the accounts regarding value for money.

It was reported that External Audit would be issuing a significant weakness in relation to governance and would be making recommendations. It was important to get the recommendation correct to ensure the Council was moving forward while still maintaining the oversight and scrutiny in relation to last year's Section 114 notices and the Solace report. It was noted that a separate report was to be prepared on this.

There were no significant changes to the audit approach but there had been a revised assessment of materiality. It was reported that Members would continue to receive updates on any materiality changes upon completion of work and receipt of the final revised financial statement.

The Audit Completion report outlined the following significant findings: -

- Management override and controls. There were no significant issues arising from External Audits work that was required to be reported.
- Pensions. There was material variance between estimated assets used by the Actuary and the actual assets at the year-end based on the draft Pension Fund accounts.
- Valuation of property, plant and equipment including investment properties. There had been a few issues identified mainly around the valuation of property and the differing techniques used to value those assets and the report highlighted the conclusions reached.
- Valuation of current and non- current debt.
- COVID-19 grant recognition. There were no significant issues arising from External Audits work that was required to be reported.
- Valuation of Airport shares. There were no significant issues arising from External Audits work that was required to be reported.
- The Council's accounting policies and disclosures were concluded. It was reported that they complied with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances. It was recommended the Council review policies and disclosures and delete non-material policies and disclosures, as part of streamlining the financial statements.
- Significant matters discussed with management. Including the valuation of PFI waste facility for which the Council engaged its own expert due to the specialist nature of the asset.
- Wider responsibilities. It was reported that External Audit had not exercised any of these powers as part of the 2020/21 audit. The 2014 Act also gave rights to local electors and other parties, such as the right to ask questions of the auditor

and the right to make an objection to an item of account. No such objections had been raised.

The report detailed the internal control findings and recommendations, summary of misstatements and value for money. Assurance was given that all aspects would be followed up as part of the completion of the 2021/22 audit and again in 2022/23. On the summary of misstatements, it was advised that most of the adjustments would not be part of usable resources, therefore not impacting on Council Tax.

Councillor Jackson asked when the value for money comments would be drafted. In response it was confirmed that External Audit were currently working through this, and it was envisaged that this would be ready for the next meeting of the Audit Committee. Currently it was thought that External Audit would be able to issue one weakness and one recommendation that covered both 2020/21 and 2021/22 and then 2022/23 would follow up progress made. However, the 2019/20 account would be slightly more difficult as issues around governance arrangements and the Council's arrangements in relation to Advance needed to be worked through. It was felt that this could result in an adverse value for money conclusion being reached for 2019/20.

P. Topping spoke about the management response to the issues regarding exit packages and the level of assurance sought on the changes that had been put in place to ensure such matters did not happen in the future. He questioned why Audit Committee had not received a response on this issue yet, but External Audit had. In reply it was confirmed that External Audit were looking at the issues from a slightly different viewpoint. Evidence that had been made available and gathered throughout the audit showed that there were exit packages in the accounts that had not gone through the correct procedures. This was not being disputed by the Council but going forward measures would need to be put in place to ensure these issues did not occur again. This was different to examining why and how the exit packages issues had happened which would be picked up separately through the Section 151 Officer investigation and the Head of Internal Audit and Risk Management report.

Councillor Dale commented on the significant findings on the valuation of property, plant and equipment including investment properties. In response it was reported that detailed guidance had been released from CIPFA. The Council had applied for the statutory override. It was noted that this was a national problem and most authorities had opted for the override option. Discussions continued to take place regarding a permanent solution.

Councillor Jackson asked about the post balance sheet for Advance Northumberland and whether any legal claim settlement would affect the accounts being discussed today. C. Waddell briefed members on IAS 37 which outlined the accounting for provisions, together with contingent assets and contingent liabilities. He advised that any settlement would sit within the Group account. As there was still an ongoing legal claim the Chair asked that Members refrain from discussing further.

Councillor Dale sought clarification about needing to consider revising the annual governance statement (AGS) at the point of sign off to cover the period up to and including when the auditor's opinion was signed. It was advised that given the elapsed time since the AGS was produced, some amendments were anticipated.

Ch.'s Initials.....

It was reported that Advance Northumberland's Audit Committee had signed off their accounts which would allow the review of their file to be completed by External Audit.

Regarding the Audit Completion Report, C. Waddell gave an update on progress in delivering the 2021/22 audit and assurance work. He also gave a summary of recent relevant reports and publications for information.

RESOLVED that the Audit Completion Report for year ended 31 March 2021 and External Audit Progress Report be noted.

82. DATE OF NEXT MEETING

RESOLVED that the next meeting is scheduled for Wednesday, 31 May 2023 at 10.15 a.m.

R. Earl, Advance Northumberland Chief Operating Officer withdrew from the meeting at this point.

83. EXCLUSION OF PRESS AND PUBLIC

RESOLVED:

- (a) That under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items on the Agenda as it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the 1972 Act, and
- (b) That the public interest in maintaining the exemption outweighs the public interest in disclosure for the following reasons:-

Agenda Item

14, 15, 16 Paragraph 3 of Part 1 of Schedule 12A

Information relating to the financial or business affairs of any particular person (including the authority holding the information).

Disclosure could adversely affect the business reputation or confidence in the person/organisation, and could adversely affect commercial revenue.

84. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Group Audit Committee

Ch.'s Initials.....

Members received a verbal update from the Head of Internal Audit and Risk Management on the current position relating to entities within the County Council's Accounting Group Boundary.

RESOLVED that the information be noted.

85. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Corporate Risk Management

Members received a verbal update from the Head of Internal Audit and Risk Management on the current position of the County Council's corporate risk review process.

RESOLVED that the information be noted.

86. REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK MANAGEMENT

Strategic Audit Plan 2023/24

The purpose of this report was to advise Audit Committee of the Strategic Audit Plan for 2023/24. The document outlined the planned work of Internal Audit during this period and was attached as Appendix 1. A copy of the report has been filed with the signed minutes, coloured pink and marked "Not for Publication").

RESOLVED that Audit Committee approves the Strategic Audit Plan 2023/24, attached as Appendix 1, and the Internal Audit coverage set out therein, and notes that prevailing risks and impact on assurance needed will continue to be kept under review by the Head of Internal Audit and Risk Management.

CHAIR.....

DATE.....

Ch.'s Initials.....

NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

**MONITORING REPORT / ACTION LOG
2023-24**

Stephen Watson, Chair of Audit Committee
E-mail Stephen.Watson03@northumberland.gov.uk

Updated: 18 July 2023

**NORTHUMBERLAND COUNTY COUNCIL
AUDIT COMMITTEE ACTION LIST**

Ref	Date	Report	Action	To be actioned by	Outcome
1.	28.09.22	Caller Report	<p>Regular updates on progress made to address issues raised from the Caller Report including monitoring the Action Plan.</p> <p>For the item to be placed on the Work Programme.</p> <p>Update received at January 2023 meeting on the Challenge Board progress.</p> <p>Council on 14 June 2023 received the last report from the Challenge Board *</p>	Executive Director for Resources & Transformation (S151) to update when appropriate.	*To remove with Committee approval.
2.	28.09.22	Strategic Transformation Programme Business Case	<p>To receive a report on the business case to ensure best value for money. For the item to be placed on the Work Programme.</p> <p>Corporate Services and Economic Growth OSC would scrutinise the Business Case and suggested a discussion with the Chair and Vice Chair of the Committee to ensure there was no duplication of workload.</p> <p>The Business Case was considered at OSC *</p>	Executive Director for Resources & Transformation (S151)	*To remove with Committee approval.
3.	31.11.22	Update on the Independent Review of International	Further update report to be presented to the November meeting.	Executive Director for Resources & Transformation (S151)	Report scheduled for July 2023 meeting.

Updated: 18 July 2023

4.	25.01.23	Review of Exit Packages	<p>Audit Committee be informed regarding the outcome of the S151 Officer and Monitoring Officer decision on further action necessary.</p> <p>Audit Committe to receive the scheduled internal audit review of processes and procedures around severance payments across the council.</p>	Head of Internal Audit and Risk Management / Executive Director for Resources & Transformation (S151)	Report scheduled for July 2023 meeting.
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WORK PROGRAMME

ISSUE
26 July 2023
Internal Audit, Risk Management & Corporate Fraud Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control Key Outcomes from Internal Audit Assignments Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan from Internal Audit) Update on Internal Audit work in relation to active group entities
Corporate Finance Annual Governance Statement 2022/23 NCC Statement of Accounts 2022/23 - Update Treasury Management Annual Report 2022/23 Consideration of Going Concern Status 2022/23
External Audit Audit Strategy Memorandum 2022/23 Audit Progress Report
Reports from Other Service Areas
Deferred from March Meeting Date International Review Update
27 September 2023
Internal Audit, Risk Management & Corporate Fraud Counter Fraud Annual Report

Updated: 18 July 2023

Risk Management Update
 Update on Internal Audit work in relation to active group entities
 Annual Review of Audit Committee Effectiveness

Corporate Finance

NCC Statement of Accounts 2022/23

External Audit

Final Audit Completion Report
 Annual Auditors Report

Reports from Other Service Areas

Education & Safeguarding Performance – Review of External Inspection Reports
 FPS Local Pension Board Annual Report
 RIPA Policy

Reports previously deferred

29 November 2023

Internal Audit, Risk Management & Corporate Fraud

Key Outcomes from Internal Audit Assignments
 Strategic Audit Plan Monitoring Report
 Update on Internal Audit work in relation to active group entities

Corporate Finance

Treasury Management In-year Update Report

External Audit

Audit Progress Report

Reports from Other Service Areas

31 January 2024**Internal Audit, Risk Management & Corporate Fraud**

Approach to preparing the Strategic Audit Plan 2024/25

Update on Internal Audit work in relation to active group entities

Corporate Finance

Statement of Accounts 2023/24 - Timetable and Policies

Changes to the Code of Practice for 2023/24

Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2024

Treasury Management Strategy Statement for the Financial Year 2024/25

External Audit

Audit Progress Report

Reports from Other Service Areas**27 March 2024****Internal Audit, Risk Management & Corporate Fraud**

Counter Fraud Update

Risk Management Update Report

Strategic Audit Plan 2024/25

Annual Audit Committee Work Programme

Annual Review of Audit Committee Effectiveness

Update on Internal Audit work in relation to active group entities

Corporate Finance

Group Boundary Review 2023/24
Annual Governance Statement 2023/24

External Audit
Audit Progress Report

Reports from Other Service Areas
Education & Safeguarding Performance – Review of External Inspection Reports

29 May 2024

Internal Audit, Risk Management & Corporate Fraud

Corporate Finance

External Audit

Reports from Other Service Areas

MEETING DATES TO BE CONFIRMED/SCHEDULED

- Regular updates on progress made to address issues raised from the Caller Report including monitoring the Action Plan.
- Examine the Strategic Transformation Programme Business Case
- Monitor any impacts from recent changes within Adult Social Care and wider NHS changes where/when appropriate.

Updated: 18 July 2023

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Northumberland County Council

AUDIT COMMITTEE

26 July 2023

International Lessons Learned Review

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

1. Purpose of the Report

- 1.1. To report to the Committee the outcome of the international lessons learned review commissioned following the issue of the S151 Officer's S114 report in May 2022.

2. Recommendations

- 2.1. To note the recommendations set out in the report and action plan and agree to receive a progress update in 6 months time.

3. Link to the Corporate Plan

- 3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 "Achieving Value for Money".

4. Background

- 4.1. In May 2022 the Council's S151 Officer issued a report under S1114 and S114a of the Local Government Finance Act 1988 informing Council that in her view it was likely that the Council had incurred items of unlawful expenditure between 2017 and 2021 as a result of providing international consulting services on a commercial basis outside of a company as required by the Localism Act 2011 and paying an international allowance to the Chief Executive without proper approval and in contravention of the Council's pay policy statement.
- 4.2. At its meeting on 27 July 2022 the Committee agreed the terms of reference at Appendix 1 for an independent investigation into the circumstances that gave rise to the unlawful commercial trading.
- 4.3. The purpose of the investigation was to:
 - Draw out key lessons to be learned.
 - Identify where the council's processes for ensuring commercial trading activities are undertaken on a lawful basis and subject to appropriate oversight and reporting are fit for purpose fell short of both standard and best practice.

- Make recommendations for addressing any weaknesses identified.
- 4.4. Mr John Gilbert, an experienced ex local authority Chief Executive, was subsequently commissioned to undertake the investigation.

5. Key Issues

- 5.1. Mr Gilbert's review has identified a number of key learning points which are summarised below.
- 5.2. **Key Learning Point 1** - The continuing nature of informal Cabinet meetings created a lack of transparency regarding the activities of International to the wider set of members across the Council. Informal Cabinet is not a decision taking body. Had there been regular reports to formal Cabinet, then this would have required the s151 and Monitoring Officer to have given formal advice and enabled the audit and scrutiny committees to perform their relevant assurance roles much earlier.
- 5.3. **Key Learning Point 2** - A formalised internal process for supporting or challenging the development of any potential new opportunity or business idea was absent.
- 5.4. **Key Learning Point 3** - From the outset, International business was not on the corporate risk register, resulting in an inability for audit or scrutiny to review or interrogate the information.
- 5.5. **Key Learning Point 4** - The various risk registers were not formally picked up by internal audit, thereby preventing further independent evaluation of these risks. As a result, their internal annual planning process was flawed.
- 5.6. **Key Learning Point 5** - Some members felt they were being ignored and were not receiving adequate responses to their questions in some informal meetings.
- 5.7. **Key Learning Point 6** - There was an absence of formal reporting and decision making.
- 5.8. **Key Learning Point 7** - There was a lack of accountability and blurred responsibilities through the number of joint posts through staff being appointed into a joint International team away from their normal substantive role.
- 5.9. **Key Learning Point 8** – Management accounts were not routinely produced. The cost centres that were developed were administered on a retrospective cost allocation basis.
- 5.10. **Key Learning Point 9** - There was a lack of understanding of key government legislation such as the 2011 Localism Act.
- 5.11. **Key Learning Point 10** - Complaints and whistle-blowing was prevalent for much of the time International was in operation, which didn't seem to be properly addressed.
- 5.12. **Key learning Point 11** - There was a high turnover of statutory officers.

5.13. **Key Learning Point 12** - There was a lack of formal 'sign off' by the statutory officers on a number of International initiatives. This included, the formulation of written instructions for external legal advice and the establishment of any contemporaneous trading accounts.

5.14. **Key Learning Point 13** - The Monitoring Officer at the time was structurally operating at 3rd tier level.

5.15. **Key Learning Point 14** - There was no evidence of any 'regular' strategic meetings with the Trust between councillors and the Trust Board. When they were held, they were very sporadic and were regularly cancelled at the last minute. This would have been another opportunity for councillors and senior Trust Board members to establish a framework of scrutiny and governance and to share intelligence and concerns.

Recommendation	Response	Responsible Officer
Prior to any pre-trading activities taking place, there should be a gateway process, where potential commercial ideas are presented to a Council formulated Committee/Board.	Agreed. The Risk Appraisal Panel would be the appropriate place for this to happen and their terms of reference will be amended accordingly.	Director of Law & Governance
Consideration should be given to expanding your Risk Approval Panels Terms of Reference, as a vehicle for evaluating potential trading propositions and advice to the Shareholder Committee going forwards.	Agreed.	Director of Law & Governance
The Council should seek independent assurance that commercial risks are being evaluated and recorded on the strategic risk register.	A review of the Council's risk management processes, in conjunction with the Executive Management Team, was identified for 2023/24. This review is now in progress and this recommendation will be considered as part of that review.	Chief Internal Auditor
The Chief Internal Auditor should meet every director on a bi-	The Chief Internal Auditor meets formally with each	Chief Internal Auditor

<p>annual basis to understand operational challenges and concerns, with a view to ensure that the annual audit plan is robust. The outcome of the summary formulated from those meetings should then be initially presented to the meeting of the 3 statutory officers.</p>	<p>director annually as part of the audit planning process. This includes the s151 Officer. Outcomes from the audit planning process are reported to 'senior management' (Executive Management Team) and the 'Board' (Audit Committee) in accordance with the Public Sector Internal Audit Standards.</p> <p>The Chief Internal Auditor attends meetings of the Executive Management Team on a bi-monthly basis and has already identified an action to increase engagement with individual directors during 2023/24.</p> <p>The Chief Internal Auditor already meets with the s151 Officer on a monthly basis.</p>	
<p>The Audit Committee should gain feedback from all members of the Council on an annual basis, as to what they believe should be on the Chief Internal Auditor's annual audit plan.</p>	<p>Development of the Internal Audit Plan is the responsibility of the Chief Internal Auditor.</p> <p>As part of developing the Internal Audit Plan, the Chief Internal Auditor undertakes engagement with a number of stakeholders, including Audit Committee (individual members and as a collective body). This recommendation will be discussed with Audit Committee.</p>	Chief Internal Auditor
<p>To further support this process, the Monitoring Officer should maintain a register of all</p>	<p>A register of all commercial trading will be kept by the council and legal advice will</p>	Monitoring Officer

commercial trading activities going forwards and give assurance that such activities are lawful.	be sought on all proposed activities.	
The Monitoring Officer should issue formal advice setting out clear principles of decision making. This advice should include requirements for recording of decisions taken by officers under delegated authority.	The process of granting and recording delegations is under review. In the light of that review any changes will be made in accordance with the appropriate process.	Director of Law & Governance
The Monitoring Officer should issue formal advice on members' rights to information and act as an escalation point for members in circumstances where they are unable to obtain information they are entitled to.	While the process and members entitlement to information is set out in the constitution the Director of Law and Governance will issue succinct guidance to members and officers, including details of how members can raise concerns.	Director of Law & Governance
The Monitoring Officer should tighten up the arrangements for the commissioning of any external legal advice and should be the key statutory officer to formally request/sign off any external legal instructions with a copy retained by the legal team.	All relevant officers will be reminded of the requirement to commission all legal work with the support of the in-house team.	Director of Law and Governance
Each Cabinet member should have a personal development plan as part of their annual appraisal process.	The Council recently refreshed and rolled out Member Personal Development Plans. This happened in consultation with Member Services Working Group and Group Leaders and PDPs were shared with all Members in March 2023.	Completed

Bespoke training should be provided for any new members and/or Cabinet members, including understanding company legislation.	This will be provided as required and on request.	Head of Member Services
There needs to be a continual monitoring of the Council's Constitution to ensure that it picks up issues regarding schemes of delegation and levels of authorisation.	This has been and remains the role of the Director of Law of Governance. A review of current arrangements is being undertaken. Members will be advised of the conclusions.	Director of Law & Governance
The S151 Officer should undertake an analysis of financial and procedural rules around commercial trading authority, as well as any schemes of delegation for approval of contracts of this type.	A review of finance and contract procedure rules is being undertaken following updates to the Council Constitution in May 2023.	S151 Officer
Establish a programme of regular Cabinet/senior officer awaydays to ensure that there is cohesion and alignment and positive relationship building between senior officers and members going forwards.	This has commenced. There now exists a Strategic EMT meeting in the four-week cycle of EMT meetings and strategic issues flow into SLT meetings.	Completed
The S151 Officer should issue guidance on accounting and financial management requirements for all commercial trading activities. Once agreement that internal support services are to be provided these should be established and agreed through formal SLAs.	This is in progress.	S151 Officer
Upon the establishment of any future cross-council officer working group, any officers deployed to that group should	Agreed and is now the practice.	Completed

<p>keep written records of correspondence with their director and/or statutory officer. Furthermore, minutes of meetings of cross-council groups are shared appropriately, including the statutory officers, and available to be discussed at their monthly meetings.</p>		
<p>There is a comprehensive review of officer training to ensure that is tailored to role, responsibility and risk, especially around government legislation. It should specifically include the key 'formal roles' that the s151 and Monitoring Officer have in ensuring good governance.</p>	<p>A programme of governance training and awareness is being developed to be delivered on a rolling basis.</p>	<p>Director of Law & Governance</p>
<p>Examination and continual review of the reporting structure of the Chief Internal Auditor is undertaken.</p>	<p>Under the new tier3/4 structure approved by Staff and Appointments Committee on 25 April 2023 the Chief Internal Auditor now reports to the S151 Officer. He has direct access to the Chief Executive and Chair of Audit Committee, ensuring his independence. The CIA is not a member of the Executive Management Team.</p>	<p>Completed</p>
<p>There is a review of the number of joint posts across the organisation to ensure there is clarity of role, function and accountability.</p>	<p>Following the dissolution of the formal partnership with Northumbria NHS Foundation Trust in 2021 there are no longer any joint posts.</p>	<p>Completed</p>
<p>The three statutory officers should work together and meet formally on a circa monthly basis.</p>	<p>Agreed. The statutory officers already meet informally on a regular fortnightly basis to discuss</p>	<p>Completed</p>

	emerging issues and on a formal bi-monthly basis.	
At the beginning of any initiative potentially involving significant amounts of both expenditure and/or income and involving a range of complexities, the Council's S151 and Monitoring Officer as statutory officers must sign off any formal documentation/reports.	Agreed. This already happens as a matter of good practice.	Completed
The Company Secretary should be line managed by the Monitoring Officer to ensure appropriate linkages with other legal operations.	Agreed.	Director of Law & Governance
Where there is a likelihood of working in partnership with a key strategic organisation and/or the formation of a joint venture, the establishment of a minimum of formally minuted, bi-monthly executive meetings should be held including Cabinet members and the equivalent non-executive board members where applicable. This should include the sharing of 'governance intelligence'.	Agreed.	Director of Law & Governance

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	There are no direct financial implications arising from this report. Effective control and oversight of commercial trading activities provide assurance that public resources are being used appropriately and ensure transparency and accountability.
Legal	There are no direct legal implications arising from the report.
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	None
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	None
Wards	All.

Background Papers:

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	N/A

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NORTHUMBERLAND COUNTY COUNCIL

AUDIT COMMITTEE

Independent Investigation into International Activities

**John Gilbert
External Advisor**

July 2023

1. Background, Review Methodology & Report Structure

1.1 This report was commissioned following the formal publication of a Section 114 report, which was received and accepted by Northumberland County Council (NCC) at its meeting on the 8th June 2022, (minute 21). Following this meeting, the Council's audit committee drew up terms of reference to request an independent investigation to take place into the circumstances that gave rise to what was deemed unlawful trading activity and issues surrounding International activities. The terms of reference set out 10 questions that were prepared and approved by NCC's audit committee, subject to minor amendments, on the 27th July 2022, (see *Appendix 1*). This report is intended to be focused more as an evidenced based '**lessons learnt**' report, less on individual failings, but where key learning points need to be noted and taken forward.

1.2 As report author, I have been involved in working within Local Government for over 40 years. During my career, I have managed a wide range of Council services. I have been a Director of Children Services and then a 'twin hatter', which included being the Director of Adult Social Services (DCS/DASS) for over 10 years, prior to being a Chief Executive. I have previously worked for various councils across the country, within Staffordshire, Shropshire, Suffolk, Kent and Wiltshire. Shortly after my retirement as Chief Executive, I then established a consultancy business, which has quickly expanded into different areas of work, including individual Chief Executive coaching and mentoring; leadership top team development and a wide range of bespoke and/or sensitive projects for a number of local authorities and/or on behalf of Solace or the Local Government Association. I have worked with an increasing number of executive/corporate and senior leadership teams across the country to help them develop as top teams and re-shape their ongoing priorities. These Councils include the full spectrum of both political complexities and sizes, including Counties, Unitaries, Borough and District Councils, across the whole of the UK.

1.3 I had access to several of the Council's shared folders that were related to International activities and/or supported the publication of the Section 114 notice. These shared folders were the same ones available recently to Max Caller CBE and the S151 officer in the preparation of their respective reports. I was also sent a large amount of other documentation directly from many of the individuals that I interviewed during this process. In total, the written information I received and read was over 650 documents, which equated to over 15,000 pages of information.

1.4 I was formally appointed to undertake this investigation in late 2022. I soon realised that in order to fully understand the background and challenges encountered over the time span of the review (2017-2021), it would be required to help give the context for decision making at that time. A number of key individuals were initially identified as being helpful to be interviewed for this review. However, as the participation into this review was on a voluntary basis, there were some individuals who didn't want to be involved as they didn't want to relive the experience and upset this would cause them. Nevertheless, the majority of individuals that did participate represented a comprehensive cross-section of contributions that were able to add value to the issues raised. I initially read all the documentation that was provided to me on the available shared files (as referred to earlier), in order to help me

understand the background and context during this period and then created a timeline (see *Appendix 2*), which captured a number of key issues that took place regarding any International work. This helped me to think through any organisational context to help paint a more informed picture as to what was or wasn't happening at that point in time across the organisation.

1.5 This report looked at the how this journey began and what processes were in place at the time. It was felt that whilst there were some continuing practices that should have changed, from 2021 onwards, there was a stronger understanding of governance arrangements that should have been in place much earlier.

1.6 The nature of a **'lessons learnt' report** is to not only look back to understand what went well, but also what could have been improved. The report goes into much more detail in the period between 2017-2020. From 2021 and beyond, the beginning of International activities started being discussed at formal Cabinet, and was the precursor to the incorporation of NEHL and subsequently NICL.

1.7 The remit of the audit committee TOR questions is focussed on the **'how'** and the **'what'** and not the **'who'**. It is therefore **not** a report which is seeking to attribute individual blame. The main purpose of the investigation is to help the Council better understand how it found itself in this situation and importantly, what needs to be in place to prevent it from happening again in the future.

1.8 I received a lot of comments from a number of individuals which were very subjective, which I have not included as this is an evidence-based report. Equally there has been a lot of information that I have received that wasn't relevant to the specific questions and remit of this review, which I have also not used.

1.9 This report refers to the Governance and Best Value report authored by Max Caller CBE, received and accepted by NCC in June 2022. That particular report looked at much wider issues of poor governance across the organisation, but broadly concluded that (1.6`), *'the Council needed to put aside its internal conflicts and to develop a culture change across the whole organisation to make this happen'*. To look at the work of International in isolation of the context that was happening across the wider organisation would have been a mistake.

1.10 I interviewed over 20 individuals who ranged from past and present staff and/or councillors, as well as several senior NHS Trust staff, as well as the external auditor. I sent a written summary of each conversation to each individual who took part in this investigation, in order for any corrections to be made. I then cross-checked these comments related to each question, to any supporting documentation that was available or was sent to me. Whilst drafting the report, I followed up with some individuals with any clarification questions, where there may have been gaps in information, or supportive documentation available. Finally, as part of the voluntary terms of engagement with those individuals who were interviewed, due to legal Maxwellisation issues I was later formally made aware of which further delayed the process, were sent some excerpts of the report that may have identified them and/or could be seen as critical of them. They then had the opportunity to respond accordingly. Following the various responses received, I then made further accuracy changes and amendments to highlight in particular, the **'lessons learnt'** aspects that

needed to be brought out more in the final report. The final report sets out executive summary and conclusions, followed by an overview of the lessons learnt and any further recommendations going forwards. The report also sets out the more detailed responses which I have tried to summarise for each of the 10 TOR questions set out by the audit committee, referred to in (1.1).

1.11 Finally, I would like to take this opportunity to put on record my particular thanks to Sally Plant the Executive Director of Finance and Section 151 Officer's PA, who has been extremely helpful in sorting out diary appointments and any other support or information when required.

Disclaimer.

1.12 The remit of this report is **not** to comment on the Section 114/114A report, which followed the identification of unlawful expenditure outlined in June 2022. Nigel Giffin KC, provided the legal analysis supporting the judgements reached by the current Chief Finance and s151 Officer, Jan Willis, as part of that work. Furthermore, it does **not** seek to attribute any individual blame or responsibility for actions or omissions that may have taken place during this time.

1.13 For the avoidance of doubt, it is important to note that all comments I had received in their entirety cannot realistically be included in my report. For the purposes of my specific remit, I have tried to report factual information which has been supported by documentary evidence. Where applicable, I have also tried to comment upon the context that was prevalent across the organisation at the time under investigation. I am not at liberty to report on information which might be deemed as subjective, speculative, hearsay, or of a personal bias. Although it is an 'evidenced based' report, it needs to be stated that due to the poor governance that was taking place at the time, some conclusions that have had to be finally drawn are as much through a lack of evidence, rather than evidence supporting it.

2. Executive Summary/Conclusions.

2.1 The committee will be aware of the challenges and shortcomings highlighted by the 'Caller Report' which followed the issuing of the s114 report by the s151 Officer just over a year ago. Nevertheless, the Council should be credited for recognising that this was an area of concern that was identified in the 'Caller Report' that needed further investigation. The intention of this report will help to identify where things went wrong, but importantly what needs to be in place to help mitigate the chances of this from happening again in the future. It has been over a year since that report was received and accepted by the Council, but they need to be complimented that a number of the recommendations I have identified in this report, have already been implemented as operational good practice going forwards.

2.2 The 'Caller Report' published in June 2022 highlighted (9.1), '*an organisation that was operating in a dysfunctional way with the behaviours and practices observed and documented falling well below good or acceptable practice and are preventing the effective transaction of business*'. It is rare for the sort of issues that have been

identified in International, to be the fault of just one or two individuals. It was clear that there was a wider organisational and negative operating culture in place.

2.3 The evidence supports that International was seen as an opportunity to generate a positive income stream into the Council. This started off as a clinically led Trust initiative, although some 'twin-hatted' officers did initially seem to have had an involvement, at least in relation to their Trust responsibilities. There were no 'formal' arrangements put in place at the outset of this venture in 2016, as in the early stages, it was mainly more of a Trust initiative. A number of staff were then appointed into a joint International team away from their normal substantive role. It should be stressed that on the evidence that I have seen, many of these staff should be complimented on some very good work undertaken in trying to support this initiative. The work required the International team to be proactive and 'fleet of foot'. However, this doesn't mean that public money could be spent without due regard to public decision making and proper formal governance oversight.

2.4 The work of International was never set up on solid foundations. A number of cost centres were initially created that covered a range of the work of International. The first one was created in March 2017, which covered a range of staffing costs and contained a range of admin support costs, such as telephone, printing and stationery. Further cost centres were created later on for some specific contracts/projects. It should be noted that cost centres are really no more than budget allocations and not proper management trading accounts. There were no formal SLA's or time recording systems in place and trading accounts were not maintained or reported on a full cost absorption basis, (which attempts to identify all the costs associated with supporting this work), making it virtually impossible to accurately track overall trading profit. Any cost allocations were always looking back retrospectively and were not contemporaneous, (which reflects real time accounting). This created a lack of transparency and agreement regarding what charges and costs should be apportioned to any International work going forwards.

2.5 In most of my discussions, both officers and members I spoke to, talked about the "*increasing toxic environment*" it felt like to be working in. The poor behaviours across the whole Council during periods of International work contributed to a high turnover of statutory officers in particular. This in turn, meant that there was an absence of any consistent 'formal' input from the statutory officers, thereby creating a vacuum of any corporate memory upon handover from one officer to the next. From 2017 until the time of writing this report, the Council had 8 different s151 Officers in post, involving 6 different individuals.

2.6 Looking back at the beginning of the International journey, with all eyes on budget setting and reducing costs, the role of assurance and critical friend/challenge becomes even more meaningful as every pound is squeezed. The evidence supports that in the first couple of years of this work, a number of members '*assumed*' proper governance was in place. More 'formal' detailed questioning should have taken place at a much earlier stage. Repeated comments I heard throughout this investigation by different individuals were "*I assumed that the proper governance had already been carried out*" and "*I felt that we did have checks and balances in the organisation, but we just didn't bother to follow them*". In my

conversation with members, a number of them realised that initially they too readily accepted the verbal assurances that officers were giving.

2.7 However, it is recognised that although members cannot initially be expected to know the legal and financial requirements and regulations, they might have asked more searching questions as set out in (3.2.25). Apart from the issue of legality of this work, perhaps most importantly, “is this a business that we should be in and would it help to support our strategic priorities and corporate ambition as a Council, or would it be a distraction?”. I have been advised that many questions were being verbally asked at an earlier stage, but I have only seen evidence of the first written questions commencing from September 2019. A number of members I spoke to said that their questions were often rebuffed, or were told by officers that everything was going well. This fundamental information was not being offered up to members in any ‘formal’ forum, by the professional officers responsible for the project from the outset. This meant that the work of International was kept away from the normal processes of further internal challenge and scrutiny. A recurring theme from many of the interviewees was that the International business was operating within an environment where constructive challenge was discouraged. As a result, potential increasing risks and the effectiveness of internal checks and balances was eroded.

2.8 From 2019 onwards, the evidence supports that the Leader of the Council and the portfolio holder for finance did begin to ask more probing questions, but these reasonable requests for additional information appear to have been dismissed by some officers and the information was not provided in the manner and speed that members were anticipating. As a result, members felt deprived of the information they needed to carry out their role effectively.

2.9 This report highlights a continuing theme of poor and/or inappropriate governance. From the member perspective, there was a continual pattern of having *informal* Cabinet meetings, which are in effect ‘*informal briefings*’. This is not a decision taking body. It offers no transparency or opportunity for public scrutiny or basis for the overview, scrutiny or audit functions of the Council to review or interrogate the information. This resulted in inadequate formal governance arrangements, such as the lack of opportunity for the s151 and Monitoring Officers to give their formal advice for members to consider; wider internal checks and balances being constrained, reflecting an overall weakness in the Council’s ‘control environment’, thereby diminishing transparency.

2.10 This meant that some officers believed that ‘decisions were taken/approved’ which in fact are not decisions, but were treated as if they were. Furthermore, the continual *informal* nature of such meetings and the minimalistic minuting of such meetings were often not properly formulated or recorded. These shortcomings created an environment where officers took decisions without being properly bound to follow a more formal and transparent route of governance. It diminished transparency, blurred accountability and created an element of uncertainty. This resulted in a lack of recording of the ‘single version of the truth’, including if any decision was actually agreed at all.

2.11 I have seen a number of risk registers which were occasionally presented to *informal* Cabinet briefings, with a number of these reflecting some medium and high-risk categories. However, in my conversations with several members, they were of the belief that it was of lower risk due to the payments being structured to ensure that the Council was never in a position where it was not recovering its costs and the incremental approach to future contracts being won. Due to the poor internal governance across the Council, this meant that the work of International was not picked up as a potential risk area at a level that audit should have overseen, until much later in the journey. Fundamentally, it seemed that members didn't really understand the risks potentially involved. Insufficient consideration was given to the nature of the partnerships and the challenges of working with such a range of different organisations in different countries, all bringing a layer of complex structures to navigate. From the outset, the work of International was never a focus for internal audit, and did not feature on the Council's corporate risk register, so was not on the radar of audit committee to investigate. Furthermore, there is no evidence that I have seen that the Council's internal audit function was instructed to examine any aspect of the International business.

2.12 Members do not appear to have been aware of increasing concerns on the part of the Trust Board about the financial viability of the business and the associated risks. This culminated in a Trust Board decision in September 2018 to withdraw from the 50:50 commercial arrangement with the Council and to replace it with an overarching co-operation agreement. This meant that the Trust would no longer contribute to business development costs and the Council would take the lead in future contracting. The evidence supports that the significance of this change in risk profile was not fully understood by members, or more formally within the wider Council operation, thereby missing a further opportunity to pause and reflect.

2.13 It would have been expected that an organisation about to enter into a range of multi-million-pound deals with an established strategic partner, would have regular diarised and minuted strategic governance meetings taking place. There was no evidence that I have seen of any 'regular' strategic meetings with the Trust between councillors and the Trust Board. I was informed that when they were held, they were very sporadic and were regularly cancelled at the last minute. This would have been another opportunity for councillors and senior Trust Board members to pause, reflect and seek independent assurance if need be.

2.14 For a local authority, the 'control environment' is a system of internal controls, backed up by legal and professional frameworks. In the case of the International programme for example, frameworks such as the Accounts and Audit Regulations 2015 and the role of the s151 Officer (CIPFA) are very important. The wider system of internal controls is provided through such functions as internal audit, risk management, including reporting against performance indicators. Furthermore, there are other external oversight regimes such as external audit, Ofsted and other less formal channels such as peer reviews to provide evidence and confidence that the authority is working well. The formal internal checks and balances that one would expect to see, which would have provided challenge and possibly prevented this situation from arising were either weak or wholly absent. As a result, the actions taken by officers were never subject to any meaningful challenge or formal oversight.

2.15 There were a number of contracts that the Council entered into, where the value of them exceeded £500k, which in most local authorities is deemed as significant. Regulation 8 of the local authorities (Executive Arrangements) Meetings and access to Information England regulation 2012 defines a 'key decision' as '*an executive decision which is likely to result in the relevant local authority incurring expenditure which is, or the making of savings which are, significant having regard to the relevant local authority's budget for the service or function to which the decision relates*'. Therefore, any decision that would 'trip' this level should be on the Council's forward plan, or dealt with under the urgency procedures in the regulations, which normally requires giving notice to the chair of the appropriate scrutiny committee.

2.16 In the case of International activities, this is a grey area as the 'value' of the contracts were related to potential income to the authority in return for providing services such as feasibility studies, assessing clinical needs and developing master plans etc. I have not been able to substantiate what was in place within the Council's Constitution at the time but it seems highly likely that there was no specific financial limit in place, meaning that officers would have felt that there were acting within the policy in place at that time.

2.17 A critical issue I found in this investigation was that the Monitoring Officer at the time was structurally operating at 3rd tier level, reporting to a director or corporate director. This meant that they were 'perceived' by the rest of the organisation, including staff later appointed into the International team, to have little influence over some key decisions that came later on. This further lack of understanding of the important role the Monitoring Officer had, didn't help in this regard. Whilst the role of the s151 Officer is well defined in law in accounting standards, that is not the case for the role of the Monitoring Officer, where only a small part of the remit - a reporting duty on unlawful activity, is set out in law. This lack of clarity and importance of such a role, coupled with a number of officers filling the absence of the Monitoring Officer for a period of time, would not have helped the 'control environment' referred to earlier.

2.18 The role of the s151 and Monitoring Officers should have been critical in the development of work such as what International offered. However, for whatever reason they were not as close to this work as they should have been. For example, they were not formal members or attendees of the International officer group. From the range of information, I have seen, there is no evidence to support that they received invites to, or received completed minutes of the officer International meetings. Furthermore, I have seen no evidence of any formal written legal instructions being given by the Monitoring Officer to gain any external legal advice, for example concerning compliance with the requirements of the 2011 Localism Act. Nevertheless, there is evidence of involvement of the Monitoring Officer, and the various s151 Officers in post at that time, in several aspects of this work along its journey.

2.19 In all Councils, the three statutory officers of Head of Paid Service, (Chief Executive); Chief Finance Officer or (Section 151 Officer) and the Monitoring Officer have a key statutory role to help ensure good governance. In order to discharge this responsibility, all three must work together and freely share information. In the case

of the international business, it does not appear that this happened. The continual changes of personnel in a number of these posts during this period of time, didn't help to develop a supportive formal governance foundation to build from. Proper governance would have ensured that the light of audit and scrutiny was shining brightly throughout.

2.20 A number of senior staff were from an NHS background where governance is dealt with very differently and operates within a different legal and regulatory framework. This issue was referred to in the recent 'Caller Report', but this issue is amplified when looking at the specific issues concerning International business. This lack of governance awareness and respecting and understanding the critical role of the elected members and decision-making fora was missing. This also translated into a number of joint posts where some senior officers had roles in both the Council and the Trust, which also blurred accountability. For example, one previous Chief Executive of the Council who was also the Council's s151 Officer, as well as also being the then Clinical Commissioning Group's (CCG's) Accountable Officer. The Deputy Chief Executive of the Council became the interim Chief Executive when the previous Chief Executive left the council in circa June 2017. At this time, the interim Chief Executive of NCC was also the Executive Director of Community Services for the Trust. Further down the organisation, there were also a number of joint commissioning posts. Whilst this at one level, demonstrated good integration, it also presented an opportunity for confusion and/or conflict of role, both for the individual themselves and to others either reporting to them, or to members working with them.

2.21 This situation developed an environment where the training, development and support of senior officers and members in particular was not regarded as a priority. Through my discussions, it seemed that the member and officer training development programme tended to focus upon induction to basic operational functions of the Council. From the member perspective, this tended to run for the first few months following an election. The programmes tended to be generic and high-level briefing sessions on quite broad-brush topic areas and was voluntarily attended. The absence of such a training programme, together with from the member perspective, inadequate responses to questions by officer's, created an inhibiting environment across the Council.

2.22 In the early stages of this work, the only good 'formal governance' that was taking place was within the Trust, which was verbalised informally to members by officers. From late 2018 onwards, it seemed clear that discussions were taking place about the need to establish a company structure. This was not actioned sooner for a number of possible reasons. Some explanations offered, including distraction with other internal Council company operations; national high-profile challenges regarding some authorities which led to a Grant Thornton Public Interest report; and in particular the commencement of the COVID pandemic. However, none appear to adequately explain why basic governance arrangements, such as the formation of a company, or the creation of a contemporaneous set of trading accounts had not taken place much earlier.

2.23 From the evidence and triangulated strength and weight of opinion, a major contributing factor in addition to the above issues, was the complete breakdown in

relationships and erosion of trust and confidence between some senior officers and executive members across the Council during 2019 and beyond. The 'Caller Report' again picked this up in more detail, but the frequent accusations of bullying and other such personal conflicts just helped to fuel an unworkable environment. This is an impossible situation for anybody to tolerate. This created an environment where Cabinet members were 'formally' asking a range of challenging questions about the venture, although late in proceedings, and responses that were being given were not at a level which satisfied them. This in turn resulted in more questions and more delay going forwards. It is clear that there has to be trust and confidence between councillors and officers and in particular statutory officers to uphold their relevant duties and inform councillors of the correct procedures going forwards. Due to the environment described earlier, it is evident that this trust was missing.

2.24 Finally, it is well known that looking back in the cold light of hindsight is relatively easy. The words of Anthony Hidden, the QC who investigated the Clapham Junction rail disaster in 1988 said, "*There is almost no human action or decision that cannot be made to look flawed and less sensible in the misleading light of hindsight*". We need to continually remind ourselves of this comment, before rushing to judgement on individuals making decisions in complex and testing circumstances.

Key Lessons Learnt/Recommendations.

(i) Governance Gateway/Transparency

Issues - *i) The continuing nature of informal Cabinet meetings created a lack of transparency regarding the activities of International to the wider set of members across the Council. Informal Cabinet is not a decision taking body. Had there been regular reports to formal Cabinet, then this would have required the s151 and Monitoring officer to have given formal advice, enabling the audit and scrutiny committees to perform their relevant assurance roles much earlier.*

ii) A formalised internal process for supporting or challenging the development of any potential new opportunity or business idea was absent.

2.25 Prior to any pre trading activities taking place, there should be a 'gateway process' where potential commercial ideas are presented to a Council formulated committee/board. This would present the opportunity to discuss the idea that is being formulated and agree any potential start-up costs if applicable. It is up to NCC to decide on the best format that this would look like, but in most cases, it would initially be presented to an officer-based group, (which should include the MO and s151 and/or their representatives), who would 'vet' the proposals and risks being presented, against the backdrop of an agreed set of different criteria. There may for example be a request to apply for support funding or start-up costs, but again this would be agreed and overseen by this group. This could be undertaken via a supplementary estimate, where agreed changes could be supported (within specific criteria), to reallocate, reduce or increase funding associated with this initiative. If this officer group believed that it met these criteria and it could trigger trading activity, then it should be presented to a joint member/officer-based board or committee, where consideration of any particular company formulation is agreed. In a number of

authorities, this is normally the shareholder committee, which could be a sub-committee of the Cabinet. It would be this sub-committee that would have responsibility to look at all the Council's shareholding activities; examination of company contracts; relevant appointments; business plans etc. This would give a clear line of sight to activities that are being planned, in action and even potentially being formulated.

2.26. A process of regular formal reporting should be developed on the performance of trading activities including any management accounts, which should be brought to Cabinet on a regular basis. Any financial information should be signed off by the s151 Officer. With regards to trading 'companies', the formulation of regular reporting should be made to the Cabinet shareholder committee, (see (2.25)).

2.27 There is some helpful support guidance information regarding developing company infrastructure, including The Local Authority Owned Companies Good Practice Guide produced by CIPFA in 2022, and the Local authority Company Guide published in September 2021 by Local Partnerships. This can help you test the range of issues against good practice going forwards if after undertaken the above practices it is decided that the most appropriate vehicle to achieve the outcome you are seeking is to set up a company, (see link below).

[local authority company review guidance](#)

(ii) Audit, Scrutiny, & External Challenge

Issues - *i) From the outset, International business was not on the corporate risk register, resulting in an inability for audit or scrutiny to review or interrogate the information.*

ii) The various risk registers were not formally picked up by internal audit, thereby preventing further independent evaluation of these risks. As a result, their internal annual planning process was flawed.

2.28 The Chief Internal Auditor should meet every director across the Council on a bi-annual basis to understand operational challenges and concerns, with a view to ensure the Chief Auditor's annual plan is robust. The outcome of the summary formulated from these meetings should then be initially presented to the meeting of the 3 statutory officers (see 2.46).

2.29 The Council's audit committee should gain feedback from all members of the Council on an annual basis, as to what they believe should be on the Chief Internal Officer's annual audit plan. This will allow the ability to listen to concerns that are being picked up by all members and could help respond to issues that officers may not have presented to them for consideration.

2.30 The Council should seek independent assurance that commercial risks are being evaluated and recorded on the strategic risk register. This should also ensure that the internal audit planning process is fit for purpose. To further support this process, the Monitoring Officer should maintain a register of all commercial trading activities going forwards and give assurance that such activities are lawful.

2.31 Consideration should be given to expanding your Risk Approval Panels terms of reference, as a vehicle to evaluate future potential trading propositions and advice to the shareholder committee going forwards.

2.32 The Council could also utilise the support of the national programme for Chairs of Audit and Scrutiny, via the national centre for Governance and Scrutiny, who are well placed to be able to advise them on initiatives, training support and latest thinking going forwards.

(iii) Decision making and Member Support

Issues - *i) Some members felt they were being ignored and were not receiving adequate information to their questions in some informal meetings.*

ii) There was an absence of formal reporting and decision making

2.33 A range of options are available to help address this, such as: - ensuring requests are put in writing; document your concerns even in informal settings when/where applicable, to demonstrate formal inquisitive enquiry; awareness raising with their relevant Group Leader; Political Peer mentoring and training and awareness raising by the LGA; formal requests/enquiries to the 3 statutory officers see (2.45). They could reach out to gain support from their own regional/national political group. Furthermore, this issue would have been greatly mitigated if the governance and gateway recommendations, set out in (2.25) above were enacted.

2.34 That each Cabinet member has a personal development plan as part of their annual review process with the Leader, which will help address areas of legislation or training development gaps that need to be covered going forwards.

2.35 There needs to be a review of member training that is undertaken. Some of this could be more bespoke going forwards. For example, any new members and/or Cabinet members, including understanding company legislation. Ensuring that 'if establishing a company is the best vehicle for undertaking particular activities, that there is a detailed analysis on issues such as ensuring there are regular timescales to review the memorandum of understanding; company law; role of the shareholder board; appointment of directors; powers of subsidiaries; ensure the board make-up has critical friends/NED's on it from outside the organisation who understand the ethos of local government and the public sector, public interest and duty of best value etc.

2.36 There needs to be a continual monitoring of the Council's Constitution to ensure that it picks up issues regarding schemes of delegation and levels of authorisation. Alongside this work, the s151 should undertake an analysis of financial and procedural rules around commercial trading authority, as well as any schemes of delegation for approval of contracts of this type.

2.37 The Monitoring Officer should issue formal advice setting out clear principles of decision making. This advice should include requirements for recording of decisions taken by officers under delegated authority.

2.38 The Monitoring Officer should issue formal advice on members' rights to information and act as an escalation point for members in the circumstances when they are unable to obtain information they are entitled to.

2.39 The Monitoring Officer should look to tighten up the arrangements for the commissioning of any external legal advice and should be the key statutory officer to formally request/sign off any external legal instructions, with a copy retained by the legal team.

2.40 Establish a programme of regular Cabinet/senior officer away days to ensure that there is cohesion and alignment and positive relationship building between the senior officer and members group going forwards. This will help to build a positive alignment between members and officers regarding vision, culture, policy support, internal communications and expected behaviours across the organisation.

(iv) Staffing, Policy and Training Support

Issues - i) *There was a lack of accountability and blurred responsibilities through the number of joint posts through staff being appointed into a joint International team away from their normal substantive role.*

ii) *The cost centres that were developed were administered on a retrospective cost allocation basis.*

iii) *There was a lack of understanding of key government legislation such as the 2011 Localism Act.*

iv) *Complaints and whistle-blowing was prevalent for much of the time International was in operation, which didn't seem to be properly addressed.*

2.41 The s151 should issue guidance on accounting and financial management requirements for all commercial trading activities. Once agreement that internal support services are to be provided, then these should be established and agreed through formal SLA's.

2.42 Upon the establishment of any future cross-council officer working group, any officers deployed to that group keep written records of correspondence with their director and/or statutory officer. Furthermore, minutes of meetings of cross-council groups are shared appropriately, including the statutory officers, which are available to be discussed at their monthly meetings (see 2.46).

2.43 There is a comprehensive review of officer training to ensure that is tailored to role, responsibility and risk, especially around government legislation. This should cover key issues such as the importance of the Council Constitution; authorities regarding decision making; the difference between *informal* Cabinet and *formal* Cabinet; the critical role of members in the governance framework of local government; the role of audit and scrutiny etc. This should also include understanding key national policies such as the 2011 Localism Act for example. It should also specifically include the key 'formal roles' that the s151 and Monitoring Officer have in ensuring good governance. The statutory officers or their representatives, need to be part of giving this initial training, thereby giving a clear demonstration of their important role within the organisation.

2.44 Examination and continual review of the reporting structure of the Chief Internal Auditor is undertaken, where 'good practice' is normally where they formally report to the s151, but has unfettered access to the Chief Executive, but is not a formal member of the managerial executive team, to help ensure that impartiality and independence is maintained.

2.45 There is a review of the number of 'joint posts' across the organisation, to ensure there is clarity of role, function and accountability. This will assist in establishing where any conflicts of interests may arise. These will need to be clarified and supported by appropriate training where applicable.

(v) Statutory Officers

Issues - i) *There was a high turnover of statutory officers.*

ii) There was a lack of formal 'sign off' by the statutory officers on a number of International initiatives. This included, the formulation of written instructions for external legal advice and the establishment of any contemporaneous trading accounts.

iii) The Monitoring Officer at the time was structurally operating at 3rd tier level.

2.46 In addition to the 'control environment' referred to earlier, the three statutory officers should work together and meet formally on a circa monthly basis, to form what is known as the 'golden triangle'. They need to ensure the effective running of the organisation so that the law, constitution and agreed policies are upheld and that information and appropriate democratic transparency is upheld. It would act as a forum for checking concerns, and any issues with each other to help mitigate any key areas of debate or evolving practice across the organisation that needs to be picked up via a more formal route. This officer group would continually 'test' if anything should be escalated to more formal proceedings going forwards, followed by appropriate formulation of actions.

2.47 When any statutory officers believe they are not being listened to, they need to be aware that they have a range of options open to them including: - ensuring any formal advice is given in writing; formal written representation is given to the appropriate members and that they can reach outside of the Council to their professional bodies and/or the Local Government Association or Solace for example.

2.48 At the beginning of any initiative that was potentially involving significant amounts of both expenditure and/or income and involving a range of legal complexities, the Council's s151 and Monitoring Officer as statutory officers must 'sign off' any formal documentation/reports. Again, this could be picked up as part of the gateway process outlined in 2.25.

2.49 It is recommended that the Company Secretary should be line managed by the Monitoring Officer to ensure appropriate linkages with other legal operations is achieved on an ongoing basis.

(vi) Partnership Working/Joint ventures

Issues - i) *There was no evidence of any 'regular' strategic meetings with the Trust between councillors and the Trust Board. When they were held, they were very sporadic and were regularly cancelled at the last minute. This would have been*

another opportunity for councillors and senior Trust Board members to establish a framework of scrutiny and governance and to share intelligence and concerns.

2.50 Where there is a likelihood of working in partnership with a key strategic organisation and/or the formulation of a joint venture, the establishment of a minimum of formally minuted bi-monthly executive meetings should be held, including Cabinet members and the equivalent non-executive board members where applicable. This should also include the sharing of 'governance intelligence'.

***Note**

- **It should be highlighted, that during the course of completing this investigation, the Council has started to formulate a formal governance process that pick up a number of these issues and recommendations set out from 2.25 - 2.50 above. This is supported by a number of Cabinet reports in late 2022 and in April 2023 which sets this out in more specific detail.**
- **Finally, the audit Committee need to set out timescales for the delivery and the financial resources required to undertake the development and support of these recommendations going forwards, including an initial 6 monthly monitoring of these going forwards.**

3. Detailed Analysis of the Key Questions.

- 1. What was the original basis of the agreement to participate with Northumbria Healthcare Foundation Trust in the Northumbria International Alliance in 2016? Who authorised this?**

3.1.1 The work between Northumberland County Council (NCC) and the Northumbria Healthcare Trust (NHCT), started back in 2011 with integrated working and a partnership agreement specifically around health and social care. This helped to support operational practice regarding ongoing integration particularly regarding adult social care.

3.1.2 A report went to the Trust Board in October 2015, which set out the International commercial strategy for discussion, which included issues such as core principles for engagement in any International commercial work; the emerging market; potential product offers and management processes and governance. In terms of governance, an International Steering Group was established which had a range of Trust officers on it. The evidence points to this being a solely Trust initiative with no formal Council input at this point in time, although some 'twin-hatted' officers did seem to initially have had an involvement, at least in relation to their Trust responsibilities.

3.1.3 In September 2016 NHCT along with a number of other NHS Trusts, were invited by UKTI (now Department of Trade) to consider exporting their models of Healthcare. This was mainly Acute Hospital systems information, and they were also being offered opportunities to bid for work overseas to manage Hospitals. Looking back at various government web-sites at that time, it was evident that there was a lot of International activity being debated nationally at that time, heavily driven by Healthcare UK. The initial 'drive' for the establishment of NIA came from the Trust being seen as a national 'Vanguard area', as a national NHS initiative supported by the UKTI at that time, to develop new Integrated Care Partnerships. Due to the number of joint senior post holders, the opportunity to involve NCC in these developments to formulate the NIA, which in turn became the 'flagship of opportunity', going forwards was quickly developed.

3.1.4 An article in the 'Healthcare Leader' in July 2017, stated that Northumberland was awarded 'Vanguard status' in early 2015 to form a Primary and Acute Care System (PACS). The County Council and Clinical Commissioning Group (CCG) were also co-located, which enabled relationships to develop positively. This Vanguard status was even supported by some specific one-off funding by UKTI at this time as well. The Trust were approached along with other organisations during 2016, about a specific opportunity in India, where the client was looking for an Integrated Care provider to support them in this context.

3.1.5 Integrated working over the 5 years or so prior to this, was seen nationally as a key driver for local government going forwards. It is well known that the highest spend within local government is related to supporting vulnerable children and adults, so developing a strong integrated way of working with health colleagues can only be viewed as a positive ambition. The Healthcare Leader article even went on to highlight the advantages of integrating the leadership, with the then Chief Executive of the Council also being the Accountable Officer of the CCG.

3.1.6 The Council's strength managerially at that time was that there were a large number of senior staff who were either jointly operating or funded with support from Northumbria NHS. Governance is dealt with very differently between the NHS and Local Government and has a different legal and regulatory framework. Whilst this demonstrated close integration, this can also be a weakness, when examining governance practices that didn't take place later on within NCC. This issue was referred to in the recent 'Caller Best Value Governance Report' in June 2022, but this issue is amplified when looking at the specific issues concerning International business.

3.1.7 In 2016, the Council's Chief Executive was not only the Accountable Officer of the CCG, but also the Council's Section 151 Officer. Whilst this in itself is not unlawful, it is not good practice. This position provides a lack of separation of responsibilities of functions between the Head of Paid Service as executive officer of the Council and the statutory duties of the s151 Officer. This is then further complicated, by needing to understandably protect the interests of the CCG, by also being their Accountable Officer at that time. The conflicts inherent in agreeing any form of joint financial arrangements between the Trust and NCC are obvious.

3.1.8 This growing interest became the pre-cursor to the establishment of the Northumbria International Alliance (NIA), which was formed around February 2017.

3.1.9 The first tangible piece of evidence or endorsement regarding the utilisation of the NIA, was set outside Alnwick Castle evidenced by a national publication on the 18th October 2016. This was the publicity signing of a Memorandum of Understanding (MOU), with a leading Indian Healthcare provider Indo UK Healthcare PVT Ltd (IUHP), to share expertise in Integrated Care. This was signed on the Council's behalf by the then Chief Executive and s151 Officer, on the 29th September 2016, as well as the Trust's Chairman.

3.1.10 The Trust in particular now saw some excellent development opportunities. Equally, NCC saw an opportunity to be a part of this initiative with a view to generate income which could be generated back into the Council to help support services across the Council, in particular social care.

3.1.11 In January 2017 there is a public record of the signing of an MOU for the provision of services in hospitals in China. The MOU was signed by the then Trust and NCC Chief Executives, with the article published in the Hexham Courant on the 24th January 2017.

3.1.12 These developments and opportunities encouraged both partners to develop a joint Director role who would be able to help both organisations capitalise on future International developments. A Director of International Projects and System Transformation post, was created and formally approved at Full Council on the 22nd February 2017 (minute 82).

3.1.13 Whilst this role had a key focus upon International work, the post holder had a wider expansive role, for example they were also responsible for transformation work and wider business development work across the Council. The post holder commenced their role in April 2017, just one month before there was an all-out election that changed the administration from Labour to Conservative.

3.1.14 In summary, formal approval was never given by members, with the then exploratory initiative supported by the Chief Executive at that time. NIA was not a legal entity in its own right, but more of an intent to positively work together in a 'spirit of endeavour', rather than via a formal contract. It was more of a 'go to market model' initiative and brand to explore future opportunities.

2. What arrangements were put in place at the outset of the venture in 2016 and prior to the commencement of trading to ensure that there was

proper oversight and governance and that the Council's interests were protected including technical due diligence, money laundering checks and risk management?

3.2.1 The responses given to question 1 sets out much of what was in place prior to 2017. There were no 'formal' arrangements put in place at the outset of this venture in 2016, as in the early stages, it was mainly more of a Trust initiative. Following the election in May 2017, there was a presentation by the new Director of International to both the Trust's Finance, Investment and Performance Board (FIP) and to the Council's *informal* Cabinet. This took place in July 2017 and in September 2017 to consider a detailed 5-year strategy for the Trust to develop the International programme. There is evidence of a 287-slide deck presentation which set out how the Northumbria Partnership will operate in the short, medium and long term, alongside what the Northumbria Partnership's vision is, the intended priorities and critically, areas to be focused upon. It also set out the UK Government approach to exporting Healthcare, and formed the basis of the 17/18 business plan for 'The Northumbria Partnership'. It also set out a financial pipeline of achieving £100m total contract value in 5 years.

3.2.2 The presentation was to update the Trust and Cabinet members on progress to date, and the intention for further discussion to be held with the NHCFT Board and NCC Cabinet. This presentation highlighted the intention of this work was to operate commercially and create an ongoing large-scale income stream from International activities for both organisations going forwards.

3.2.3 Within this strategy, there was a slide which set out a governance reporting structure. I have seen a variety of iterations of this over the first couple of years of International operation. The clear intention was to have an International Executive Committee which involved senior officers from both organisations, as well as a NED from the Trust and an NCC Cabinet member. This committee would then report to the Trust Board and Council's Cabinet respectively.

3.2.4 Although it was set out as a good intention, unfortunately, from the Council perspective, there is no evidence I have seen to confirm that this International reporting structure was followed through and involved any NCC Members, other than via the *informal* Cabinet route. Below this group, there was an International operational group which involved senior officers from both organisations. This group soon became the driving force of future International work. In both examples, the end result was that the group overseeing the day-to-day work of International going forwards was primarily officer based.

3.2.5 There is evidence of a paper considered by the Trust's audit committee on the 7th September 2018 which stated in one section, '*there is robust governance in place that has been approved by NHCFT Board and NCC*'. This could not have been given by 'formal Cabinet' at that time, as they only received the first report on International activities in February 2021, through the formulation of NICL.

3.2.6 The new Director of International Projects and System Transformation then helped to generate momentum to support the delivery of this work going forwards. A

number of officers from across the Trust and the Council were appointed into a joint International team in circa June 2017, called an International Executive Committee. Some staff who were involved from the Council were also legally qualified and they were supported in giving legal contractual and procurement advice, some of it gained from different internal Legal and contractual officers at various times. The majority of the officers in this very early period on the standing group of membership, were from the Trust. The financial officer involved in this work was also an officer from the Trust. I have been advised that the Council's s151 and Monitoring Officers occasionally attended such meetings. The evidence I have seen of a number of the minutes of different meetings, have not shown their attendance to such meetings, or that they were standing members of either of these groups, or received information directly from the group. It needs to be stressed though that this does not mean that they were not aware of some of the activities that were taking place at the time. Both statutory post holders whilst in post, had the right to require information on the project but the continual turnover of such posts, made this challenging. Equally, it is also recognised that the culture of the organisation during this time does not appear to have included the proper flow of information to these officers.

3.2.7 There is evidence of a number of emails over a period of time from officers appointed into this International team that had a range of titles, such as International Chief Operating Officer; International Project Support Officer and Head of International Business Development and Project Delivery. To an external audience, these titles would have given a perception of authority and status.

3.2.8 There was some very good due diligence work undertaken by a number of appointed officers in this team. This information covered a large range of issues, such as gathering Embassy support and intelligence; where is it safe to work; where is there support from DIT via a government initiative or policy; value of risk and best return on investment; major banks being asked to undertake money laundering diligence on an individual(s), and/or a company by way of a know your customer (KYC) process; net worth checks; checks on the various contracting parties involved; latest accounts; comprehensive risk assessments were regularly produced and shared; registered office and registration details; date the company was incorporated; nature of business; previous names; year-end report; business size risk; information about the directors; assets; reputation; competitors; work undertaken in the healthcare market; financial health; associated publicity links etc.

3.2.9 A number of cost centres were created that covered a range of International work. The first one was created in March 2017, which initially covered some staffing costs, called the 'Service Development Team'. It contained a range of admin support costs, such as telephone, printing and stationery. Further cost centres were created later on for some specific contracts/projects.

3.2.10 In some of the conversations I had, some individual staff members from the Council who were appointed into this International team, felt that they were operating with support of the Council's statutory officers, although this could not be formally part of their remit. For example, some of the officers involved in this team were legally qualified and were having some legal input to this work, but this is not the same as being the Monitoring Officer. They commented to me that they checked

issues with the Council's Monitoring Officer, as some of them worked physically in the same office. I did not see any evidence of any written proof of correspondence regarding any requests however. There is written evidence of advice and support given to some International officers from NCC contracts and procurement Lawyers, based in the legal services team.

3.2.11 In the early development of this work, the evidence shows some good officer work preparing the ground for such initiatives to take place, due to this type of work being opportunity based and bid responsive. Due to the informal nature of these debates, the governance around this has always been undertaken away from formal scrutiny and correct governance in the local authority environment. It was felt by officers involved in the International team that they needed to move at pace, as it was an environment and a venture where opportunities had to be quickly followed up. I have not seen any evidence of any s151 or Monitoring Officers 'formally signing off' of any due diligence work, but were clearly involved at various times as the International work was being developed.

3.2.12 A comment I regularly heard in my various interviews, was that "*it felt like there was a continual revolving door of statutory officers*". This resulted in little hand-over from one officer to the next, reducing any corporate memory and/or consistent involvement of these officers in any of these activities. From 2017 until the time of writing this report, the Council has had 8 different S151 officers in post, (involving 6 different individuals).

3.2.13 The evidence supports that officers were regularly briefing Cabinet members *informally* regarding International business, which occasionally included risk registers. I have seen a number of risk registers as part of the supporting documentation, which did highlight some medium and some high-risk areas. However, in my conversations with some members, they believed it to be of a lower risk due to the ways the funding model was prepared and there being an incremental approach to future awarding of contracts. Due to the fact that up until February 2021, these Cabinet briefings were always held *informally*, it has been virtually impossible to confirm what report was actually presented and/or discussed or agreed at some *informal* Cabinet briefings. I have seen a number of *informal* Cabinet briefing reports and minutes following such meetings where these were available. Some of the minutes of the meetings that may have been made are quite minimalistic and impossible to audit. For example, 'the report was noted'.

3.2.14 There were a number of events where a number of Cabinet members attended and supported a range of International initiatives. For example, the regular hosting over the years of several foreign potential partners, including a formal launch and an MOU signed by the then Leader of Council at the House of Lords in June 2018. It would be fair to assume because of these events, that *informally*, Cabinet supported the work of International and the proposed strategy presented to them.

3.2.15 From several discussions that I had with a number of different individuals I spoke to during this review, they had '*assumed*' that appropriate governance, due diligence and risk management practices had already been undertaken by either the previous administration and/or designated officers along the way. The Council's

Monitoring Officer at that time became a joint signatory to the first contract the Council signed on the 14th December 2017, with a hospital in the UAE, with a contract cost of £200k. It would be fair to assume that this action would have naturally given an indication to individuals involved in this work, that the Council were acting within the correct guidelines.

3.2.16 There is evidence of detailed risk registers being produced by International officers and occasionally shared at some *informal* Cabinet briefings. I have seen no evidence to show that the Chief Internal Auditor had this on their annual audit plan of risks (until much later in the programme), thereby preventing any formal audit or scrutiny. The Council's Risk Appraisal Panel was in existence then, but I believe that the oversight of commercial trading activities and any associated risks were not part of their TOR at that time. There is evidence that International work was included as a corporate risk, in the Risk Management Framework taken to audit committee in late 2020, approximately 2 years after trading was underway.

3.2.17 On the 13th March 2018, a Cabinet report approved a 2-year extension to the general Council/Trust partnership agreement for social care and health integration, which commenced in 2011. This seemed to be a relationship with the Trust that was seen as important enough to take a report to formal Cabinet.

3.2.18 The Monitoring Officer at the time was structurally operating at 3rd tier level, which meant that they were 'perceived' by others to have little influence over some key decisions that came later on. The relatively high number of joint posts, where staff had a strong NHS background, were also operating at various senior officer levels within the Council. The lack of understanding of the important role the Monitoring Officer had, was not well understood, due to this lack of awareness. There was an obvious lack of clarity and importance of such a role. This role later became 'shared' between a number of officers during the sick leave absence of the Monitoring Officer, which did not help the consistency of the ongoing 'control environment' within the Council.

3.2.19 A number of *informal* Cabinet meetings took place during 2018 regarding potential work with an organisation in China to provide consultancy services. Individual officers from the International team then undertook a range of due diligence checks, including the commissioning of a Hong Kong based Law firm who then undertook the work of reviewing, amending and negotiating where appropriate, any impending contract with this Chinese company, on the behalf of the Council. This work commissioned in early April 2018, was to seek waiver of any finance or contract rules and was signed by a number of statutory officers. A contract was then signed by the Chief Executive in April 2018, with a Chinese organisation for a contractual cost of £646,680. It was also at this time where a s151 officer was internally 'acting up' and waiting for the arrival of the new s151 who commenced in June 2018.

3.2.20 I was advised that the various statutory officers (whilst in post), were generally regular attendees of *informal* Cabinet briefings when International work was discussed. Again, due to the minutes of some *informal* Cabinet briefings being quite minimalistic and at times not produced, there is little evidence I have seen, to show what if any questions were asked by the statutory officers in these meetings, or any written formal advice given, if at all.

3.2.21 As previously mentioned, a number of members informed me that in the *informal* Cabinet briefings, many questions were being asked to different officers. It is unclear from any written evidence how much this was probed or followed up. From

the written evidence I have seen or been presented with, the first written requests from members regarding this issue did not start to take place until September 2019. I have not managed to see any written evidence until after this date, that members were 'formally insisting' that as the scale of activity was obviously increasing, that this should now be put on a more formal footing much earlier. This *informal* nature of engagement between officers and Members continued, until poor relationships escalated. The evidence indicates that the governance arrangements were overshadowed by the Council's determination that this initiative should be a success.

3.2.22 There is no written evidence that I have seen of any 'regular' strategic meetings with the Trust between Councillors and Trust Board members during any part of this relationship. I have been advised by senior Trust officers that historically there were regular partnership meetings, but this arrangement ceased when there was a change in administration. I have been informed that after the change in administration some meetings took place, but they were very sporadic and were regularly cancelled at the last minute. I have not sought to look for any evidence of this having taken place prior to 2017. This would have been another opportunity for councillors and senior Trust board members to share intelligence and concerns. I understand from senior Trust officers I spoke to that the failure to establish such a mechanism, was a major concern for the Northumbria Trust Board and a key driver for changing the arrangements.

3.2.23 In the first couple of years, the Trust were receiving International updates from the officer team via their Finance and Investment committee (FIP) and audit committees and the Council were receiving some via *informal* Cabinet. One of the governance framework examples stated in (3.2.3), was one presented in an *informal* Cabinet briefing in November 2018. The evidence and triangulated strength and weight of opinion, suggests that *informal* Cabinet were being advised that the Trust were receiving and/or endorsing much of this work, but this should never be a reason for the Council not to have to undertake their own internal/organisational governance and proper oversight.

3.2.24 The frequent changing of statutory officers and s151 officers in particular, meant they became involved in an inconsistent way, with little to no handover. One s151 officer went abroad to one of the fact-finding trips right at the beginning of their employment with the Council, as a way to get to understand the work involved and the potential financial opportunities available. Also, the Monitoring Officer at the time had signed various documentation regarding this work, as well as attending a number of *informal* Cabinet meetings when International work was discussed. As Monitoring Officer, it was their statutory duty to ensure that the law and statutory guidance were followed, although it is appreciated that the culture of the organisation during this time was a significant challenge and importantly, they were only operating at 3rd tier level. The status and important role of the Monitoring Officer was not understood or respected across the Council. The staff in the joint International team were helping with financial and legal matters, but for a variety of reasons, the various statutory officers were not as close to this as they should have been.

3.2.25 The evidence of the various presentations that I have seen were very detailed. Due to the nature of the work, they were quite aspirational and were largely based on anticipated projections of anticipated contractual income, which had been set out in the initial International plan. The payments were attempted to be structured to ensure that the Council was never in a position where it was not recovering its

costs and the incremental approach to future contracts being won. Some of the comments I received from some individuals I interviewed was that there was a lot of information they were receiving, but they found it hard to gain a simple response to some of the issues they were being presented with. Hindsight is an exact science, but perhaps some initial questions that needed to be formally asked by members at a much earlier stage and formally answered by officers include: -

- What is this about and what are we selling to whom?
- How have we done so far, eg. have any previous plans been delivered?
- Have we been paid for work done, as this could potentially be a big risk?
- What are the anticipated costs that are needed to support this venture?
- Have these costs and the operation of this work been agreed by the appropriate statutory officers?
- Is there evidence of commercial and financial drivers for this?
- Do we have legal powers to undertake this work?
- Do we currently have a loss or profit and, if a loss, when will it be recovered?
- Can we be confident that, over the medium term, we can deliver the plan and financial projections?
- Have we enough expertise/capacity to deliver future contracts?

3.2.26 Also importantly, “is this a business that we should be in and would it help to support our strategic priorities and corporate ambition as a Council, or would it be a distraction?”. I have been advised that many questions were being verbally asked at an earlier stage, including the portfolio holder for finance and the Leader at that time, but I have only seen evidence of the first written questions commencing from September 2019. However, neither is there evidence of this fundamental information being offered up to members in any ‘formal’ forum, by the senior professional officers responsible for the project

3.2.27 The new s151 officer who started in mid 2018 immediately became involved in the work of Advance Northumberland and the transfer of circa £300m of assets and liabilities from its predecessor. From the perspective of the s151, this was seen as more of a financial risk to the Council. At that time International was jointly supported by the Trust and generating much lower levels of revenue. The International quantum at that time was less significant, as the amounts would not have had an excessive impact upon the Council’s revenue budget at that time.

3.2.28 In summary, a number of cost centres were created that covered a range of International work. However, these were in fact no more than outline budgets. There were no SLA’s produced or agreement for services, or set out as full cost absorption, so didn’t take into account all associated costs therefore wasn’t able to accurately track overall trading profit. Any cost allocations were always looking back retrospectively and were not contemporaneous. This issue is set out in more detail in the response to question 7. There was however, evidence of good range of due diligence undertaken by a number of officers.

3. How, when, and why did the arrangement change and who authorised this?

3.3.1 There is evidence of a number of emails during May 2018, between the senior officers of the Trust and the Council which was increasing in intensity. The Trust

were seeking more reassurance around financial viability. The Trust were concerned about the underlying financial risks, as this type of venture being primarily based on potential income projections and estimations. This was further evidenced by a number of presentations given to *informal* Cabinet regarding financial projections of up to £100m in 5 years for example.

3.3.2 One particular email from the Trust highlighted their concerns that they were concerned about the robustness of the financial projections and the potential risk of operating *ultra vires* eg. not breaking even or gaining a profit over a 2-year period. This then led to a presentation to FIP and the Trusts audit committee in September 2018 where further assurances were sought.

3.3.3 The evidence suggests that following the Trust's FIP and audit committee meetings in September 2018, there was growing uncertainty regarding the financial risk to the Trust. A meeting on the 7th September to the Trust's audit committee took place and the committee was seeking assurance that *'the development of International work was not a risk to the resilience of the Trust's core local services'*. The report also minuted that *'the committee were informed that final contracts are jointly signed by the Trust and the Council'*. Discussion then followed in relation to the financial position of this work and that it was noted that FIP received quarterly financial updates with the next one scheduled for the 24th September 2018. It was then asked if internal audit (in the Trust), have reviewed the International work and it was eventually agreed that Audit One (the Trust's Auditor), would work with the Council's internal auditors to carry out a joint review of the work prior to the year end. Sadly, there is no evidence to confirm that this request was then followed through.

3.3.4 I have been advised by various senior Trust individuals that I spoke to that it was at this point in time that partnership working between the Council and the Trust started to deteriorate. The Trust felt that they couldn't risk the project operating at a loss on an ongoing basis and they were not getting the financial reassurances that they were seeking.

3.3.5 A report was then presented to the September 2018 Trust Board, which eventually led to the development of the overarching Co-operation Agreement. The report stated that the Trust will still benefit from International work but will no longer be required to invest operationally. The report further stated that the Trust and NCC have agreed that the current commercial arrangements between the Trust and NCC (currently 50:50 split of costs and any profit) will cease. Going forward, the Trust will not be required to invest in the overarching International strategy and plan implementation formally from the 1st April 2019. In addition, the Trust will benefit from fees for services delivered on commercial projects.

3.3.6 This report also mentioned that the Council was planning to set up a special purpose vehicle (SPV) for all North of Tyne International work on the back of the devolution arrangements. However, for some reason this arrangement didn't take place. The Trust saw this as 'de-risking' themselves from any future financial volatilities, although I am not sure if the Council realised that they were now in effect taking on all the risk? The recommendation from the Trust Board was that an overarching co-operation agreement would be seen as an alternative partnership arrangement. I have found no formal written notification between the Trust and the Council regarding this decision at this time, until this led into the formal

establishment of the co-operation agreement in April 2019, which was signed by the two CEOs from the Council and the Trust on the 17th December 2018, with the Council's CEO presumably undertaking this under delegated authority. During my discussions with some members that I interviewed, there was an awareness that the Trust was withdrawing from the initial NIA arrangement, but this change and update was given to them verbally in the *informal* Cabinet briefings.

3.3.7 In my discussion with senior Trust officers, they understandably '*assumed*' that the intention to change partnership arrangements would have been formalised through the appropriate governance channels within the Council. Also, as any strategic meetings between the Trust Board and the political executive was now rarely being held, these points further highlight the situation that all communication seemed to be officer to officer, which was *informally* passed on for any member awareness.

3.3.8 The Co-operation agreement became cancelled several years later. The Trust sent a letter on the 18th October 2021 to a Council officer in the joint International team, stating that they no longer wished to be involved in the co-operation agreement and of any International work going forwards. This also included the Council not being able to use the brand and/or the Northumbria Healthcare International Alliance logo, or even the mention any joint partnership including the use of any promotional material.

3.3.9 In summary, the arrangement changed when the Trust were not getting the financial reassurances they were seeking. This eventually led to the development of a co-operation agreement that commenced in April 2019. There was no evidence of any formal authorisation of this change, other than via verbal updates at *informal* Cabinet meetings.

4. How was advice regarding the legal basis for these commercial trading activities commissioned and what involvement did the NCC legal team have in this?

3.4.1 There is evidence of the earliest document being a draft discussion report that was prepared by an officer of the Trust in conjunction with a member of the International team in June 2017. This report set out a potential corporate structure which included setting up a trading company as an option to consider. I have been told that this report was *informally* discussed in the joint International officer team meeting, but I have not seen any evidence to confirm this, nor indeed what then happened to it.

3.4.2 There is evidence of emails as early as July 2017 between officers on the joint International team, stating that an external legal firm, Ward Hadaway, advised that the most efficient way to enter into the contract would be to set up a separate legal entity or a special purpose vehicle (SPV), to enter into the contract with a Chinese organisation. The company would be owned 50/50 between NCC and the Trust and would set out the 50% terms of operating between the parties. The email then set out the various advantages of establishing a company structure.

3.4.3 Although the email exchange didn't specifically refer to the 2011 Localism Act, it was setting out the view that there was a need to establish a SPV or separate legal entity.

3.4.4 A letter dated the 4th September 2017 from an officer in the joint International team was sent from the Council to Ward Hadaway, asking them to provide support and assistance in drafting a contract for the proposed provision of services to an organisation in China, and to act on the Council's behalf in relation to this matter. *Informal* Cabinet were also receiving regular updates of potential opportunities in China and other countries from officers. In my interview with a representative from Ward Hadaway, there is evidence of email exchanges in August 2017 between some International team officers and Ward Hadaway where the need to set up a SPV in order to operate commercially, was 'commented' in the side bar of the review notes within the documentation that was being exchanged and debated.

3.4.5 The published version of the Council's Constitution was updated in February 2021, so I have not been able to check what the Council's Constitution was at the time of this contract being agreed. We know that the Constitution forms the rules by which the Council undertakes its business and creates clarity on how things are done and where the authority lies or is delegated and the limits of power, responsibility and authority are. I have been informed that at that time, there was no reference to this in any financial or contractual procedural rules or in the office scheme of delegation.

3.4.6 There are written statements from several of the officers involved, stating that a discussion took place in circa September 2018 between the then Chief Executive, s151 officer and the Monitoring Officer to discuss the need to set up a company. It was stated that there needed to be some external legal advice gained on the back of this meeting, which resulted in a meeting with Ward Hadaway later in September 2018, leading to them producing a briefing note in November 2018. I have seen written evidence from Ward Hadaway to several officers, in the joint International team responding to them, '*thanking them for their instructions*'. In my conversation with a representative of Ward Hadaway, 'instructions' were normally given verbally and/or via various forms of email communication by different International team officers. I have not been able to evidence the Monitoring Officer's involvement in the issuing of any formal (or even informal), instructions for this work. The only evidence of an email involving the Monitoring Officer and International that Ward Hadaway had discovered following a quick internal search, was from one of the International team officers and the Monitoring Officer in August 2019, related to questions regarding the liability in commercial contracts. Ward Hadaway believed that the input that they were giving to these discussions in September 2018, was related to the sort of company vehicles to be established in relation to other structures and companies operating elsewhere within the organisation.

3.4.7 The advice note eventually prepared by Ward Hadaway in November 2018, set out a range of options to establish a trading vehicle, but there was no mention of the 2011 Localism Act, which would have required a commercial vehicle to be in place at this stage. The note gave a range of options, including the option of considering the utilisation of a Limited Liability Partnership (LLP), which would not have been a valid option due to the legal requirements of the 2011 Localism Act requiring commercial activities to be conducted through a company. In any event, the advice was not actioned. In my discussion with a representative from Ward Hadaway it was felt that they were now being brought in at this time to help the Council to operate

commercially. They felt that it was about *'what'* is the best commercial vehicle to use, rather than *'should we be using one'*. It was believed by them that through a range of discussions with officers via various means of communication, the need to formulate a company vehicle had already been previously accepted and understood. Also, their initial involvement was specific to contract formulation advice and not the general requirements of having to set a company structure up. However, the concern at this point in time, was that the Council was already engaged in a number of operational contracts already. In my conversation with a representative from Ward Hadaway, they stated that they only dealt directly with officers during this period.

3.4.8 In November 2018 the Council entered into another contract with a company incorporated and trading in the Republic of Ireland, at a contractual value of £2,954,803. This contract was jointly signed by the then Leader of Council and the CEO. I have not seen any evidence to formally establish why this contract didn't actually commence and was then cancelled, with the deposit of £50,000 being returned to the client. Arguably, entering into a contract for this value should probably have been a 'key decision' and put on the agenda for Cabinet to take a formal decision in public and therefore made available for scrutiny, but none of that appeared to have happened.

3.4.9 In November 2018 an email was sent by Ward Hadaway to the CEO, followed by an *informal* Cabinet briefing where this information from Ward Hadaway was discussed and members considered the options presented, by officers. It was clear that a new company needed to have been formed if NCC needed to contract directly and they were now discussing what sort of company the Council wanted to formulate going forwards.

3.4.10 A number of key staff were leaving the Council and/or their roles, around November/December 2018, including the s151 officer who had only been employed for about 6 months, as well as a number of appointed International team staff who were supporting this initiative. It then transpired that for the majority of 2019, the Council either had an interim s151 officer, or internal finance staff were asked to 'act up', to cover this statutory function.

3.4.11 As previously outlined, this whole development became further delayed at this point in time, as the Trust then withdrew from the initial partnership arrangements, commencing in April 2019. A number of officers I spoke to also believed that some of the delays at this time was due to members delaying things for various reasons. In my conversation with some members, their view was that they wanted to be sure about what sort of company should be formulated and the need to get adequate responses to questions from officers they had been asking for some time. There were ongoing internal challenges with the establishment of Advance. Some members commented to me that this caused concerns, so they needed to be sure that in setting up a company for International, wouldn't create similar challenges to what was being faced here. This therefore created further delays in this critical piece of work to be fulfilled.

3.4.12 There are emails between some senior officers in the joint International team in November 2018, where consideration was given to exploring utilising existing companies that the Council was already operating. A further request was made by an email in March 2019 to Ward Hadaway by an officer in the joint International

team, (not the Monitoring Officer), to advise on the establishment of a new wholly owned subsidiary or as an operating company operating under another owned subsidiary for commercial activity including International work.

3.4.13 This eventually led to a further formal advice note produced by Ward Hadaway in June 2019. This is the first written piece of evidence I have seen of the 2011 Localism Act being mentioned.

3.4.14 Looking back, there was a significant delay from the time when initial advice was emerging from Ward Hadaway, to when Northumbria Integrated Consultancy Ltd (NICL), was finally incorporated in March 2021. This may be partly explained by the uncertainty of what particular company vehicle should be selected. For example, I have seen evidence of an email in November 2019 between Ward Hadaway and the CEO saying *“following our meeting, I attach my advice note on setting up the companies as we discussed”*. This briefing note explored the possibility of novating existing contracts to a new corporate entity. The evidence supports that this was discussed at various times within a number of *‘informal’* Cabinet briefings over a number of months, to gauge the best way forwards. However, due to the issues highlighted earlier, I cannot evidence through any written minutes what was recorded as the way forward. I have also not been able to find any written evidence that this was followed up with the Monitoring Officer or s151 officer to check or action the legal advice.

3.4.15 Further *informal* Cabinet briefings took place which also discussed the advice given by Ward Hadaway concerning the need to establish a subsidiary group holding for NCC. I have been advised that in the *informal* Cabinet briefing in November 2018, where both the Monitoring Officer and s151 officers were invited to attend. There was a presentation regarding International activity and a discussion regarding what type of company structures should be set up. There is evidence of that agenda and of the invited attendees, but as no minutes were recorded, I cannot substantiate who attended and what was specifically discussed or agreed.

3.4.16 It seemed that members were becoming more concerned about the operation of International. The first written email I have seen from a Cabinet member regarding this issue, was sent in September 2019 to the Chief Executive asking for more reassurance *‘around governance, risk liability and insurance’*. This was responded by *‘governance would fall out of the company structure and there is a risk register already and we can discuss it tomorrow’*. Again, this centres on the main challenge throughout these whole set of events in that these discussions were always held *informally* and away from a formal governance, audit and scrutiny process.

3.4.17 Another *informal* Cabinet briefing took place in September 2019, where the Chief Executive set out the progress to date of all the contracts. This included the fact that the first Chinese contract had a value of £646,680 was in delivery with a forecast profit of £236,644. It also said that negotiations were underway for phase 2, with a prospective value of circa £16m over 10 years. This briefing also set out that there was the current negotiation with an organisation in the UAE which was due for signature in January 2020. The estimated stage 1 and stage 2 profits over the next 15 years was estimated at £21,679,772. I have seen no evidence that the s151 had any involvement or formal endorsement of these figures, and the s151 at this time

was internally 'acting up', as the Council were still waiting for their new permanent s151 officer to commence in January 2020. In December 2019, the newly appointed s151 officer immediately went to the UAE in order to gain greater insight into the work of International.

3.4.18 Importantly, this briefing report asked (*informal*) Cabinet to consider the information in this report and for i) (*informal*) Cabinet to discuss and agree a strategic direction in relation to the growth of this commercial opportunity; ii) should the (*informal*) Cabinet decide not to pursue any further opportunities, then the executive team will set out a managed process for exiting the work and iii) should (*informal*) Cabinet decide to proceed with the opportunities the CEO will be asked to provide a formal commercial in confidence Cabinet report detailing progress to date including the arrangements for the subsidiary company. This again highlighted the work of International being formulated via *informal* governance processes, but it seemed that there was an opportunity to exit this work at that stage. There is then further evidence of a flurry of emails between the CEO and a number of Cabinet members just after this meeting in late September 2019. These emails were requesting detailed financial forecasts and a finalised governance structure, which eventually resulted in members giving qualified support for it to go ahead.

3.4.19 In summary, different International team officers commissioned the legal advice and formal instructions were never issued by the Monitoring Officer. However, there was sporadic involvement and input at certain times by some NCC legal contract and procurement support officers for certain issues.

5. What advice was given, or concerns raised by the statutory officers, NCC legal team and others regarding the lawfulness of the activity and what evidence is there that these were acted upon

3.5.1 In November 2019 the audit committee received a critical report by the then external auditors, Ernst & Young, about the Council. Many issues were covered in this report. It is probably fair to point out that a number of the issues that was highlighted in this report, later became played back in the more recent 'Caller Report' regarding poor governance. Part of this was the fact that the Chief Internal Auditor formally reported directly to the Chief Executive and was a member of the Council's executive management team. This would have created a challenging conflict of interest as they would have been aware of the rationale for key operating decisions which could impair objectivity. This may have been a factor in why the work of International was not seen as a high enough risk to be included on the Chief Internal Auditor's annual audit plan, although I have seen no written evidence that this was the case.

3.5.2 This audit report commented upon the rapid turnover of s151 officers and was also in the process of recruiting for a permanent appointment. This issue may indicate why some of the financial underlying assumptions for International activity had not been formally signed off by various s151 officers. The evidence suggests that the various appointed officers involved in the International team felt the need to draft much of this themselves, but were not the s151 or Monitoring Officer. They did not have the internal knowledge or financial rigour or authority to fully ensure that all

appropriate costs were allocated proportionately or contemporaneously. The audit report also highlighted a number of potential conflicts of interest, including an example where there had been instances of the s151 officer's name being added to public reports without their specific sign off. The report also comments on the fact that they received a number of allegations across the organisation. Regardless of whether these allegations were upheld or not, this whole report clearly demonstrated an environment where both officers and members were finding it extremely challenging to work in a positive way. The fact that a number of key staff were continually leaving, indicates that they were unhappy with the environment they were working within. I understand that the process of 'how' individuals left was highlighted in more detail in the 'Caller Report' and is not part of the remit of this report.

3.5.3 As previously mentioned, another permanent s151 officer started in mid 2018 immediately became involved in the work of Arch, to help wind it down and transfer circa £300m in liabilities and assets to the new company Advance. From the perspective of the s151, Arch was seen as more of a financial risk to the Council as at that time International was jointly supported by the Trust and generating much lower levels of revenue. In accountancy terms, the S151 understandably focussed on Advance as the International quantum was 'immaterial', as the amounts would not have had an excessive impact upon the Council's revenue budget at that time.

3.5.4 Another permanent s151 officer started in December 2019 and inherited an organisation where the International work was already up and running. In my conversation with him, he also felt that in those early stages, the International work was an insignificant element of his workload, when compared to the wider financial challenges across the Council and trying to balance a circa £800m net budget.

3.5.5 The first formal Cabinet meeting that eventually became related to any International work took place on the 11th February 2020. Although this wasn't specific to International, this report gained approval for the establishment of a group holding company which had 10 limited companies which would support general commercial trading activities, as well as care trading activities to be operational as and when the objectives of a company are determined. Both the new s151 and the existing Monitoring Officer were in attendance. This company was called Northumberland Enterprise Holdings Ltd (NEHL). This evidence, was the first *formal* decision that appears to have been taken, albeit approximately 2 years after the first contractual work was signed (December 2017) and expenditure was being utilised to support International activities. It took a further 7 months for this company to be incorporated at Companies House (17th September 2020) and a further 6 months for the company regarding International activities, Northumbria Integrated Consultancy Ltd (NICL), to be registered and incorporated at Companies House (29th March 2021).

3.5.6 It is easy to look back now and question this continual delay, but it is clear that the onset of the international pandemic (COVID 19), which then took hold in England in March 2020 was a clear factor to be considered as part of this. The s151 officer who had only just started working at the Council about 2 months earlier, was now focused on other many other more urgent issues. The Council was then having to deal with all the community pressures this enacted, such as grant support for individuals and businesses. Councils across the country were then having to very quickly adapt to working virtually, with huge IT system changes having to be enacted whilst demands for support were increasing on a daily basis. The International work

therefore initially seemed like a small element of business and priority bearing in mind the Council's general budgetary pressures.

3.5.7 The evidence suggests that officers wanted to progress the formation of what later became Northumbria Integrated Consultancy Ltd (NICL), but it was at this time, (circa late 2019), that there was an increasing number of Cabinet members who were understandably formally asking a number of questions regarding the whole operation of International. Ideally, these questions should have been more formally asked from the very beginning of this journey, several years prior to this. In my conversations, a number of members realised that they had too readily accepted the verbal assurances that officers were initially giving.

3.5.8 The challenges that the COVID pandemic presented cannot be underestimated and immediately in March 2020 the Council, along with businesses across the whole world had to adapt to 'working virtually' very quickly. This completely ceased any foreign trips abroad and meant that the International team had to look to consolidate work already underway.

3.5.9 The new external auditors (Mazars), who became the Council's new external auditor in February 2020, fairly quickly began to ask a number of questions regarding the legitimacy of the International operation.

3.5.10 The evidence available supports that another *informal* Cabinet briefing took place in April 2020, which gave an update on the progress of contracts, a detailed risk register and was asking for approval to sign workstream 1 of stage 2 of the Chinese agreement at a contractual cost of £2m. This led to the then Chief Executive signing the stage 2 contract with China for a contractual value of £2m on the 19th June 2020, with a view to novate it to NEHL at the earliest possible date.

3.5.11 At the same time, there was a lot of national concern being raised about the different commercial enterprises that Councils were getting themselves involved in, such as out of area major regeneration projects and setting up Council owned energy companies. This led to the publication of further national reports about this issue and the 'level of risk' that Councils should be taking with tax payers' money. A particular high-level casualty at this time was regarding the challenges that Nottingham City was having with their energy company Robin Hood Energy. This led to a public interest report being produced by Grant Thornton in the summer of 2020. The report highlighted a number of missed opportunities and in particular focused upon the poor governance arrangements that were in place at the time.

3.5.12 The issuing of this public report led the Council to take a further step back and think about whether this was the right business to be in and what sort of company needed to be developed if this should be undertaken correctly, bearing in mind the issues that other local authorities had faced. This also coincided at the same time as the CEO was suspended which appeared to create a further delay in establishing the NICL company to undertake International business.

3.5.13 The increasing challenging internal environment continued, where various email evidence shows that a number of senior members and officers were at a point in time where it felt unworkable. In a number of my discussions, both officers and members I spoke to talked about the "*increasing toxic environment*" that it felt like to

be working in. The 'Caller Report' again picked this up in more detail, but the frequent accusations of bullying and other such issues just helped to fuel an already challenging environment. During 2020, there were an increasing number of emails between some members and officers that seem to remain unanswered. This is obviously a very unsatisfactory situation to be in and clearly demonstrates that trust was completely broken across the executive leadership level of the Council.

3.5.14 Another *informal* Cabinet briefing took place on the 4th August 2020, where senior officers undertook a detailed presentation of International work. This presentation was quickly followed up by an email from one of the Cabinet members to a senior International officer asking a range of clarification questions in particular concerning the financial underpinning of this work. Areas such as the summary of historical costs and income each year since the International work began; the forecasts for the existing projects; the criteria for assessment of potential projects; any longer-term forecasts; any details of risk assessment and insurance; staffing structure and any Trust audit outcome. There is evidence of some written responses to some of these general queries, but other responses tended to be embedded within a range of different presentations given to members at different *informal* Cabinet briefings.

3.5.15 In late August 2020, when the then Leader raised a number of significant concerns regarding the legitimacy of the International work in relation to the 2011 Localism Act, with the Monitoring Officer. I have not seen any evidence of any response or action to this email from the Monitoring Officer at this time. The Monitoring Officer then went on sick leave in October 2020 and formally left the Council a year later in September 2021.

3.5.16 The Leader stood down in September 2020 and it was soon after this change that *informal* Cabinet received a report about the potential opportunities of the North of Tyne devolution deal which International were hoping to utilise. The evidence shows that this eventually didn't turn out to be followed through in the manner that it was hoped.

3.5.17 In November 2020, the CEO who had by then returned to work, presented a report at another *informal* Cabinet briefing regarding an update on progress on all the projects. It was stated that the Chinese project had been successfully delivered and that they have asked the International team to carry out a larger piece of work. A range of financial data was discussed including that there was a total contract value signed of £5.9m and actual project income of £2.8m once the current project has been delivered successfully. The report also commented upon the company format being discussed and progressing. This led to several members asking for more information, with the Cabinet member for finance saying "*he had asked for this for some time now*". The s151 officer was present at this *informal* Cabinet briefing, but there is no record of any response that he or any other officer may have given that I have seen. This is also occurring at the time when the Council's Monitoring Officer was now on sick leave.

3.5.18 It is also a point to note, that three different officers covered the function of the absent Monitoring Officer for approximately 12 months from October 2020 which clearly was not helpful in terms of ensuring ongoing clarity of advice and role.

3.5.19 In several of my conversations, some previous statutory officers believed that they were not being listened to and did attempt to raise a number of concerns, with the CEO but felt that he was ignored. I have not however, seen any written evidence by any statutory officers at this time, formally raising concerns to either the Chief Executive or members. There is no written evidence I have seen from the various statutory officers in post in the first 3 years or so, regarding the lawfulness of International activities. The Council were entering into contracts worth nearly a million pounds and a promise of much more to come.

3.5.20 There was a high turnover of statutory officers, resulting in a loss of any corporate memory or 'hand-over'. This resulted in a lack of underpinning legal and financial rigour and formal statutory officer support, to any ongoing governance. This was further complicated by their lack of formal involvement in the International officer group. This resulted in any formal 'sign off' by the statutory officers on a number of International initiatives. This included for example, the formulation of written instructions for external legal advice and the establishment of any proper management or trading accounts. This was further exacerbated with the Monitoring Officer at the time, structurally operating at 3rd tier level.

3.5.21 Nevertheless, it would be expected several years into this venture, that the various statutory officers, some other senior officers and several Cabinet members, should have been aware of the requirements of the 2011 Localism Act and only eventually received formal legal advice from Ward Hadaway regarding this in June 2019, approximately 9 months or so after trading had apparently begun. However, due to the circumstances set out in this report, for various reasons this was not formally highlighted or made aware until much later in proceedings.

3.5.22 In summary, a number of individuals tried to raise concerns, but these were always undertaken informally. From the evidence and triangulated strength and weight of opinion, the culture of the organisation was not receptive to taking these on board. This became more urgent when the new external auditor at Mazars started asking questions about International activities soon after they commenced their work with the Council, from circa February 2020 onwards.

6. What management controls over commercial trading activities were in place over this period and how were they overridden, and the 3 lines of defence circumvented? What steps need to be taken to ensure that this cannot happen again?

3.6.1 I have covered many of the points that need to be made to respond to this question up until the end of 2020, in the answers to the previous questions. The 3 lines of defence are set out in a number of published professional articles. For example, the Institute of Internal Auditors (IIA) published this in a global position paper in 2013, titled '*The three lines of defence in effective risk management and control*'. I have set out a simple model that demonstrates this below: -

GOVERNING BODY/AUDIT COMMITTEE

SENIOR MANAGEMENT

1 st Line of Defence	2 nd Line of Defence	3 rd Line of Defence
<p>Operational Management</p> <ul style="list-style-type: none"> > Management controls > Internal control measures 	<p>Oversight & Support</p> <ul style="list-style-type: none"> > Strategy & Policy > Direction setting and assurance oversight 	<p>Independent Assurance</p> <ul style="list-style-type: none"> > Independent challenge and audit - internal/external > Regulator
<ul style="list-style-type: none"> > Identifying risks improving actions and controls > Regular progress reporting > Staff/Training > Managing performance and good data quality > Delivery of service plans 	<ul style="list-style-type: none"> > Financial controls > Security > Risk management > Quality > Inspection > Compliance 	<ul style="list-style-type: none"> > Internal audit > External audit > External inspectorates > Peer Review agencies > Regulators > Oflog

To be clear, the 3 lines of defence being referred to are: -

3.6.2 i) the '*first line*', management controls and internal controls. They are the various functions that own and manage risks. This is formed by managers and staff who are responsible for identifying and managing risk as part of their accountability for achieving objectives. Collectively, they should have the necessary knowledge, skills, information, and authority to operate the relevant policies and procedures of risk control. This requires an understanding of the company, its objectives, the environment in which it operates, and the risks it faces.

3.6.3 I have previously outlined that the joint International team did some very good work to develop contracts and undertake appropriate checks and balances, including good due diligence checks, as well as meetings with Trust colleagues. As previously mentioned, this also included the support of a Hong Kong based law firm to help them undertake reviewing an impending contract with a Chinese company, on the behalf of the Council.

3.6.4 The management controls and oversight were mainly undertaken via the joint International executive officer group that was overseen by the Chief Executive. However, it is not unusual for officers to delegate their attendance to their senior team members. In my conversation with some International team members, they claimed that verbal advice was requested from the Monitoring Officer and the various s151 officers who may have been in post at that time. However, as previously mentioned, they were not standing members of any operational group and in conversation with several of them, stated that they felt this work was operating

'around them'. Although I have not seen any written evidence to support this accusation, I have not seen any emails to or from these statutory officers asking for or giving specific advice either.

3.6.5 The recent 'Caller Report' highlighted the characteristic that the NCC executive management team had a very high proportion of joint posts and/or individuals with an NHS Trust background. Whilst this is very helpful to drive the integration agenda, these two organisations have a different legal and regulatory framework to operate within. In particular, understanding the critical role of the Council member.

3.6.6 The evidence suggests that in the first two or three years of the operation of International, linkage with the Trust's FIP, audit committee and Trust Board was well supported. In fact, it could be argued that because of that good governance, in the autumn of 2018 the Trust felt they were not getting the assurances they required, this triggered the decision to change the operational arrangement to a new co-operation agreement. This view was supported by the senior officers of the Trust that I spoke to as part of this investigation. This new arrangement increased the risk to the Council which wasn't formally picked up internally within NCC.

3.6.7 It was clear from my conversations with some officers and members, they felt they were operating under the guise of some form of audit and scrutiny, it was just that this was predominantly the Trust's governance side of things, not the Council's.

3.6.8 I have not been able to check this with any written evidence, but upon conversations with a number of individuals, the training that was given to staff within the Council was very basic and a 'one size fits all' approach, regardless of the level of position you were working at within the Council, or the working experience you came from. The high number of joint posts with officers who had an NHS background, meant that this was a gap in knowledge and operated within a different legal and regulatory framework. Key issues like the importance of the member, Cabinet and scrutiny and Full Council committee arrangements and decision making, were just touched upon. In particular the difference between *informal* Cabinet and *formal* Cabinet regarding decision making was a clear issue throughout this whole saga. Issues such as the importance of the Council's Constitution, which is the framework which forms the rules by which the Council should undertake its' business and creates the clarity upon how things should be done. In particular, where the authority lies or delegates any authority and powers, responsibility and authority.

3.6.9 The remit of this report was not to look into any detail into the Council's Constitution and again the 'Caller Report' covers this point in more detail. It is clear that some individual officers whom I spoke to were unaware of the importance and more importantly any details within the Council Constitution. Several members and officers even mentioned to me that "*they thought that there were enough checks and balances and processes in place, but it's just that they didn't follow it*".

3.6.10 I mentioned at the beginning of this report that there were several individuals who could have been very helpful to this investigation, but felt unable to relive some of their past experiences and were not involved in the various discussions that I held. This being the case, I have not been provided with some key evidence to support

some of the concerns and conclusions I have posed, hence some conclusions are based on a lack of formal evidence, rather than the evidence available.

3.6.11 ii) the '*second line*' is concerning quality, inspection, compliance, risk management and financial control. They are the functions that oversee or who specialise in compliance or the management of risk. Many of these issues have already been addressed in my previous responses. This provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk. Furthermore, oversight is also a function of Cabinet, scrutiny and audit committees and alongside this, the role of the s151 and Monitoring Officer in exercising their statutory roles and powers.

3.6.12 The '*revolving door of s151 officers*' in particular, with a number of them employed on an interim or internally 'acting up' basis, did not help in this regard. There were gaps in employment of a number of different statutory officers and any corporate memory was lost. The business of International in its formative years was seemingly quite busy, with potential opportunities continually being followed up. Some of the staff appointed to the joint International team were taking on roles they were not formally qualified to undertake. For example, the regular legal direct input to this team was not the Monitoring Officer, but from various conversations that I had, there was an assumption by other officers in the International team, that they were endorsing this work going forwards. I have stated previously that I have seen no evidence that the s151 or the Monitoring Officer were either formal members, or regularly received any minutes of the International officer group. This issue, coupled with the absence of the s151 at frequent times meant that expenditure costs had to be estimated and projected without little or no evidence of formal endorsement from the s151, resulting in the underlying financial assumptions not being particularly robust. A comment I received from several previous s151 officers I interviewed said "*they couldn't be confident that any forecast was robust as they didn't have a closed down year end to build it from, as it always seemed to be based on the forecasting methodology?*"

3.6.13 Across NCC, there were other companies who had been operating other services for a number of years, yet it didn't seem to be on the radar of executive officers and members that this was required for International work until much later on.

3.6.14 iii) the '*third line*' are the functions that provide independent assurance. This is provided largely by internal and external audit. Sitting outside the risk management processes of the first two lines of defence, the main roles of internal audit are to ensure that the first two lines are operating effectively and advise how they could be improved. Tasked by, and reporting to the board/audit committee, it provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to the organisation's governing body and senior management. It can also give assurance to sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

3.6.15 A question I have wondered is “*why this initiative was not on the annual plan of the Chief Internal Auditor?*” I have received a number of observations to this question, but many of these cannot be substantiated. The input of internal audit only started taking place after several years after the International business began trading. The Chief Internal Auditor at that time, formally reported to the CEO and was also on the executive management team, thereby creating a challenge of a conflict of interest, as they would have been aware of any operational rationale, which could have impaired objectivity. It also questions the independence of internal audit, as the Chief Internal Auditor would have been conflicted. Secondly, I have not been able to see any evidence as to ‘*where*’ the numerous risk assessments that were produced during the development of International activities were challenged or formally scrutinised. I am aware that they were occasionally presented at *informal* Cabinet briefings, but I have not seen any evidence as to where they then were further scrutinised. I have been advised that senior officers in the International team regular met with the Head of Risk Management, to go through and assess what risks should be highlighted as part of the risk process in the Council, but again, I have not seen any evidence to substantiate this.

3.6.16 I have followed this particular point up with the existing Council internal Chief Auditor and he has confirmed that they were not aware of any risk assessments being presented to them in the first few years of International. International was never raised as a corporate level risk so did not form part of any strategic risk register. There is also no record of the central risk management team having any involvement with the International programme. Even when looking back for a log through the Risk Appraisal Panel (which goes back to meetings held in 2012), nothing appears to have been taken there either. However, as previously stated, I have been informed that the remit of the Risk appraisal Panel was not regarding an oversight of commercial trading activities, but just to advise on the risks associated with major projects.

3.6.17 This report previously mentioned that in the Trust’s September 2018 FIP Committee, it was stated that ‘Audit One’ was tasked to look at International, but it later transpired that this was not followed through. Again, the lack of connectivity between the governance operations of the Trust and the Council, was a further missed opportunity to share and align information and concerns. The work of International was not on the Chief Internal Auditor’s audit’s annual plan, and in February 2020 Mazars took over from E&Y and apparently initially began asking searching questions about the operation of International.

3.6.18 There is evidence email correspondence to a number of different members outside of the Cabinet, particularly around the summer of 2020, raising different concerns regarding governance issues. One email I have seen indicated that there was a request to hold an extraordinary audit committee meeting and a governance working group, to help look at risks and governance issues, which was stated to me that this was refused. I have seen no written evidence that this was formally refused however.

3.6.19 February 2020 then saw the first Cabinet meeting which approved the establishment of the group holding company (NEHL). This report has previously commented on the reasons for some of the delays from this date, until the eventual

incorporation of (NICL) approved at Cabinet in February 2021, finally incorporated at Companies House in March 2021.

3.6.20 A report to audit committee in July 2020, received a report which provided members with the annual opinion from the Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, taking into account the expectations of the Council's leadership team, audit committee and other key stakeholders. There was no evidence of any International being included in any of these audit oversights.

3.6.21 At the audit committee of the 25th September 2020, a summary Governance Framework was presented in relation to providing some assurance as to how the Council was managing an unprecedented set of governance issues which it was experiencing. The purpose of that framework was to establish and reassure audit committee that there were lines of accountability and also potential future learning from the number and nature of the unprecedented set of governance issues which were taking a significant amount of officer time to review, categorise and ensure that robust governance was being applied to the processes which the organisation was needing to facilitate.

3.6.22 On the 25th November 2020, the audit committee received an update on progress with the development, implementation and embedding of risk management within NCC, and to inform audit committee of the latest position of the corporate risks as agreed by the executive team on 19 October 2020. There were 18 corporate risks identified in this report, with NEHL added as a 'new risk' in April 2020. This still didn't specifically mention the work of International.

3.6.23 In January 2021 the Council's audit committee received a comprehensive report from the Chief Executive regarding a summary update of all commercial arrangements. This was the first formal meeting where the details of the contracts were presented. This not only covered the work of International but a range of other services as well. The s151 officer in post at that time, was present at that meeting, and was quoted in the implications section of the report, but this was his last meeting before leaving the organisation. The current interim Executive Finance and s151 officer commenced their employment with the council in February 2021.

3.6.24 There is evidence of a report regarding NEHL eventually being received by the corporate services and economic growth overview and scrutiny committee in August 2021, some 3 or 4 years after the operation of International first began.

3.6.25 During February and early March 2021, internal audit undertook the annual consultation with the Council's executive team members as part of preparing the 2021/22 Internal audit plan. During these discussions an internal audit review of the governance arrangements in place in relation to International work was requested. A review was included in the 2021/22 internal audit plan presented to the County Council's audit committee on 24 March 2021.

3.6.26 One of the first items agreed to be included in the 2021/22 audit work programme, was looking at the annual report from the Chief Internal Auditor and an

opinion on the framework of governance, risk management and control. This also was followed by a further update upon risk management.

3.6.27 In summary, the management controls and what I have previously called the 'control environment, that was in place for much of the time of International's work was *informal* and completely inadequate. The International Executive Group was officer only with the member interaction for update and 'approval' given at regular intervals via *informal* Cabinet briefings until circa 2020. This only became more urgent when relationships across the Council at the leadership level deteriorated. There was an absence of the s151 and Monitoring Officers giving any formal advice and International did not appear on the corporate risk register. There was no formal reporting to Cabinet and proper management accounts were not established or maintained. There was also no reference to commercial trading in the finance and contract procedural rules. There was also, no guidance on the form of any trading accounts was ever issued and there was a lack of clarity who had delegated authority to enter into these contracts.

3.6.28 The second part of this question really centres at the heart of what this investigation should be about - what steps need to be taken to ensure that this can never happen again? As this is a '**lessons learnt**' report, this needed to be given full consideration going forwards. I have set these out earlier in this report, within the Summary of Recommendations, see (2.25-2.50)

7. Did the international business make a profit and if so, how was this shared between NCC and NHCFT?

3.7.1 I have seen evidence of a vast number of spreadsheets, costs, expenditure items across a significant range of International initiatives. Some of these were from the Trust, but as they ceased from a profit-sharing arrangement from April 2019, I have had to look at other sources of information in order to get a more informed position for the Council. The responses given to previous questions have mentioned financial projections that would have been given at various *informal* briefings within the Council. The majority of the detailed presentations that were prepared and in part presented to *informal* Cabinet, covered a range of financial figures. Unfortunately, I have not been able to see any formally approved documentary financial reports or spreadsheets that had been 'signed off' by the s151 officer in post at that time, until much later in this International journey. Once again, there is therefore more of a conclusion based on a lack of evidence rather than of any tangible formal evidence.

3.7.2 Upon analysis of when did income come into the Council's bank account? The evidence indicates that monies had already been received for the MBF work (£200k) during 2018. The majority of the income for the Chinese contract signed back in April 2018, started to come into the Council's bank account from August 2019 onwards, although significant amounts of expenditure were being utilised to support this initiative.

3.7.3 The reports and updates that were given to both the Trusts FIP, audit committee and board and the Council's *informal* Cabinet were very detailed. The main challenge was that due to the nature of the business being opportunistic and

bid led, the figures were predominantly based on estimates and potential contract projections and were not receiving proper trading accounts. This point is further evidenced when you consider the email exchanges with the Trust in May 2018 where this has been pointed out, (see 3.3.1 and 3.3.2).

3.7.4 In the initial stages of the work, the finance officer assigned to this team was employed by the Trust. I have found no evidence to prove that they formally liaised with the relevant s151 officer in the Council in order to validate any financial figures being formulated and presented.

3.7.5 A number of cost centres were initially created that covered a range of the work of International. The first one was created in March 2017, which covered a range of staffing costs and contained a range of admin support costs, such as telephone, printing and stationery. Further cost centres were created later on for some specific contracts/projects. No SLA's were created, and the cost centres were not set out as full cost absorption, (which should include all associated costs to support this work), so wasn't able to accurately track overall trading profit. Any cost allocations were always looking back retrospectively and were not contemporaneous. This created a lack of transparency and agreement regarding what charges and costs should be apportioned to International work.

3.7.6 I have seen internal finance officer emails back in May 2018, stating that the International allowance budget, (which is not the same thing as a management account), for 2018-19 including on-costs is £44,310, with a total expenditure by NCC for the service development costs centre from March 2017 to date being £609,652. In addition, the income to date from International contracts was £208,505.

3.7.7 Nevertheless, these cost centres were set up by finance officers and you would have anticipated would have been undertaken under the auspices of the s151 in post at the time. Although, I appreciate these cost centres were really no more than budget allocations and not proper management accounts. I have no evidence to prove that this was the case, but the continual turnover of the s151 officers didn't help in this regard. When Cabinet members were asking for detailed figures and underlying assumptions to be sent to them, they stated to me that they believed that they were not forthcoming possibly due to the fact that any figures would probably not be robust enough. In discussion with senior Trust officers, this was the main reason that the Trust amended its' partnership arrangement to take effect from April 2019.

3.7.8 In the first 2 years of International work, the Trust was contributing more and received half of the £200k contract from the UAE and got half of this to reduce their loss. In the years up to and including 2018 and beginning of 2019, it was a 50/50 share with the Trust. From April 2019 onwards the Trust had withdrawn from the partnership and had agreed the Co-operation Agreement as highlighted earlier in this report. Information received from senior officers in the Trust confirmed that income during this period for the NHS totalled £363k of net income reflecting the total net Trust contribution. Costs and income after April 19' were all allocated totally to the Council.

3.7.9 This report mentioned earlier that in January 2021 the Council's audit committee received a detailed report regarding a summary update of all commercial

arrangements. This not only covered the work of International but a range of other services as well. As previously mentioned, the s151 who left the Council a month after this meeting, was present and it would be fair to assume that the figures presented were endorsed by him as it was mentioned in the implications section of the report. There were further *informal* Cabinet briefing updates during 2021 which gave further updated figures.

3.7.10 I have also seen a range of different International reconciliation figures produced over a number of years which tried to give an overview of International work. For example, the s151 officer who actually started employment with NCC in December 2019, stated to me that he undertook some work to look back at about 4 years of past accounts. The outcome of this analysis was that it was thought that by the end of 19/20' NCC had made a loss of £339k, but if you include overheads then this would have been a £500k charge against it. However, the following year 20/21' the forecast of the Chinese contract was to generate £800k surplus, so at the end of that financial year it would have been a circa £300k surplus. It is not clear however, what assumptions about overhead allocations and apportionment of business development costs the s151 Officer had made in arriving at this view.

3.7.11 The range of different figures available are impossible to review or audit. Clarity around details such as who was being paid for what and the accuracy of any associated costs with International work, was spasmodic at best. The fact that this was operating outside of a formal company structure for far too long, meant that the formal nature of accounting, audit and scrutiny was missing. It should be said that all of the various s151 officers whilst in post, should have instigated proper management accounts and clarity about how costs were going to be allocated, as soon as they realised the operation of International was taking place.

3.7.12 An analysis of financial information from NCC's general ledger system, undertaken by corporate finance and was shared with internal audit by the Interim Executive Director of Finance (Section 151 Officer) in March 2021. Due to the reasons set out previously regarding the inadequate formal set-up of trading accounts, the current s151 who started her employment with NCC in early 2021, requested internal audit to undertake a comprehensive audit of financial activity for International.

3.7.13 The internal audit briefing note dated the 18th June 2021, stated that *'the interim Executive Director of Finance (Section S151 Officer) informed internal audit that in the autumn of 2020 the external auditor had indicated to the then Executive Director of Finance and S151 Officer, that they had received approaches from elected members in relation to 'International' work undertaken by the County Council. The external auditor wished to explore issues around the International work further and had requested financial information showing costs and income (management accounts) associated with the International work from the previous Executive Director of Finance'*.

3.7.14 Internal audit was requested to review the information provided, including assumptions and the evidence base on which the analysis had been prepared, in order to come to a view on whether the information compiled by finance presented a fair assessment of income and expenditure of the International work.

3.7.15 The briefing note provide by internal audit stated that *'it understood that in addition to International projects, the integrated consultancy team also deliver a number of other workstreams, including a number of internal business development / innovation projects, with the intention of reducing costs, or generating increased income, for the benefit of the County Council'*.

3.7.16 The review which was undertaken by corporate finance and evaluated by internal audit stated that it involved the review of *'financial information available'* in respect of the integrated consultancy team to identify and isolate only those costs and associated income that relate to International project activity, in order to present a fair understanding of 'International work'. The corporate finance analysis undertaken covered transactions from the 2016/17 financial year to period 9 of the 2020/21 financial year and was based on a number of cost centres within the Council's general ledger system.

3.7.17 Internal audit undertook a detailed review of the International reconciliation Excel workbook and further analysis of the non-pay expenditure allocated to it provided by corporate finance. The detailed transaction listing, 'consolidated data 2016-2020' was agreed to the summary, 'Pivot I&E', for each financial year to ensure the completeness of the data used to form the management accounts. From this analysis it was identified that transactions allocated to the 'other NCC' project were excluded from the 'Pivot I&E'.

3.7.18 Internal audit used this 'Pivot I&E' data to present the management account information in a different format and to incorporate the further analysis undertaken by corporate finance. This showed the income and expenditure allocated to each project heading (year on year and cumulative) and a summary of the income and expenditure across all project headings (for each financial year and cumulative). Items above not included in corporate finance's analysis of ledger transactions (eg. overheads, recharge of Executive Director of Transformation salary, and the CEO's International allowance), have been included in the internal audit's analysis, although a clear distinction was maintained between these amounts and those included in the general ledger transactions.

3.7.19 Internal audit selected a sample of eighteen invoices for further review to obtain assurance regarding the expenditure charged to the International projects. These invoices covered the full range of projects and financial years in which expenditure had been incurred and allocated. The eighteen invoices selected totalled £379,275.48, which equated to 36% of the total non-pay expenditure of £1,062,778. There were no matters arising from this review of expenditure.

3.7.20 Internal audit's summary of corporate finance's analysis of the general ledger activity and the additional items identified from the review of (overheads, recharge of various senior officers' and the Chief Executive's International allowance), demonstrated an overall deficit of £474,599 as at 31 March 2020 and an overall surplus of £466,848 at 31 December 2020.

3.7.21 Their overall conclusion was that *based upon the data and documentation reviewed and available*, internal audit was satisfied that the management accounts prepared by corporate finance provide a reasonable analysis of the income and expenditure transactions from which they have been prepared. In relation to salary

costs, there is no evidence available to them upon which the allocation of costs to specific projects can be based. Furthermore, a retrospective exercise had been undertaken jointly between corporate finance and the Executive Director of Transformation to allocate these costs across the various projects. It was again confirmed by internal audit to have been performed on a reasonable basis.

3.7.22 In addition to this, I have also seen a reconciliation summary of the 5 years between 2016/17 and 2020/21 undertaken in August 2021, where it was estimated that at the end of 2020/21, the programme made an overall budget surplus to the General Fund of £904,225.

3.7.23 In summary, in terms of evidencing whether International made a profit or loss, is impossible to quantify with any degree of certainty, due to the issues highlighted within this report. Although the expenditure involved was significant, it does not appear that the Council suffered any financial loss, and may in fact have made some net gain. However, this cannot be definitively proven as proper trading accounts and time-based records of time spent by NCC officers supporting the work of International were not kept. It is felt that due to the various issues highlighted above, it would be impossible for me to reach any different conclusion than the current Executive Finance Officer and s151 officer had previously made.

8. Was the financial position accurately reported to members?

3.8.1 The answer to this cannot be expanded upon anymore that the responses set out in the response to 7 above. However, it would be fair to assume that any figures presented by officers were *'as accurate as the information that they had available at that time,'* with all the limitations described in this report.

9. On what basis was the Chief Executive paid an international allowance from 2017? Did the Chief Executive receive any separate remuneration in relation to the international business from NCC, the NHCFT or the CCG prior to November 2017 and if so, on what basis and who authorised this?

3.9.1 In terms of evidence that is available, the Deputy Chief Executive pre-2017, was a jointly funded post with Northumbria Healthcare NHS Foundation Trust, each organisation paying 50%. From June 2017 to November 2017, the Chief Executive was then appointed interim Chief Executive, as the previous NCC Chief Executive left in May 2017 at the point of the new administration coming into power. The Chief Executive remained in a jointly funded post with Northumbria Healthcare NHS Foundation Trust, with each organisation paying 50%. These arrangements changed formally from April 2019, when the Trust withdrew from the arrangements and the Council paid 100% of the salary. I have not seen any evidence of any formal notification between the Trust and the Council of this change at the time. There is evidence of several emails where there is obvious confusion with internal payroll officers trying to establish any formally agreed arrangements between the Trust and NCC, and therefore what payment should be made. This lack of clarity has also contributed to the confusion around the payment of the International allowance.

3.9.2 The Council's 2017/18 accounts on the NCC web-site, referred to an allowance being paid between 1st April 2017 and 31st May 2107 to the Deputy Chief Executive and the interim Chief Executive between 1st June 2017 and 30th November 2017 and then the Chief Executive and Head of Paid Service, from the 1st December 2017 and

31st March 2018. This was stated in the accounts that this was a supported 50/50 arrangement with the Trust.

3.9.3 There is no evidence that I have seen, that there was a contractual transfer of employment between the Trust and the Council, which may well have set this issue out more clearly. There are payments that have been identified in the transfer of payroll accounts between the Trust and the Council that I have seen, but a number of these were trying to be clarified via various emails by payroll officers of both organisations.

3.9.4 For 2016-17 there are 2 payroll reports which were used in the officers' remuneration note. The first is the NCC report for the former Chief Executive and the second is the NHS report. From the NHS report there is evidence of an amount of £34,037.04 paid directly as salary by the NHS, however this is not clearly identified in the report as being an International allowance. In my communication with the Trust, they have confirmed that paying an allowance payment wouldn't be the sort of payment they would have supported and if they had, would have gone through their remuneration committee, made up of non-Executives. For 2017-18, the payroll evidence points to the allowance being paid through the Council's payroll system from December 2017, which related to the date of the CEO substantive appointment.

3.9.5 In conclusion, the Council's 2017/18 accounts stated that the Chief Executive was receiving payment for the International allowance from April 2017. The Trust stated that they would have not contributed to any allowance at all. Due to the absence of any formally agreed financial arrangements between NCC and the Trust, it is challenging for me to retrospectively clarify this situation any further.

10. Who approved travel expenses incurred in relation to the international business by the Chief Executive and other officers and members? Were these reasonable and proportionate and did they comply with the NCC business travel policy in force at the time?

3.10.1 Looking back at the beginning of this initiative in the Council in the spring of 2017, it was felt that the NCC policy that was in place was too limited and didn't cover International trips, as this was normally beyond most local authorities' travel arrangements. The evidence supports several staff in the joint International team started to review and amend the policy and it was even discussed at various officer executive team meetings.

3.10.2 As this was an issue that many other local authorities didn't face, it was hard to get any 'good practice' guidance from elsewhere. The first document I have seen was a draft policy for consideration was taken to the officer's joint International executive group in September 2017. The policy was mainly covering risk management policies and procedures such as the risk assessment of each trip (including due diligence on company and risk rating of the country); the preparation by staff/team who are travelling for the purpose of work; the personal staff risk assessment; occupational health requirements; working hours; travel expenses and sustenance payments; the trip brief and debrief and what to do in an emergency.

3.10.3 The policy also set out a comprehensive guide on what to consider before a trip can be approved. This set out that a request form needed to be completed with the Director of International having to sign this form off. Also, that any countries that

do not have any British Embassies will not be authorised. A full risk assessment must be signed off by a senior manager to ascertain if the prospective business partner is suitable and the destination is safe. The risk assessment should cover issues such as information from the Foreign and Commonwealth Office; previous knowledge from previous trips to area/region; information from approved travel agents; local customs/culture; individual factors eg. health considerations and the presence of a British Embassy within the country. It went on to say that all employees will be given a copy of this risk assessment as part of their travel pack.

3.10.4 The policy also tried to cover subsistence costs and how to deal with gifts and hospitality. The team looked at the national bodies policy for government employees for International travel and HMRC 'per diem' rates, or some sort of guidance for costs related to International travel. The minutes of that (21st September 2017), executive team meeting stated: -

'All travel should be business class including in country due to amount of collateral we would end up paying a premium for weight of bags - this needs to be written into the travel policy. When the agenda is gruelling it is not appropriate to travel standard class - recommendation going forward is whole trip is business class. Also need to explore the use of trains for travel options. Need to look at flight patterns, always compare with different airlines to ensure we are getting value for money and the best schedule available. Final comments for all policies and procedures to be with an officer by the end of September. There may be more policies and procedures required going forward. Final policies to be presented for approval at next international exec meeting. Action – to be included in travel policy for approval'.

3.10.5 The minutes further stated, that it was agreed *'to test and monitor the use of the travel policy going forwards, which will require final sign off. Final comments for all policies and procedures to be with an officer by the end of September. There may be more policies and procedures required going forward. Final policies to be presented for approval at next International executive meeting'.*

3.10.6 It was laudable that officers quickly saw that the travel policy that was in existence at the time was not fit for purpose, and that they tried to do something positively about it. I was advised that this work was verbally discussed at an *informal* Cabinet briefing, but again due the *informal* nature of such meetings and completed minutes, I haven't been able to substantiate this.

3.10.7 I have not seen any evidence of this having any 'formal' member oversight until you look at the different versions of the current travel policy. Version 1, which was stated that it was approved in April 2019 at the Council's joint consultative committee (JCC), with the next 1.1 version approved in October 2019 and then an updated version 1.2 updated in November 2020, which included the additional measures as a result of COVID-19 challenges, as well as the likely impact of Brexit on travel within the European union. There was a long time between the initial draft policy being considered by officers in September 2017 and the eventual first JCC member involvement of the policy in April 2019.

3.10.8 The question of 'reasonableness' and 'proportionality' comes into play here. When you look at the policies being considered at JCC with member involvement, in one section it says: - *'The standard and cost of accommodation for foreign visits should be kept to as reasonable a level as possible. Employees are not expected to stay in uncomfortable or otherwise unsuitable accommodation simply because it is*

*cheaper, but at the same time they should not expect the Council to bear the cost of the highest standard of accommodation where there is a reasonable and sensible alternative. First class flights will require prior written approval from the Chief Executive or Deputy Chief Executive. For European travel, economy class flights should be taken. Where executive and/or business class tickets (or their equivalent eg. club class) are requested by the employer/requester, for European travel, then the tickets must be approved by the relevant Head of Service or Service Director (if it is the Head of Service travelling). The approver will be provided with the additional cost of the ticket as part of the approval process by the employee/requester. For travel outside Europe, **any flights lasting five hours or more** which involve working on board and/or are immediately followed by attendance at a meeting, **will warrant business class bookings**. Any flights of eight hours or more will be business class'.*

3.10.9 In trying to look back at (a policy), which was not in existence at the time, I have tried to apply actions and expenses to what was later developed and approved as set out above. As the vast majority of the more expensive foreign travel was over the 5-hour travelling time, it could be argued that officers were trying to act reasonably and would be within the policy. I then looked at a random sample of 8 of the most expensive foreign trips in the documentation available to me, and they all would have passed the '*business class 5-hour travel test*' had it been in place at that time of travel.

3.10.10 Perhaps the 'reasonableness' and 'proportionality' question here is, that there were a number of occasions when several officers went abroad on the same trip and whether this was required. It is understood that this was related to particular clinicians or 'experts' that may be needed to attend. If the client was particularly keen to speak to and gain confidence on a range of specific issues which these individual experts were better equipped to answer, then this may have been necessary. The various officers I spoke to stated that the travel and accommodation costs of individuals who travelled abroad, were covered by clients. However, due to the issues outlined in questions 7 and 8, I have not been able to evidence that assumption. Any member engagement element of this work tended to be undertaken on receiving foreign delegations when they visited Northumberland which happened on a number of occasions in the first couple of years of this work.

3.10.11 In summary, the approval process in place for travel expenses from the evidence that I have seen, was all signed off or counter signed by senior officers as required in the policy in place at that time. The aspect of reasonableness and proportionality indicated through a random sample of expenses, would have also been in line with the policy at that time. The issue to note here is that it took several years before members became involved in any formal way regarding any new policy that was developed.

Terms of Reference for Independent Investigation Into Unlawful Trading International Consultancy

To undertake an independent investigation into the circumstances that gave rise to unlawful commercial trading between 2017 and 2021 as detailed in the S114 report issued by the Council's S151 Officer on 23 May 2022 with specific reference to the following:

1. What was the original basis of the agreement to participate with Northumbria Healthcare Foundation Trust in the Northumbria International Alliance in 2016? Who authorised this?
2. What arrangements were put in place at the outset of the venture in 2016 and prior to the commencement of trading to ensure that there was proper oversight and governance and that the Council's interests were protected including technical due diligence, money laundering checks and risk management?
3. How, when, and why did the arrangement change and who authorised this?
4. How was advice regarding the legal basis for these commercial trading activities commissioned and what involvement did the NCC legal team have in this?
5. What advice was given, or concerns raised by the statutory officers, NCC legal team and others regarding the lawfulness of the activity and what evidence is there that these were acted upon?
6. What management controls over commercial trading activities were in place over this period and how were they overridden, and the 3 lines of defence circumvented? What steps need to be taken to ensure that this cannot happen again?
7. Did the international business make a profit and if so, how was this shared between NCC and NHCFT?
8. Was the financial position accurately reported to members?
9. On what basis was the Chief Executive paid an international allowance from 2017? Did the Chief Executive receive any separate remuneration in relation to the international business from NCC, the NHCFT or the CCG prior to November 2017 and if so, on what basis and who authorised this?
10. Who approved travel expenses incurred in relation to the international business by the Chief Executive and other officers and members? Were these reasonable and proportionate and did they comply with the NCC business travel policy in force at the time?

The investigation will: -

- Draw out key lessons to be learned
- Identify where the council's processes for ensuring commercial trading activities are undertaken on a lawful basis and subject to appropriate oversight and reporting are fit for purpose fall short of both standard and best practice.
- Make recommendations for addressing any weaknesses identified.

APPENDIX 2

TIMELINE RELATED TO THIS REPORT

Date	Event
2011	NCC and NHCT Partnership working regarding Health & S Care
Early 2015	NHCT awarded 'Vanguard status' to form a Primary and Acute Care System
Oct 2015	Trust Board received a discussion report regarding an International commercial strategy
Sept 2016	NHCT invited by UKTI to export models of Healthcare
29 Sep 2016	Signing of MOU between NCC, Trust and IUHP (Indian organisation)

18 Oct 2016	Publicity signing of MOU between NCC, Trust and IUHP
Jan 2017	Signing of an MOU by NCC and Trust CEO's to provide integrated care support for a Hospital in China
Feb 2017	Formulation of NIA, (although not a legal entity)
22 Feb 2017	Creation of a Director of International Projects and System Transformation (shared post) - (DIPST)
May 2017	NCC Local elections - change in administration from Labour to Conservative
1 June 2017	* Change of S151 officer
1 June 2017	New interim CEO
June/July 2017	Formulation of a joint 'International team', made up only of officers
June 2017	Discussion report drafted regarding potential corporate structures that need to be considered going forwards, although no evidence to confirm that this was formally discussed at any International meeting
July 2017	Presentation by DIPST to informal Cabinet and Trust FIP Committee, setting out a 5-year strategy International strategy with an ambition of achieving £100m in 5 years. This strategy set out an intended governance reporting structure, to involve both Cabinet and the Trust Board
July 2017	Various officer emails discussing conversations they had with individuals from Ward Hadaway (WH), regarding setting up a separate legal entity or special purpose vehicle, although no mention of the 2011 Localism Act was outlined in these email exchanges
4 Sept 2017	Letter from an officer in the International team to WH asking them to provide support and assistance in drafting a contract for the proposed services to a Chinese company, and act on the Council's behalf
21 Sep 2017	Draft travel policy discussed at the officer International group
1 Dec 2017	Interim CEO appointed as permanent CEO
14 Dec 2017	Joint signature by the CEO and Monitoring Officer (M)), of a contract with a Hospital in the UAE at a value of £200k
2017/18	NCC and Trust contributed £300k to a shared fund to support

International work going forwards

- 13 March 2018 Formal Cabinet approved a 2-year extension to the partnership working with the Trust regarding Social Care and Health integration
- April 2018 Waiver of finance of contract rules signed by a number of statutory officers with a Hong Kong based law firm to support due diligence checks, review, amending and negotiating where possible with a Chinese company on behalf of NCC. Leading to a contact agreement of £646,680 with a Chinese company
- May 2018 Various email exchanges increasing in anxiety between the CEO's of NCC and the Trust questioning the financial viability of the project, including the Trust's concern of operating *ultra vires*
- 1 June 2018 * Change of S151 officer
- June 2018 House of Lords formal launch involving various officers as well as the then Leader of Council
- Sept 2018 Presentations to the Trust's FIB and Audit Committees helping to give assurances of the viability of this work going forwards. These meetings also stated that any contracts would be jointly signed by NCC and the Trust. Mention was also made of the potential for Audit One to Audit this work in conjunction with the Council's Auditors
- Sept 2018 Trust Board meeting which stated that following acceptance of the September FIP recommendation, the Trust and NCC have agreed that the current commercial arrangements between the Trust and NCC (currently 50:50 split of costs and any profit) will cease. This led to the formulation of the overarching Co-operation Agreement
- Sept 2018 Meetings held between NCC CEO, MO and S151 officers regarding the need to set up a company
- Nov 2018 Briefing note produced by WH regarding the options to establish a trading vehicle, but still no mention of the 2011 Localism Act
- 6 Nov 2018 Informal Cabinet received a progress report and an outline of the governance framework, as well as information regarding what type of company structures should be set up
- Nov 2018 The Leader and CEO of NCC jointly signed a contract with a

- company in the ROI, at a contract value of £2,954,803
- Nov 2018 Exchange of emails between International officers looking to explore utilising existing companies, the Council were already operating
- 17 Dec 2018 Signature by NCC and Trust CEOs of the co-operation agreement, but no evidence found of a formal written notification to NCC, or being received within any formal governance setting
- 8 Feb 2019 * Change of S151 officer
- Mar-June 2019 Email exchanges from different officers in the International team with input from procurement officers, to Ward Hadaway to advise on the establishment of a new wholly owned subsidiary or as an operating company operating under another owned subsidiary for commercial activity including International work.
- 1 April 2019 Commencement of the overarching Co-operation Agreement as the Trust felt that commercial International activity didn't fit within their future aspirations going forwards. This meant that they didn't have to invest in the International strategy, but could still benefit from fees for any future services they were involved with on any commercial projects going forwards
- 1 April 2019 * Change of S151 officer
- 1 April 2019 Joint Consultative Committee (JCC) approves version 1 of the travel policy
- 7 June 2019 Briefing note produced by WH regarding the options to establish a trading vehicle, where there was mention of the 2011 Localism Act
- 22 July 2019 * Change of S151 officer
- Sep 2019 E-mails from Cabinet Members to the CEO asking for more reassurance around governance, risk liability and insurance
- Sep 2019 Informal Cabinet briefing where CEO updated Members of progress of all the contracts, including negotiations for phase 2 with the Chinese contract work, as well as negotiations underway with an organisation in the UAE, due for signature in January 2020. The briefing note also set out an estimated stage 1 and 2 profits over the next 15 years was estimated to be over £21m. It was also discussed that should informal Cabinet decide to proceed with the opportunities

	the CEO will be asked to provide a formal commercial in confidence Cabinet report detailing progress to date including the arrangements for the subsidiary company.
Oct 2019	JCC approves version 1.1 of the travel policy
Nov 2019	Briefing note produced by WH regarding the options to novate existing contracts to a new corporate entity
27 Nov 2019	NCC Audit Committee received a very critical report from the then external Auditors Ernst & Young (EY), regarding poor governance and general practice. The External Auditors were soon replaced after this date by the current External Auditors, Mazars, who started in circa February 2020
16 Dec 2019	* Change of S151 officer
Jan 2020	Informal Cabinet briefing discussing risk register and potential group company structure
11 Feb 2020	First formal Cabinet meeting which approved the establishment of a group holding company which had 10 limited companies to support general trading activities, called the Northumberland Enterprise Holdings Ltd (NEHL). This helped to later establish a subsidiary to regularise the International work, which later became the Northumbria International Consultancy Ltd (NICL)
March 2020	COVID 19 pandemic restrictions commenced, leading to significantly more remote working
April 2020	Informal Cabinet briefing received contract updates, a detailed risk register and seeking approval to sign workstream 1 of stage 2 of the Chinese contractual agreement at a cost of £2m
19 June 2020	CEO signs above contract with a view to novate it to NEHL asap
June 2020	E-mail from Leader to CEO stating that he needed to put requests in writing as it was felt that any verbal requests were unanswered
Aug 2020	Leader suspended the CEO
30 Aug 2020	Leader sent an email to the MO regarding concerns of the legitimacy of International work in relation to the 2011 Localism Act
Sep 2020	Leader stood down internally
Sept 2020	National publication of a report by Grant Thornton setting out the poor

- governance arrangements in place concerning a Nottingham City based Council delivering energy, which drastically failed financially
- 17 Sept 2020 Incorporation of NEHL at Companies House
- Oct 2020 MO went on sick leave and didn't return to work, and formally left 12 months later, with 3 different officers 'sharing' this responsibility going forwards
- Nov 2020 CEO returned to work
- Nov 2020 JCC approves version 1.2 of the travel policy
- 25 Nov 2020 NCC Audit Committee considered the 18 corporate risks, where NEHL had been recently added as a 'new risk' in April 2020
- 1 Dec 2020 Informal Cabinet briefing where an update on projects and stated that there was a total contract value signed of £5.9m and an actual project income of £2.8m once the current Chinese work had been successfully delivered. Possible company format discussed
- 27 Jan 2021 NCC Audit Committee received a comprehensive report from the CEO regarding a summary update of all the commercial arrangements across the Council
- 23 Feb 2021 Formal Cabinet meeting setting out an update of NEHL and approval to establish Northumbria Integrated Consultancy Ltd (NICL), to undertake International business going forwards within a Ltd company structure
- 1 March 2021 * Change of S151 officer
- 29 March 2021 Incorporation of NICL at Companies House
- 18 June 2021 Internal Audit briefing note regarding a request from the S151 officer to review in detail the underpinning financial situation of International. This concluded that due to the inadequate and any formal establishment of set-up of this programme of work, the figures available at the time, the Council probably didn't suffer any financial loss, and may in fact have made some net gain.
- Sep 2021 National publication by Local Partnerships regarding good practice in the establishment and operation of local authority company structures going forwards

- 18 Oct 2021 Letter sent by the Trust to NCC regarding the cessation of the overarching co-operation agreement
- 8 June 2022 Council approval of Section 114 report due to unlawful expenditure

* **Note** - I have **not included** every event regarding International activities, but rather a general overview. I have only included several of the *informal* Cabinet briefings where there has been some evidence of International activities being discussed. It is fair to assume that there were many more that did, but the lack of formal minutes prevents this from being supported with any evidence.



Northumberland County Council

AUDIT COMMITTEE

26 July 2023

Review of Exit Payments

Report of Jan Willis, Executive Director of Transformation and Resources and S151 Officer

1. Purpose of the Report

- 1.1. To bring to the attention of the Committee the views of the Chief Finance Officer (S151 Officer) on the lawfulness of exit payments to former senior officers.

2. Recommendations

- 2.1. It is recommended that Audit Committee note the views of the Chief Finance Officer.

3. Link to the Corporate Plan

- 3.1. This report is consistent with the priorities in the Corporate Plan 2023-26 “Achieving Value for Money”.

4. Background

- 4.1. In May 2022 I issued a report under S114 and S114A of the Local Government Finance Act 1988 informing Council that in my view it was likely that the Council had incurred and were continuing to incur items of unlawful expenditure in relation to the provision of international consultancy services on a commercial basis outside of a company as required by the Localism Act 2011; and the payment of an allowance to the Chief Executive since 2017 which did not have proper authorisation and was contrary to the Council’s pay policy statement.
- 4.2. One of the agreed actions arising from that report was that I would undertake further investigation to establish whether any other unlawful payments have been made to any officers or former officers, including severance payments, which may require further reports under S114 of the Local Government Finance Act 1988. The purpose of this report is to inform the Committee of the outcome of my consideration of this matter and whether I believe my statutory reporting duty under the 1988 Act has been triggered.
- 4.3. Following my report to Council in May 2022 internal audit was requested to review any exit package where the package exceeded £100k and any package made to a former chief or deputy chief officer in the period from May 2017 to May 2022. In total, 8 exit packages were identified. Of the 8 packages identified, 4 were payments to

former statutory, chief or deputy chief officers. 5 were paid on the basis of redundancy or voluntary redundancy and 3 were mutually agreed exit arrangements. The outcome of the internal audit review was reported to this Committee in January 2023.

4.4. The relevant payments are as follows:

- Chief Executive – £360,000 in 2017/18
- Director of Finance & Chief Executive - £72,312 in 2018/19
- Commissioning and Finance Manager - £135,603.50 in 2018/19
- Short Term Support Service Manager - £110,452.98 in 2020/21
- Service Director Adult Social Care - £435,968.39 in 2020/21
- Legal Services Manager - £72,434.50 in 2021/22
- Revenues Manager - £166,151.66 in 2021/22
- Chief Information Officer - £138,190.79 in 2021/22

4.5. Internal Audit's review was undertaken on the basis of the following objectives:

- To establish the relevant County Council policies in place at the time of each exit payment;
- To assess whether the policies complied with relevant legislation;
- To assess whether exit payments made to former postholders were in accordance with these policies and relevant legislation.

5. Legal framework

5.1. The Localism Act 2011 sets out the requirement for relevant authorities in relation to pay accountability, particularly senior pay. Relevant requirements of the Localism Act 2011 are that:

- The County Council must prepare a pay policy statement (Section 38 (1));
- The pay policy statement must include the County Council's policies relating to the approach to the payment of chief officers on their ceasing to hold office under or to be employed by the County Council (Section 38 (4) (f));
- A pay policy statement must be approved by a resolution of the County Council before it comes into force (Section 39 (1));
- Each pay policy statement must be prepared and approved before the end of the 31 March immediately preceding the financial year to which it relates (Section 39 (3));
- For any determination made by the County Council which relates to the remuneration of or other terms and conditions applying to a chief officer of the

County Council, the County Council must comply with its pay policy statement for the financial year in making the determination (Section 41 (1) and (2)).

5.2 Section 43(2) of the Localism Act defines a “chief officer” as

- a) *the head of its paid service designated under section 4(1) of the Local Government and Housing Act 1989;*
- b) *its monitoring officer designated under section 5(1) of that Act;*
- c) *a statutory chief officer mentioned in section 2(6) of that Act;*
- d) *a non-statutory chief officer mentioned in section 2(7) of that Act;*
- e) *a deputy chief officer mentioned in section 2(8) of that Act.”*

5.3 Section 2(6) of the Local Government and Housing Act 1989 defines a statutory officer as

- (a) *The Director of Children’s Services appointed under section 18 of the Childrens Act 2004 and the director of adult services appointed under section 6(A1) of the Local Authority Social Services Act 1970;*
- (b) *The director of public health appointed under 73(A)1 of the National Health Service Act 2006;*
- (c) *The Chief Education Officer appointed under section 532 of the Education Act 1996;*
- (d) *The chief officer of a fire brigade maintained under the Fire Services Act 1947;*
- (e) *The section 151 officer.*

5.2. Section 2(7) of the Local Government and Housing Act 1989 defines a non-statutory chief officer as

- (a) *a person for whom the head of the authority’s paid service is directly responsible;*
- (b) *a person who, as respects all or most of the duties of his post, is required to report directly or is directly accountable to the head of the authority’s paid service; and*
- (c) *any person who, as respects all or most of the duties of his post, is required to report directly or is directly accountable to the local authority themselves or any committee or sub-committee of the authority.*

5.3. Section 2(8) of the Local Government Housing Act defines a deputy chief officer as a *person who, as respects all or most of the duties of his post, is required to report directly or is directly accountable to one or more of the statutory or non-statutory chief officers.*

5.4. Section 43(3) of the Act defines “remuneration”, in relation to a chief officer as

- (a) *the chief officer’s salary or, in the case of a chief officer engaged by the authority under a contract for services, payments made by the authority to the chief officer for those services,*
- (b) *any bonuses payable by the authority to the chief officer,*
- (c) *any charges, fees or allowances payable by the authority to the chief officer,*
- (d) *any benefits in kind to which the chief officer is entitled as a result of the chief officer’s office or employment,*
- (e) *any increase in or enhancement of the chief officer’s pension entitlement where the increase or enhancement is as a result of a resolution of the authority, and*
- (f) *any amounts payable by the authority to the chief officer on the chief officer ceasing to hold office under or be employed by the authority, other than amounts that may be payable by virtue of any enactment.*

5.5. In February 2012 the Department for Communities and Local Government (DCLG) published ‘Openness and Accountability in Local Pay: Guidance under Section 40 of the Localism Act 2011’ and in February 2013 published a supplementary guidance document. The documents cover Sections 38 to 43 of the Localism Act 2011 and set out the key principles that underpin the pay accountability provisions in the Act.

5.6. Paragraph 13 of the February 2012 guidance sets out measures to enable greater scrutiny of the money spent by authorities on severance and appropriate levels of accountability for decisions on high value exit payments. Specifically, the guidance states that *“Authorities should, therefore, offer full council (or a meeting of members in the case of fire authorities) the opportunity to vote before large severance packages beyond a particular threshold are approved for staff leaving the organisation. As with salaries on appointment, the Secretary of State considers that £100,000 is the right level for that threshold to be set.”*

6. Key Issues

6.1. In each of the years in question, the Council adopted a pay policy statement by 31 March for the forthcoming year. Each of the pay policy statements included reference to severance and redundancy payments and stated that Staff and Appointments Committee had delegated authority from full Council to approve severance and redundancy payments to Chief Officers. However, the definition of Chief Officers within the pay policy statements for the period 2017/18 to 2021/22 did not accord with the definition set out in section 43(2) of the Localism Act. Specifically, the Monitoring Officer was not designated as a chief officer, nor did the definition include other non-statutory chief officers or deputy chief officers as defined in sections 2(7)

and 2(8) of the Local Government and Housing Act 1989. The effect of this omission was that severance payments to some chief officers were not subject to scrutiny or approval by either the Staff and Appointments Committee or full Council during that period.

- 6.2. A review undertaken by internal audit and reported to this Committee in January 2023 identified 4 exit payments to chief officers in the period May 2017 to May 2022 of which only two (to the former Chief Executive and the former Executive Director of Finance and Deputy Chief Executive) were properly approved by either Staff and Appointments Committee or full Council. It is my view that these two payments were unlawful on the basis that they were not properly approved in accordance with the requirements of the Localism Act regarding exit payments to chief officers.
- 6.3. The Council's Pay Policy Statements for 2017/18 and 2018/19 adequately covered the requirement set out in statutory guidance for exit payments over £100,000 to be approved by full Council. Paragraphs 24 and 25 of both documents including the following provision:

“The Staff and Appointments Committee has delegated authority from Full Council to approve severance and redundancy payments for Chief Officers, unless the severance package (including redundancy, any discretionary elements, strain on pension fund costs and any pay in lieu of notice) exceeds £100,000, in which case the proposal must be approved by Full Council. Any severance or redundancy package for any other employee where the cost exceeds £100,000 (including redundancy pay, any discretionary elements, strain on pension fund costs and any pay in lieu of notice) must be approved by Full Council.”

- 6.4. However, for reasons that are unclear, this provision was removed from the Pay Policy Statements for 2019/20, 2020/21 or 2021/22. The 2022/23 Pay Policy Statement, agreed by Full Council on 30 March 2022 explicitly references the requirements of Section 43 of the Localism Act and any “exit packages over £100k.” Further amendments were made to the 2023/24 Pay Policy Statement to ensure full compliance with the requirements of the Localism Act 2011 and statutory guidance.
- 6.5. As a result of this omission, between 2019/20 and 2021/22, five exit packages over £100,000 were not subject to scrutiny and approval by the Staff and Appointments Committee or full Council. This includes one payment to a former deputy chief officer (the Service Director for Adult Services). It is my view that all these payments were unlawful on the basis that they were not properly approved in accordance with paragraph 13 of the 2012 statutory guidance.
- 6.6. Five payments above the £100,000 threshold were made in accordance with voluntary severance and redundancy schemes in operation at the time. In four of these cases, notwithstanding that approval from the Staff and Appointments Committee was never sought, there is evidence of the appropriate value for money checks and senior management sign-off processes having been followed, including

approval by the Chief Executive or Deputy Chief Executive and S151 Officer and confirmation that a minimum 2-year payback period will be achieved.

- 6.7. Of the two severance payments to former chief officers that were not approved by Staff and Appointments Committee or full Council, one (to the former Legal Services Manager and Monitoring Officer) was subject to a settlement agreement arising from mutual agreement to terminate their employment. As noted above, this payment should have been approved by full Council or Staff and Appointments Committee by virtue of the fact that the role of Monitoring Officer fell within the definition of a chief officer in section 43(2) of the Localism Act 2011, notwithstanding that the value of the payment was less than £100,000.
- 6.8. In the remaining case (the former Service Director for Adult Social Care) an exit payment was made on the basis of voluntary redundancy. Again, approval for this payment should have been sought from Staff and Appointments Committee or full Council by virtue of the fact that the role fell within the definition of a deputy chief officer in section 2(8) of the Local Government and Housing Act 1989 and therefore section 43(2) of the Localism Act 2011 and that the value of the payment was well above the £100,000 threshold.
- 6.9. It is my view that both payments to former chief officers were unlawful on the basis that they were not properly approved in accordance with the requirements of the Localism Act 2011.
- 6.10. In considering whether there was otherwise a lawful basis for each of these payments to former chief officers, I have attempted to establish an evidence trail as to why the payments were made, who approved them, whether any alternatives were considered and how making the payments represented best value to the Council and the taxpayer.
- 6.11. In both cases the evidence trail is mostly absent and opaque at best. So far as the payment to the Service Director for Adult Services is concerned, it appears that expressions of interest for voluntary redundancy were originally sought in 2019 from directors in the adult social care service and in principle agreement was given for the voluntary redundancy of the Service Director Adult Social Care with a prospective leaving date of 31 March 2020. Following the outbreak of the covid pandemic in March 2020 the leaving date was amended to 31 May 2020 and subsequently extended further on a rolling monthly basis throughout the summer of 2020. The Service Director Adult Social Care again confirmed on 30 September 2020 that he wished to be considered for voluntary redundancy with a leaving date of 31 December 2020 following a further invitation for expressions of interest from the Executive Director of Adult Social Care and Children's Services on 29 September 2020.
- 6.12. It was subsequently agreed that the leaving date would be brought forward to 31 October 2020. I am aware of speculation that the reason for the leaving date being brought forward at short notice was the imminent introduction of a £95,000 cap on

public sector exit payments which were signed into law on 14 October 2020 and became effective from 4 November 2020. There is no direct evidence of this, and the business case stated that it was due to the deteriorating health of the director. Nevertheless, it is clear that the underlying business case and settlement agreement were drafted with some haste.

- 6.13. Although the name of the Executive Director of Adult Social Care and Children's Services was on the business case along with the Chief Executive, it is not clear whether either had sight of the final version before the settlement agreement was signed on 22 October 2020.
- 6.14. Certainly it would appear that the first time the S151 Officer became aware of the settlement agreement was on 3 November when he was asked by payroll to urgently approve the CHAPS payments on the basis that the Council was legally bound to make payment within 14 days of the agreement. He sought confirmation by email that same day that the payment had been authorised by the ED Adult Social Care and Children's Services and the Chief Executive prior to him authorising the CHAPS payments. It was only at this point that the ED Adults and Childrens Services gave formal approval via the Lagan system. The ED HR&OD responded that she had the Chief Executive's verbal approval and the Chief Executive would provide a signature the following day. In the meantime, she would provide approval on the Chief Executive's behalf in her capacity as Deputy Chief Executive.
- 6.15. Clearly the way approval of the Director's exit package was managed was highly unsatisfactory, even more so considering the significant value of the exit package. The final business case for voluntary redundancy identified costs of £265,223.85 comprising redundancy of £64,656.34 and pension strain of £200,576.51. The salary cap for the purposes of calculating redundancy pay specified in the Council's redundancy policy at that time was not applied in this case, for reasons that are unclear. As a result, the redundancy payment was overstated by £22,348.65.
- 6.16. Annual savings from deletion of the post were identified as £156,076.55 giving a payback period against the original costs of 1.69 years. The final cost of the package including accrued holiday pay and payment in lieu of notice (PILON) was £296,964.23. The payback period on this basis would have been 1.9. By local convention, any payback period of less than 2 years is deemed to offer value for money.
- 6.17. On 6 May 2021 the Council received an invoice for £194,153.90 from NHS Pensions Finance for a final pay control notice issued under regulation D3 of the NHS Pension Scheme Regulations. This appears to have come as a complete surprise to officers in HR, including the ED HR & OD. Following a successful appeal, the amount of the charge was later reduced to £139,004.16. Nevertheless, the effect of the charge was to increase the final total cost of the exit package for the Service Director Adult Social Care to £435,968.39 and to increase the payback period to 2.79 years.

6.18. Clearly, had the potential charge been factored into the business case at the time the Director's redundancy was agreed, the requirement to demonstrate value for money based on a 2-year payback period would not have been met.

6.19. A final pay control charge is made against an employer where a member of the NHS Pension Scheme has been awarded a significant pay increase in the four years prior to retirement. The charge is calculated by reference to an allowable amount which is the lesser of:

- The member's pensionable pay in the relevant year
- The member's pensionable pay in the previous year plus CPI plus 4.5% (CIP plus 7% from 2018 onwards)
- The percentage increase in the member's pensionable pay for the current year compared with the previous year.

6.20. An increase in pensionable pay is disregarded for the purposes of regulation D3 if it is due to promotion on the basis of fair and open competition. In the case of the Service Director Adult Social Care, this was the case: the significant increase in pensionable pay was the result of a series of acting up arrangements and internal promotions.

7. Conclusions

7.1. It is clear to me that six of the exit payments identified by the internal audit review reported to this Committee in January 2023 were unlawful on the basis that the approvals required in the Council's Constitution were not observed and that the payments failed to take account of prevailing policy frameworks, statute and/or statutory guidance. Nor is it clear how in all cases, these payments were reflected in the audited accounts.

7.2. Both S114 of the Local Government Finance Act 1988 and S5 of the Local Government and Housing Act 1989 are written in mandatory terms. Where the relevant officer finds that there is unlawful expenditure or unlawful actions, they shall make a report. At first glance, it would appear that there is a statutory reporting duty in relation to this issue.

7.3. However, further provisions in the relevant legislation indicate an element of discretion. The statutory obligations require the relevant statutory officer to consult the Head of Paid Service and (as the case may be) the S151 or Monitoring Officer in preparing a report. I am advised that the purpose of consultation is to take account of their views and in particular, whether the public interest would be served in a formal statutory report being made in public. It is axiomatic then, that there is discretion as to whether a report is published, depending on that consultation.

7.4. At the forefront of my mind in considering whether to issue a statutory report is whether the public interest would be served, and that the Council has proper arrangements in place to secure 'best value'. The judgement I must make is whether there is sufficient confidence that the lessons of the past have been learned to prevent any repeat of the

issue, and whether members and the public now know the details of what was paid to whom, when and why.

- 7.5. It is already documented in the internal audit report to this Committee in January 2023 that there have been a number of significant severance payments and that those payments did not comply with the approval mechanisms set out in the Constitution, the statutory provisions or the pay policy statements. This report sets out those failings in further detail.
- 7.6. Furthermore, since my S114 report was considered by Council in June 2022, the Council has made significant progress in its governance arrangements and has put in place more transparent and robust reporting and approval processes. The pay policy statement has been amended to ensure compliance with the requirements of the Localism Act 2011. There is now a requirement for the S151 Officer to be consulted prior to entering into settlement agreements and to sign off all exit packages, regardless of value. The requirements of the Localism Act 2011 regarding transparency and accountability for exit payments to chief and deputy chief officers and all severance payments over £100,000 are now well understood.
- 7.7. Having consulted informally with both the Head of Paid Service and the current and former Monitoring Officers and our external legal advisers, I am satisfied that all the relevant facts have been put in the public domain and that the measures outlined above have minimised the risk of any repeat occurrence. Therefore, on balance, I am not persuaded that there is a compelling public interest in making a statutory report concerning these matters, and it is not my intention to do so. In the interests of full transparency, however, it is my intention to bring a full report on these matters to Staff and Appointments Committee at the earliest opportunity.
- 7.8. The only other remaining issue to consider is whether there would be any reasonable likelihood in seeking to recover any payments that were made unlawfully. Having considered legal advice I have concluded that there are not good prospects, and that the legal costs of seeking restitution, and the uncertainty created would outweigh any advantage that might be achieved.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None
Finance and value for money	All exit payments must be in the financial and managerial interests of the Council and demonstrate value for money.
Legal	These are set out in the body of the report.
Procurement	None
Human Resources	Redundancy payments are approved in accordance with the Council's redundancy scheme and pay policy statement. Exit payments may also be made following mutual agreement to terminate employment.
Property	None
Equalities	None
Risk Assessment	None
Crime & Disorder	None
Customer Considerations	None
Carbon Reduction	None
Health & Wellbeing	None
Wards	All

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder(s)	N/A

Background Documents

Council 8 June 2022 – Statutory report under S114 and S114a of the Local Government Finance Act 1988

Audit Committee 27 July 2022 – Section 114 report by the S151 Officer

Audit Committee 25 January 2023 – Review of Exit Packages (report of the Chief Internal Auditor)

Report Author:

Jan Willis

Executive Director Transformation and Resources (S151 Officer)

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Item	Page	Explanation of Purpose and Content
Narrative Report	5	To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.
Independent Auditor's Report to Northumberland County Council	24	Once the audit is complete the Auditor's report will be signed.
Statement of Responsibilities	27	Sets out the responsibilities of the Council and of the Section 151 Officer for the statement of accounts.
Core Financial Statements		
Comprehensive Income and Expenditure Account (CIES)	29	This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
Movement in Reserves Statement	30	This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable' reserves and other reserves.
Balance Sheet	31	The balance sheet shows the value of the assets and liabilities recognised by the Council as at 31 March. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.
Cash Flow Statement	32	The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
Notes to the Accounts	35	The notes are important in the presentation of a true and fair view. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information

Item	Page	Explanation of Purpose and Content
		required by the Code that is not presented elsewhere and by providing information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the policies and procedures adopted in compiling the accounts.
Housing Revenue Account	147	The Housing Revenue Account (HRA) is a ring-fenced account and records expenditure and income relating to the running of the Council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants.
Collection Fund Account	155	The Collection Fund is an agent's statement the reflects the statutory obligation for billing authorities, such as the council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
Group Accounts	159	The Group accounts consolidate the results and balances of the Council with those organisations considered to be part of the Group.
Firefighters Pension Fund	173	The Firefighters' Pension Fund shows Employee and Employer contributions being paid into the fund, offset by Pension payments being paid out of the fund. The shortfall is met by central government grant from the Home Office.
Glossary of Terms used in the Accounts	177	To assist readers in understanding terminology used in the statement of accounts.

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Northumberland County Council

AUDIT COMMITTEE

DATE: 26 JULY 2023

2022/23 OPINION ON THE ADEQUACY AND EFFECTIVENESS OF THE FRAMEWORK OF GOVERNANCE, RISK MANAGEMENT AND CONTROL

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to provide the annual opinion from the Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, taking into account the expectations of the Council's Leadership Team, Audit Committee and other key stakeholders.

Recommendations

It is recommended that:

- a) The Audit Committee considers and notes the Chief Internal Auditor's 2022/23 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix 1**; and
- b) This opinion is considered by the organisation when finalising the Annual Governance Statement for this period; and by the Audit Committee, as a source of assurance at the time it considers the Annual Governance Statement.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan. In particular, it supports the "Achieving Value for Money" priority of the Corporate Plan 2023-26.

Key issues

The 2022/23 opinion on the adequacy and effectiveness of the framework of governance, risk management and control from the Head of Internal Audit and Risk Management (Chief Internal Auditor) is attached as **Appendix 1**.

The opinion is informed by the areas reviewed by Internal Audit, the progress made by the organisation to action Internal Audit recommendations, and outcomes following the findings of the Section 151 Officer's s114 report and the Independent Governance Review, reported to the County Council in May and June 2022 respectively.

The opinion is a source of assurance to the organisation when preparing the Annual Governance Statement, which will be circulated separately to the Audit Committee in its own right.

Appendix 1 also summarises the work carried out by the Internal Audit Service during 2022/23, including:

- The audit assurance level for each completed audit assignment,
- A summary of the recommendations agreed with management, and
- Information regarding programme assurance work and grant certification work undertaken by the Service.

Background

The Head of Internal Audit and Risk Management is required under the Public Sector Internal Audit Standards to provide an annual opinion on the overall adequacy and effectiveness on the organisation’s framework of governance, risk management and control.

Implications

Policy	Effective internal audit is an essential part of the County Council’s governance arrangements. Internal Audit examines the Council’s systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. This report provides the Chief Internal Auditor’s Annual Opinion on these arrangements.
Finance and value for money	The audit of the Council’s activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. The Public Sector Internal Audit Standards establishes the professional standards Internal Audit must apply when planning the use of its resources.
Procurement	None
Human Resources	None
Property	None

<p>Equalities</p> <p>(Impact Assessment attached)</p> <p>Yes <input type="checkbox"/> No <input type="checkbox"/></p> <p>N/A <input type="checkbox"/></p>	None
<p>Risk Assessment</p>	Internal Audit activity is based on a risk-based approach, thus ensuring that coverage is focussed on areas of Council activity where Internal Audit resource will deliver most benefit and assist most effectively in the management of risk.
<p>Crime Disorder &</p>	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified. The Strategic Audit Plan includes planned coverage on counter fraud assurance work.
<p>Customer Consideration</p>	This report summarises Internal Audit findings reported to and discussed with management throughout 2022/23. Regular reports have also been made to Audit Committee throughout the year, advising of the outcomes of Internal Audit's work, in accordance with the Audit Committee's planned schedule of work.
<p>Carbon reduction</p>	None
<p>Wards</p>	All

Background papers:

- Public Sector Internal Audit Standards (PSIAS), Chartered Institute of Public Finance and Accountancy, April 2017;
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019;
- The Accounts and Audit Regulations 2015, April 2015;
- Northumberland County Council Constitution and Finance and Contract Rules;
- Strategic Audit Plan 2022-2023, March 2022; and
- Audit Committee Key Outcome reports, November 2022 and May 2023.

Report sign off.

Interim Monitoring Officer/Legal	N/A
Executive Director of Finance & Section 151 Officer	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

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Northumberland
County Council

Internal Audit and Risk Management Service

2022/23 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

July 2023

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1 Purpose of Report and Background

- 1.1 This report has been written by the Head of Internal Audit & Risk Management (Chief Internal Auditor) to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, taking into account the expectations of the Council's Executive Team, Audit Committee and other key stakeholders.
- 1.2 The Accounts and Audit Regulations 2015 (Part 2, Regulation 5) require that "*a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*"
- 1.3 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and were revised on 1 April 2017. The PSIAS and associated Local Government Application Note were issued by the Chartered Institute of Public Finance and Accountancy and are the mandatory standards with which every Internal Audit provider delivering such services in local government is required to comply.
- 1.4 The PSIAS require that the 'Chief Audit Executive' (Chief Internal Auditor) provides an annual report to the 'Board' (Audit Committee), timed to support the annual governance statement. This report meets all requirements of the PSIAS in this regard and includes a summary of audits and assurance sources which support the opinion provided, covering each of the component elements of the framework of governance, risk management and control.

2 Internal Audit Service 2022/23

- 2.1 Internal Audit provides "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."¹
- 2.2 The Council's Internal Audit Service assists management by testing to see whether the controls established for any given system are appropriate. It is important to stress however that Internal Audit, while part of the Council's overall assurance framework, is not a substitute for effective internal control within the Council's systems. Internal Audit must provide an independent and objective opinion on the organisation's control framework.
- 2.3 In order to provide an overall opinion, Internal Audit agrees a plan of work and the plan for 2022/23 was agreed by Audit Committee on 23 March 2022. Internal Audit's programme of work during 2022/23 consisted of:
 - Assurance reviews;
 - Advice and guidance;
 - Consultancy / programme assurance activity;
 - Counter fraud / investigative work
 - Grant claim certification.

¹ Public Sector Internal Audit Standards, IIA / CIPFA April 2017

- 2.4 The Internal Audit Charter codifies the practices and arrangements governing how Internal Audit conducts its work within Northumberland County Council. The Internal Audit Charter is regularly reviewed and agreed by Audit Committee and includes:
- the objectives of Internal Audit;
 - the position of Internal Audit within the organisation;
 - the scope of Internal Audit's activity; and
 - Internal Audit's authority and right of access to all records.
- 2.5 The PSIAS require that the Head of Internal Audit and Risk Management (Chief Internal Auditor) must confirm to Audit Committee, at least annually, that the internal audit activity is organisationally independent. This requirement is reinforced within the Internal Audit Charter. The Head of Internal Audit and Risk Management can confirm that there were no instances during 2022/23 where the Head of Internal Audit and Risk Management's personal independence or objectivity was impaired.
- 2.6 The PSIAS requires that in order to meet its statutory responsibilities, Internal Audit needs to be appropriately resourced to meet its objectives. Where the Head of Internal Audit and Risk Management believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Audit Committee.
- 2.7 Resourcing of the Internal Audit Service is closely monitored. Following the decision to end the shared service arrangement at the end of the 2021/22 financial year and fully return the service to within the Council, some strengthening of the team structure was required. During 2022/23, the revised team structure has been developed and implemented, with additional recruitment taking place. There has been an impact upon completion of planned activity during 2022/23 due to some posts being vacant for part of 2022/23, and sickness absence, however this has not resulted in the inability to provide an internal audit opinion. Recruitment in respect of one remaining vacant post is currently underway.

3 2022/23 Opinion Statement

- 3.1 The Chief Internal Auditor is required to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, in accordance with the Public Sector Internal Audit Standards. For 2022/23, an overall 'limited' level of assurance is provided.
- 3.2 The Chief Internal Auditor's opinion includes a summary of the audits and assurance sources which support the opinion provided and covers each of the component elements of the framework of governance, risk management and control.
- 3.3 The opinion is informed by the areas reviewed by Internal Audit, and the progress made by the organisation to action Internal Audit recommendations. There are no limitations in the scope of the opinion. Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. It is recommended that the Chief Internal Auditor's overall opinion on the framework of governance, risk management and control is considered as a source of assurance for the preparation of the Annual Governance Statement for 2022/23, and its subsequent approval by the Audit Committee.

- 3.4 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations. Internal Audit are working with colleagues in Information Services to pilot an audit management solution which has been developed during 2022/23, to incorporate the management, follow-up and reporting of Internal Audit recommendations across the organisation.
- 3.5 The Council's Section 151 Officer issued a report under s114 and s114A of the Local Government Finance Act 1988, on 23 May 2022. The report explained the Section 151 Officer's view that the Council had incurred items of unlawful expenditure and the background information regarding that view, in relation to unlawful commercial trading and payment of an allowance to a former officer. Within her report, the Section 151 Officer recommended that further action be taken, including:
- (a) an independent investigation into the circumstances that gave rise to unlawful trading activity; and
 - (b) Internal Audit investigation into a small number of other potentially unlawful payments to officers and review of all exit packages with a value of £100k or more.
- 3.6 At the time of writing this opinion, the Chief Internal Auditor is aware that in respect of these actions:
- (a) the independent investigation into the circumstances that gave rise to unlawful trading activity has not yet been concluded; and
 - (b) the outcomes of Internal Audit's review was reported to Audit Committee in January 2023. The consideration of the review's findings by the Section 151 Officer and Monitoring Officer has not yet been concluded.
- 3.7 Any further impact on the wider framework of governance, risk management and control arising from these matters will be considered by the Chief Internal Auditor as they are concluded and reported to the County Council.

Governance

- 3.8 A number of unprecedented governance matters occurred within the Council during 2020/21 and 2021/22. These matters were wide ranging in nature and in volume. During 2021/22 the Leader of Council commissioned an Independent Governance Review which was undertaken by Solace in Business, led by Max Caller CBE. The findings from this review were reported to the County Council meeting on 8 June 2022. A number of governance issues were identified and reported and it was clear that the Council needed to take swift action in order to address the weaknesses in governance arrangements.
- 3.9 Throughout 2022/23, and into 2023/24, the Council has implemented a number of actions in response to the recommendations arising from both the Independent Governance Review and the Section 151 Officer's s114 Report. Progress on the implementation of recommendations has been reported to meetings of the County Council and to Audit Committee, supplemented with reports from an independent Challenge Board.

- 3.10 At its meeting in May 2023, the County Council agreed a revised Constitution, including updated Finance and Contract Procedure Rules. Internal Audit reviews in recent years have included recommendations referencing the need for the Constitution and Finance and Contract Rules to be updated.
- 3.11 The Chief Internal Auditor is aware that significant action has been taken by the Council to strengthen governance arrangements during 2022/23 and into 2023/24, and reliance can be placed on reports on progress from the independent Challenge Board and reports to Cabinet, full Council and Council committees. The Strategic Audit Plan for 2023/24 includes a number of assignments aimed at providing assurance that appropriate improvements in controls and governance are embedding across the Council.

Risk Management

- 3.12 A 'significant assurance' opinion was provided in respect of the Internal Audit review of Risk Management undertaken in 2020/21. Appropriate arrangements were found to be in place across the Council and given the importance of effective risk management, a 'significant assurance' opinion in respect of this aspect of the Council's arrangements is to be welcomed.
- 3.13 During 2022/23 and into 2023/24, the Council's corporate risks have been reviewed, reflecting the changing risk profile of the organisation. Work is currently underway to review corporate risks with the Executive Management Team and Cabinet, following the agreement of a new Corporate Plan in May 2023.
- 3.14 During 2022/23, the management of non-corporate level risks has continued across the Council, at Service Strategic, Operational and Project level. A number of risk workshops have been held across the Council, with an increased number of risk registers in operation and improved consistency across services. An updated Risk Management Policy and Risk Management Framework is currently being completed for approval in 2023/24.

Control

- 3.15 Judgement is informed by the well-established framework of core financial systems which are in place within the Council. This was reinforced by the volume of grant claim certifications undertaken by Internal Audit during the year, whereby grant claims totalling £48.312m were certified and all certifications undertaken were found to be compliant with the grant provider's requirements. Of these, claims totalling £24.14m had not been scheduled within Internal Audit's plan of work and needed to be included, on occasions at short notice. A number of 'limited assurance' opinions were issued during the year, with areas for improvement in key controls identified, although no 'no assurance' audit opinions were issued or are planned to be issued. A summary of each review finalised has been reported to Audit Committee throughout the year in regular Key Outcomes reports. A full list of audits performed and opinions issued is included at **Annex A**.
- 3.16 In November 2022, Internal Audit concluded work reviewing potentially unlawful payments following the Section 151 Officer's s114 Report in May 2022. At the conclusion of this work, Internal Audit issued a 'critical priority' recommendation and a 'high priority' recommendation aimed at improving the procedures and controls in

place within systems and to ensure compliance with relevant legislation. A summary of these reviews was reported to Audit Committee in January 2023.

Conclusion

- 3.17 Internal Audit's experience and work performed during 2022/23, and the concerns raised by the Independent Governance Review and by, and following, the Section 151 Officer's s114 report, the Head of Internal Audit and Risk Management has concluded that whilst many internal systems of governance, risk management and control are operating effectively across the Council, the areas of weakness identified lead to an overall 'limited' level of assurance.
- 3.18 It is clear that following the concerns identified in early 2022/23, swift action has been taken by the Council to address the issues and improve the framework of governance, risk management and control. This has continued into 2023/24 with the agreement of a new Corporate Plan, Constitution and Finance and Contract Rules in May 2023. These matters will continue to be a focus of the Council's attention in improving governance, risk and control systems further during 2023/24.
- 3.19 Changes in the Council's framework of governance, risk management and control, will continue to be reflected in Internal Audit's coverage. Internal Audit's plan of work for 2023/24 includes a number of assignments aimed at providing assurance over the implementation and embeddedness of improvements and actions taken to address governance and control issues.

4 Audit Work Performed During 2022/23

- 4.1 Internal Audit has provided an audit, advice and programme assurance service to the Council in 2022/23, in accordance with the PSIAS and accompanying Local Government Application Note. The service has been provided utilising a variety of methods, summarised below. A full list of audit work performed is included at **Annex A**.

Assurance reviews

- 4.2 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, and was reviewed and updated as part of service developments during 2022/23, as defined below:

Assurance Level	Description
Substantial Assurance (Previously Full Assurance)	There is an effective system of internal control in place designed to achieve the Council's objectives with only minor issues identified which require improvement.
Reasonable Assurance (Previously Significant Assurance)	There is a generally sound system of control in place. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the system's objectives at risk in some areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the system's objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (have resulted) in failure to achieve the system's objectives in the areas reviewed.

4.3 The opinions given to assurance reviews finalised and issued during 2022/23 are shown in **Annex A**. Of 16 opinions issued, 9 'significant' or 'reasonable' assurance opinions were provided (56.25%), with 7 'limited' assurance opinions (43.75%). A number of assignments are also at draft reports stage or in the process of being finalised.

4.4 In addition to the overall opinion given on every audit assignment, individual recommendations within each report are classified as 'critical', 'high', 'medium' or 'low' priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out below:

Priority	Classification	Description
1*	Critical	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.
1	High	Action that is considered urgent to ensure that the service area / establishment is not exposed to high risks.
2	Medium	Action that is considered necessary to avoid exposure to considerable risks.
3	Low	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

4.5 The number of Internal Audit recommendations agreed with management during the 2022/23 audit year, classified against each priority, is provided in the table below (data from previous 5 years is also shown for comparative purposes).

Priority Level	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Critical Priority	Nil	Nil	Nil	Nil	Nil	1 (1%)
High Priority	3 (3%)	Nil	7 (4%)	3 (3%)	2 (2%)	5 (4%)
Medium Priority	47 (53%)	54 (39%)	53 (29%)	32 (30%)	57 (52%)	73 (53%)
Low Priority	39 (44%)	86 (61%)	123 (67%)	72 (67%)	51 (46%)	59 (42%)
TOTAL	89 (100%)	140 (100%)	183 (100%)	107 (100%)	110 (100%)	138 (100%)

- 4.6 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes. Implementation of Internal Audit recommendations is reported to Audit Committee throughout the year in Key Outcomes reports. A new system for the monitoring and reporting of Internal Audit recommendation implementation has been developed with Information Services and is planned to be finalised and implemented during 2023/24.

Advice, guidance and consultancy / programme assurance activity

- 4.7 As in previous years, Internal Audit was approached a number of times during 2022/23 for advice, or requested to examine ad-hoc areas or systems. In addition, an increasing role of Internal Audit is to advise on, and challenge, the approach to internal control within new or improved systems and methods of service delivery.
- 4.8 By undertaking such pieces of work, Internal Audit proactively acts as a partner to the business and adds maximum value to service improvement by helping ensure that risks are identified and mitigated with suitable controls as soon as possible.

Counter fraud / investigative work

- 4.9 In common with previous years, Internal Audit has performed a small number of investigations and management requests during 2022/23. These relate to issues which could not be foreseen in advance, and where irregularity may have been indicated. As such, it is important that the organisation can call upon Internal Audit resource to respond quickly to assess the control and governance issues indicated and to secure evidence if required.
- 4.10 In one instance, a bank mandate fraud was identified, with weaknesses in controls associated with the payment of invoices. Swift action was taken by management (supported by Internal Audit) to cease the potential for ongoing impropriety. A small number of concerns identified during 2022/23 related to matters outside of the Council's jurisdiction. Once investigative work was completed, Internal Audit liaised with the Police / external crime agencies as appropriate.
- 4.11 Northumberland County Council is part of the Cabinet Office's National Fraud Initiative and is thus legally obliged to provide relevant information under the requirements of the Audit Commission Act 1998. Before this information can be

provided, the Council is required to ensure that appropriate steps have been taken to notify data subjects held in the organisation's relevant information systems that data may be used for the prevention and detection of fraud.

- 4.12 As in previous years, Internal Audit have acted as the lead within the Council for the NFI data-matching exercise, extracting data from the relevant systems, and submitting these to the Cabinet Office in preparation for the 2022/23 exercise. Details of data matches have been released and officers within relevant departments are investigating and updating the NFI system with outcomes.
- 4.13 During late 2022/23, the Council's Corporate Fraud Team transferred from the Revenues and Benefits section to join the Internal Audit and Risk Management service. This has provided greater opportunity for Internal Audit and Corporate Fraud to work more effectively together and we are in the process of developing a corporate fraud risk assessment for the Council in order to ensure that our counter fraud resource is targeted as efficiently as possible. This will be finalised and agreed during 2023/24.

Grant claim certification

- 4.14 Work undertaken on the certification of grant claims identified controls were in place governing the management of such funding schemes. Grant claims certified by Internal Audit during 2022/23 totalled £48.312m, with all certifications found to be compliant with the grant provider's requirements. A summary of grant certification work completed during 2022/23 is included at Annex A.

Schools' Financial Value Standard

- 4.15 Time was included in the audit plan for 2022/23 to support and co-ordinate the work required by the Schools' Financial Value Standard (SFVS) on behalf of the Council.
- 4.16 The SFVS has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors; however, the Council's Chief Finance Officer is responsible for ensuring that submissions made by schools are in line with the judgements on these schools which have already been reached by Internal Audit.
- 4.17 On behalf of the Executive Director of Transformation & Resources (Section 151 Officer), Internal Audit co-ordinated, received and reviewed Schools' Financial Value Standard submissions, for the Council's grant-maintained schools. All schools were required to submit their self-assessments by the deadline of 31 March 2023 and all submissions were received by the deadline. The Annual Certification to the DfE by the Section 151 Officer has been completed and submitted ahead of the deadline of 31 May 2023.

5 Quality Assurance & Improvement Programme

- 5.1 The PSIAS include a requirement that a Quality Assurance and Improvement Programme (QAIP) is developed by every relevant authority. A QAIP, codifying existing arrangements, was agreed by Audit Committee in January 2023.

5.2 The QAIP details how the requirements of the PSIAS are met within the Internal Audit Service, comprising internal assessments and external assessments.

Outcomes of Internal Assessments

5.3 A number of measures are in place within the Internal Audit Service, encompassing ongoing monitoring of individual assignments and wider periodic assessments.

5.4 Outcomes from ongoing monitoring and review of audit assignments are discussed with individual team members during every assignment and are discussed with the wider team as necessary.

5.5 A number of improvements have been made across the team during 2022/23, following the end of the shared service hosted by North Tyneside Council. Revised internal processes and working papers are now in place, and a new, one page, reporting format was also introduced during 2022/23, with a number of positive comments received from stakeholders and recipients. Further service developments are in progress with the team.

5.6 A series of performance indicators have been formalised during 2022/23 to help monitor and report upon Internal Audit’s performance and effectiveness. Key performance indicators are detailed below, and performance against targets will be reported to Audit Committee during 2023/24. Where available, actual performance for 2022/23 is detailed below.

Key Performance Indicator	Target	Actual during 2022/23
%age of planned productive days achieved	90%	90.5%
%age of number of assignments completed (or substantially completed) compared to planned number of assignments	90%	89.6%
%age of final reports issued within 10 calendar days of receipt of all management responses to draft report	95%	-
Average score from client feedback received	Lower than 2.0	1.307

5.7 For many years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment. During 2022/23, Internal Audit reviewed the feedback sought at the end of each audit review performed, and developed additional feedback which was also sought for work undertaken on grant claim certification, Schools’ Financial Value Standard and programme assurance assignments.

5.8 Feedback received during 2022/23 was very positive. All feedback sought asks clients to score the service received from 1 to 4 against a number of criteria, with 1 being ‘very satisfied’, 2 being ‘satisfied’, 3 being ‘dissatisfied’ and 4 being ‘very dissatisfied’. During 2022/23, feedback was received from 44 recipients and demonstrated a high satisfaction rate from clients. The overall average score was 1.307 (1.0 is the highest score that can be achieved). Additional feedback from

stakeholders of the Internal Audit Service was also sought as part of an external assessment as detailed below.

Outcomes of External Assessments

- 5.9 The PSIAS require that an external assessment of conformance to the standards by the Internal Audit Service is undertaken at least once every five years. The previous external assessment was undertaken of the shared Internal Audit service with North Tyneside Council in 2018. An external assessment is currently being undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the outcomes will be reported to Audit Committee once concluded.
- 5.10 A self-assessment of conformance to the standards was undertaken and reported to Audit Committee in January 2023. The self-assessment reported a high level of conformance and highlighted a small number of areas in which further development would assure greater adherence to the required standards, with identified actions. An update on all actions is set out in Annex B.

Annex A: Summary of Internal Audit Work During 2022/23

Formal Reports Issued

Audit	Opinion
Arrangements for Managing Delivery of the Council's Climate Change Action Plan	Significant
Civil Contingencies and Business Continuity	Limited
Communities Together Grant Payments	Significant
Hardware and Software follow up	Limited
Health & Wellbeing	Significant
IS Incident, Problem and Change Management	Limited
Office 365 / SharePoint	Limited
Oracle Fusion	Limited
Payroll	Limited
Public Services Network	N/A
Reviews in relation to potentially unlawful payments following S114 Report	N/A
Review of Planning Procedures	Limited
Schools Thematic Review – Local Account – Directorate Report	Significant
Schools Thematic Review – Local Account – High School	Significant
Schools Thematic Review – Value for Money – First School	Reasonable
Schools Thematic Review – Value for Money – Primary School	Reasonable
Schools Thematic Review – Value for Money – Middle School	Reasonable
Schools Thematic Review – Value for Money – High School	Reasonable

Reports Pending from 2022/23 (draft report issued)

Audit
Arrangements for Managing Contracts we Deliver and Associated Performance
Capital Programme
Cyber Security
Data Storage
Ethical Governance
ICT Business Continuity and Disaster Recovery
Information Governance
Payroll
Retrieval and Access Rights

Grant Claim work / certification

• Covid-19 Capacity Fund	£1.288m
• The Sele School – Teaching School Core Grant	£0.013m
• COVID-19 Test and Trace Contain Outbreak Management Fund	£13.122m
• North-East Rural Growth Network Capacity Funding Grant	£7.301m
• Public Health Funding for Additional Drug Treatment Crime and Harm Reduction Activity	£0.350m
• Supporting Families	£0.258m
• Local Transport Plan and associated grants	£23.426m
• Bus Service Operators Grant	£0.500m
• Green Homes Grant 1	£1.864m
• Green Homes Grant 2	£0.029m
• Adult Weight Management Service	£0.118m
• Biodiversity Grant	£0.043m
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	£48.312m

Programme Assurance / Projects Groups

- Payment Card Industry Data Security Standard (PCIDSS)
- An overview of IT controls within the new recruitment system prior to the system going live
- An overview of the new recruitment approval processes and associated forms
- Covid-19 Business Grant Funding, including pre and post payment assurance and returns to BEIS
- Energy Bills Council Tax Rebate –providing advice and guidance to colleagues in Finance regarding systems and processes as these were developed to make payments to qualifying households

Ad-hoc Queries / Requests for Advice

Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not always appropriate to issue a formal report. During 2022/23 work in this area has included:

- Procedures for the retention/deletion of email accounts
- Support to services regarding document retention and storage of electronic data and in relation to maintaining separation of duties following changes to staff roles
- Support to the ongoing review of the Council's Constitution and Finance and Contract Rules

Annex B: Compliance with PSIAS – Improvement Actions Update

As reported to Audit Committee in January 2023, the Public Sector Internal Audit Standards include a number of requirements and there is the ability to state whether there is conformance, partial conformance or non-conformance. The self-assessment checklist contains 324 individual questions and of these, 21 refer to arrangements which are not currently applicable to us. Of the remaining 303 questions, the self-assessment demonstrated a high level of conformance as follows:

'Conforms'	289	95.4%
'Partial'	13	4.3%
'Not Conforming'	1	0.3%
Total	303	100%

Where questions were self-assessed as 'partial' or 'not conforming', actions were identified to address these (with most already in progress). Further updates will be reported to Audit Committee during 2023/24.

Standard	Summary from self-assessment in January 2023	Update as at June 2023
Attribute Standard 1000 – Purpose, Authority and Responsibility	20 questions, relating to purpose, authority and responsibility, and the contents of the internal audit charter. 19 questions self-assessed as 'Conforms'. 1 question self-assessed as 'Partial' with an action identified to make details of assurance services provided to external parties explicit within the Internal Audit Charter when next revised.	Revised Audit Charter currently being drafted pending outcome of external quality assessment, incorporating required wording in addition to necessary amendments following restructure.
Attribute Standard 1200 – Proficiency and Due Professional Care	21 questions, relating to proficiency, due professional care, skills, qualifications, and capability. All 21 questions self-assessed as 'Conforms'. However, an action has been identified relating to plans to formalising the use of computer-assisted audit techniques and automating audit processes where possible.	Identified as an action to be implemented during 2023/24. Work is already in progress.
Attribute Standard 1300 – Quality Assurance and Improvement Programme	33 questions, relating to the Quality Assurance and Improvement Programme, internal assessments, external assessments, reporting on the QAIP, stating that the service conforms with PSIAS requirements, and disclosure of non-conformance.	A comprehensive set of service targets has been drafted to add to those targets already in use. Once finalised, targets will be built into

Standard	Summary from self-assessment in January 2023	Update as at June 2023
	23 questions self-assessed as 'Conforms'. 3 questions not applicable. 7 questions self-assessed as 'Partial' with actions identified relating to developing and agreeing a comprehensive set of service targets in addition to those used, using performance monitoring against targets to contribute to quality improvement more comprehensively, and ensuring that the results of the QAIP (and particularly internal assessments) and progress against improvement plans are reported to senior management and Audit Committee in accordance with the requirements of the QAIP developed.	formalised monitoring within the service and incorporated into the requirements of the QAIP agreed in January 2023. Required reporting will be implemented in full. The 2022/23 Annual Opinion Report reported to Audit Committee, has been revised and updates will be provided to Executive Management Team and Audit Committee.
Performance Standard 2100 – Nature of Work	29 questions, relating to governance, risk management, and control. 28 questions self-assessed as 'Conforms'. 1 question self-assessed as 'Partial' with actions identified to codify internal audit's activity relating to evaluation of 'the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities'.	Initial work currently nearing completion on 'ethical governance' as part of 2022/23 Internal Audit Plan. Discussed with Monitoring Officer as part of engagement on 2023/24 Internal Audit Plan, with time included to consider and implement this fully.
Performance Standard 2200 – Engagement Planning	51 questions, relating to engagement planning, engagement objectives, engagement scope, engagement resource allocation and engagement work programme. 44 questions self-assessed as 'Conforms'. 4 questions self-assessed as not applicable. 3 questions self-assessed as 'Partial' with actions identified to formalise arrangements within audit assignments to 'evaluate and report on whether management have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished'.	Corporate Performance Management was scheduled to be reviewed during 2022/23, however following actions agreed in response to the Independent Governance Review in June 2022 and the intention to update the Council's Corporate Plan, this work was included within Internal Audit's plan of work for 2023/24. Whilst performance management is considered within

Standard	Summary from self-assessment in January 2023	Update as at June 2023
		individual audit assignments, this aspect of our work and subsequent reporting will be more formalised and explicit as appropriate.
Performance Standard 2400 – Communicating Results	47 questions, relating to criteria for communicating, quality of communications, errors and omissions, use of ‘kite mark’ statements by the service, engagement disclosure of non-conformance, disseminating results, and overall opinion. 41 questions self-assessed as ‘Conforms’. 5 questions not applicable. 1 question self-assessed as ‘Not conforming’, with an action identified relating to including details of progress against improvement plans resulting from the QAIP within the annual overall opinion report.	Implemented.
Performance Standard 2500 – Monitoring Progress	4 questions. 3 questions self-assessed as ‘Conforms’. 1 question self-assessed as ‘Partial’ with actions identified relating to seeking client feedback from consulting engagements. Action has already been taken but is not yet embedded within the service.	Implemented.

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Northumberland County Council

COMMITTEE: **AUDIT COMMITTEE**

DATE: **26 JULY 2023**

ANNUAL GOVERNANCE REVIEW AND DRAFT ANNUAL GOVERNANCE STATEMENT 2022/23

Report of Jan Willis, Executive Director of Transformation and Resources & S151 Officer

Cabinet Members: Councillor Glen Sanderson, Leader of Council

1. Purpose of report

1.1 The purpose of this report is to enable the Audit Committee to review the draft Annual Governance Statement for 2022-23 and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

2. Recommendations

2.1 It is recommended that Audit Committee:

- Approve the draft Annual Governance Statement (shown in Appendix A); and
- Agree to the draft Annual Governance Review being published on the Council's website alongside the draft statement of accounts and reviewed by the Council's external auditors as part of the 22-23 Audit.

3. Link to Corporate Plan

3.1 Effective governance arrangements are critical to the delivery of all three priorities in the Council's new Corporate Plan which was agreed by Council in May 2023.

4. Key issues

4.1 Under the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control, which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the authority is effective; and,
- Includes effective arrangements for the management of risk.

- 4.2 The 2015 Regulations also require that the Council reviews (at least annually) the effectiveness of those systems of internal control, to ensure that governance arrangements are up-to-date and relevant.
- 4.3 The outcome of that review must be considered by a committee of the Council and published in the Draft Annual Governance Statement (AGS), alongside the Draft Statement of Accounts.
- 4.4 The Audit Committee has responsibility for reviewing the Council's corporate governance arrangements against the good governance framework and for considering annual governance reports and assurances.

5. Background

- 5.1 Local authorities are required to prepare an annual governance statement (AGS) to publicly report on the extent to which they comply with their own code of governance. This includes how they have monitored and evaluated, the effectiveness of their governance arrangements in the year, and on any planned changes in the coming year. In essence, the AGS is an accountability statement from the Council to its stakeholders on how well it has delivered on governance over the course of the previous year.
- 5.2 The AGS should provide a meaningful but brief communication regarding the review of governance that has taken place. It should be high level, strategic and written in an open and readable style. The AGS does not need to describe in detail the key elements of an authority's governance arrangements if they are already easily accessible by the public, such as through the authority's code of governance. The AGS should be signed by the Chief Executive and Leader of the Council and approved by a resolution of a committee or Full Council. In Northumberland, approval of the AGS has been delegated to the Council's Audit Committee.
- 5.3 An independent governance review was requested by the Leader of Council and subsequently commissioned in February 2022 ("the Caller Review"). This was in response to the Administration's concerns with the Council's corporate governance arrangements.
- 5.4 Subsequently, on 23 May 2022 the Interim Executive Director of Finance and Section 151 Officer issued a Section 114 Notice in relation to the following matters as she believed that unlawful expenditure had been incurred by the Council:
- The expenditure incurred by the Council's International Team established in 2017. The International Team had been trading as part of the Council and without appropriate approvals, and any commercial trading needed to go through a proper approval process and must be done through a Council company; and,
 - The payment of an annual International Allowance of £40,000 (plus oncosts) to the Council's Chief Executive and Head of Paid Service which has been paid since 2017. This allowance in the opinion of the Interim Executive Director of Finance and Section 151 Officer had never been properly authorised.
- 5.5 The Independent Review of Governance ('Caller Review') in January 2022 reported to Full Council on 8th June 2022. The final report of the 'Caller Review' identified weaknesses in governance and made recommendations for improving and strengthening the governance of the Council. An action plan was agreed for

addressing these recommendations. Arrangements to advise on and, oversee delivery was also established.

5.6 The draft Annual Governance Statement (AGS) for 2022-23 takes account of the S114 Notice, the final report of the Caller Review, the resolution of employment issues with the former Chief Executive and other significant events that occurred during 2022/23.

5.7 The Annual Governance Statement also sets out significant post-2022/23 governance events including: the conclusion of the Challenge Board's work; the Review of Local Area Councils (reported to Council in May 2023); redrafts of the Council's constitution and Corporate Plan; an independent report setting out lessons learned from previous International Team's trading activity (reported to Audit Committee 26th July 2023); and, a report setting out findings from an investigation to establish whether unlawful payments had been made to any officers or former officers, including severance payments (reported to Audit Committee 26th July 2023). It is the opinion of the S151 Officer that, whilst exit payments were unlawful, a further S114 notice will not be issued.

5.8 The draft AGS is set out at Appendix A.

6. Implications

Policy	Effective corporate governance supports the delivery of all three Council priorities, as outlined in the Corporate Plan.
Finance and value for money	There are no direct financial implications associated with this report. However, financial planning and management are key components of effective corporate governance.
Legal	The governance review process and publication of an Annual Governance Statement ensures the Council discharges its statutory duties under the Local Government Act 1999 and the Accounts and Audit Regulations 2015. The Local Code of Corporate Governance enables the Council to demonstrate how it complies with the CIPFA / SoLACE 'Delivering Good Governance in Local Government Framework (2016)'. It is the role and function of the Audit Committee to review the Council's corporate governance arrangements against the good governance framework including the approval of the draft Annual Governance Statement.
Procurement	None
Human Resources	None
Property	None
Equalities (Impact Assessment attached)	None

Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	
Risk Assessment	There are no direct risks associated with this report, but the assessment of corporate risk is a key component of the Council's governance arrangements.
Crime & Disorder	None
Customer Consideration	None
Carbon reduction	None
Health and Wellbeing	None
Wards	All Wards

Background papers:

None

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	Full Name of Officer
Monitoring Officer	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Relevant Executive Director	Jan Willis
Chief Executive	Dr Helen Paterson
Portfolio Holder(s)	Cllr Glen Sanderson, Leader of Council

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Annual Governance Statement

2022-23

Draft - Subject to Audit



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Leader's introduction

Leader's Introduction



Introduction to the Annual Governance Statement by the Leader of Northumberland County Council, Councillor Glen Sanderson

This past year has seen significant change and challenge nationally and globally, which has impacted on residents, businesses and the wider local authority sector.

Globally, the War in Ukraine has resulted in a humanitarian disaster. The Council and communities across the County have played their part in responding to this crisis. Supported by the Council's Housing Team, we have also helped some 460 refugees, of whom 177 are children, to find sanctuary in Northumberland. People across our County have opened their doors to refugees and welcomed them into their homes.

The Ukraine War - coupled with the ongoing recovery from the Covid Pandemic - have impacted households and businesses through spiralling cost increases. Again, the Council has acted to support those most in need and will continue to do that within the limits of the Council's powers and resources.

Despite the national and global challenges which have impacted locally, the Council has maintained focus on delivering high-quality, day-to-day services in communities as well as investing in Northumberland's future.

Having a framework of effective corporate governance is essential in ensuring the Council can continue to meet these challenges. In that regard, I am especially pleased the Council has delivered its actions and initiatives in our Improvement Action Plan. This has included a redrafted constitution, refreshed Codes of Conduct, a new Corporate Plan, Member Development Plans and a review aimed at strengthening and boosting the Council's Scrutiny arrangements.

Also, the introduction of 'Policy Conferences' in the past year has helped foster wider Member involvement in Council policy-development. The establishment of our 'BEST ways for working' will further strengthen and refine the Councils' continuous improvement.

Alongside these improvements to Governance, we welcomed our new Chief Executive Officer, Dr Helen Paterson and the appointment of a new top team of Executive Directors to deliver on the Council's priorities. This now gives the Council the experience, governance and stability needed to take the organisation forward.

I extend a warm thank you to staff and all Members for their excellent contribution to this work.

I hope you find this year's Annual Governance Statement useful and informative.

Councillor Glen Sanderson
Leader of Northumberland County Council

What is this
document?

What is the Annual Governance Statement?

The Annual Governance Statement (AGS) describes the extent to which the Council has, for the year ended 31 March 2023, complied with its Local Code of Corporate Governance and the requirements of the Accounts and Audit Regulations 2015.

It describes how the effectiveness of the Council's governance arrangements has been monitored and evaluated during the year and sets out any changes planned for the 2023-24 period.

This has been prepared in accordance with guidance produced in 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the 'Delivering Good Governance in Local Government Framework'. It embraces the elements of internal control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom' (CIPFA).

This document outlines four key things:

1. Our approach to preparing the AGS;
2. A summary of significant governance events during the 2022/23 financial year;
3. The key aspects of our Governance Framework; and,
4. A progress update on our AGS action plan for 2022/23 and proposed strategic governance actions for 2023/24.

What is Corporate Governance?

Good Governance in the public sector means: 'achieving intended outcomes while acting in the public interest at all times'.

Corporate Governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values.

The Council's Corporate Governance arrangements aim to ensure that it:

- Operates in a lawful, open, inclusive and honest manner;
- Safeguards public money and assets from inappropriate use, loss or fraud, and ensures that they are properly accounted for and uses its resources economically, efficiently and effectively;
- Has effective arrangements for risk management;
- Secures continuous improvements in the way it operates;
- Properly maintains records and information; and,
- Ensures that its values and ethical standards are met.

Why is Governance Important?

All our residents and service users, together with our suppliers and partners, must be able to have confidence in our governance arrangements; that our ways of working enable us to provide the right services effectively and efficiently and on a consistent basis, and that we take informed, transparent and lawful decisions. They must also be assured that we properly account for the money we receive and spend.

Our approach to the Annual Governance Statement

How this Statement is prepared

In preparing the Annual Governance Statement (AGS) the Council has:

- Reviewed the Council's existing governance arrangements against the revised CIPFA / SOLACE 'Delivering Good Governance in Local Governments framework – 2016 Edition' good practice guidance;
- Ensured the Council's Local Code of Corporate Governance reflects this guidance which includes the seven principles of good governance and the actions and behaviours taken by the Council that demonstrate good governance;
- Assessed the effectiveness of the Council's governance arrangements against the Local Code of Corporate Governance, and,
- Taken account of several, significant post-2022/2023 events. These are set out in the relevant sections of the AGS as well as at the end of the document in the section entitled 'Post 2022/23 Events'

The annual assessment of the effectiveness of the processes contained within the Local Code of Corporate Governance includes assessments such as:

- Service level review of Governance arrangements;
- Review of the Corporate risk Register;
- Review of the Constitution;
- Review of the opinion of the Head of Internal Audit;
- Review of external Audit Annual ISA 260 Report;

- Review of reports from External Inspectorates;
- Review of the 2021-22 Improvement Plan;
- Review of Governance arrangements of subsidiary companies.

The Council's Governance responsibilities

The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards, and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council acknowledges its duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control, and for reviewing the effectiveness of those arrangements. This also applies to the Council's wholly owned subsidiary, Advance Northumberland, an arm's length company which is the Council's primary regeneration delivery vehicle.

The Council's Local Code of Corporate Governance, produced in accordance with the governance guidance produced by CIPFA and SOLACE, states the importance of good corporate governance and sets out its commitment to the principles involved.

The Code is available on our website:
www.northumberland.gov.uk

**Northumberland County Council Governance Code
Principles of Corporate Governance**

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risk and performance through robust internal control and strong public financial management;
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Significant governance events 2022/23

Introduction

We highlight here, five, significant governance events for the past financial year. Given the nature of some of these events, these are interrelated and led to follow-up actions and activities which will flow into 2023/24, and so will also be referenced in post 2022/23 events.

(i) Issue of Section 114 Notice

On 23 May 2022 the Interim Executive Director of Finance and Section 151 Officer issued a Section 114 Notice in relation to the following matters as she believed that unlawful expenditure had been incurred by the Council:

- The expenditure incurred by the Council's International Team established in 2017. The International Team had been trading as part of the Council and without appropriate approvals, and any commercial trading needs to go through a proper approval process and must be done through a Council company and,
- The payment of an annual International Allowance of £40,000 (plus oncosts) to the Council's Chief Executive and Head of Paid Service which has been paid since 2017. This allowance in the opinion of the Interim Executive Director of Finance and Section 151 Officer had never been properly authorised and, was contrary to the Council's pay policy statement.

The Interim Executive Director of Finance and Section 151 Officer received independent legal advice which deemed that both of these matters constituted unlawful expenditure. The report was discussed on 8 June 2022 at an extraordinary meeting of the Full Council.

The International Team had also entered into contracts to provide services to non-public organisations without seeking appropriate approvals. As this was a "new" and unknown activity for the Council and the proper approval channels were not followed, this area was not covered in the Council's Constitution. To make this clear for the future working of the Council, it was intended that this be picked up in the redraft of the Finance and Contract Rules, and Council Constitution.

The report of the S114 Notice to all Members of Council (May) set out the following:

- [6.1.] Given that the Council does not appear to have suffered any financial loss and may have been a net beneficiary of international consultancy activities and the position has now been regularised by the establishment of NICL, I do not consider that it would be in the Council's interests to seek to unwind the previous contractual arrangements. Nevertheless, the following actions are proposed to ensure that lessons are learned, controls strengthened so that the Council does not find itself in a similar situation in future and that the current position is regularised.

In relation to trading for a commercial purpose, the Cabinet is invited to agree the contents of this report and:

- [6.1.1.] Agree that Audit Committee be requested to commission a full, independent investigation into the circumstances that gave rise to the unlawful trading activities.
- [6.1.2.] Note that the Chief Finance Officer will revise finance and contract procedure rules to strengthen control

and oversight of commercial trading activities and issue updated guidance on the requirements relating to trading accounts for such activities.

- [6.1.3.] Note that the Chief Finance Officer in consultation with the Monitoring Officer will undertake a review of the Council's commercial activities to ensure that they are taking place on a lawful basis and issue further formal guidance as appropriate.
- [6.1.4.] Note that the Chief Finance Officer will commission further advice and consult the external auditor with regard to any disclosures and/or adjustments that may be required to the Council's statement of accounts for 2020/21 and prior years, in respect of income and expenditure relating to international consultancy contracts between 2018 and 2021, or as between the Council and the NHCT.
- [6.1.5.] Note that the Chief Finance Officer will consider whether, and if so what, disclosures should be made to HMRC in relation to corporation tax or other liabilities.
- [6.2.] With regard to the payment of the international allowance to the Chief Executive (and previously to the Deputy Chief Executive) from 2017, Council is invited to agree the contents of this report; and,
- [6.2.1.] Note that payment of the international allowance has been stopped from the date of this report as a result of the prohibition period provisions in the Local Government Finance Act.
- [6.2.2.] Agree that payment of the International Allowance will remain suspended pending consideration of further legal advice with regard to potential recovery of unlawful

payments and any related issues by the Staff and Appointments Committee and any recommendations arising being reported to County Council for consideration.

- [6.2.3.] Note that legal and (if necessary) actuarial advice will be taken regarding any potential adjustment of pension contributions made to the Local Government Pension Scheme in relation to the International Allowance.
- [6.2.4.] Note that the Chief Finance Officer will undertake further investigation to establish whether any other unlawful payments have been made to any officers or former officers, including severance payments, which may require further reports under S114 of the Local Government Finance Act 1988.
- [6.2.5.] Instruct the Director of HR in consultation with the Chief Finance Officer and Monitoring Officer to review the Council's pay policy statement to ensure that it is up to date and complies with the requirements of s38 of the Localism Act 2011 and report any required changes to the County Council.

(ii) Independent Review of Governance

During the latter part of 2020 and early 2021 it became apparent that there were weaknesses in the Council's corporate governance arrangements. Accordingly, an independent governance review was requested by the Leader of Council and subsequently commissioned in February 2022 ("the Caller Review"). This was undertaken on a basis akin to a Best Value governance inspection. Mr Caller's report, which was received by Council on 8 June 2022, highlighted areas of concern and made recommendations for addressing these issues.

During June and July 2022, the Council moved swiftly to respond to the recommendations in the 'Caller Review' report. A cross-party Member Task & Finish Group was established to develop an action plan to implement the Caller Report recommendations in full. This action plan was reported to and agreed by Council in July 2022. Delivery of the action plan commenced from July 2022 with detailed work packages for each action, outlining milestones and resources for delivery.

An external Challenge Board was established. This was made up of external experienced, senior local government officers, Local Government Association and Members (retired and current). The Challenge Board acted as a 'critical friend' for the Council as it delivered on its improvement plan throughout 2022-23, providing external support and assurance.

A Members' Oversight Group (formerly the 'Task & Finish Group' that developed the action plan) provided cross-party oversight of the work needed to ensure the Governance Review recommendations were met. Full Council received three reports from the Leader of Council and the Challenge Board.

Key highlights from this work include:

- Agreement and appointment to a new senior structure, including a new Chief Executive Officer, Executive Directors, and Director of Law and Governance.
- A redrafted Constitution, adopted by Council in May 2023.
- Codes of Conduct have been updated to reflect best practice.

- A new Corporate Plan 2023-26, approved by Council in May 2023
- Reviews of the Council's Scrutiny Function as well as the Local Area Committees to strengthen engagement and enhance decision-making.
- Establishment of 'Policy Conferences' to give all Members the chance to participate in policy development in an informal setting.

(iii) Resolution of employment issues with the Former Chief Executive

On 27th July 2022, Full Council received and considered a report from the Staff and Appointments Committee (StAC) in respect of a settlement of the Employment Tribunal claim presented by the Chief Executive in June 2021. Council noted the Heads of Terms negotiated with the Chief Executive and her representatives to terminate her employment on 31st July 2022 and to settle all outstanding disputes as between the County Council, its Members and Officers and the Chief Executive, including the withdrawal of any and all complaints that any of the parties have against each other; and (b) Council agreed the terms of the settlement as set out in the Heads of Terms at Appendix 1 to the report, as recommended by the Staff and Appointments Committee. The appointment of an Interim Head of Paid Service and Chief Executive was agreed at the same meeting of Council on 27th July. Subsequently, a new Chief Executive Officer, Dr Helen Paterson, was recruited in Autumn 2022 and took up her post in February 2023.

(iv) Development of the BEST Programme

Alongside the Council's improvement actions to respond to the 'Caller Report', Cabinet agreed the 'BEST ways for working' programme (January 2023) and this was subsequently launched to staff in April 2023. 'BEST' will further strengthen and refine the Councils' continuous improvement and represents the Council's new way of working.

It enables us to give our residents the best experiences through our services, provides opportunities and broadens experience our staff, whilst enabling the organisations to be more effective, efficient and financially sustainable.

BEST will enable staff to feed into BEST areas of work through their own teams, bringing forward ideas to workstreams and opening up conversations to ensure we are all working together. The programme will develop through our seven workstreams which are:

- **Best Services to Customers** - by redesigning our customer access model, we will change the way we deliver service to customers, make better use of the data we gather, deliver more proactive services and make the best use of digital services.
- **Best Value for Money** - by introducing a new approach to planning and performance, and designing more services with a 'Communities First' ethos, we will achieve better outcomes for customers while reducing need for higher-cost interventions.
- **Best in Class Commissioning** - a new approach to commissioning, procurement and contract management will improve the quality of public services in Northumberland, involving more people in how they are

designed and delivered, and better managing our spend with suppliers.

- **Best Use of Resources** - by reorganising our structures, reducing bureaucracy and better managing our internal demand, we can create clearer career pathways for our staff and deliver a better employee experience.
- **Best use of Assets** - by better managing our assets through a 'corporate landlord' approach we will reduce the size of our property estate to deliver capital receipts and reduce how much we spend on maintaining buildings.
- **Best Use of Technology** - by investing in our ability to design and build our own technology solutions, we will reduce the number and complexity of our ICT systems.
- **Best Talent and Opportunities** - By transforming our workforce to reflect the needs of a modern local authority, we will be best placed to deliver the Council's strategic priorities. We will create opportunities that attract the best talent to Northumberland and give people great reasons to stay.

(v) Completion of the Challenge Board's work

At its meeting in June 2023, Full Council received a third and final update report from the Challenge Board and a report from the Leader of Council outlining progress against the Council's improvement actions. At that meeting, Full Council agreed the following:

- (i) Note and receive the Challenge Board report as attached at Appendix 1.
- (ii) Receive and note the Challenge Board Recommendations.

Annual Governance Statement 2022/23

- (iii) Approve the Council's responses to each of the Recommendations (as set out in paragraph 5.10 of this report).
- (iv) Agree the work of the Challenge Board is now complete and that their work with the Council will conclude.
- (v) Thank the Chair and all Challenge Board members for their support, advice and guidance during the past year.

This report is referenced under the post 2022/23 events section of this document.

The activities to improve and strengthen the governance of the Council are ongoing, and it makes sense that much of this activity moves under BEST, aligned under the appropriate workstreams. This will ensure that this work can be tracked and monitored, and that actions and outcomes continue to be refined and developed. For some areas of activity – e.g. the Council's Constitution, other committees / forums are appropriate (for example, Constitution Working Group).

Our governance framework

Introduction

The Council's Governance Framework consists of the systems and processes by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It also includes our values and culture.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost-effective services.

As the Council improves the way it provides services, it is important the governance arrangements remain robust whilst being proportionate and able to adapt to changing circumstances.

To review the effectiveness of the governance framework, assurances are provided, and challenged by the Audit Committee, Scrutiny Committees, Cabinet or Council as appropriate. Key elements of the Governance Framework are highlighted on the following pages.

It is not possible for any governance framework, by itself, to eliminate all risk of failure to meet targets in our policies, aims and objectives. Instead, it provides **reasonable** and not **absolute** assurance of effectiveness.

The following paragraphs outline the key features of the Council's Governance Framework, highlighting updates to these during 2022/23.

(i) The Three Lines of Defence in effective Risk Management and Control

Assurance can come from any sources within the Council. The Three Lines of Defence is a concept for helping to identify and understand the different sources of assurance.

By defining these sources into three categories, this helps the Council understand how each contributes to the overall level of assurance and how best they can be integrated and supported. These are

- **First Line** - functions that own and manage risks, e.g. management and supervisory controls;
- **Second Line** - functions that oversee risks, e.g. governance structures and processes such as Audit Committee, Scrutiny and other boards;
- **Third Line** - functions that provide independent assurance on the management of risks, e.g. OFSTED, Internal / External Audit).

The table on the next page summarises the Council's Governance Assurance Framework, which is based on the Three Lines of Defence model:

Leader, Portfolio Holders, Chief Executive, Chief Financial Officer, Monitoring Officer, Executive Management Team

(Provide oversight of the Three Lines of Defence assurance framework)

2nd Line of Defence Oversight and Support Strategy / Policy / Direction setting, decision-making, assurance oversight	1st Line of Defence Business & Operational Management Delivering objectives, identifying risks and improvement actions, implementing controls, progress reporting, provides management assurance, ensuring compliance.	3rd Line of Defence Independent Assurance Independent challenge and audit, reporting assurance, audit opinion assurance levels
Committee and Scrutiny Functions	Operational Management and Staff	Internal Audit
Senior Management Functions	Managing Performance and Data Quality	External Audit
Quality Control Checks	Programme and Project Management	External Inspections
Risk Management	Delivery of Service Plans	Review Agencies
Functional compliance (Information Management, HR, Legal, Procurement and Financial Management)		Regulators

(ii) Setting Policy Direction - The Corporate Plan

Following the Independent Review of Governance, The Council's Corporate Plan was redrafted during 2022-23 and approved by Full Council in May 2023. The Council's vision in the new Corporate Plan is:

Northumberland: Land of Great Opportunities. With world-class facilities to stunning landscapes, spectacular castles, picturesque coastal and market towns, we believe there's no better place to live and work. Our economy boasts a growing, internationally-recognised offshore and renewable energy hub delivering clean and green growth. And, we have a strong manufacturing base, including in pharmaceuticals and life sciences. We are the largest and least densely populated local authority area in England. That makes for lots of communities with distinctive characteristics, heritage, functions and needs. We aim to build on all these strengths to ensure the county continues to be a land of great opportunities for current and future generations. To achieve this, Members and Council staff are focused on working together to deliver our three Corporate Priorities:

- **Achieving Value for Money** – recognising we are funded by residents and businesses and are accountable to them for our spending decisions and the quality of services we deliver. We must ensure we are delivering Best Value through efficient, effective and accessible services that respond to and meet the needs and expectations of our residents. And, as one of the largest employers in the county, we can become a leading example for residents, communities and businesses on carbon neutral approaches.

- **Tackling Inequalities** – ensuring people have fair access to the building blocks for a good life such as a decent income, a good quality job, safe, affordable and warm housing as well as good quality education and training opportunities. By tackling inequalities, we want to reduce the gap in experiences our residents have across health, education, employment and social outcomes.
- **Driving economic growth** - so that everyone can benefit from a strong and sustainable economy. There are significant opportunities for growth right across our diverse and rich county and harnessing these opportunities will support our communities to thrive. We want Northumberland to be a great place to live with opportunities for all of our residents, whether they live in our vast rural countryside or within one of our busy towns.

In achieving the three Corporate Priorities, we will ensure we pass on a healthy, clean and sustainable environment to future generations. Each of our three Priorities has a part to play in responding to the Climate Change context. Climate Change threatens to disproportionately affect our poorest areas, and climate policies which are too burdensome for the poorest in society could have an unwelcome effect on inequality. 'Net Zero' is the growth opportunity of the 21st Century. Northumberland can get a huge boost from the low carbon economy, and we are already creating the foundations as we work to become carbon neutral.

(iii) Managing and Evaluating Performance

Annual Governance Statement 2022/23

Alongside the new Corporate Plan, work commenced in 2022-23 on the development of a new Planning, Performance and Accountability Framework (PPAF).

This responds to the Independent Review of Governance recommendations on how the Council must review and strengthen its processes for managing data and information as well as performance reporting.

Promoted through the Council's Best Value approach, the Planning, Performance and Accountability Framework will enable Northumberland to embed continuous improvement and ensure that the overall value of everything we do has the best impact it can. It will provide us with a clear mechanism to ensure we are doing the right things well, achieving the best impact from our decisions, and demonstrating the value we are delivering for our residents.

Performance management is about using data to inform actions that will improve outcomes for residents. It supports our Members and Officers to take necessary actions based on data about how we are performing.

It will help us:

- Clearly identify our priorities and desired outcomes;
- Embed continuous improvement;
- Ensure we are doing things correctly;
- Achieve the best impact from our decisions;
- Demonstrate value we are delivering for our residents;
- Define, coordinate and frame processes to plan and prioritise our work.

The graphic below illustrates a simple but effective cycle for how Northumberland will effectively plan and manage performance.



The Council's Performance Management framework is published on the website and performance information is updated regularly. Performance is reported quarterly, and Key Performance Indicators are reviewed annually. In addition to operational service delivery indicators, workforce data is included in quarterly and annual Corporate Performance reports.

Finance officers meet regularly with budget holders across the Council and prepare a monthly financial monitoring statement. Cabinet receives quarterly finance and performance updates.

There are also quarterly reports to Cabinet on financial performance of Council-owned companies.

At a service level, regular, regulatory inspections of Adult and Children's Services by Ofsted and CQC continue as part of the programme of inspections by the relevant bodies. Reports are provided to the Audit Committee, informing Members of findings and providing assurance of how the actions resulting from inspections are implemented and monitored.

The Ofsted inspection of Children's Social Care in January 2020 was recognised as 'Good' across all areas.

(iv) Service Planning

Service plans based on the above will be provided annually by each Head of Service who are responsible for their production and delivery, setting out clear accountability. Plans also aim to provide assurance to the organisation that the Corporate Priorities of achieving value for money, tackling inequalities, and driving economic growth are being delivered. They also outline how each service are will deliver on key functions including national regulatory and benchmarking requirements.

Progress of actions within the Service Plans will be monitored by Heads of Service / Service Directors with their Executive Directors. The Executive Team will receive quarterly updates at a Directorate level on the progress against Service Plans.

Service Plans help the development of team and operational plans so that teams and individuals understand how they contribute to and are responsible for achieving the corporate priorities.

(v) Spatial Planning

The Council's Local Plan sets out the long-term spatial vision and strategic planning policies of the Council. It identifies the scale and distribution of new development which is required to deliver the Council's economic growth ambitions. It also provides the strategic planning principles that will be used to inform Neighbourhood Development Plans across Northumberland.

The Northumberland Local Plan was submitted to the Government in May 2019, and an Inspector was appointed to undertake the independent examination of the plan. The Inspector's role was to determine whether or not the Local Plan was sound and complied with all relevant legal requirements. Following the Examination Hearing Sessions, the Inspector concluded that the Plan could be made 'sound' through modifications. Following consultation on the modifications to the Local Plan, the Inspector issued her final report, and the Local Plan was adopted by the Council on 31st March 2022.

(vi) Managing Risk

The management of risk is key to achieving what is set out in the Council Plan and to ensuring we meet all our responsibilities.

Our Risk Management Policy is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify risks and to prioritise them according to likelihood and impact. The Council has a process to manage risks and assist the achievement of its objectives, alongside national and local performance targets. The process is reviewed and updated on a regular basis with reference to available good practice and to ensure

it reflects the rapidly changing environment in local government. A review of the Risk Management Policy and Risk Management Framework commenced during 2022/23 and is due to be completed and approved during 2023/24, following consultation with Officers and Members.

The risk management process includes a hierarchy of corporate, service strategic and operational risk registers and allows for dynamic escalation and de-escalation of risks, so that risks are managed at the appropriate level of the organisation. Project risks may impact and be owned and managed at any level.

Audit Committee is responsible for monitoring the effective development and operation of risk management in the Council. Corporate risks are 'owned' by the nominated Executive Team Officer and the designated Cabinet Member with relevant portfolio responsibility. Corporate risks are subject to review twice per year and are presented to Executive Team and Cabinet portfolio holders for discussion, challenge and agreement.

As well as these risk arrangements, there also exists cross-cutting arrangements to address specific areas of risk on a time-limited basis (e.g. the COVID-19 response) or through corporate groups (e.g. health and safety and information governance).

The Corporate Risk Register plays a critical role in supporting achievement of priorities as set out in the Corporate Plan. Key risks identified and managed being management at a corporate level during 2022/23 are highlighted below:

Corporate Level Risks 2022-23

1. Financial Assumptions
2. Engagement of Communities
3. Organisational Development/Workforce
4. Civil Contingency and Business Continuity
5. Corporate Compliance
6. Information Governance
7. Multiple and Concurrent High-profile Large-scale Capital Projects
8. Contract Management
9. Response to Climate Change
10. Northumberland Enterprise Holdings Limited
11. Regeneration
12. Exceptional Governance Matters
13. Advance Northumberland
14. Cyber Security
15. Ukraine Crisis
16. Inequalities

(vii) Decision Making and Responsibilities

The Council consists of 67 Elected Members, with a Cabinet of Leader, Deputy Leader and Portfolio members. The decisions of Cabinet are scrutinised and shaped by the Council's Scrutiny Committees. During 2022-23 Northumberland was subject to a review of its Divisional boundaries by the Local Government Boundary Commission for England. This review is ongoing and due to conclude during 2023/24. The outcome of the review may increase the total number of Elected Members and is likely to change Divisional boundaries.

The Council established five Local Area Councils (LACs renamed as Local Area Committees) which cover: North Northumberland; Tynedale; Castle Morpeth; Cramlington, Bedlington and Seaton Valley; and Ashington and Blyth. Their overall aim is to empower residents, strengthen communities and improve services.

The key document supporting the Council's governance arrangements is the Constitution. This sets out how the Council operates, how decisions are made, as well as the rules and procedures that must be followed to ensure that work is efficient and transparent, and the Council is accountable to local people. The Council as a whole is responsible for agreeing the Constitution, and any amendments require the agreement of Full Council.

To ensure the Constitution is up to date and fit for purpose, the Council established a Constitution Working Group. This is a cross-party Member group. The work of the Group is determined by the areas of review proposed by Members; there is an open invitation to all members to add to the

Constitution Working Group's work plan. The reports and recommendations of the Constitution Working Group are reported to Full Council for review and agreement.

The Constitution sets out the functions of key governance Officers, including the statutory posts of 'Head of Paid Service' (Chief Executive), 'Monitoring Officer' and 'Section 151 Officer' (Executive Director of Finance). It sets out the respective roles of these officers in ensuring processes are in place for enabling the Council to meet its statutory obligations and, also for providing advice to Members, Officers and committees on staff management, financial, legal and governance issues.

Following the recommendation of the Independent Review of Governance (Caller), the Council reviewed and redrafted the Council's Constitution. Throughout the review, Officers and Members took advice from external advisors to ensure the redrafted Constitution represented best practice. The new Constitution document was agreed by Full Council at its Annual General Meeting in May 2023 (referenced under the post 2022-23 section of this document).

Decisions are made by Cabinet, working within the agreed budget and policy framework. The Cabinet is held to account by the Council's Overview and Scrutiny Committees. To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior Officers, in line with powers set out in the Constitution.

The key roles of those responsible for the Governance Framework in Northumberland are outlined in the table below and opposite.

The Council	Approves the Council Budget and Policy Framework. Approves the Constitution (including Standing Orders and Financial Regulations).
Cabinet	The executive decision-making body of the Council. Comprises ten Cabinet Members (including the Leader) who have responsibility for their respective portfolios.
Audit Committee	Provides independent assurance to the Council on the adequacy and effectiveness of the governance arrangements, risk management framework and internal control environment. Promotes high standards of member conduct. Approves the Annual Statement of Accounts and Annual Governance Statement.
Scrutiny Committees	There are four overview and scrutiny committees which support the work of the Cabinet and the Council as a whole. These allow citizens to have a greater say in Council matters by holding inquiries into matters of local concern. They hold Cabinet and Officers to account and scrutinise performance.
Executive Management Team	Implements the policy and budgetary framework set by the Council and provides advice to Cabinet and Council on the development of future policy and budgetary issues. Oversees the implementation of Council Policy.
Chief Financial Officer (s151)	Accountability for developing and maintaining the Council's governance, risk and control framework. Contributes to the effective corporate management and Governance of the Council.
Monitoring Officer (Director of Law and Governance)	To report on contraventions or likely contraventions of any enactment of rule of law. To report on any maladministration or injustice where the Local Government Ombudsman has carried out an investigation. To establish and maintain registers of member interests and gifts and hospitality. To advise members on the interpretation of the Code of Conduct for Members and Co-opted Members. Overall responsibility for the maintenance and operation of the Confidential Reporting Procedure for employees (Whistleblowing) and, contributes to the effective corporate management and governance of the Council.

Internal Audit	Provides independent assurance and annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework. Delivers annual programme of risk-based audit activity, including counter fraud and investigation activity. Makes recommendations for improvements in the management of risk.
External Audit	Audit / review and report on the Council's financial statements (including the annual Governance Statement), providing an opinion on the accounts and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).
Managers	Responsible for developing, maintaining and implementing the Council's governance, risk and control framework. Contributes to the effective corporate management and governance of the Council.

Meetings are normally held, and decisions agreed in public, although, a small number of decisions are considered in private where commercially sensitive, confidential or otherwise exempt matters are being discussed. All reports considered and the minutes of decisions taken are, unless confidential, made available on the Council's website. Reports follow a standard template, ensuring corporate implications are considered and highlighted.

The Council's Forward Plan is published on the website and contains information about all matters likely to be the subject of a key decision taken by the Council during the forthcoming four-month period.

(viii) Pay Policy

The 2023/24 Pay policy was reviewed and agreed at a meeting of the county council on 22 March 2023 and subsequently published on the Council's website thereby meeting the requirements of the Localism Act 2011. The pay

policy articulates the Council's policies on a range of issues relating to the pay of its workforce.

(ix) Equality

We are an accessible and inclusive organisation and welcome and respect the diversity of all people visiting, living and working in the County. As part of our duty under the Equality Act 2010, the Council publishes equality objectives every four years. These set out our equality priorities regarding employment practices and the way we provide services.

Any new Council policy, proposal or service, or any change to these that affect people must be the subject of an Equality Impact Assessment to ensure that the equality issues have been properly considered throughout the decision-making processes.

(x) Financial Management, Procurement and Value for Money

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This ensures proper stewardship and governance, and the adequacy and effectiveness of these arrangements are reviewed regularly.

For the 2022-23 financial year, the Council set a balanced budget and after accounting for transfers to earmarked reserves and provisions has delivered an outturn underspend of £5.916m against the General Fund revenue budget (subject to external audit).

During 2022-23, the Council developed its 'BEST ways for working' which will further strengthen and refine the Councils' approach to Value for Money and continuous improvement.

(xi) Using Indicators of Financial Resilience and Stress

CIPFA's published Financial Resilience Index for all English local authorities measures performance across nine financial indicators. The Financial Resilience Index for the Council for the year 2021/22 shows the following levels of risk across the nine primary indicators set out below:

- Reserves Sustainability Measure (Medium risk)
- Level of Reserves (Lower risk)
- Change in Reserves (Higher risk)
- Interest Payable / Net Revenue Expenditure (Higher risk)
- Gross External Debt (Higher risk)
- Social Care ratio (Lower risk)
- Fees & Charges to Service Expenditure Ratio (Lower risk)
- Council Tax Requirement / Net Revenue Expenditure (Lower risk)
- Growth Above Baseline (Medium to Lower risk)

The Executive Director of Transformation and Resources & S151 Officer is responsible for the proper administration of the Council's financial affairs, as required by the Local Government Act 1972. Our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Finance and Contract Rules. These include established budget planning procedures, which are subject to risk

assessment, and budget monitoring reports to Cabinet. Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.

(xii) Managing Data & Information

Information is an asset at the heart of all Council decision-making processes, and it is therefore vital we manage it throughout its lifecycle. Information governance is the framework of law and best practice that regulates the way information and data is managed, obtained, handled, used and disclosed.

The Council is a registered Data Controller with the Information Commissioner's Office (ICO) and we have a robust Information Governance Framework. Our framework sets out the roles, responsibilities, policies and procedures, along with best practice and standards adopted to manage our information and data assets. It also describes the approach to assurance and risk management.

As a Council we recognise our responsibilities to ensure information is available to the right person, in the right format at the right time to achieve accurate, reliable decisions that inspire confidence and transparency in our decision-making processes.

The Council's website provides details on information governance including the council's policies covering data protection, freedom of information, environmental information regulations and records management. The Publication Scheme advises the public about how to get the information they seek from the Council and the transparency pages on the website meet the requirements of the Local Government Transparency Code 2015.

The Independent Review of Governance ('Caller Review') which reported to an extraordinary meeting of Full Council in June 2022, set out the following recommendation on how the Council should review and strengthen its processes for managing data and information as well as performance reporting:

"[rec 10.2.3] Use the data it holds, collects, or needs to collect to define priorities and monitor and improve performance in a systematic way and publish the outcomes."

In response, during 2022-23, Officers undertook the following:

- Completed a review of our approach to use of data and business intelligence, using external advisors. This included engagement with staff.
- Connected the Enhanced Corporate Performance Framework to Caller action work, and translated this into the Planning, Performance and Accountability Framework (PPAF) as part of the Best Value workstream.
- Connected PPAF with Corporate Plan, specifically new and existing indicators (KPIs).
- Identified key leaders group for Best Value which will include Corporate Performance Framework development (as part of the BEST Performance Accountability Framework workstream).
- Instigated connected activity that links to the Data and Business Intelligence Strategy; establishing the Data Leaders and Data Practice groups that will support activity.

(xiii) Audit and Audit Assurances

The Council's Internal Audit and Risk Management Service operates in accordance with the Accounts and Audit Regulations 2015, the Public Sector Internal Audit Standards (revised April 2017) and the related Local Government Application Note published jointly by the Chartered Institute of Public Finance and Accountancy and Institute of Internal Auditors (revised February 2019).

Following consultation with stakeholders and assessment of risk, a Strategic Audit Plan is presented annually to the Audit Committee to consider and review the planned work and coverage proposed by the Chief Internal Auditor, who is autonomous in determining how Internal Audit resources will be deployed and who is bound by legislation and professional standards in delivering an effective Internal Audit. There are reports to the Audit Committee on the key outcomes of Internal Audits completed on a bi-annual basis with a summary of audits undertaken, opinion levels, good practice identified, issues identified and actions taken since the audit was completed.

Internal Audit also provides assurance to Audit Committee that audit recommendations have been implemented. Internal Audit has responsibility for investigating possible irregularities. The aim is to give assurance to Officers and Members that key processes operate in an efficient and effective manner and ensure the integrity of transactions.

The Chief Internal Auditor's 2022/23 'Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control' contains the following statement (under conclusions):

Internal Audit's experience and work performed during 2022/23, and the concerns raised by the Independence

Governance Review and by, and following, the Section 151 Officer's s114 report, the Head of Internal Audit and Risk Management has concluded that whilst many internal control systems are operating effectively across the Council, the areas of weakness identified lead to an overall 'limited' level of assurance.

It is clear that following the concerns identified in early 2022/23, swift action has been taken by the Council to address the issues and improve the framework of governance, risk management and control. This has continued into 2023/24 with the agreement of a new Corporate Plan, Constitution and Finance and Contract Rules in May 2023. These matters will continue to be a focus of the Council's attention in improving governance, risk and control systems further during 2023/24.

Changes in the Council's framework of governance, risk management and control, will continue to be reflected in Internal Audit's coverage. Internal Audit's plan of work for 2023/24 includes a number of assignments aimed at providing assurance over the implementation and embeddedness of improvements and actions taken to address governance and control issues.

Audit Committee is a key component of the Council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the Audit Committee is to provide independent assurance to those charged with governance on the adequacy of the risk management framework and the internal control environment.

It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees Internal Audit and External Audit, helping to ensure efficient and effective assurance arrangements are in place. An independent Chair of Audit Committee was appointed in July 2021. This followed the new Administration's proposal that there should be an independent Chair, rather than an Elected Member, which had previously been the case.

The Audit Committee's responsibilities with regards to Governance, Risk and Control are:

- To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.

- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the Committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- To monitor the counter-fraud strategy, actions and resources.

(xiv) Conduct

Our Codes of Conduct for Members and Employees set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated and Members and Officers are regularly reminded of the requirements.

The Monitoring Officer has maintained the Councillors' register of interests, as required under the Localism Act 2011. This is available online for public inspection. The register includes the declaration of gifts and hospitality received by Members in connection with their official duties.

Advice has been given throughout the year to Members on the need to make appropriate declarations of interests under both the 2011 Act and the Local Members' Code of Conduct. For the period 1st April 2022 to 31st March 2023 the Council received 36 complaints (County Council 12, Parish Councils 24) under the member's code of conduct.

The Independent Review of Governance ('Caller Review'), contained the following recommendation in relation to Code of Conduct issues:

"[Rec10.2.5] Review and redraft the codes of conduct which regulate Member and officer behaviours and working relationships with each other, to make it clear what the expectations of each party should be and how robust challenge can be handled, to ensure proper accountability can be achieved. This needs to recognise the legitimate rights of Councillors for information to enable them to do their role and for Councillors to recognise that policy is the preserve of the Council unless delegated and saying no is a legitimate outcome."

In response the Officers and Members have undertaken the following during 2022-23:

- Refreshed the Council's Code of Conduct;
- Revised the Declaration of Interests (DoI) form and modernised processes to enable online changes to take immediate effect;
- Provided guidance for Members completing 'DoI' forms;
- Communicated clear messages that the MO's office is supportive and will work collaboratively with Members to uphold ethical framework and promote good governance;
- Developed new approaches to working with Members to ensure the Code of Conduct is used appropriately;
- Local Government Association Social Media protocol shared with Members and adopted;
- Code of Conduct training took place in January 2023, including further guidance on DoI's and Third Party

(related) transactions. The session was recorded and added to Learning Portal for Members (over 90% attendance / completion);

- Reconvened Member Services Working Group (MSWG) to give guidance on Member training and take ownership on behalf of members. On 22nd March 2023, the group agreed to appoint lead Members for training.
- Delivered a well-received Member induction morning in November 2022 to address the requests of Members for an induction day. This event will be re-run every year.
- MSWG agreed Member Learning and Development Strategy and annual training programme in November 2022.
- Increased engagement with training programme. Increase of average attendance to 40%+ over six training events. The Code of Conduct training was delivered to 90%+ of members;
- Refreshed and rolled out of Member Personal Development Plans. These were created in consultation with MSWG and Group Leaders. PDPs agreed by Group Leaders in March 2023 and shared with all Members;
- Increased awareness of the E-learning system;
- Continued the increase in engagement by using the PDPs to help develop the annual learning plan that reflects the needs of Members. The PDPs will be further refreshed in line with the approved values and behaviours.

(xv) Whistleblowing

People who work for, or with the Council are often the first to realise that there may be something wrong within the

organisation. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation.

The Council operates a whistleblowing policy, and has a robust complaints process, designed to ensure that all issues are properly investigated.

The Council also provides an independent, confidential 'Safecall' service where employees can report any concerns. The hotline does not replace internal reporting procedures but is used to provide an alternative for employees who may not wish to use the internal options.

Work has been ongoing to review and update the Council's whistleblowing policy. A new policy entitled 'Raising Concerns at Work Policy' was completed and agreed by JCC in April 2022.

(xvi) Counter Fraud

We recognise that as well as causing financial loss, fraud and corruption can also adversely impact service provision and morale, undermining confidence in the Council.

We're committed to a zero-tolerance approach on all aspects of fraud. We have a dedicated Corporate Fraud Team, who investigate fraud and irregularity allegations. A dedicated resource is available within the Corporate Fraud Team to lead investigations into breaches of policy and suspected irregularities, including pro-active work, and developing an anti-fraud culture. The Audit Committee receives regular updates on all fraud investigations.

Our website informs people how they can report suspected fraud against the Council.

Our plans for improving governance

The process of preparing this Annual Governance Statement helps the organisation to focus on continuous improvement of our governance arrangements. The progress made during 2022-23 on the improvement areas identified in our 2021-22 Annual Governance statement is summarised in the table below.

1	<p>Independent Review of Governance ('Caller')</p> <p>To consider the recommendations of the Report of the Independent Review of Governance and develop and deliver an improvement plan based on these.</p>	<p>Partially Complete. The past year has seen an intensive period of improvement activity. This activity, and resultant progress is reflected in all three of the Challenge Board's reports to Full Council. In their final report to Full Council, the Challenge Board were also clear that the actions delivered will take time and ongoing focus to be embedded in the organisation and to make long-term, positive change in culture and ways of working. This would be the case in any local authority undergoing such change. This AGS sets out how these ongoing actions will be governed through the seven workstreams within BEST as well as other committees and forums.</p>
2	<p>Development of "place" function within the ICS</p> <p>Work with Northumberland CCG and the emerging regional Integrated Care System leadership to ensure that the benefits of current formal and informal partnerships between the Council and the CCG are carried forward into new "place" arrangements for the planning and commissioning of health and social care services in Northumberland.</p>	<p>Partially Complete. Relationships between the Council and the "Place" team in the ICB have continued the close joint working arrangements that were established with the former CCG. Decision-making arrangements within the ICB, (which covers a much wider geographical area than CCGs), requiring it to work with 14 upper-tier local authorities, are continuing to develop, and it is not yet fully clear what the balance will be between Place-level and ICB-level decisions.</p>
3	<p>External Audit Internal Control recommendations from 2020-21 audit of accounts.</p>	<p>Not complete. This action is pending the final audit of the 20-21 accounts.</p>

	Implement recommendations once the External Audit has been completed and reported.	
4	<p>Cyber threat</p> <p>Review of the critical systems in finance to clarify: what back up provisions we have in place; what is the process to recover; how long would recovery take; and, what contingency processes are needed to develop Business Continuity Plan?</p>	<p>Partially complete. Finance senior managers attended a workshop facilitated by IT and an external cyber security agency. The workshop helped inform an action plan for finance to make procedural adjustments to provide greater resilience. This included moving files into 'cloud-based' storage. The workshop also helped verify to IT, which systems required robust backup plans.</p>
5	<p>Deliver service improvements as outlined in the Fire & Rescue Service Continuous Improvement Plan (CIP)</p> <p>The service has a comprehensive Continuous Improvement Plan (CIP) detailing a suite of actions against HMICFRS Areas for Improvement, CRMP priorities, and Priority programmes and projects. The Strategic Performance Board will monitor progress as part of the Service's Performance and Assurance Framework.</p>	<p>Partially Complete. Northumberland Fire and Rescue Service Continuous Improvement Plan actions continue to be a priority as set out in the Community Risk Management Plan 2022-26. Progress is monitored as a Performance and Assurance Framework (PAF) core measure, with performance for the year 2022-23 sitting at 88.89 percent against a target of 90 percent. The Strategic Performance Board continues to monitor progress, with additional scrutiny provided quarterly by an Assurance and Challenge Panel. Membership of the panel includes the Fire Authority Chair, Deputy Chair, Shadow Chair and Chief Executive of the Council.</p>
6	Reporting progress on Capital Schemes	<p>Complete. Cabinet receive monthly update reports from the Officer Capital Strategy Group. These reports outline proposed project allocations and amendments to the approved Capital programme 2023-24.</p>

	Improve systems for reporting progress and updating Members on Local Transport Plan and Members Local Improvement Scheme capital projects.	
7	<p>Review and update Finance and Contract Procedure Rules to ensure these are up-to-date and fit-for-purpose.</p> <p>Engage with Finance Directorate and Monitoring Officer so that proposed revisions are aligned with planned review of Scheme of Delegation.</p>	<p>Not complete. The review was paused, pending changes to the Council's Constitution. This will now be taken forward in 2023-4 following agreement of the Council's redrafted Constitution in May 2023.</p>
8	<p>Update Pay Policy Statement</p> <p>Review the Council's pay policy statement to ensure that it is up to date and complies with the requirements of s38 of the Localism Act 2011 and report any required changes to the County Council.</p>	<p>Complete. The 2023/24 Pay policy was reviewed and agreed at a meeting of the county council in March 2023 and subsequently published on the Council's website thereby meeting the requirements of the Localism Act 2011. The pay policy articulates the Council's policies on a range of issues relating to the pay of its workforce.</p>

The table below summarises key, strategic areas of improvement identified during the 2022-23 annual governance review and outlines the planned actions to be completed to enhance the Council's Governance arrangements

1	BEST (previously known as the Strategic Change Programme)	Embed and progress each of the seven BEST Workstreams across the organisation.
2	Independent Review of Governance ('Caller Review')	Continue to deliver, review and refine the improvement actions from the Independent Review of Governance. Most of these actions will be embedded within the seven BEST Workstreams, with other actions being governed through other forums and committees (e.g. Constitution Working Group).
3	External Communications (Corporate Performance)	Enhance the resident facing reporting elements of Corporate Performance (both publishing reports on the Council website, and strengthening the Corporate Performance system) to improve usability, accessibility, and alignment to enhanced content i.e. operational, finance, workforce, and the Council's Corporate Plan KPIs that link to our three strategic priorities, and BEST programme outcomes.
4	Disaster Recovery/Business Continuity/ Cyber Resilience testing.	Following several cyber-attacks on local authorities and Northumbria Healthcare Trust, Information Services will run simulation exercises to test the resilience, continuity plans as well as Disaster Recovery arrangements.
5	Governance (Advance Northumberland)	Embed the new Shareholder Committee for Advance.
6	Review of Scrutiny	Develop and deliver with Members, the outcomes of the review of the Council's Scrutiny arrangements.
7	Peer Review	Undertake a focused peer review during the Municipal Year.

These areas of improvement will be monitored during 2023-24 and reported to the Audit Committee as part of the Council's Governance review arrangements.

Post 2022/23 events

Post 2023/24 Events

Since the end of the 2022/23 year covered by the AGS, the Council has continued to monitor and manage risk in accordance with the agreed risk hierarchy.

Conclusion of the Challenge Board's work

At its meeting in June 2023, Full Council received a third and final update report from the Challenge Board and a report from the Leader of Council outlining progress against the Council's improvement actions. At that meeting, Full Council agreed the following:

- Note and receive the Challenge Board report as attached at Appendix 1.
- Receive and note the Challenge Board Recommendations.
- Approve the Council's responses to each of the Recommendations as set out in paragraph 5.10 of this report.
- Agree the work of the Challenge Board is now complete and that their work with the Council will conclude.
- Thank the Chair and all Challenge Board members for their support, advice and guidance during the past year.

Together with Members, the Chief Executive and Executive Team are now taking forward the Council's 'BEST ways of working' which will refine and strengthen the actions already undertaken to respond to the 'Caller Recommendations'. The Challenge Board's report made eight recommendations, which are largely about embedding, reviewing and developing

actions further. These are listed below with the Council's proposed responses to these:

Challenge Board Recommendation:

- 1. Develop a clearly articulated transformation/improvement plan to drive and support the council's improvement journey. This should have clear accountabilities and receive both cross-party and independent oversight.**

Proposed Response:

- This will be taken forward through our BEST way of working which was formally launched in April this year and will include, amongst other initiatives, a Best Value baseline assessment for the Council. Economic Growth and Corporate Services Overview and Scrutiny Committee will provide cross-party oversight of improvement actions and Audit Committee of governance matters as part of their review and approval of the Annual Governance Statement (AGS). The AGS will also be subject to independent review as part of the external audit process.

Challenge Board Recommendation:

- 2. Ensure that all Corporate Plan actions have clear success measures/targets to enable accountability to be monitored [and] that the Corporate Plan drives the Council and develops into a linked plan for the whole county.**

Proposed Response:

- This work is planned for Summer 2023 and will build on the engagement in the Corporate Plan by Members and Officers.

Challenge Board Recommendation:

- 3. Keep the post of interim MO under regular review with the aim of a permanent appointment at the earliest opportunity.**

Proposed Response:

- We will, of course, do this as a matter of good practice and sensible succession planning.

Challenge Board Recommendation:

- 4. Develop a leadership development programme for the senior team to enable the team to be fit for purpose to meet the challenges ahead, including the need to speak truth to power and to support the whole Council with good member and officer engagement.**

Proposed Response:

- Development and coaching activity started in May 2023 and will continue to develop in the coming months.

Challenge Board Recommendation:

- 5. Ensure that the whole Council are supported to be a part of the improvement journey.**

Proposed Response:

- This is happening already and will continue. All Groups have access to the Chief Executive and Senior Team. Members have also embraced the new 'Policy Conferences' which have been established as a further

way for all Members to put their ideas into policy development through open, informal and cross-party discussion.

Challenge Board Recommendation:

- 6. Maintain focus on a clearly articulated member development programme to address the required improvements in member behaviour, as well as enabling members to be more effective in their roles, including through stronger and influential scrutiny.**

Proposed Response:

- This work has been underway since March. Prior to that, Member development took place through extensive engagement in the Council's improvement actions (Corporate Plan, Constitution, Code of Conduct). The whole organisation, including Members and Officers, will continue to build on and strengthen our approaches to Member development. Of course, we recognise this will take time to embed, though there is demonstrable evidence that the building blocks are now in place for us to do that.

Challenge Board Recommendation:

- 7. Ask Local Partnerships to continue to provide you with advice on the robustness of the governance changes around Advance and to undertake a regular review to protect the council's interests.**

Proposed Response:

- We have taken advice from Local Partnerships and, in future, will continue to seek expertise from a range of advisors as appropriate. We will consider inviting Local

Partnerships (or another provider) to review of how the new company governance arrangements are working in a year's time.

Challenge Board Recommendation:

8. Receive an LGA-managed, focused, Corporate Peer Challenge before the end of the municipal year and ensure that the recommendations of this report are considered as part of that.

Proposed Response:

- We are committed to this and will start to plan for this in the coming months.

Review of Local Area Councils

The Council has five Local Area Councils (LACs **renamed as Local Area Committees**) which cover: North Northumberland; Tynedale; Castle Morpeth; Cramlington, Bedlington and Seaton Valley; and Ashington and Blyth. Their overall aim is to empower residents, strengthen communities and improve services. During 2022-23 a review of LAC working was undertaken and reported to Council in May 2023. The report contained a wide range of recommendations designed to strengthen local engagement and decision-making and these will be taken forward during 2023-24.

New Council Constitution

Following the recommendation of the Independent Review of Governance (Caller), the Council reviewed and redrafted the Council's Constitution. Throughout the review, Officers and

Members took advice from external advisors to ensure the redrafted Constitution represented best practice. The new Constitution document was agreed by Full Council at its Annual General Meeting in May 2023.

New Corporate Plan

Following the Independent Review of Governance, The Council's Corporate Plan was redrafted during 2022-23 and adopted by Full Council in May 2023.

Reports to Audit Committee on: International activity (lessons learned) and, Exit Payments.

In July 2023, the Executive Director of Transformation and Resources & S151 Officer brought the following reports to meeting of Audit Committee (26th July):

- An independent report setting out lessons learned from previous International Team's trading activity; and,
- A report setting out findings from an investigation to establish whether unlawful payments had been made to any officers or former officers, including severance payments.

Both reports follow the issuance of S114 Notice by the S151 Officer in May 2022. It is the opinion of the S151 Officer that, whilst exit payments were unlawful, a further S114 notice will not be issued.

Assurance

Assurance

Any system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, and, that significant risks impacting on the achievement of the Council's objectives have been mitigated.

Progress had been made against the governance improvement plan identified during the 2021/22 governance review, and where actions have not yet been fully completed, they will continue to be progressed. In addition, a number of opportunities to further strengthen the Council's governance arrangements were identified during the 2022/23 governance review process.

However, as highlighted in this document, two significant events confirmed weaknesses in the Council's governance arrangements. Specifically, these events were: the S114 Notice issued by the Interim Director of Finance and S151 Officer in May 2022; and the findings of the Independent Review of Governance ('Caller Review') which was undertaken in early 2022 and reported to Full Council in June 2022.

The Council has taken swift actions (set out in this document) to address these weaknesses and to ensure adequate governance arrangements moving forward. The Council has delivered the actions identified in the recommendations of both the S114 Notice and Caller Report and will continue to take these forward, refining, monitoring outcomes and further developing these where appropriate.

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Signed
Leader of Council

Dated:

Signed
Chief Executive Officer

Dated:

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Northumberland County Council

AUDIT COMMITTEE

26 July 2023

The Statement of Accounts for the year ended 31 March 2023

Report of Councillor Richard Wearmouth, Deputy Leader and Portfolio Holder for Corporate Services

Executive Director: Jan Willis, Executive Director of Transformation and Resources

1. Purpose of the Report

- 1.1. To present the draft (unaudited) Statement of Accounts for the year ended 31 March 2023 and raise any significant issues arising from the accounts.

2. Recommendations

- 2.1. It is recommended that Audit Committee consider the Statement of Accounts for the Council for the financial year ended 31 March 2023.

3. Key Issues

- 3.1. The unaudited Statement of Accounts for Northumberland County Council for the financial year ended 31 March 2023 was authorised by the responsible financial officer (Executive Director of Transformation and Resources & Section 151 Officer) and published on the Council's website on 31 May 2023.
- 3.2. The Statement of Accounts was made available for public inspection for the period covering 1 June 2023 to 12 July 2023.
- 3.3. The Statement of Accounts will now be reviewed by the External Auditor (Mazars LLP). Following this review, the final (audited) Statement of Accounts will be presented to Members of the Audit Committee for approval.

4. Background

- 4.1. The Accounts and Audit (Amendment) Regulations 2022 stipulate a two-stage approval process for the Statement of Accounts.
- 4.2. The first statutory deadline requires that the responsible financial officer, by no later than 31 May should sign and certify that the Statement of Accounts presents a true and fair view of:
 - (a) the financial position of the Council for the year to 31 March previous, and
 - (b) its expenditure and income for the year to 31 March previous,

subject to the views of the External Auditor.

- 4.3. The second stage requires that on or before 30 September approval needs to be given to the Statement of Accounts by resolution of a Committee, which for Northumberland County Council is the Audit Committee. This approval will take account of the views of the External Auditor. Once approved, the Statement of Accounts must be formally published on the Council's website.
- 4.4. The draft (unaudited) Statement of Accounts for the Council for the financial year ended 31 March 2023 was authorised by the responsible financial officer (the Executive Director of Transformation and Resources & Section 151 Officer) and published on the Council's website on 31 May 2023.
- 4.5. The Statement of Accounts was made available for inspection by the public from 1 June 2023 to 12 July 2023.
- 4.6. The Statement of Accounts is now subject to audit by Mazars LLP. The timetable for the audit of the Statement of Accounts will be confirmed in the Audit Strategy Memorandum 2022-23 and upon completion the Auditors report will be incorporated into the published version of the document.
- 4.7. Following the completion of the external audit, the final Statement of Accounts for 2022-23 will be presented for approval to the Audit Committee.

5. Statement of Accounts

- 5.1. The Statement of Accounts for the financial year 2022-23 has been prepared in accordance with the Accounts and Audit (England) Regulations 2015 and the Code of Practice on Local Authority Accounting 2022-23 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 5.2. The Code is based on approved accounting standards in England and Wales and constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this code of practice. Explanatory notes are included in the document to assist in the interpretation of the accounts which are unavoidably technical and complex.
- 5.3. To help Members in reading and interpreting the contents, Appendix 1 to this report briefly explains the purpose of each section of the statement.

6. Key Information from the Statement of Accounts

- 6.1. There are four core statements to provide fundamental information on the financial activities of the Council:
 - (a) Comprehensive Income and Expenditure Statement (page 29)
 - (b) Movement in Reserves Statement (page 30)
 - (c) Balance Sheet (page 31) and
 - (d) Cash Flow Statement (page 32).

- 6.2. The Statement of Accounts also includes the accounts of the Housing Revenue Account (commencing on page 147), The Collection Fund Account (commencing on page 155), the Group Accounts (commencing on page 159) and the Firefighters' Pension Fund (commencing on page 173).
- 6.3. The financial position of the Council remains healthy. The published draft Statement of Accounts shows that the Council's net worth was £921.455 million at 31 March 2023. This represents an increase of £543.259 million during 2022-23, mainly due to a decrease in the estimated pension liability for employees of £509.358 million. This is calculated by the Pension Fund Actuary and relates largely to actuarial gains due to changes in financial assumptions. It should be noted that the 2021-22 pension liability figure shown in the published draft accounts will need to be updated to reflect the revised IAS 19 report, taking account of the triennial valuation information as at 31 March 2022, received from the Actuary following the publication of the draft accounts. This adjustment will reduce the 2021-22 pension liability by £15.010 million meaning that the overall net worth increase will be £528.249 million with £494.348 million relating to changes to the pension liability. The adjustments required as a result of the revised IAS 19 report, along with any changes identified during the audit, will be made before the final Statement of Accounts is presented for approval.
- 6.4. The Council's usable reserves have decreased during 2022-23. The general fund reserve has decreased by £19.124 million. This includes the planned use of £25.000 million from this reserve identified in the Medium-Term Financial Plan and the net revenue underspend, after accounting for transfers to earmarked reserves and provisions, of £5.916 million. The general fund reserve at 31 March 2023 is £50.955 million. Earmarked reserves, including those held for schools have decreased by £5.410 million to £179.915 million.

7. Audit of Accounts

- 7.1. The final audit of the Statement of Accounts will shortly commence. The timetable for the audit of the Statement of Accounts will be confirmed in the Audit Strategy Memorandum 2022-23. At the end of the process the external auditor will provide a completion report. This report will detail their comments and any recommendations for improvement, based on the position as at 31 March 2023.

8. Member Training

- 8.1. A training session has been organised for members of the Audit Committee to take place 19 July 2023. CIPFA will deliver a 'Guide to Understanding your Council's Financial Reporting Requirements' workshop which aims to provide members of the Committee with greater insight into the Council's financial reporting requirements and the knowledge and confidence to deliver effective engagement, scrutiny and challenge of the Statement of Accounts as part of their overall governance role. The workshop will also consider the latest developments in local authority accounting and how that might impact on the financial statements that members are required to approve.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy	None.
Finance and value for money	The Statement of Accounts summarises the financial performance of the Council for the 2022-23 financial year and shows its net worth as at 31 March 2023.
Legal	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement	None.
Human Resources	None.
Property	None.
Equalities	None.
Risk Assessment	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder	None.
Customer Considerations	None.
Carbon Reduction	None.
Health & Wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	All.

Background Papers:

Northumberland County Council Statement of Accounts 2022-23

Audit Committee 25 January 2023: Northumberland County Council Statement of Accounts 2022-23

Audit Committee 25 January 2023: Changes to the Code of Practice for Local Authority Accounting in the UK for 2022-23

Audit Committee 29 March 2023: Statement of Accounts – Group Boundary Review

Audit Committee 26 July 2023: Northumberland County Council – Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023

Report sign off:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation and Resources & S151 Officer	Jan Willis
Chief Executive	Helen Paterson

Portfolio Holder(s)	Richard Wearmouth
---------------------	-------------------

Report Author:

Kris Harvey

Finance Manager

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Item	Page	Explanation of Purpose and Content
Narrative Report	5	To offer interested parties an easily understandable effective guide to the most significant matters reported in the accounts.
Independent Auditor's Report to Northumberland County Council	24	Once the audit is complete the Auditor's report will be inserted and signed.
Statement of Responsibilities	27	Sets out the responsibilities of the Council and of the Section 151 Officer for the statement of accounts.
Core Financial Statements		
Comprehensive Income and Expenditure Account (CIES)	29	This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.
Movement in Reserves Statement	30	This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable' reserves and other reserves.
Balance Sheet	31	The balance sheet shows the value of the assets and liabilities recognised by the Council as at 31 March. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.
Cash Flow Statement	32	The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
Notes to the Accounts	35	The notes are important in the presentation of a true and fair view. They aim to assist understanding by presenting information about the basis of preparation of the core financial statements, by disclosing information required by the Code that is not presented elsewhere and by providing

Item	Page	Explanation of Purpose and Content
		information that is not provided elsewhere but is relevant to the understanding of the accounts. They also include the policies and procedures adopted in compiling the accounts.
Housing Revenue Account	147	The Housing Revenue Account (HRA) is a ring-fenced account and records expenditure and income relating to the running of the Council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants.
Collection Fund Account	155	The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the council, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.
Group Accounts	159	The Group accounts consolidate the results and balances of the Council with those organisations considered to be part of the Group.
Firefighters Pension Fund	173	The Firefighters' Pension Fund shows Employee and Employer contributions being paid into the fund, offset by Pension payments being paid out of the fund. The shortfall is met by central government grant from the Home Office.
Glossary of Terms used in the Accounts	177	To assist readers in understanding terminology used in the statement of accounts.

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Statement of Accounts

2022-23

Draft - Subject to Audit



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Leader's Introduction

Leader's Introduction



Introduction to the Statement of Accounts by the Leader of Northumberland County Council, Councillor Glen Sanderson

I am delighted to have overseen another year of progress across the county.

We have seen many positive developments in Northumberland, from new schools and leisure centres to major investment in jobs and industry.

And while cost of living rises affect all of us, protecting frontline services and looking after the most vulnerable remains an absolute priority as we go forward.

Due to prudent housekeeping and careful and considered management we remain in a strong financial position.

This means that earlier this year we were able to agree an ambitious £222.949 million capital programme for 2023-24 to improve and regenerate towns and communities across the county, create new housing and schools, carry out road and path repairs and install flood prevention schemes.

Summer 2023 will also see main construction work get underway on the reopening of the Northumberland Line, running regular passenger rail services from the south east of the county to Newcastle for the first time since the 1960's.

This transformational scheme will have a huge positive impact on the lives of everyone living in or travelling to this part of Northumberland – from jobs and education to housing and tourism.

Our climate change commitments are a main driver behind all of our plans, with millions set aside for climate change improvements, from investing in a more environmentally friendly fleet of vehicles to installation of solar panels on buildings.

Of course, this would not be possible without the professionalism and commitment of everyone who works for the Council. Our staff are our strength, and I am deeply grateful to them and everything they do.

I hope you find this year's Statement of Accounts useful and informative.

Councillor Glen Sanderson
Leader of Northumberland County Council

Written Statements and Narrative Report

About the County of Northumberland

Northumberland is the northern most county in England, bordering Cumbria to the west, County Durham and Tyne and Wear to the south and Scotland to the north.

The county was once known as "The Kingdom of Northumbria" and was the largest kingdom in Britain. It stretched from the Firth of Forth in Scotland to the River Humber (hence 'north-Humber-land').

Northumberland officially has the largest protected area of night skies in Europe, with the sky above Northumberland National Park and Kielder Water & Forest Park being awarded the Gold-tier International dark Sky status.



About the Council



9,104 staff employed by the Council (including schools).



We have **30 libraries** with 64,496 members with 459,645 physical issues and 276,062 digital issues.



There were **644,965 swims** in **9 pools**.



8.8 million residential bins were emptied.



We have **46,959 streetlights**.



We maintain **5,186 km of roads** and 2,450 km of footways together with **4,100 structures** including 1,250 bridges, over 1,350 culverts and 1,500 retaining walls.



Our adult social care services helped more than 20,000 people in Northumberland.

Over 20,000 people received information, advice, support and services on adult social care.



2,300 adults were supported in care homes and 5,600 people received care in their own homes.



92% of older people were still living independently three months after being discharged from hospital.

96% of the Council's Short Term Support Service (STSS) referrals **did not go on to long-term services**.



24% of under 2's in the 30% most deprived areas regularly access our children's centres.

91% of all eligible 2 year-olds took up their statutory entitlement to early education.







97% of parents got their first choice of primary school.



77.7% of 20-24 year olds were employed in 2022, the highest in the North of Tyne area and the highest since the series began in 2004.

Political Structure

Northumberland County Council is made up of 67 elected members, each representing constituents within an area of Northumberland. The political structure of the Council at 31 March 2023 is shown below:

Party	Seats
 Conservative	33
 Labour	20
Independent Group	7
 Liberal Democrat	4
 Green Party	2
Non-aligned	1

Financial Picture

In common with the rest of Local Government, the Council has faced significant cuts in funding in recent years, resulting in revenue budget reductions as below:



Management Structure

The Executive management structure of the Council at 31 March 2023 is shown below. The full structure can be viewed on Northumberland County Council's website.



Written Statements and Narrative Report

Narrative Report

1. Corporate Plan 2023-26

The Council's Corporate Plan was updated in May 2023 and is the Council's main strategic planning document, providing a framework for the delivery of all services. It is a clear statement of the Council's vision, strategic aims and policy priorities for the period 2023-26. It informs both the Medium Term Financial Plan and the Service Statements against which the Council's performance is measured.

The following brief excerpt from the Corporate Plan summarises the Council's vision and priorities: *"We are the largest and least densely populated local authority area in England. That makes for lots of communities with distinctive characteristics, heritage, functions, and needs. We aim to build on all these strengths to ensure the county continues to be a land of great opportunities for current and future generations. To achieve this, Members and Council staff are focused on working together to deliver our three Corporate Priorities:"*

Page 183
20 Achieving Value for Money

21 Tackling Inequalities

22 Driving Economic Growth

The Council's Corporate Plan can be accessed in full at: [Corporate Plan 2023-26](#)

2. Medium Term Financial Plan and Future Financial Prospects

The Council approved the Medium Term Financial Plan for 2023-24 to 2026-27 in February 2023 to support the objectives contained within the Corporate Plan whilst implementing budget reduction measures of £54.071 million over the same period. The first year of the plan is based on a one year settlement with central government, meaning that, in theory, the level of government funding is fixed up until this date.

The funding landscape after this point is more unclear with a fundamental change to the way in which local government is financed on the horizon. This includes a revised relative needs formula and more emphasis on locally raised revenue in place of government grants.

Due to this uncertainty, there is a risk that the level of income in the Medium Term Financial Plan is overestimated or the level of expenditure required to fund service provision is underestimated; both of which would have an impact on the level of savings required to balance the budget.

The Council's Medium Term Financial Plan can be accessed in full at:

[Northumberland County Council Medium Term Financial Plan](#)

Written Statements and Narrative Report

Narrative Report

3. Revenue Budget and Outturn

The Council approved a net revenue budget of £383.061 million for 2022-23. Budget reduction measures and other savings totalling £9.704 million were needed in order to arrive at a balanced position. Revenue budget monitoring is reported to Cabinet and is regularly reviewed by the Executive Team. The final outturn, after accounting for transfers to earmarked reserves and provisions of £11.470 million as agreed by Cabinet on 9 May 2023, was an underspend of £5.916 million which was transferred to the Council's General Fund Reserve as shown in the table below:

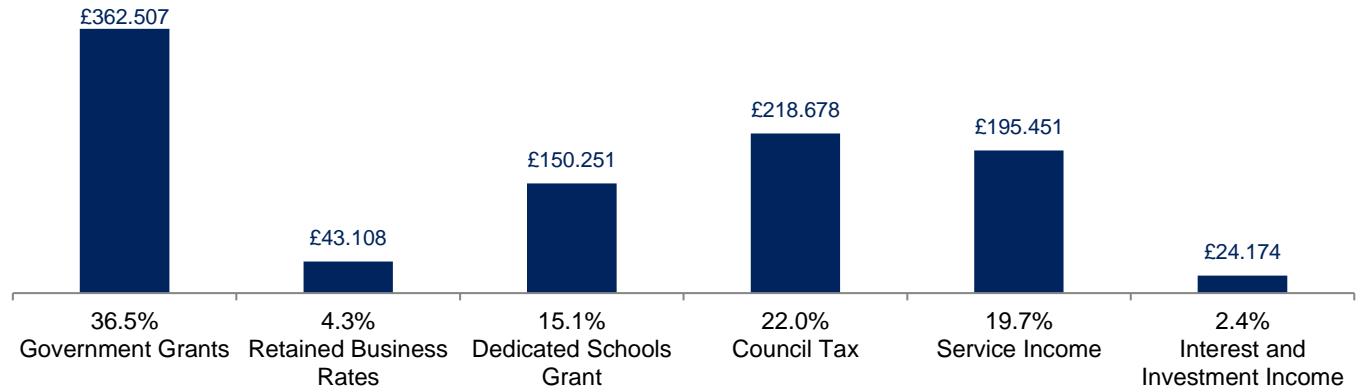
Service	Original Budget £m	Final Budget £m	Outturn £m	Variance £m
Adult Social Care & Commissioning	111.404	117.302	116.678	(0.624)
Chief Executive	29.411	30.503	30.400	(0.103)
Children's Services	67.316	72.753	74.042	1.289
Communities & Business Development	14.134	26.644	26.044	(0.600)
Finance	25.392	68.742	66.926	(1.816)
Planning & Local Services	78.843	88.224	87.433	(0.791)
Public Health & Community Services	4.270	4.932	4.849	(0.083)
Regeneration	4.421	5.136	5.015	(0.121)
Total Services	335.191	414.236	411.387	(2.849)
Corporate Items	33.698	(17.464)	(18.064)	(0.600)
Treasury Management	(23.174)	(24.601)	(26.442)	(1.841)
Capital Financing	37.346	93.589	93.046	(0.543)
Total Net Expenditure	383.061	465.760	459.927	(5.833)
Funded by:				
Council Tax	(220.154)	(220.154)	(220.154)	-
Retained Business Rates (including S31 Grants)	(46.719)	(46.719)	(50.799)	(4.080)
Revenue Support Grant	(10.837)	(10.837)	(10.837)	-
Top Up Grant	(27.535)	(27.535)	(27.535)	-
Other Corporate Grants	(38.459)	(38.459)	(38.519)	(0.060)
Other Income	-	-	-	-
Earmarked Reserves	(14.357)	(16.665)	(12.608)	4.057
Amortisation of Government Grants	-	(80.350)	(80.350)	-
Planned contribution to General Fund	(25.000)	(25.041)	(25.041)	-
Total Funding	(383.061)	(465.760)	(465.843)	(0.083)
Net Total	-	-	(5.916)	(5.916)

- The Council faced significant cost pressures in relation to inflation. £5.208 million was set aside in an earmarked reserve during the preparation of the 2022-23 budget and this funding was utilised during the year to offset the cost of exceptional inflation across a number of services;
- Transport budgets faced significant inflationary pressures, with home to school transport overspending by £4.335 million overall between Children's Services and Planning & Local Services;
- The waste PFI contract underspent by £1.993 million due to a combination of lower waste volumes and higher commodity prices in relation to the sale of recyclable materials;
- A significant increase in interest rates and higher than expected balances meant that interest receivable from core treasury activities overachieved the budgeted level by £2.543 million;
- Additional Section 31 Grants in relation to Business Rates reliefs were received. These were set aside in an earmarked reserve to offset the business rates deficit which is to be recognised in the next financial year; and,
- Funding was set aside for Homes for Ukraine, replacement of defective street lanterns, parks and green spaces, highways maintenance, regeneration and other projects and exceptional inflationary pressures as agreed by Cabinet at the 9 May meeting.

Written Statements and Narrative Report

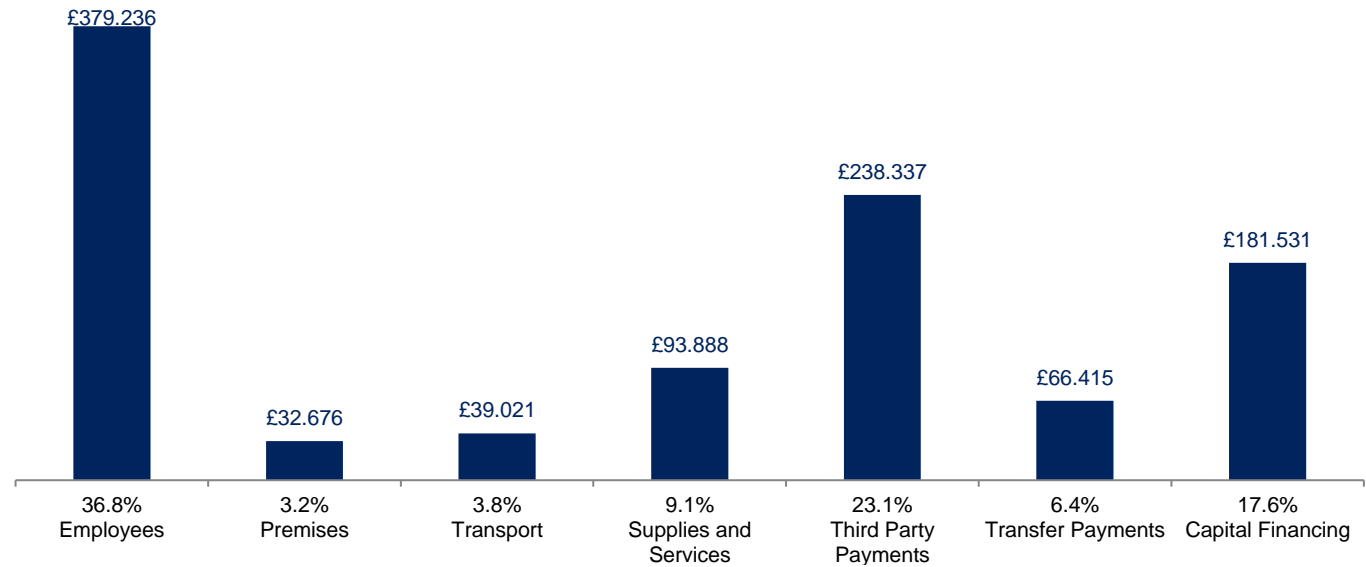
Narrative Report

Where the money comes from*



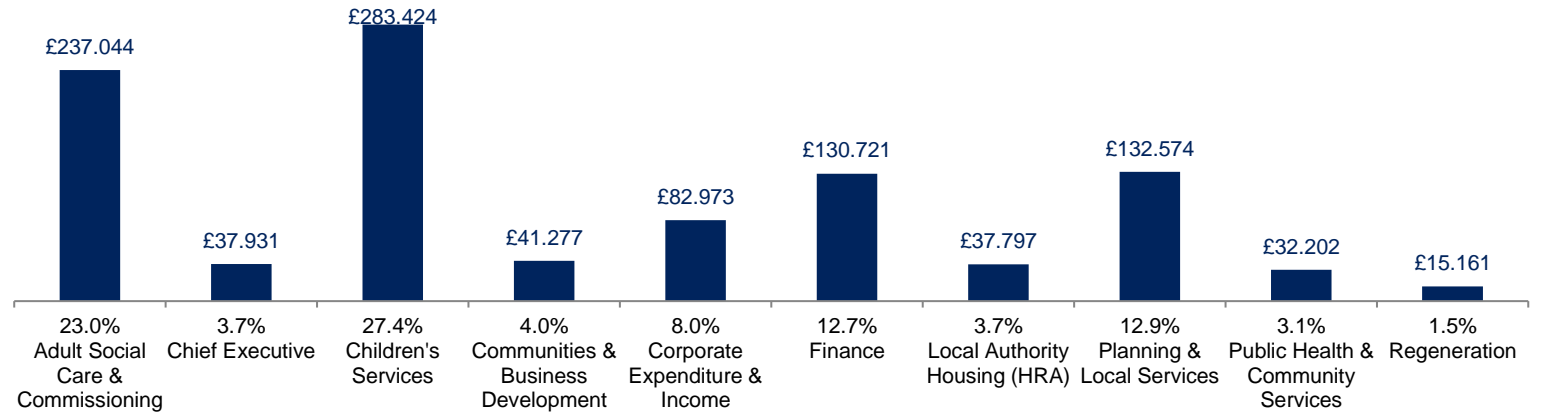
What the money was spent on*

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What services were provided?*

*All values are shown in millions



Written Statements and Narrative Report

Narrative Report

4. Capital

Capital Outturn and Three Year Budget Plan

The following table shows capital expenditure by service area for 2022-23 and the Council's four year plan as approved by the current Administration from 2023-24 to 2026-27:

	Original Budget 2022-23 £m	Outturn Budget 2022-23 £m	Outturn 2022-23 £m	Budget 2023-24 £m	Budget 2024-25 £m	Budget 2025-26 £m	Budget 2026-27 £m	Total Budget £m
Expenditure								
Adult Social Care & Commissioning	8.191	4.108	2.209	4.427	2.000	2.000	2.000	10.427
Chief Executive	1.999	1.537	1.100	2.016	1.172	1.128	1.330	5.646
Children's Services	24.540	21.050	15.922	32.622	59.963	49.087	8.488	150.160
Communities and Business Development	15.579	12.709	11.871	0.800	-	-	-	0.800
Corporate Expenditure & Income	35.453	18.824	11.045	34.317	15.783	16.306	0.552	66.958
Planning & Local Services	47.955	49.100	43.827	41.292	42.342	31.308	31.419	146.361
Public Health & Community Services	28.441	13.218	11.736	20.281	24.253	20.863	20.949	86.346
Regeneration	145.198	68.294	53.840	87.194	50.580	47.251	-	185.025
Total Capital Expenditure	307.356	188.840	151.550	222.949	196.093	167.943	64.738	651.723
Funding								
Borrowing - General Fund	126.981	82.049	56.996	106.236	106.162	80.271	13.600	306.269
Capital Receipts	4.716	4.716	3.138	5.589	4.280	2.430	2.230	14.529
External Grants	150.489	92.976	78.278	96.863	59.087	60.933	31.014	247.897
HRA Contributions	21.733	7.426	10.626	14.011	18.393	17.718	17.894	68.016
Revenue Contributions	3.437	1.673	2.512	0.250	8.171	6.591	-	15.012
Total Funding	307.356	188.840	151.550	222.949	196.093	167.943	64.738	651.723

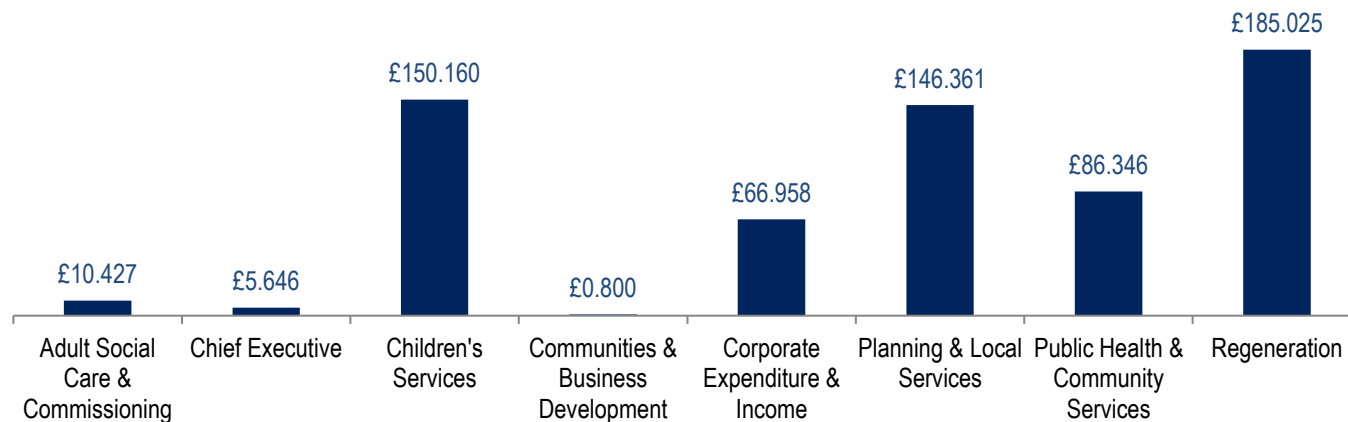
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Four Year Capital Programme*

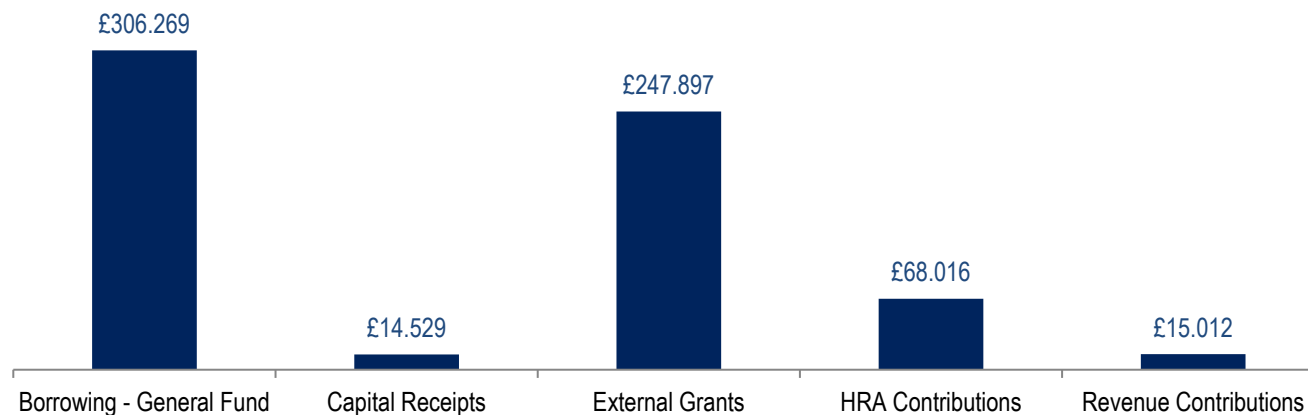
The Council agreed to embark on a four year capital programme totalling £651.723 million to show its commitment to boosting the local economy, assist in the creation of employment opportunities and create new infrastructure, transport links, regeneration and a wider choice of housing. A comprehensive schedule of capital schemes is included in Appendix 13 of the Council's Budget 2023-24 and Medium Term Financial Plan 2023-24 report at:

[Northumberland County Council schedule of capital schemes](#)



Capital Funding 2022-23 to 2026-27*

The Capital programme is funded through a number of sources including external grants, capital receipts, contributions from the general fund and housing revenue accounts and borrowing. Examples of external grants include the Local Transport Plan, Schools' Capital Investment Fund, Disabled Facilities and other sources.



*All values are shown in millions

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5. Performance

This section has been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting 2022-23.

How do we measure performance?

The Council's Corporate Performance Framework operates on a quarterly and annual cycle, producing reports at a Service level and for the entire Council that include operational, workforce and financial information for each Service, as well as progress against Cabinet Members' priorities.

Quarterly reports are compiled centrally using information provided by Services and are circulated to the Executive Team and to Elected Members via Cabinet and the Scrutiny Chairs. Following the publication of these reports, exception reports are raised as necessary in order to ensure that Services respond to any performance issues raised.

The Corporate Performance Framework is subject to its own continuous improvement programme; this has resulted in both improved engagement with Executive Officers and Elected Members and a more simplified process in 2022-23.

Progress on performance measures

Council wide performance is monitored in several ways including:

- 16 operational indicators that have been identified by the Cabinet and the Executive Team as a barometer of overall Council performance;
- Council wide absence levels, monitored against a threshold of 3.5%, plus other measures of workforce health; and,
- The delivery status of the 54 priorities identified by the Cabinet.

The Top 16 Key Performance Indicators (KPIs)

As the table below shows, the financial year 2022-23 has seen 32.0% of the top 16 KPIs being on target (green), 62.0% not being on target (red) and 6.0% almost being on target (amber):

#	KPI name	Target	End of Year	Status
1	Admissions to residential/nursing 65+	654.9 per 100k	677.2 per 100k	Amber
2	Rate of Children Looked After (CLA)	73 per 10k	79 per 10k	Red
3	Rate of Child Protection Plans	67 per 10k	73 per 10k	Red
4	Permanent exclusions Primary/Secondary (number of pupils)	54	65	Red
5	Complaints answered within timescale	100.0%	70.8%	Red
6	FOI Responses within timescale	100.0%	86.0%	Red
7	Carriageway defects made safe	96.0%	82.4%	Red
8	Property statutory tests completed on time	96.0%	98.1%	Green
9	Time to process new housing benefit claims	20 days	16 days	Green
10	Birth registrations	98.0%	90.0%	Red
11	Death registrations	90.0%	78.3%	Red
12	Days lost to sickness	3.5%	4.5%	Red
13	Homelessness cases resolved at first point of contact	55.0%	71.5%	Green
14	Major and County Matter planning decisions made in 2 years, 9 months prior allowed at appeal	10%	0.5%	Green
15	Successful treatments – alcohol	32.1%	27.3%	Red
16	Street cleanliness below standard	14.0%	10.0%	Green

Top 16 KPIs 2022-23

1. Admissions to residential/nursing 65+:
Performance is measured against a target of admitting no more than 654.9 people aged 65 and older per 100,000 people, to residential and nursing care homes. This KPI has underperformed throughout 2022-23 with the number of admissions rising to 677, so increased numbers of those aged 65 and older are being admitted.
2. Rate of Children Looked After (CLA):
This KPI shows the performance of Children's Social Care by measuring the rate of children who are Children Looked After (CLA) per 10,000 people, with a target of 73. It shows that the number of looked after children missed the target at 79 per 10,000 people.
3. Rate of Child Protection Plans:
The number of children and young people subject to child protection plans per 10,000 people measures performance against a target of 67 for Children's Social Care. An increase in numbers has meant that the rate of child protection plans exceeded the agreed target in the past year recording 73 per 10,000 people.
4. Permanent exclusions – Primary/Secondary (number of pupils):
Performance is measured based on an indicator of the number of permanent exclusions from primary and secondary schools in the previous 12 months, with a target of 54. Exclusions have reduced throughout the year; however, numbers have remained above target and are currently at 65 exclusions over the previous 12 months.
5. Complaints answered within timescale:
This measures performance against a target of answering 100.0% of complaints within the timescales, specified by each department's complaints management process. Percentages of complaints to the Council have not met the target at any quarter over the last year, with an overall performance for the year of 70.8%.
6. Freedom of Information (FOI) Responses within timescale:
The target for responding to freedom of information requests is in line with the statutory requirement of responding within 20 days and performance is measured against a target of reaching this target for 100.0% of requests. Performance has consistently missed this target throughout the year, worsening overall and reaching 86.0%.
7. Carriageway defects made safe:
This KPI measures performance by looking at the percentage of carriageway defects which are made safe the next working day, with a target of 96.0%. Performance has varied throughout the year; with 82.4% being achieved.
8. Property statutory tests completed on time:
This KPI measures the number of property statutory tests completed on time, against a target of 96.0%. The target was exceeded with 98.1% achieved.
9. Time to process new housing benefit claims:
This KPI measures the performance of the time it takes to process new housing benefit claims, with a target of within 20 days of the claim being received. The target has been exceeded throughout 2022-23, with the processing of these new claims taking 16 days.
10. Birth registrations:
Performance is measured against a target of registering 98.0% of all births on time. Performance against this target in 2022-23 was 90.0% overall with 3,176 registrations completed on time out of a possible 3,503, however throughout the year the percentages for births were consistently below target.
11. Death registrations:
Performance is measured against a target of registering 90.0% of all deaths on time. Performance against this target in 2022-23 was 78.3% overall with 2,553 registrations completed on time out of a possible 3,261. Throughout the year the percentages for deaths were consistently below target.

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12. Days lost to sickness:

The number of days lost to sickness has a target of 7.5 days per full-time-equivalent. In 2022-23, the rate of sickness was above the threshold for most of the year, with an overall average of 11.4 days per full-time-equivalent or 4.5% against a target of 3.5%.

13. Homelessness cases resolved at first point of contact:

Performance in housing is measured by looking at the percentage of those who approach the Council for homelessness assistance, who find housing at the first point of contact. The target of 55.0% was exceeded achieving 71.5%.

14. Major and County matter planning decisions made in 2 years, 9 months prior allowed at appeal:

The percentage of all major and County matter planning decisions made in two years and nine months prior allowed at appeal measures the performance in planning, with a low percentage desired. The target of 10.0% has been exceeded throughout 2022-23, with 0.5% of planning decisions allowed at appeal being achieved overall.

15. Successful treatments – alcohol:

One KPI for Public Health can be measured by the percentage of successful alcohol treatments completed by individuals who do not re-present for treatment, which has a target of 32.1% of all those who enter treatment. This KPI has not reached its target and latest data records 27.3%.

16. Street cleanliness below standard:

Performance is measured against a KPI of the percentage of surveyed area in Northumberland which is below standard for littering, dog fouling and detritus, with a target of 14.0%. 2022-23 saw this KPI consistently exceed the target, although the percentage of land below standard has marginally decreased from 10.0% to 10.1% throughout the year.

Reasons for Top 16 KPIs

In June 2020, as part of the continuous improvement of the Corporate Performance Framework, a selection of 16 KPIs was selected by Executive Officers from the 220 corporate indicators that would be highlighted as part of the quarterly executive summary. These indicators were selected due to having significant strategic impact.

Workforce

The financial year 2022-23 saw the Council's workforce increase from 4,932 employees to 5,137 (excluding schools), in part due to a transfer of staff into Children's Social Care from the third sector. This will have affected staff absence percentages, due to the increased samples sizes, and the efficacy of KPIs.

During the year, the percentage of full-time-equivalent working hours taken as staff absence has remained stable at 4.5% between the start of the year and the end of the year, the overall target for the year being 3.5%.

In terms of the percentage of staff who have completed their mandatory learning, there has been no change in this percentage from 92.0%, above the target of 85.0%. The annual appraisal completion rates for last year exceeded the 85.0% target at 87.0%. However, this year's appraisal completion rate has decreased to 75.0% against the 85.0% target.

Cabinet Members' Priorities

Progress against the 52 Cabinet Members' Priorities (around six for each Cabinet Member) is tracked each quarter. For each of the Cabinet Members' Priorities, measures of success have been proposed but further work is required to define specific milestones that will enable more effective tracking of progress in the next financial year.

Additionally, existing KPIs have been mapped to Cabinet Members' Priorities where possible to ensure a link between them and operational Service activity. All 52 Cabinet Members' Priorities are reported to be on track at the end of 2022-23.

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Governance

Quarterly Corporate Performance reports are circulated to the Executive Team for review, prior to being presented to the Council's Cabinet, and to the Chairs of the Scrutiny Committees. In addition, the service reports are reviewed with the respective Portfolio Holder and Executive Director.

Strategic Performance - How

In everything that the Council does, it will listen to and communicate with residents, businesses and partners and, ensure value for money in its services. It will pull its weight regionally and nationally, working with its partners to secure maximum benefit for residents and businesses.

- The Council has continued to enhance its customer service offer with a focus on contact centre improvements allowing it to speak to more residents and provide a more efficient service. The Council has also co-located face to face services in both Ashington and Alnwick to facilities shared with voluntary sector partners, improving the support provided. The team provides support to those struggling with the cost-of-living crisis including advising on the Council Tax Energy Rebate Scheme, housing, benefits and other support available. The Council continues to improve its digital offer, providing more services online and assisting residents to access services digitally where appropriate.
- The Council's ways of working across all services have adapted quickly and effectively and the refurbishment of County Hall has been progressed over the past year, ensuring a modern, fit for purpose facility for the future.

Strategic Performance - Thriving

The Council will vigorously secure more and new investment into the county. The Council wants to attract more and better jobs.

Pre-Covid-19, the Council was already laying the foundations for future economic growth across the county. The focus is now to support the economy to recover and return to strong growth through a five-point plan:

- i. Investing in the transition to a future economy;

- ii. Investing in our places, culture and tourism;
- iii. Investing in transport, digital and connectivity;
- iv. Investing in our people, jobs, skills and livelihoods; and,
- v. Investing in a green recovery.

The following progress has been achieved:

- Work is continuing at pace on reopening the Northumberland Line to passenger travel, helping to connect communities to jobs and other opportunities across the North of Tyne area. The Council is working with the Department for Transport (DfT), Network Rail and Northern Trains Ltd on the ambitious programme to reintroduce regular passenger trains between Ashington and Newcastle by 2024 - boosting education, employment and housing prospects for the region. Main construction work has now started on the Northumberland Line with six new stations granted planning approval. This follows the closure of passenger services some sixty years ago. The line's construction work alone has created almost 100 high-skilled jobs and apprenticeships.
- The Council has continued to work with businesses and partners to facilitate the building of a gigafactory at Blyth which will secure thousands of high-quality jobs. The recent acquisition of British Volt by Recharge Industries has now been concluded and the completion of the new dock at Cambois by Advance Northumberland facilitated the arrival of JDR Cables.
- The Council welcomed Government's announcement on investment to level up Blyth by upgrading housing, tackling health inequalities, improving access to local jobs and cutting crime. This includes an £18.000 million boost which will repurpose run-down and empty homes into high-quality affordable housing to rent and convert under-occupied offices into new apartments.
- The Council also welcomed Government's announcement of a similar boost for Ashington. As part of the Budget, over £16.000 million was made available to support the delivery of major new projects to boost the

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town centre, including investing in leisure, culture and community facilities at Wansbeck Square and Portland Park. This will complement the Ashington High Street Innovation Programme which is already in delivery following a £2.333 million investment from the North of Tyne Combined Authority and the Council.

- The multi-million pound Borderlands programme of investment in rural growth and regeneration across the England-Scotland Border is making good progress. In a significant milestone for the Borderlands Growth Deal, the Ad Gefrin Distillery in Wooler opened to the public in March. Attracting thousands of visitors and providing good-quality local jobs, Ad Gefrin will bring a boost to the local economy. In addition, the Northumberland Stewardship and Rural Growth Investment Programme was established with £9.000 million secured from the North of Tyne Combined Authority. It will be used to provide help across Northumberland including targeting the most difficult to reach parts of the county.

Strategic Performance - Living, Learning

The Council will care for its residents, supporting the most vulnerable in society as well as encouraging active citizens. It will ensure the best education standards for its children and young people.

- Significant capital investment has been made to provide new and improved leisure facilities across the county. The new £21.000 million Sport and Leisure Centre in Morpeth is now complete and opened to the public on 3 April 2023. The services provided in the new building include adult learning, library and customer services. The new building will be officially named at a later date. The new £23.147 million Berwick Leisure Centre is now open to the public and the car park and external landscaping to the front of the building are due for completion in summer 2023. The £5.950 million refurbishment of Blyth Sports Centre is now complete as is the £1.915 million upgrade of Newbiggin Sports and Community Centre, renamed as Newbiggin Sports and Community Hub which reopened to the public in September 2022.

- Northumberland Communities Together (NCT) continues to provide support for low-income families and vulnerable households who are struggling with cost-of-living pressures, especially energy costs, food and water. NCT has distributed £4.961 million of government funding.
- NCT has continued to provide support to eligible households in receipt of free school meals to cover the school holiday periods. An award of £270 per child has been granted, totalling £4.489 million of financial support.
- NCT has provided over 20,000+ holiday activity and enrichment placements for eligible children and families as part of the Department for Education (DfE) Holiday Activity and Food programme totalling £1.128 million. The places were available on camps taking place across the county and were delivered by various partners including youth organisations, community groups, schools, and local businesses.
- NCT has received 11,344 referrals over the past twelve months from vulnerable residents seeking welfare support and assistance.
- NCT continues to support voluntary, community and social enterprise (VCSE) sector organisations to build capacity, support vulnerable residents and enhance local service delivery. 216 community grants have been awarded to local community groups and organisations totalling £1.326 million.
- In support of the Council's asset-based community development approach, NCT has supported the development of an online directory called 'Northumberland Frontline' to connect residents and services together. The Frontline platform provides the ability to map services easily and generate data on partnership working, search behaviour and identify gaps in services and/or resources. In the past 12 months over 6,761 referrals have been made connecting vulnerable residents with 198 registered community organisations and other partners.
- NCT has worked with over 190 local community organisations to establish a network of 'Warm Welcome Spaces' across Northumberland, to provide a safe and supportive environment for vulnerable residents

who may be struggling due to the ongoing cost of living crisis and require a supportive environment to keep warm, receive a warm drink or meal or receive advice and support.

- NCT is committed to providing teaching and learning placements to adults and young people who may not have had access to opportunities previously. Working in partnership with Northumberland Skills, Schools, Adult Care providers and Voluntary and Community Sector (VCS) organisations NCT is creating opportunities for vulnerable people within our communities. Over the past twelve months NCT has supported twelve adults and young people to gain an experience working within a real catering and hospitality environment. The placements have helped learners to develop confidence, self-esteem alongside relevant industry skills and competence. The learning and placement framework developed has already helped provide a pathway for two of the young people into apprenticeships and employment and provided positive development and outcomes for all learners involved.

During 2022-23 Library Service membership has increased by 21.2% from 53,231 to 64,496. Installation of library self-service kiosks is now complete in Alnwick, Amble, Ashington, Bedlington, Bedlington Station, Berwick, Blyth, Cramlington, Haltwhistle, Hexham, Morpeth, Newbiggin, Ponteland and Prudhoe. There is confidence that an enhanced range of self-service options will be launched during 2023.

- The Council's school investment and improvement programme is gaining pace, with many projects completed or nearing completion. Multi-million-pound investments across the county are part of the Council's largest ever capital programme, improving education prospects for all. In the north of the county, £40.077 million has been allocated for a new school to replace the ageing Berwick Academy buildings. Investment is planned at Seaton Valley as well as James Calvert Spence College in Amble, where the Council will be developing plans to improve the school facilities to meet the demand of a twenty first century curriculum.

- The Council ensured local parks and open spaces were safe and accessible to residents during the Covid-19 pandemic – giving people a valuable outlet to maintain health and wellbeing during the challenges of lockdown. Close working arrangements were established with a range of partner organisations to better manage the visitor numbers across the county. Work included the *Love it Like It's Yours* campaign encouraging positive responsible behaviours, enhanced littering / toilet cleaning and parking enforcement activity, additional overflow parking provision and new restrictions at pinch point areas.
- Northumberland Libraries continued their service recovery plan to restore opening hours and customer confidence in using library facilities and resources. This work has resulted in a 21.6% increase in issues from the last full year of operation 2019-20 to this. There is continuing demand for a digital library offer (eBooks and eAudio) following the rapid increase in usage during lockdown. There were 20,508 issues of these formats in April 2022 and there has been an increase each month to a new high of 26,936 in March 2023.
- The number of Pressreader sessions (digital newspapers and magazines) increased by 25.8% during the year. The service has supported economic recovery by helping individuals to seek employment or improve their skills and through the Business and Intellectual Property Centres have answered 325 enquiries from business owners or would-be entrepreneurs.
- A particular focus has been working with groups identified as being disadvantaged by the pandemic: children and families, the digitally excluded, the socially isolated.
- The Council has increased its digital inclusion work with family coding sessions, techy tea parties and the continuation of a telephone IT Helpline. This has been possible because of temporary additional staffing resource but the Council is seeking to maintain this impetus through increasing its volunteer force of digital champions.

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- The Council has encouraged inclusion through a programme of events and activities, such as its support of the Illuminated Sheep art trail; the designation of libraries as part of the Warm Spaces initiative and the (re)establishment of regular activities, such as Author Afternoons, now delivered as a hybrid model to maximise the opportunity for countywide participation.
- The reinvigoration of our Bookstart programme through the Family Hubs and Libraries is focusing on the families who have missed out on an early experience of libraries with their preschool children.
- In addition to projects to relocate administrative operations, stock the new library in the Newbiggin Community Hub and facilitate the replacement of flooring at Lynemouth, the library in Morpeth was relocated to its new premises in the leisure centre development. Early visitors included a significant number of lapsed customers who had not used the temporary premises. Each month during 2022-23, the service has registered on average 970 new members.

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The Council has overseen the transition of Northumberland's visitor economy from post-Covid recovery to a phase of growth and development. It has undertaken a review of the county's tourism sector to establish Visit Northumberland as a nationally accredited Local Visitor Economy Partnership and founding member of the North East Destination Development Partnership, a pilot scheme for collaborative tourism delivery initiated by the Department of Culture, Media and Sport following a government review to improve efficiency within national tourism structures; launched the Northumberland Destination Management Plan, a blueprint for the sustainable development of the destination to maximise the benefit tourism can bring to residents and communities involved in the delivery and management of visitors; provided employment opportunities for almost 12,000 residents; secured the support of hundreds of visitor economy business stakeholders and provided business, skills and product development opportunities; delivered placemaking initiatives that have generated a potential visitor spend return on investment of £478 for every £1 spent promoting the

County; attracted over a million visitors to visitnorthumberland.com and influenced over 10 million monthly readers with positive media coverage.

Strategic Performance - Enjoying, Connecting

The Council will maintain, protect and enhance the environment, prioritising its commitments on Climate Change. We will deliver high-quality services in all our communities and secure investment in housing and transport across the county.

- The Local Transport Plan capital programme has seen investment of over £19.441 million in road and bridge maintenance. A further £2.225 million of Council capital was allocated for investment in maintenance of minor roads and footways.
- The programme to refurbish eight of the Council's larger steel road bridges has been substantially completed, utilising the funding won through the DfT Highway Maintenance Challenge Fund.
- The complex project to take down, refurbish and re-erect the historic Union Chain Bridge has been completed and the bridge re-opened on 17 April 2023.
- New car parks have been opened at Alemouth Road in Hexham, Goosehill in Morpeth and Turner Street in Amble.
- Further investment has been undertaken to deliver additional public Electric Vehicle Charging Points, with the emphasis being on street charge points in areas where households do not have off street parking utilising Office for Zero Emission Vehicles (OZEV) funding.
- Road safety remains important and highway improvements have continued to be implemented to improve safety for all road users. Work also continues to progress on many planned improvements for pedestrians and cyclists across the county, including new footways, pedestrian/toucan crossings and bus stop access improvements. The programme of implementing 20mph limits at schools across the county is now nearing completion.

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6. Treasury Management Activities

The Council's debt and investment position, excluding accrued interest, at the end of the period was as follows:

	31 March 2023	
	Principal £m	Average Rate %
Public Works Loans Board	449.745	2.7
Local Authority Loans	50.000	1.0
Other Market Loans	245.633	4.0
Total Debt	745.378	3.0
Total Investments	114.450	2.1

During the year the Council repaid £51.552 million of maturing borrowing and took out new borrowing of £40.000 million in line with authorised limits.

This resulted in a net decrease in total borrowing of £11.552 million, from £56.930 million at the start of year to £745.378 million at 31 March 2023.

Overall external investments (excluding cash and accrued interest) decreased during the year by £73.650 million from £188.100 million to £114.450 million, and the Council maintained an average balance of £170.634 million of internally managed funds. The decrease was largely due to the utilisation of investment balances to cover the Capital Financing Requirement (CFR) in lieu of borrowing externally.

The Council manages its investments in-house and invests with the institutions listed in the Council's approved counterparty list. The Council's aim is to achieve the optimum return on its investments while remaining within the authorised levels of security and liquidity.

The Council invests for a range of periods from overnight to twelve months for banks and building societies, dependent on the Council's cash flows, the interest rates on offer, durational limits set out in the approved investment strategy and assumptions about future changes in interest rates. Funds are also placed with other local authorities for longer periods.

7. Pension Deficit

At 31 March 2023 the County Council's net liability for future pension costs was £248.139 million. Seventeen percent of this net liability is attributable to the Local Government Pension Scheme (LGPS), which is a funded scheme, and the rest to unfunded schemes such as the Firefighters' Pension Scheme. For the LGPS, the Council pays an employer's contribution into the Tyne and Wear Pension Fund at a rate set by the Fund's actuary. The rate paid in 2022-23 was set on the basis of the actuarial valuation of the Fund as at 31 March 2019. This set the rate payable for the three years ending 31 March 2023 with an aim to fully fund the liabilities within approximately 10 years.

8. Group Results

The Council delivers some of its activities through a number of wholly owned subsidiaries. Group financial statements are therefore produced to reflect the full extent of the Council's economic activity and financial position.

The Group accounts consolidate the results and balances of the Council with those organisations considered to be part of the Group. Intra-company transactions are eliminated, and the accounting policies of the subsidiaries are aligned with those of the Council on consolidation in order to present the overall Group position. The Group and Single Entity accounts should be viewed with equal prominence.

On 22 January 2018, Advance Northumberland Limited was incorporated at Companies House. Advance Northumberland and its subsidiary companies started trading within 2018-19.

On 17 September 2020 Northumberland Enterprise Holdings Limited was incorporated at Companies House, and on 29 March 2021 Northumbria Integrated Consultancy Limited was also incorporated. Northumbria Integrated Consultancy Limited is a wholly owned subsidiary of Northumberland Enterprise Holdings Limited. Both Companies commenced trading in 2021-22. Northumberland Enterprise Holdings Limited is currently inactive, and the process has commenced to dissolve the company.

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The Group results show a deficit on the provision of services after taxation of £26.781 million (£14.860 million deficit in 2021-22), incorporating a net surplus for the Advance Northumberland Group after group consolidation adjustments of £21.091 million (£34.596 million surplus in 2021-22), and a net deficit for Northumberland Enterprise Holdings Group of £0.021 million (£0.091 million deficit in 2021-22). Within the Advance Northumberland Group balance there is an unrealised net gain of £10.145 million on Investment Properties (£19.301 million unrealised net gain in 2021-22) as a result of net upward revaluations. Prior to consolidation adjustments the Advance Northumberland Group showed a surplus of £7.268 million (£19.818 million surplus in 2021-22 restated), and the Northumberland Enterprise Holdings Group showed a deficit of £0.021 million (£0.149 million deficit in 2021-22).

The Group balance sheet shows the value of assets and liabilities recognised by the Group at 31 March 2023 and the level of reserves, split into usable and unusable.

31 March 2022		31 March 2023
£m		£m
1,870.374	Long Term Assets	1,922.421
104.979	Net Current Assets	79.143
(1,554.740)	Long Term Liabilities and Provisions	(1,027.538)
420.613	Net Assets	974.026
	Represented by:	
362.745	Usable Reserves - Council	342.678
47.353	Unusable Reserves - Council	612.759
10.515	Unusable Reserves - Subsidiaries	18.589
420.613	Total Reserves	974.026

At 31 March 2023 the Advance Northumberland Group owed the Council £285.391 million (£281.613 million 2021-22) primarily in respect of principal and interest due on a commercial loan facility; whilst, the Council owed the Advance Northumberland Group £1.191 million (£1.893 million in 2021-22) primarily for capital grant claims for Northumberland Energy Park Phase 1 and Bedlington Town Centre.

At 31 March 2023 the Northumberland Enterprise Holdings Group neither owed nor were due any funds from the Council (nil for 2021-22).

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9. Corporate Risks

The Council has a process to manage risks and assist the achievement of its objectives, alongside national and local performance targets. The Corporate Risk Register plays an integral role in supporting achievement of priorities as set out in the Corporate Plan.

Key risks currently identified and being managed at the corporate level during 2022-23 include those relating to the following areas:

- Financial Assumptions;
- Engagement of Communities;
- Organisational Development/Workforce;
- Civil Contingency & Business Continuity;
- Corporate Compliance;
- Information Governance;
- Multiple and Concurrent High-profile Large-scale Capital Projects;
- Contract Management;
- Response to Climate Change;
- Northumberland Enterprise Holdings Limited;
- Regeneration;
- Exceptional Governance Matters;
- Advance Northumberland;
- Cyber Security;
- Ukraine Crisis;
- Inequalities.

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10. Explanation of the Financial Statements

The Statement of Accounts for Northumberland County Council presents the overall financial performance and position of the Council for the year ended 31 March 2023 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest million pounds unless otherwise stated.

It comprises core financial statements together with disclosure notes and the following:

- Housing Revenue Account (HRA)
- Collection Fund Account
- Group Accounts
- Firefighters' Pension Fund

The Core Financial Statements are: **Comprehensive Income and Expenditure Statement**

This reports the income and expenditure associated with the provision of Council services. It also discloses non-cash surpluses and deficits relating to the revaluation of Council assets, and gains and losses on pension scheme assets and liabilities.

Movement in Reserves Statement

This shows the movement in the year for the different reserves held by the Council. These reserves are analysed into "usable" (i.e. those that represent resources that can be applied to fund expenditure) and "unusable" (i.e. those that must be set aside for specific purposes).

Balance Sheet

This is fundamental to the understanding of the Council's year-end financial position. It shows the balances and reserves at the Council's disposal, its long term indebtedness and summarised information on the assets held.

Cash Flow Statement

This summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement as cash in hand. Cash equivalents are deposits repayable on demand.

Notes to the Financial Statements

The notes to the accounts provide further detail of material items within the core Financial Statements.

Housing Revenue Account (HRA)

This separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

Collection Fund Account

This account is maintained separately as a statutory requirement, to show the transactions of the Council as a billing authority in relation to Council Tax and Non-domestic Rates. It shows the way in which the income collected has been distributed to precepting authorities.

Group Accounts

The Group Accounts show the full extent of the Council's economic activities by reflecting the Group's activities.

Firefighters' Pension Fund

These statements provide information relating to the transactions in the year.

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Independent Auditor's Report

**Independent Auditor's Report to the Members of Northumberland
County Council**

To be inserted

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Written Statements and Narrative Report

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the Statement of Accounts.

The Section 151 Officer's responsibilities

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), are required respectively to present fairly the financial position of the Council at the accounting date and the income and expenditure for the year then ended.

In preparing this Statement of Accounts the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- made judgements and estimates that were reasonable and prudent; and,
- complied with the Code.

The Section 151 Officer has also:

- kept proper accounting records which were up to date; and,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- **Executive Director of Finance - Finance Certificate (subject to Audit)**

I certify that the Statement of Accounts (subject to Audit) presents fairly the financial position of the Council as at 31 March 2023 and their income and expenditure for the year ended 31 March 2023.



Jan Willis

Executive Director of Transformation and Resources (Section 151 Officer)

Date 31 May 2023

Core Financial Statements

Core Financial Statements

Comprehensive Income and Expenditure Statement

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

As Restated 2021-22				2022-23			
Gross Expenditure	Gross Income	Net Expenditure		Note	Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m			£m	£m	£m
225.664	(117.883)	107.781	Adult Social Care & Commissioning		237.035	(115.922)	121.113
34.378	(5.376)	29.002	Chief Executive		37.931	(4.157)	33.774
307.641	(200.649)	106.992	Children's Services		283.419	(201.231)	82.188
27.838	(9.926)	17.912	Communities & Business Development		41.277	(11.433)	29.844
5.403	(0.021)	5.382	Corporate Expenditure & Income		5.085	(0.988)	4.097
127.904	(71.517)	56.387	Finance		130.721	(61.638)	69.083
30.645	(54.766)	(24.121)	Local Authority Housing (HRA)		33.584	(35.782)	(2.198)
118.264	(37.992)	80.272	Planning & Local Services		132.551	(43.272)	89.279
33.056	(25.014)	8.042	Public Health & Community Services		32.202	(29.006)	3.196
14.030	(9.468)	4.562	Regeneration		15.161	(11.220)	3.941
924.823	(532.612)	392.211	Cost of Services		948.966	(514.649)	434.317
51.923	(27.095)	24.828	Other Operating Income and Expenditure	3	32.389	(13.829)	18.560
50.783	(21.826)	28.957	Financing and Investment Income and Expenditure	4	49.749	(24.195)	25.554
-	(408.181)	(408.181)	Taxation and Non-Specific Grant Income	5	-	(441.496)	(441.496)
1,027.529	(989.714)	37.815	Deficit/(Surplus) on Provision of Services		1,031.104	(994.169)	36.935
		(73.184)	(Gains)/Losses on Revaluation of Non Current Assets	14,16			(18.522)
		(3.761)	Deficit/(Surplus) from investments in equity instruments designated at fair value through other comprehensive income	29			-
		(201.485)	Actuarial (Gains)/Losses on remeasurement of the net defined benefit liability	31			(561.672)
		(278.430)	Other Comprehensive Income and Expenditure				(580.194)
		(240.615)	Total Comprehensive Income and Expenditure				(543.259)

The 2021-22 comparative Cost of Services figures have been restated to reflect the current service structure. There is no net impact on the Cost of Services or the Deficit or (Surplus) on the Provision of Services. The impact of this is illustrated in Note 45 Restatements and Prior Period and Prior Period Adjustments.

Core Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year of the reserves held by the Council; analysed into, “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

2021-22	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Earmarked HRA Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Total Usable Reserves £m	Unusable Reserves £m	Total £m
Balance brought forward 1 April 2021	(70.469)	(174.430)	(28.890)	(3.108)	(4.025)	(56.534)	(8.607)	(346.063)	208.492	(137.571)
Movement in Reserves during 2021-22:										
Deficit/(Surplus) on the provision of services	58.138	-	(20.323)	-	-	-	-	37.815	-	37.815
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	-	(278.430)	(278.430)
Total Comprehensive Income & Expenditure	58.138	-	(20.323)	-	-	-	-	37.815	(278.430)	(240.615)
Adjustments between accounting basis & funding basis under regulations (Note 12)	(66.466)	-	20.271	-	(0.926)	(4.772)	(1.606)	(53.499)	53.499	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(8.328)	-	(0.052)	-	(0.926)	(4.772)	(1.606)	(15.684)	(224.931)	(240.615)
Transfers (to)/from Earmarked Reserves (Note 13)	8.718	(8.718)	(0.931)	0.931	-	-	-	-	-	-
(Increase)/Decrease in 2021-22	0.390	(8.718)	(0.983)	0.931	(0.926)	(4.772)	(1.606)	(15.684)	(224.931)	(240.615)
Balance at 31 March 2022 carried forward	(70.079)	(183.148)	(29.873)	(2.177)	(4.951)	(61.306)	(10.213)	(361.747)	(16.439)	(378.186)
2022-23	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Earmarked HRA Reserves £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Total Usable Reserves £m	Unusable Reserves £m	Total £m
Balance brought forward 1 April 2022	(70.079)	(183.148)	(29.873)	(2.177)	(4.951)	(61.306)	(10.213)	(361.747)	(16.439)	(378.186)
Movement in Reserves during 2022-23:										
Deficit/(Surplus) on the provision of services	35.135	-	1.800	-	-	-	-	36.935	-	36.935
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	-	(580.194)	(580.194)
Total Comprehensive Income & Expenditure	35.135	-	1.800	-	-	-	-	36.935	(580.194)	(543.259)
Adjustments between accounting basis & funding basis under regulations (Note 12)	(11.038)	-	(0.637)	-	(3.379)	(2.172)	0.358	(16.868)	16.868	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	24.097	-	1.163	-	(3.379)	(2.172)	0.358	20.067	(563.326)	(543.259)
Transfers (to)/from Earmarked Reserves (Note 13)	(4.973)	4.973	(0.437)	0.437	-	-	-	-	-	-
(Increase)/Decrease in 2022-23	19.124	4.973	0.726	0.437	(3.379)	(2.172)	0.358	20.067	(563.326)	(543.259)
Balance at 31 March 2023 carried forward	(50.955)	(178.175)	(29.147)	(1.740)	(8.330)	(63.478)	(9.855)	(341.680)	(579.765)	(921.445)

Core Financial Statements

Balance Sheet

The Balance Sheet shows the value as at 31 March 2023 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserve includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and, reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2022		Note	31 March 2023	31 March 2022		Note	31 March 2023
£m			£m	£m			£m
1,431.137	Property, Plant and Equipment	14	1,470.289	(11.988)	Bank Overdraft	23	(13.907)
7.951	Heritage Assets	16	7.951	(56.978)	Short Term Borrowing	19	(57.018)
2.268	Investment Property	15	2.265	(136.096)	Short Term Creditors	19,26	(82.297)
1.237	Long Term Intangible Assets	18	0.888	(2.181)	Short Term Provisions	28	(6.618)
0.295	Assets Held for Sale - non current	24	0.295	(2.146)	Revenue Grants Receipts in Advance	11	(1.902)
18.128	Long Term Investments	19	18.977	(12.272)	Capital Grants Receipts in Advance	11	(15.535)
397.692	Long Term Debtors	19,22	395.646	(221.661)	Current Liabilities		(177.277)
1,858.708	Long Term Assets		1,896.311	(67.318)	Long Term Creditors - PFI	19,25	(64.392)
90.122	Short Term Investments	19	35.066	(7.475)	Long Term Provisions	28	(0.126)
3.793	Assets Held for Sale - current	24	3.619	(705.378)	Long Term Borrowing	19,20	(693.826)
2.255	Inventories		2.407	(757.497)	Net Defined Pension Liability	29	(248.139)
86.213	Short Term Debtors	19,22	90.168	(2.452)	Capital Grants Receipts in Advance	11	(3.039)
98.876	Cash and Cash Equivalents	23	80.673	(1,540.120)	Long Term Liabilities		(1,009.522)
281.259	Current Assets		211.933	378.186	Net Assets		921.445
				361.747	Usable Reserves		341.680
				16.439	Unusable Reserves	29	579.765
				378.186	Total Reserves		921.445

Core Financial Statements

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2023 by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

2021-22 £m		Note	2022-23 £m
(37.815)	Net surplus/(deficit) on the provision of services		(36.935)
149.658	Adjustments to net surplus or deficit on the provision of services for non-cash movements	32	70.568
(76.105)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	32	(86.969)
35.738	Net cash flows from Operating Activities		(53.336)
29.415	Investing Activities	33	37.758
(47.909)	Financing Activities	34	(4.544)
17.244	Net increase in cash and cash equivalents		(20.122)
69.644	Cash and cash equivalents at the beginning of the reporting period		86.888
86.888	Cash and cash equivalents at the end of the reporting period		66.766

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Notes to the Accounts

Notes to the Accounts

Notes References

Note	Note Description	Note	Note Description
	Notes Supporting the CIES	23	Cash and Cash Equivalents
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2	Expenditure and Income Analysed by Nature	25	Private Finance Initiatives (PFI) and Similar Contracts
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4	Financing and Investment Income and Expenditure	27	Significant Commitments Under Capital Contracts
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19	Financial Instruments	42	Critical Judgements in Applying Accounting Policies
20	Nature and Extent of Risks Arising from Financial Instruments	43	Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty
21	Leases	44	Events After the Reporting Period
22	Debtors	45	Restatements and Prior Period Adjustments

Notes

Supporting the Comprehensive Income and Expenditure Statement

1. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rent payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's services.

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

	2021-22			2022-23			
	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between Funding and Accounting Basis	Net Expenditure in the CIES	
	£m	£m	£m	£m	£m	£m	
Page 212	98.876	8.905	107.781	Adult Social Care & Commissioning	112.828	8.285	121.113
	26.888	2.114	29.002	Chief Executive	29.072	4.702	33.774
	49.510	57.482	106.992	Children's Services	62.481	19.707	82.188
	9.722	8.190	17.912	Communities & Business Development	14.733	15.111	29.844
	(27.027)	32.409	5.382	Corporate Expenditure and Income	(9.359)	13.456	4.097
	24.755	31.632	56.387	Finance	24.667	44.416	69.083
	(3.850)	(20.271)	(24.121)	Local Authority Housing (HRA)	(2.835)	0.637	(2.198)
	43.761	36.511	80.272	Planning & Local Services	45.387	43.892	89.279
	7.059	0.983	8.042	Public Health & Community Services	1.200	1.996	3.196
	4.099	0.463	4.562	Regeneration	3.346	0.595	3.941
	233.793	158.418	392.211	Net Cost of services	281.520	152.797	434.317
	(242.173)	(112.223)	(354.396)	Other Income and Expenditure	(256.260)	(141.122)	(397.382)
	(8.380)	46.195	37.815	Deficit/(Surplus) on General Fund and HRA	25.260	11.675	36.935
	(276.897)			Opening General Fund and HRA Balance at 31 March 2022	(285.277)		
	(8.380)			Add: Surplus on General Fund and HRA Balance in Year	25.260		
	(285.277)			Closing General Fund and HRA Balance at 31 March 2023	(260.017)		

Notes to the Accounts

Note the split between the General Fund and HRA balances is detailed in the Movement in Reserves Statement.

Notes to the Expenditure and Funding Analysis

The adjustments between the funding and accounting basis shown above are analysed further in the following tables.

Adjustments for Capital Purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line; and, for:

- Other Operating Expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also, any change in the fair value of assets held for sale is reflected in this note;
- Financing and Investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices; and,
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income line is credited with capital grants receivable in the year without conditions; or, for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

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

- For Services - this represents the removal of the employers' pension contributions made by the authority as allowed by statute; and, the replacement with current service costs and past service costs; and,
- For Financing and Investment income and expenditure – the net interest on the defined benefit liability is charged to the comprehensive income and expenditure statement.

Other Differences

Other differences between amounts debited/credited to the comprehensive income and expenditure statement and amounts payable/receivable to be recognised under statute:

- For Financing and Investment income and expenditure - the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts;
- For Services - this represents the change in accrued employee benefits such as annual leave;
- The charge under taxation and non-specific grant income represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year; and, the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits in the Collection Fund; and,
- Adjustments from the General Fund to arrive at the amounts disclosed within the Comprehensive Income and Expenditure Statement:

Notes to the Accounts

	2021-22					2022-23			
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Differences	Total Adjustments		Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Differences	Total Adjustments
	£m	£m	£m	£m		£m	£m	£m	£m
	3.076	5.640	0.189	8.905	Adult Social Care & Commissioning	3.880	4.374	0.031	8.285
	0.148	1.939	0.027	2.114	Chief Executive	2.288	2.454	(0.040)	4.702
	49.433	7.273	0.776	57.482	Children's Services	9.295	9.620	0.792	19.707
	6.400	1.770	0.020	8.190	Communities & Business Development	12.824	2.284	0.003	15.111
	33.671	(1.262)	-	32.409	Corporate Expenditure & Income	14.665	(1.209)	-	13.456
	25.376	6.242	0.014	31.632	Finance	43.595	0.847	(0.026)	44.416
	(23.120)	2.826	0.023	(20.271)	Local Authority Housing (HRA)	(2.753)	3.395	(0.005)	0.637
	29.161	7.291	0.059	36.511	Planning & Local Services	35.128	8.791	(0.027)	43.892
	(0.534)	1.497	0.020	0.983	Public Health & Community Services	-	1.999	(0.003)	1.996
	(0.057)	0.517	0.003	0.463	Regeneration	(0.102)	0.696	0.001	0.595
	123.554	33.733	1.131	158.418	Net Cost of services	118.820	33.251	0.726	152.797
	(117.080)	17.930	(13.073)	(112.223)	Other Income and Expenditure	(147.339)	19.063	(12.846)	(141.122)
	6.474	51.663	(11.942)	46.195	(Surplus) or Deficit	(28.519)	52.314	(12.120)	11.675

2. Expenditure and Income Analysed by Nature

The Council's income and expenditure is analysed as follows:

	2022-23	Adult Social Care & Commissioning	Chief Executive	Children's Services	Communities & Business Development	Corporate Expenditure and Income	Finance	Local Authority Housing (HRA)	Planning & Local Services	Public Health & Community Services	Regeneration
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Expenditure:											
Depreciation, Amortisation, Impairment	57.429	0.390	1.785	6.627	5.712	-	2.529	10.267	30.119	-	-
Employee Benefits Expenses	372.714	41.564	24.140	170.059	13.403	21.648	21.836	12.167	50.989	12.531	4.377
(Gain) or Loss on the Disposal of Assets	1.215	-	-	-	-	1.231	-	-	(0.016)	-	-
Interest Payments	29.850	0.009	-	0.005	-	25.622	-	4.214	-	-	-
Other Services Expenditure	560.232	195.220	12.638	94.583	22.050	4.433	113.886	12.118	76.138	18.009	11.157
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	-	-	-	-
Precepts and Levies	17.345	-	-	-	-	17.345	-	-	-	-	-
Support Services Recharges	(21.515)	(0.140)	(0.632)	12.150	0.111	(1.119)	(7.530)	(0.972)	(24.672)	1.662	(0.373)
Total Expenditure	1,017.270	237.043	37.931	283.424	41.276	69.160	130.721	37.794	132.558	32.202	15.161
Income:											
Fees Charges and Other Services Income	(181.641)	(82.734)	(1.262)	(13.275)	(3.888)	(0.056)	(6.220)	(35.624)	(35.965)	(2.664)	0.047
Government Grants	(512.758)	(33.189)	(2.895)	(187.956)	(7.545)	(179.999)	(55.418)	(0.256)	(7.863)	(26.370)	(11.267)
Income from Council Tax and Non-domestic Rates	(261.786)	-	-	-	-	(261.786)	-	-	-	-	-
Interest and Investment Income	(24.150)	-	-	-	-	(23.217)	-	(0.927)	(0.006)	-	-
Total Income	(980.335)	(115.923)	(4.157)	(201.231)	(11.433)	(465.058)	(61.638)	(36.807)	(43.834)	(29.034)	(11.220)
Deficit on the Provision of Services	36.935	121.120	33.774	82.193	29.843	(395.898)	69.083	0.987	88.724	3.168	3.941

Notes to the Accounts

	2021-22	Adult Social Care & Commissioning	Chief Executive	Children's Services	Communities & Business Development	Corporate Expenditure and Income	Finance	Local Authority Housing (HRA)	Planning & Local Services	Public Health & Community Services	Regeneration
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Expenditure:											
Depreciation, Amortisation, Impairment	53.549	0.714	1.465	6.115	5.307	-	2.378	9.686	27.884	-	-
Employee Benefits Expenses	346.757	39.471	22.542	155.597	10.927	20.333	26.370	11.155	46.527	10.185	3.650
(Gain) or Loss on the Disposal of Assets	6.247	-	-	-	-	6.248	(0.001)	-	-	-	-
Interest Payments	32.079	0.004	-	0.003	-	28.484	-	3.588	-	-	-
Other Services Expenditure	562.588	185.858	10.843	137.738	12.834	5.478	105.163	9.585	66.984	17.501	10.604
Payments to Housing Capital Receipts Pool	1.511	-	-	-	-	1.511	-	-	-	-	-
Precepts and Levies	16.437	-	-	-	-	16.437	-	-	-	-	-
Support Services Recharges	(18.734)	(0.376)	(0.473)	8.190	(1.231)	(1.095)	(6.007)	0.219	(23.107)	5.370	(0.224)
Total Expenditure	1,000.434	225.671	34.377	307.643	27.837	77.396	127.903	34.233	118.288	33.056	14.030
Income:											
Fees Charges and Other Services Income	(199.557)	(78.250)	(1.373)	(21.416)	(3.505)	(0.001)	(5.885)	(54.667)	(30.976)	(3.377)	(0.107)
Government Grants	(499.243)	(39.633)	(4.003)	(179.233)	(6.422)	(164.963)	(65.632)	(0.633)	(7.697)	(21.665)	(9.362)
Income from Council Tax and Non-domestic Rates	(242.230)	-	-	-	-	(242.230)	-	-	-	-	-
Interest and Investment Income	(21.589)	-	-	-	-	(21.576)	-	(0.007)	(0.006)	-	-
Total Income	(962.619)	(117.883)	(5.376)	(200.649)	(9.927)	(428.770)	(71.517)	(55.307)	(38.679)	(25.042)	(9.469)
Deficit on the Provision of Services	37.815	107.788	29.001	106.994	17.910	(351.374)	56.386	(21.074)	79.609	8.014	4.561

3. Other Operating Income and Expenditure

2021-22 £m		2022-23 £m
16.438	Parish and other precepts	17.345
1.511	Payments to the Government Housing Capital Receipts Pool	-
0.632	(Upward)/Downward Valuation of Assets Held for Sale	-
6.247	(Gains)/Losses on the disposal of non-current assets*	1.215
24.828	Total net operating expenditure	18.560

* Includes losses of £15.044 million and gains of £13.829 million

4. Financing and Investment Income and Expenditure

2021-22 £m		2022-23 £m
32.079	Interest payable and similar charges	29.849
18.681	Net interest on the net defined benefit liability (asset)	19.877
(21.589)	Interest receivable and similar income	(24.151)
(0.214)	Income and expenditure in relation to investment properties and changes in fair value	(0.021)
28.957	Total Financing and Investment Income and Expenditure	25.554

5. Taxation and Non-Specific Grant Income

2021-22 £m		2022-23 £m
(207.521)	Council tax income	(218.678)
(34.710)	Non domestic rates income	(43.108)
(99.227)	Non-ring fenced government grants*	(99.258)
(66.723)	Capital grants and contributions*	(80.452)
(408.181)	Total Taxation and Non Specific Grant Income	(441.496)

* Further analysis is shown within Note 11

6. Better Care Fund

National policy requires local authorities and integrated care boards (ICB's) to establish a pooled fund under Section 75 of the NHS Act 2006, and to make joint decisions about how to use the fund to promote integration between health and social care services. A Better Care Fund Plan for 2022-23, submitted to NHS England in September 2022, set out in detail how the funds, which the Council and North East and North Cumbria ICB were required to include in the pooled fund, would be allocated to specific purposes. The ICB was required under national rules to transfer a total of £17.587 million from its contribution to the local authority; the local authority was required to include in the fund "Improved Better Care Fund" (iBCF) grant funding paid directly to the Council, as well as capital funding for adaptations to the homes of disabled people and related purposes.

Later in the year, a further national fund was announced to support timely and safe discharge from hospital into the community. A grant circular was published setting out the conditions of the grant under Section 31(4) of the Local Government Act 2003. It was determined that this funding should be pooled into the local BCF with plans for health and social care spend to be agreed by the local authorities and Integrated Care Board. Northumberland was allocated £1.268 million and received a further £1.332 million from the ICB. Fortnightly activity reports were then submitted, detailing delivery of activities, followed by a final spending report provided to the Department of Health and Social Care.

2021-22 £m		2022-23 £m
	Funding Provided to the pooled budget:	
(15.457)	Northumberland County Council	(17.093)
(26.708)	North East and North Cumbria ICB	(29.551)
(42.165)		(46.644)
	Expenditure met from the pooled budget:	
32.103	Northumberland County Council	36.837
10.062	North East and North Cumbria ICB	9.807
42.165		46.644
	- Net surplus	-

7. Members' Allowances

The Council paid the following amounts to Members during the year:

2021-22		2022-23
£m		£m
1.406	Allowances	1.524
0.022	Expenses	0.035
1.428	Total	1.559

8. Officers' Remuneration

The Accounts and Audit Regulations 2015 require authorities to disclose the number of employees whose remuneration in the year was £50,000 and above, shown in bands of £5,000. Remuneration is defined as all amounts paid to or receivable by an employee, expense allowances chargeable to tax and the money value of benefits. The change in the profile of number of employees within each band reflects salary increments and pay awards, early retirements and part-year effects of staff joining or leaving the Council within the year.

The note excludes senior employees whose individual remuneration is in the remuneration of senior officers' disclosure.

2021-22		2022-23
All Employees	Remuneration Band	All Employees
149	£50,000 to £54,999	202
86	£55,000 to £59,999	101
55	£60,000 to £64,999	65
40	£65,000 to £69,999	66
24	£70,000 to £74,999	33
8	£75,000 to £79,999	14
7	£80,000 to £84,999	7
3	£85,000 to £89,999	7
7	£90,000 to £94,999	5
4	£95,000 to £99,999	8
2	£100,000 to £104,999	2
1	£105,000 to £109,999	-
2	£110,000 to £114,999	-
-	£115,000 to £119,999	3
2	£120,000 to £124,999	1
1	£125,000 to £129,999	2
2	£130,000 to £134,999	-
-	£135,000 to £139,999	1
393	Total	517

Notes to the Accounts

The Accounts and Audit Regulations 2015 require authorities to disclose the remuneration of senior officers. There have been no bonuses paid to senior officers in 2021-22 or 2022-23.

2022-23 Post Holder Information	Note	Salary £	Allowances £	Compensation for loss of office £	Strain on the Fund £	Benefits in kind* £	Total Remuneration £	Pension Contributions £	Total Remuneration inc Pension Contributions £
Senior Officers emoluments – salary is £150,001 or more per year									
Chief Executive - Helen Paterson	1	29,210	8,181	-	-	-	37,391	-	37,391
Interim Chief Executive - Frederick O'Farrell	2	156,322	493	-	-	-	156,815	31,308	188,123
Chief Executive and Head of Paid Service - Daljit Lally	3	60,339	5,699	359,000	-	9,100	434,138	13,868	448,006
Executive Director of Adults and Children's Services and Deputy Chief Executive - Cath McEvoy-Carr	4	18,769	79	-	-	1,170	20,018	3,941	23,959
Executive Director of Finance & Section 151 Officer	5	-	-	-	-	-	-	-	-
Interim Executive Director of Planning and Local Services - Robert Murfin	6	150,820	-	-	-	-	150,820	31,672	182,492
Interim Executive Director for Public Health and Community Services - Elizabeth Morgan	7	124,872	1,026	-	-	-	125,898	26,223	152,121
Executive Director Public Health, Inequalities & Stronger Communities - Gill O'Neill	8	103,713	-	-	-	-	103,713	19,501	123,214
Interim Executive Director of Communities and Business Development - Maureen Taylor	9	145,694	-	13,576	56,712	5,621	221,603	30,596	252,199
Executive Director for Adults, Ageing & Wellbeing - Neil Bradley	10	121,909	248	-	-	15,349	137,506	17,531	155,037
Executive Director for Children, Young People & Education - Audrey Kingham	11	130,691	1,847	-	-	-	132,538	27,445	159,983
Director of Transformation - Allison Joynson	12	74,361	-	72,998	146,424	7,214	300,997	15,866	316,863
Interim Executive Director of Regeneration - Janice Rose	13	90,024	-	-	-	4,825	94,849	19,918	114,767
Senior Officers emoluments – salary is between £50,000 and £150,000 per year									
Service Director Children's Social Care	14	124,586	160	-	-	-	124,746	26,163	150,909
Monitoring Officer and Director of Corporate Governance	15	-	-	-	-	-	-	-	-
Chief Fire Officer		139,366	429	-	-	-	139,795	40,137	179,932
Interim Service Director HR & OD	16	55,103	-	-	-	2,910	58,013	7,840	65,853
Director of Workforce and Organisational Development	17	74,120	23	-	-	4,640	78,783	15,565	94,348
Interim Senior Service Director		115,325	-	-	-	-	115,325	24,218	139,543

Note:

*The amounts included within this column include both the salary sacrifice and the P11D benefit in kind values.

Notes to the Accounts

Note	From	To	Post Holder	Information
1	8 February 2023	31 March 2023	Chief Executive	The post holder is the Council's designated Head of Paid Service.
2	1 April 2022	18 April 2022	Interim Executive Director Regeneration/Executive Director Advance Northumberland	
	19 April 2022	31 July 2022	Interim Deputy Chief Executive & Interim Executive Director of Regeneration/Executive Director Advance Northumberland	
	1 August 2022	7 February 2023	Interim Chief Executive	The post holder was the Council's designated Head of Paid Service and left the organisation on 7 February 2023.
3	1 April 2022	31 July 2022	Chief Executive and Head of Paid Service	A report regarding the exit package of the Chief Executive was presented to and agreed at an extraordinary meeting of full Council on 27 July 2022. The report is available at the following link: Extraordinary Meeting of Full Council - 27 July 2022

The exit package components are as follows:

	£ : p
Holiday Pay	15,000.00
Injury	90,000.00
Injury to feelings	75,000.00
Leased Car Termination Fee	4,000.00
Legal Fees	50,000.00
PILON	25,000.00
Write off of debt re: International Allowance **	100,000.00
Total Cost of Exit Package	359,000.00

** The write off has not actually taken place in 2022-23 but does form part of the agreed exit package and has been accrued in 2022-23.

The Council is still awaiting a response from HMRC regarding payment of overpaid tax and national insurance contributions for Mrs Lally in relation to the International Allowance. The figures will be verified by HMRC and if refunded to the Council a further payment may be due to Mrs Lally. If HMRC does not agree to refund the contributions, then a further write-off of debt may be required. Both scenarios will increase the cost of the exit package.

The post holder left the organisation on 31 July 2022.

Notes to the Accounts

Note	From	To	Post Holder	Information												
4	1 April 2022	15 May 2022	Executive Director of Adult Social Care & Children's Services and Deputy Chief Executive	The post holder left the organisation on 15 May 2022.												
5	1 April 2022	31 March 2023	Executive Director of Finance & Section 151 Officer	The role was covered by an interim appointment who was not a Northumberland County Council Employee.												
6	1 April 2022	31 March 2023	Interim Executive Director of Planning & Local Services													
7	1 April 2022	29 January 2023	Interim Executive Director for Public Health & Community Services	The post holder left the organisation on 29 January 2023.												
8	1 April 2022	28 January 2023	Interim Deputy Director of Public Health	The post holder was seconded from and paid by Durham County Council. Salary was recharged 100.0% to Northumberland County Council.												
	29 January 2023	28 February 2023	Interim Executive Director Public Health & Community Services	The post holder was seconded from and paid by Durham County Council. Salary was recharged 100.0% to Northumberland County Council.												
	1 March 2023	31 March 2023	Executive Director Public Health, Stronger Communities & Inequalities (DPH)	Employed by Northumberland County Council from 1 March 2023.												
	1 April 2022	31 March 2023	Interim Executive Director of Communities & Business Development	<p>The post holder left the organisation on 31 March 2023. A report regarding the exit package was presented to and agreed by Staff and Appointments Committee on 30 January 2023. The report is available at the following link:</p> <p>Recommended Approval of the Voluntary Redundancy of the Interim Executive Director of Communities and Business Development</p> <p>The exit package components are as follows:</p>												
				<table border="1"> <thead> <tr> <th></th> <th>£ : p</th> </tr> </thead> <tbody> <tr> <td>Redundancy</td> <td>13,015.99</td> </tr> <tr> <td>Leased Car Termination Fee</td> <td>559.92</td> </tr> <tr> <td>Exit Package (excluding Strain on the Fund cost)</td> <td>13,575.91</td> </tr> <tr> <td>Strain on the Fund Cost</td> <td>56,712.00</td> </tr> <tr> <td>Total Exit Package Cost</td> <td>70,287.91</td> </tr> </tbody> </table>		£ : p	Redundancy	13,015.99	Leased Car Termination Fee	559.92	Exit Package (excluding Strain on the Fund cost)	13,575.91	Strain on the Fund Cost	56,712.00	Total Exit Package Cost	70,287.91
	£ : p															
Redundancy	13,015.99															
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Exit Package (excluding Strain on the Fund cost)	13,575.91															
Strain on the Fund Cost	56,712.00															
Total Exit Package Cost	70,287.91															
10	19 April 2022	31 January 2023	Interim Executive Director of Adult Social Services													
	1 February 2023	31 March 2023	Executive Director for Adults, Ageing & Wellbeing													

Notes to the Accounts

Note	From	To	Post Holder	Information																
11	1 April 2022	18 April 2022	Senior Service Director & Director of Education & Skills																	
	19 April 2022	31 January 2023	Service Director Education and Interim Director of Children's Services																	
	1 February 2023	31 March 2023	Executive Director for Children, Young People & Education																	
12	1 April 2022	30 September 2022	Director of Transformation	<p>The post holder left the organisation on 30 September 2022. A report regarding the exit package was presented to and agreed by Staff and Appointments Committee on 20 September 2022 and then subsequently agreed by County Council on 21 September 2022. The reports are available at the following links:</p> <p>Recommended Approval of the Voluntary Redundancy of the Director of Transformation - Update</p> <p>Voluntary Redundancy of the Director of Transformation</p> <p>The exit package components are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>£ : p</th> </tr> </thead> <tbody> <tr> <td>Redundancy</td> <td>23,065.50</td> </tr> <tr> <td>Holiday Pay</td> <td>12,301.60</td> </tr> <tr> <td>Leased Car Termination Fee</td> <td>726.58</td> </tr> <tr> <td>PILON</td> <td>36,904.20</td> </tr> <tr> <td>Exit Package (excluding Strain on the Fund cost)</td> <td>72,997.88</td> </tr> <tr> <td>Strain on the Fund Cost</td> <td>146,424.00</td> </tr> <tr> <td>Total Exit Package Cost</td> <td>219,421.88</td> </tr> </tbody> </table>		£ : p	Redundancy	23,065.50	Holiday Pay	12,301.60	Leased Car Termination Fee	726.58	PILON	36,904.20	Exit Package (excluding Strain on the Fund cost)	72,997.88	Strain on the Fund Cost	146,424.00	Total Exit Package Cost	219,421.88
	£ : p																			
Redundancy	23,065.50																			
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PILON	36,904.20																			
Exit Package (excluding Strain on the Fund cost)	72,997.88																			
Strain on the Fund Cost	146,424.00																			
Total Exit Package Cost	219,421.88																			
13	1 April 2022	7 February 2023	Interim Director of Regeneration																	
	8 February 2023	31 March 2023	Interim Executive Director - Regeneration																	
14	1 April 2022	18 April 2022	Service Director, Children's Social Care																	
	19 April 2023	31 January 2023	Service Director Children's Social Care and Interim Director of Children's Services																	
	1 February 2023	31 March 2023	Service Director, Children's Social Care																	

Notes to the Accounts

Note	From	To	Post Holder	Information
15	1 April 2022	31 March 2023	Monitoring Officer and Director of Corporate Governance	The role was covered by an interim appointment who was not a Northumberland County Council Employee.
16	1 April 2022	31 October 2022	Interim Service Director HR & OD	Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. Salary recharged 100.0% to Northumberland County Council.
17	1 April 2022	31 October 2022	Deputy Head of HR, People and Culture	
	1 November 2022	9 March 2023	Interim Head of Service HR & OD	
	10 March 2023	31 March 2023	Director of Workforce and Organisational Development	

2021-22	Note	Salary	Allowances	Compensation for loss of office	Strain on the Fund	Benefits in kind*	Total Remuneration	Pension Contributions	Total Remuneration inc Pension Contributions
Post Holder Information		£	£	£	£	£	£	£	£
Senior Officers – salary is £150,001 or more per year									
Chief Executive and Head of Paid Service - Daljit Lally #	1	168,792	40,000	-	-	27,299	236,091	43,846	279,937
Executive Director of Adults and Children's Services - Cath McEvoy-Carr	2	155,261	-	-	-	7,639	162,900	32,605	195,505
Executive Director of HR and OD and Deputy Chief Executive - Kelly Angus	3	82,915	-	-	-	11,224	94,139	8,515	102,654
Director of Transformation - Allison Joynson	4	146,745	-	-	-	14,494	161,239	30,816	192,055
Senior Officers emoluments – salary is between £50,000 and £150,000 per year									
Interim Executive Director Regeneration/Accountable Officer Advance	5	134,006	-	-	-	-	134,006	28,141	162,147
Executive Director of Planning and Local Services	6	128,613	-	-	-	-	128,613	27,009	155,622
Executive Director of Finance and Section 151 Officer	7	-	-	-	-	-	-	-	-
Interim Executive Director Public Health and Community Services	8	134,105	-	-	-	-	134,105	28,162	162,267
Interim Executive Director of Communities and Business Development	9	132,155	-	-	-	7,327	139,482	27,753	167,235
Monitoring Officer and Director of Corporate Governance	10	-	-	-	-	-	-	-	-
Chief Fire Officer		137,441	-	-	-	-	137,441	39,583	177,024
Interim Service Director HR & OD	11	84,775	-	-	-	6,852	91,627	12,176	103,803
Service Director - Adult Care	12	112,567	-	-	-	15,222	127,789	16,187	143,976
Senior Service Director	13	100,887	-	-	-	-	100,887	21,186	122,073
Acting Head of Internal Audit & Risk Management	14	91,019	-	-	-	-	91,019	18,022	109,041
Director of Corporate Assurance	15	61,646	-	-	-	-	61,646	12,206	73,852

Notes:

* The amounts included within this column include both the salary sacrifice and the P11D benefit in kind values.

Whilst the allowance for this post has been paid by the Council to the postholder; following the issuance of a report by the Council's Interim Executive Director of Finance and Section 151 Officer, under Section 114 of the Local Government Finance Act 1988 to members, further investigation is required regarding the lawfulness of the payment in the first instance. Following that investigation, a decision may need to be made regarding potential recovery. The link to the report is <https://www.northumberland.gov.uk/About/Transparency.aspx#statutoryfinancereport>

Notes to the Accounts

Note	From	To	Post Holder	Information
1	01-Apr-21	14-May-21	Chief Executive and Head of Paid Service	This post is 0.50 FTE. The Chief Executive also receives an International Allowance.
	15-May-21	31-Mar-22	Chief Executive and Head of Paid Service	This post is contractually 0.50 FTE. However, the Chief Executive worked for the Council on a quantum meruit basis during this period and received the equivalent of a full-time salary. The Chief Executive also receives an International Allowance.
2	01-Apr-21	14-Nov-21	Executive Director of Adult Social Care & Children's Services	
	15-Nov-21	31-Mar-22	Executive Director of Adult Social Care & Children's Services and Deputy Chief Executive	
3	01-Apr-21	31-Aug-21	Executive Director of HR & OD and Deputy Chief Executive	Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. Salary recharged 100.0% to Northumberland County Council. The secondment ended on 31 August 2021.
4	01-Apr-21	30-Sep-21	Director of Transformation	Jointly funded post with Northumbria Healthcare NHS Foundation Trust. Each organisation paid 50.0%.
	01-Oct-21	31-Mar-22	Director of Transformation	The post was fully funded by Northumberland County Council.
5	01-Apr-21	31-Aug-21	Interim Executive Director: Regeneration, Commercial & Economy	
	01-Sep-21	31-Mar-22	Interim Executive Director: Regeneration	
	01-Apr-21	31-Aug-21	Director of Planning	
	01-Sep-21	31-Mar-22	Interim Executive Director of Planning and Local Services	
	01-Apr-21	31-Mar-22	Executive Director of Finance and Section 151 Officer	The role was covered by an interim appointment and was not a Northumberland County Council employee.
	01-Apr-21	31-Aug-21	Director of Public Health	
9	01-Apr-21	31-Aug-21	Director of Business Development and Communities	
	01-Sep-21	31-Mar-22	Interim Executive Director of Communities and Business Development	
10	14-Oct-21	31-Mar-22	Monitoring Officer and Director of Corporate Governance	The role was covered by an interim appointment who was not a Northumberland County Council employee.
11	01-Apr-21	31-Aug-21	Strategic HR Lead	Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. Salary recharged 100.0% to Northumberland County Council.
	01-Sep-21	31-Mar-22	Interim Service Director HR & OD	Employee seconded from and paid by Northumbria Healthcare NHS Foundation Trust. The salary is recharged 100.0% to Northumberland County Council.
12	01-Apr-21	30-Sep-21	Service Director Adult Services	Employee of Northumbria Healthcare NHS Foundation Trust. This was a jointly funded post – each organisation paid 50.0%.
	01-Oct-21	31-Mar-22	Service Director Adult Care	Following the dissolution of the Partnership Agreement the employee TUPE transferred to Northumberland County Council. The post is fully funded by Northumberland County Council.

Notes to the Accounts

Note	From	To	Post Holder	Information
13	01-Apr-21	31-Aug-21	Service Director	
	01-Sep-21	31-Mar-22	Interim Senior Service Director	
14	01-Apr-21	30-Sep-21	Acting Chief Internal Auditor	Employee of North Tyneside Council. Post jointly funded by Northumberland County Council and North Tyneside Council as part of the shared service arrangement.
	01-Oct-21	31-Mar-22	Acting Head of Internal Audit & Risk Management	Employee of North Tyneside Council. Post jointly funded by Northumberland County Council and North Tyneside Council as part of the shared service arrangement.
15	01-Apr-21	30-Sep-21	Director of Corporate Assurance	Employee seconded from and paid by North Tyneside Council. Salary recharged 100.0% to Northumberland County Council. The secondment ended on 30 September 2021.

Notes to the Accounts

The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

Exit package cost band	Number of Compulsory Redundancies	Number of Compulsory Redundancies	Number of Other Departures Agreed	Number of Other Departures Agreed	Total Number of Exit Packages by cost band	Total Number of Exit Packages by cost band	Total Cost of Exit packages in each band	Total Cost of Exit packages in each band
	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23
							£	£
£0 - £20,000	2	-	81	35	83	35	608,394	253,928
£20,001 - £40,000	-	-	11	5	11	5	335,982	147,754
£40,001 - £60,000	-	-	3	2	3	2	168,297	94,382
£60,001 - £80,000	1	-	4	1	5	1	347,512	70,288
£80,001 - £100,000	-	-	1	-	1	-	90,472	-
£100,001 - £150,000	-	-	1	-	1	-	140,141	-
£150,001 - £200,000	-	-	1	-	1	-	168,138	-
£200,001 - £250,000	-	-	-	1	-	1	-	219,422
£250,001 - £300,000	-	-	-	-	-	-	-	-
£300,001 - £350,000	-	-	-	-	-	-	-	-
£350,001 - £400,000	-	-	-	1	-	1	-	359,000
Total cost included in Comprehensive Income and Expenditure Statement	3	-	102	45	105	45	1,858,936	1,144,774

9. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, assurance work in relation to grant claims and for non-audit services provided by the Council's external auditors:

2021-22 £m		2022-23 £m
0.170	Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	0.170
0.018	Fees payable to the appointed auditor for assurance work in relation to grant claims and returns for the year	0.019
(0.037)	PSAA distribution of surplus funds	-
0.151	Total	0.189

Note: Fees payable in respect of other services provided by the appointed auditor in 2022-23 are in relation to assurance work in relation to the Housing Benefits Assurance Process, Teacher Pensions and Pooling of Housing Capital Receipts returns.

10. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Skills Funding Agency (ESFA), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools' Budget, as defined in the Schools Finance and Early Years (England) Regulations 2022. The Schools' Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2022-23 are as follows:

Schools' Budget Funded by DSG	Expenditure £m	Schools' Budget £m	Total £m
Final DSG for 2022-23 before academy and high needs recoupment			275.623
Academy and high needs figure recouped for 2022-23			(122.242)
Total DSG after academy and high needs recoupment for 2022-23			153.381
Plus: Brought forward from 2021-22			4.032
Less: Carry forward to 2023-24 agreed in advance			(2.969)
Agreed budgeted distribution in 2022-23	37.292	117.152	154.444
In Year Adjustments *		(0.287)	(0.287)
Final Budget Distribution for 2022-23	37.292	116.865	154.157
Less Actual Central Expenditure	(36.134)		(36.134)
Less Actual ISB deployed to Schools		(116.491)	(116.491)
In year carry forward to 2023-24	1.158	0.374	1.532
Plus: carry forward to 2023-24 agreed in advance			2.969
Carried forward to 2023-24			4.501

*Note: The in year adjustment of £0.287 million relates to the following:

- £0.294 million additional grant received to meet the actual NNDR costs for schools;
- £0.356 million clawback of the 2021-22 Early Years block funding in July 2022;
- £0.225 million estimated clawback of the Early Years block funding for 2022-23, due to be confirmed in July 2023.

11. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2022-23:

2021-22 £m		2022-23 £m
	Revenue Grants Credited to Taxation and Non Specific Grant Income:	
-	All Services Grant	4.751
18.352	Business Rates Section 31 Grants	21.738
8.510	Covid-19 Grant	-
4.580	Covid-19 Hardship Fund	-
12.128	Improved Better Care Fund	12.496
-	Market Sustainability and Fair Cost of Care Grant	1.027
4.331	New Homes Bonus Grant	4.011
1.023	Other	1.120
27.535	Retained Business Rates Top up Grant	27.535
10.508	Revenue Support Grant	10.837
2.456	Rural Services Delivery Grant	2.456
0.270	Sales, Fees and Charges Compensation	-
9.534	Social Care Support Grant	13.287
99.227	Total Revenue Grants Credited to Taxation and Non Specific Grant Income	99.258

2021-22 £m		2022-23 £m
	Grants Credited to Services:	
	Revenue:	
-	Better Care Fund - Additional Discharge Fund	2.600
56.594	Council Tax / Housing Benefit Subsidy Grants	54.294
6.361	Covid-19 Additional Restrictions Support Grant	-
4.321	Covid-19 Adult Social Care Infection Control Fund	-
2.196	Covid-19 Contain Outbreak Management Fund	-
147.026	Dedicated Schools Grant (DSG)	150.251
3.571	Education and Skills Funding Agency (ESFA)	3.580
13.674	Grants in Support of Individual School Budgets	16.305
-	Homes for Ukraine Education and Childcare Grant	1.082
-	Homes for Ukraine Funding	6.006
2.802	Household Support Fund	-
6.127	North East Combined Authority Grant	2.882
20.908	Other Grants	26.959
16.891	Public Health Grant	17.366
2.585	Rapid Testing Grant	-
3.312	Social Care Workforce Capacity Grant	-
4.760	The Private Finance Initiative (PFI)	4.760
291.128	Total Revenue Grants	286.085
	Donations and Contributions:	
7.435	Contribution from Other Local Authorities	12.377
18.352	Health Service	18.738
5.731	Other Donations and Contributions	4.572
10.647	S117 Health Contribution	11.276
42.165	Total Donations and Contributions	46.963
333.293	Total Credited to Services	333.048

Notes to the Accounts

2021-22 £m		2022-23 £m
	Capital:	
1.055	Department for Business, Energy and Industrial Strategy - Green Homes Grant	0.590
1.594	Department for Business, Energy and Industrial Strategy - Public Sector Decarbonisation Scheme	-
3.948	Department for Culture, Media and Sport - Local Full Fibre Network	-
7.802	Department for Education - Capital Maintenance	5.852
-	Department for Education - Kylee House Refurbishment	1.079
3.346	Department for Education - Priority Schools Building Programme	-
-	Department for Education - Special Educational Needs Capacity (SEN)	2.666
-	Department for Levelling Up, Housing and Communities - Blyth Town Deal	2.566
-	Department for Levelling Up, Housing and Communities - Borderlands Ad Gefrin	1.000
-	Department for Levelling Up, Housing and Communities - Borderlands Carlisle University	4.310
-	Department for Levelling Up, Housing and Communities - Business Growth Fund	1.052
3.329	Department for Levelling Up, Housing and Communities - Disabled Facilities Grant	2.455
23.800	Department for Transport - Local Transport Plan	21.060
12.657	Department for Transport - Northumberland Line	27.931
1.555	Heritage Lottery Fund - Union Chain Bridge	-
1.646	North East Combined Authority (NECA) - Integrated Transport	1.646
4.863	Other	8.195
1.128	Scottish Borders Council - Union Chain Bridge	0.050
66.723	Total Capital	80.452

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

2021-22 £m		2022-23 £m
	Short Term Capital Grant Receipts in Advance:	
1.868	Department for Business, Energy & Industrial Strategy - Green Homes Grant	0.192
3.510	Department for Business, Energy & Industrial Strategy - HUG 1 Sustainable Warmth	3.458
1.900	Department for Business, Energy & Industrial Strategy - LAD 3 Sustainable Warmth	1.815
1.419	Department for Business, Energy & Industrial Strategy - Public Sector Decarbonisation Scheme	0.366
1.194	Department for Business, Energy & Industrial Strategy - Social Housing Decarbonisation Fund	1.158
0.550	Department for Education - Devolved Formula Capital (DFC)	0.687
-	Department for Education - Energy Efficiency Devolved Formula Capital (EE DFC)	1.275
0.786	Department for Levelling Up, Housing and Communities - Future High Streets Fund - Blyth	4.752
1.045	Department for Levelling Up, Housing and Communities - Towns Fund - Energising Blyth Northern Gateway Phase 1	1.045
-	Gladman Developments LTD - Corbridge Middle School 3G Pitch	0.451
-	Homes and Communities Agency - Acquisitions	0.336
12.272	Total Short Term Capital Grant Receipts in Advance	15.535
	Long Term Capital Grant Receipts in Advance:	
-	Department for Business, Energy & Industrial Strategy - Public Sector Decarbonisation Scheme	1.053
1.100	Department for Education - Devolved Formula Capital (DFC)	0.687
0.451	Gladman Developments LTD - Corbridge Middle School 3G Pitch	-
0.901	Other	1.299
2.452	Total Long Term Capital Grant Receipts in Advance	3.039
	Revenue Grant Receipts in Advance:	
0.927	Department for Business Energy and Industrial Strategy	1.183
-	Department for Energy Security and Net Zero	0.340

Notes to the Accounts

2021-22		2022-23
£m		£m
0.029	Department for Culture, Media and Sport	-
0.029	Department for Education	-
0.011	Department for Environment, Food and Rural Affairs	-
0.647	Department for Levelling Up, Housing and Communities	0.283
0.120	Education and Skills Funding Agency	-
0.043	European Regional Development Fund	-
-	Forestry England	0.025
0.045	Heritage Lottery Fund	0.029
0.011	Historic England	-
0.021	National Archives	0.014
-	National Heritage	0.025
0.217	North East Combined Authority	-
0.015	Northumbria Healthcare NHS Foundation Trust	-
0.031	Public Health England	-
-	Society of Antiquaries of Newcastle upon Tyne	0.003
2.146	Total Revenue Grant Receipts in Advance	1.902
16.870	Total Receipts in Advance	20.476

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Notes Supporting the Movement in Reserves Statement

12. Adjustments between Accounting Basis and Funding Basis under Regulations

The following note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The year end balances are stated in the Movement in Reserves Statement.

2022-23	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£m	£m	£m	£m	£m	£m
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(46.813)	(10.208)	-	-	-	57.021
Revaluation (losses)/gains on Property Plant and Equipment	(21.498)	2.264	-	-	-	19.234
Modification losses/(gains) in respect of capital financial assets	1.427	-	-	-	-	(1.427)
Loss allowances in respect of capital financial assets	(0.091)	-	-	-	-	0.091
Movements in the fair value of Investment Properties	0.023	-	-	-	-	(0.023)
Amortisation of intangible assets	(0.350)	(0.060)	-	-	-	0.410
Capital grants and contributions applied	68.338	0.103	-	-	-	(68.441)
Revenue expenditure funded from capital under statute	(44.586)	(0.075)	-	-	-	44.661
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(14.641)	-	-	-	-	14.641
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	56.466	-	-	-	-	(56.466)
Capital expenditure charged against the General Fund and HRA balances	2.051	0.461	-	-	-	(2.512)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	12.010	-	-	(12.010)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	9.838	-	(9.838)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	13.540	-	(13.540)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	3.138	-	-	(3.138)
Voluntary set aside of Capital Receipts to repay debt	-	-	6.913	-	-	(6.913)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(0.110)	-	0.110	-	-	-

Notes to the Accounts

2022-23	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£m	£m	£m	£m	£m	£m
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	-	-	-	-	-	-
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to HRA	-	10.268	-	-	(10.268)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	10.626	(10.626)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0.276	-	-	-	-	(0.276)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(88.721)	(5.411)	-	-	-	94.132
Employer's pension contributions and direct payments to pensioners payable in the year	39.802	2.016	-	-	-	(41.818)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	12.570	-	-	-	-	(12.570)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.731)	0.005	-	-	-	0.726
Total Adjustments	(11.038)	(0.637)	(3.379)	(2.172)	0.358	16.868

Notes to the Accounts

2021-22	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£m	£m	£m	£m	£m	£m
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(43.293)	(9.642)	-	-	-	52.935
Revaluation (losses)/gains on Property Plant and Equipment	(28.961)	21.660	-	-	-	7.301
Modification losses/(gains) in respect of capital financial assets	1.113	-	-	-	-	(1.113)
Loss allowances in respect of capital financial assets	0.030	-	-	-	-	(0.030)
Movements in the fair value of Investment Properties	0.216	0.023	-	-	-	(0.239)
Amortisation of intangible assets	(0.569)	(0.044)	-	-	-	0.613
Capital grants and contributions applied	53.537	0.534	-	-	-	(54.071)
Revenue expenditure funded from capital under statute	(47.896)	(0.028)	-	-	-	47.924
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(33.030)	-	-	-	-	33.030
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	28.244	-	-	-	-	(28.244)
Capital expenditure charged against the General Fund and HRA balances	3.086	0.931	-	-	-	(4.017)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	12.652	-	-	(12.652)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	7.880	-	(7.880)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	26.863	-	(26.863)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	6.945	-	-	(6.945)
Voluntary set aside of Capital Receipts to repay debt	-	-	17.406	-	-	(17.406)
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(0.075)	-	0.075	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(1.511)	-	1.511	-	-	-
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to HRA	-	9.686	-	-	(9.686)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	8.080	(8.080)
Adjustments primarily involving the Financial Instruments Adjustment Account:						

Notes to the Accounts

2021-22	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Movement in Unusable Reserves £m
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0.336	-	-	-	-	(0.336)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(85.124)	(4.459)	-	-	-	89.583
Employer's pension contributions and direct payments to pensioners payable in the year	36.287	1.633	-	-	-	(37.920)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	12.738	-	-	-	-	(12.738)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1.109)	(0.023)	-	-	-	1.132
Total Adjustments	(66.466)	20.271	(0.926)	(4.772)	(1.606)	53.499

13. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2022-23.

		2021-22				2022-23			
1 April 2021	Transfers Out	Transfers In	31 March 2022		1 April 2022	Transfers Out	Transfers In	31 March 2023	
£m	£m	£m	£m		£m	£m	£m	£m	
Earmarked General Fund Reserves:									
5.498	(0.022)	3.716	9.192	Balances Held by Schools Under a Scheme of Delegation	9.192	(1.317)	1.066	8.941	
1.067	(0.251)	-	0.816	Borderlands Energy Masterplan	0.816	(0.008)	-	0.808	
2.322	-	-	2.322	Business Recovery	2.322	-	-	2.322	
1.500	(1.238)	-	0.262	Cessation of the NHS Partnership Agreement	0.262	(0.262)	-	-	
26.291	(22.011)	10.875	15.155	Collection Fund Smoothing	15.155	(15.820)	2.609	1.944	
-	-	2.130	2.130	Contain Outbreak Management	2.130	(2.130)	0.260	0.260	
11.100	(2.119)	-	8.981	Council Commissioned Services	8.981	(1.461)	-	7.520	
-	-	-	-	Council Tax Hardship and Discount Scheme	-	-	6.588	6.588	
7.466	(0.072)	10.508	17.902	Council Transformation Fund	17.902	(0.758)	-	17.144	
0.898	(0.898)	4.032	4.032	Dedicated Schools Grant	4.032	(2.964)	3.433	4.501	
8.677	(1.435)	-	7.242	Estates Rationalisation	7.242	(0.985)	-	6.257	
-	-	5.208	5.208	Exceptional Inflationary Pressures	5.208	(5.208)	1.017	1.017	
-	-	-	-	Highways Commuted Maintenance Funds	-	-	1.127	1.127	
-	-	-	-	Homes for Ukraine	-	-	4.586	4.586	
9.661	(1.182)	-	8.479	Insurance	8.479	(0.657)	-	7.822	
10.507	(10.507)	-	-	Invest to Save	-	-	-	-	
0.637	(0.094)	1.257	1.800	Legal Challenges	1.800	(0.729)	-	1.071	
0.206	(0.065)	0.513	0.654	Planning Delivery Grant	0.654	(0.141)	0.565	1.078	
1.578	(0.263)	1.158	2.473	Regeneration Development	2.473	(0.521)	1.000	2.952	
-	-	-	-	Replacement of Defective Street Lanterns	-	-	2.930	2.930	
1.000	-	1.000	2.000	Restructuring	2.000	(1.197)	0.035	0.838	
19.231	(6.891)	4.991	17.331	Revenue Grants	17.331	(4.294)	7.316	20.353	
7.699	(1.501)	4.632	10.830	Section 106	10.830	(1.184)	5.051	14.697	
2.500	-	5.000	7.500	Severe Weather	7.500	-	-	7.500	
1.695	(1.067)	2.308	2.936	Social Fund	2.936	(2.443)	-	0.493	

Notes to the Accounts

2021-22					2022-23				
1 April 2021	Transfers Out	Transfers In	31 March 2022		1 April 2022	Transfers Out	Transfers In	31 March 2023	
£m	£m	£m	£m		£m	£m	£m	£m	
-	-	2.178	2.178	Storm Arwen	2.178	(1.985)	-	0.193	
49.002	(4.033)	3.268	48.237	Strategic Management	48.237	(5.488)	6.959	49.708	
2.000	-	-	2.000	Winter Services	2.000	-	-	2.000	
3.895	(1.572)	1.165	3.488	Other Reserves	3.488	(0.868)	0.905	3.525	
174.430	(55.221)	63.939	183.148	Total Earmarked General Fund Reserves	183.148	(50.420)	45.447	178.175	
HRA Earmarked Reserves:									
3.108	(0.931)	-	2.177	HRA - Capital Investment	2.177	(0.461)	0.024	1.740	
3.108	(0.931)	-	2.177	Total HRA Earmarked Reserves	2.177	(0.461)	0.024	1.740	
177.538	(56.152)	63.939	185.325	Total Earmarked Reserves	185.325	(50.881)	45.471	179.915	

Notes to the Accounts

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

Balances Held by Schools under a Scheme of Delegation

Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service.

Borderlands Energy Masterplan

This reserve was established as part of the 2020-21 Provisional Outturn Report presented to Cabinet on 8 June 2021. It is to be used to pull together the current energy work of the five Borderland's authorities and identify opportunities for collaboration through the delivery of new and existing low carbon and energy strategies and projects, where there is the potential to benefit from economies of scale and knowledge transfer.

Business Recovery

This reserve was created to support businesses during the Covid-19 recovery period and support economic growth within Northumberland.

Collection Fund Smoothing

This reserve was established in order to mitigate the impact of the estimated Collection Fund deficits for Business Rates and Council Tax which are to be recognised over the course of the Medium-Term Financial Plan.

Contain Outbreak Management Fund

The Contain Outbreak Management Fund was made available by the Department of Health and Social Care to support Council activity to mitigate and manage local outbreaks of Covid-19. The balance of the fund is committed to continuing activities to protect vulnerable residents; harnessing capacity within local sectors; community-based support for those disproportionately impacted; and communicating safer behaviours that the wider public can follow.

Council Commissioned Services

This reserve was created to support Council commissioned services during the Covid-19 recovery period.

Council Tax Hardship & Discount Reserve

This reserve was established during 2022-23 to fund the Council Tax Hardship Scheme for 2023-24 that would offer a £175 reduction to council tax bills for all working age and pensionable age Council Tax Support claimants that do not receive 100.0% Council Tax Support once all other discounts have been applied. It will also fund a one-off discount, equivalent to 1.0%, in Band D council tax (Northumberland County Council element only) for households that do not receive Council Tax Support. The discount will be equivalent to £17.21 in 2023-24 once all other discounts have been applied.

Council Transformation Fund

This reserve was established to fund projects that will realise the transformation ambitions of the Council.

Dedicated Schools Grant (DSG)

This reserve is ring-fenced for schools use and cannot be used for other priorities within the Council. Use of this reserve will be agreed by Schools Forum.

Estates Rationalisation

This reserve has been reviewed by the Head of Property Services and Capital Programming and is required to cover the future costs arising from the Council's estates rationalisation programme.

Exceptional Inflationary Pressures

This reserve was created in 2021-22 to fund exceptional inflationary pressures. The utilisation of this reserve is delegated to the Council's Section 151 Officer.

Highways Commuted Maintenance Sums

This reserve was established as part of the 2022-23 Provisional Outturn report presented to Cabinet on 9 May 2023. The funds are received from developers for future use on the maintenance of the highway following adoption by the Council.

Notes to the Accounts

Homes for Ukraine Scheme

This scheme is open to Ukrainian nationals who were residents in Ukraine prior to 1 January 2022 and their immediate family members to be sponsored to come across to the UK. Funding has been given to support families and for administering 'Thank-you' payments to sponsoring households.

Insurance

The insurance reserve was first established in 1974 and has accumulated over the years' by charging services a higher premium than that paid to the Council's insurers. The additional premiums are used to cover those risks not insured externally which are below the excess levels. In any particular year, claim settlements resulting in payments out of the insurance fund can exceed or be less than premiums collected so that the level of the reserve may decrease or increase in year.

Invest to Save

This reserve was created as a source of funding for projects identified by officers that would, in the short to medium term, allow the Council to save money by investing in new technology or changing the way in which business is conducted. The remaining balance has been transferred to the Council Transformation Fund Reserve.

Legal Challenges

This reserve was created to fund legal fees required to secure the Council's interests in a number of ongoing disputes.

Planning Delivery Grant

This is used to contribute towards expenditure in relation to the Northumberland Local Plan, primarily the core strategy. The plan was formally adopted by the Council during 2021-22 with further provision set aside for both a review of the Local Plan and a recommended supplementary plan in relation to Gypsy and Traveller sites.

Regeneration Development

This reserve was established to fund the development of priority regeneration and economic growth projects.

Replacement of Defective Street Lanterns

This reserve was established as part of the 2022-23 Provisional Outturn Report presented to Cabinet on 9 May 2023 to be used for funding the replacement of defective street lanterns.

Restructuring

This reserve was created to fund the one-off voluntary severance staffing costs required to support the Council's strategic change agenda.

Revenue Grants

Revenue government grants on occasion are paid to local authorities with a number of conditions attached to them. The introduction of International Financial Reporting Standards (IFRS – IAS20) has resulted in an amendment to the accounting treatment: where no grant conditions exist, or conditions have been met the grant is transferred into the Comprehensive Income and Expenditure Statement. If, however expenditure has not yet been incurred the grants are transferred into an earmarked reserve and then subsequently released back into revenue once expenditure is incurred.

Section 106

The reserve was created in 2011-12 to hold Section 106 balances. Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as S106 agreements, are a mechanism which make a development proposal acceptable in planning terms, which would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development and are often referred to as 'developer contributions'. Common uses include Affordable Housing Schemes, Highway contributions, contributions to Sport and Play Provision, Education, Healthcare and Coastal Mitigation. The monies are held until the particular provision is undertaken. During 2022-23 £5.051 million was received from developers with £1.184 million used to fund schemes.

Severe Weather

This reserve was created following the Department for Transport's recommendation that local highways authorities ensure they retain a contingency for repairing damage to local highways and associated assets

Notes to the Accounts

caused by incidents such as extreme weather that may occur from time to time.

Social Fund

This reserve was established during 2018-19 to replace the recurrent revenue budget which has funded this service in the past. The reserve represents funds set aside to provide one-off crisis support to families in Northumberland. This can be in the form of emergency support where there is an immediate need for items or services as a result of an exceptional event or unforeseen circumstances, or, for transitional support in periods of change, such as helping families remain in the community or move back into the community after a period in supported or unsettled accommodation.

Storm Arwen

This reserve was established as part of the 2021-22 Provisional Outturn Report presented to Cabinet on 7 June 2022. It is to be used for funding the outstanding repairs identified due to the damage caused by Storm Arwen.

Strategic Management

This reserve was established following a review of all usable reserves during 2015-16 with the purpose of supporting the Medium-Term Financial Plan.

At its meeting in February 2023, the Council approved the use of up to £33.834 million (net) from this reserve over the course of the Medium-Term Financial Plan 2023-27.

Winter Services

This reserve was created following the severe winter weather encountered during 2017-18 to fund future severe winter weather events.

Housing Revenue Account – Earmarked Reserve HRA

An Earmarked Reserve was created within the HRA in 2018-19 to fund the development and delivery of a housing development plan.

Movements in the Capital Investment Reserve are detailed in Note 10 of the Notes to the Housing Revenue Account Income and Expenditure Statement.

Notes

Supporting the Balance Sheet

14. Property, Plant and Equipment

Movements in 2022-23:	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant and Equipment £m	PFI Assets Included in Property, Plant and Equipment £m
Cost or Valuation:								
At 1 April 2022	355.349	530.459	125.126	11.111	17.246	47.928	1,087.219	99.824
Additions	11.138	28.006	6.577	0.072	-	31.347	77.140	1.848
Reclassifications	0.002	18.660	0.161	0.006	3.704	(28.802)	(6.269)	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(6.687)	4.000	-	(2.589)	-	(5.276)	(10.623)
Revaluation Increases/(Decreases) recognised in the Deficit on the Provision of Services	(7.830)	(28.379)	0.001	-	(2.094)	-	(38.302)	-
De-recognition - Disposals	(3.310)	(0.188)	(7.406)	(0.001)	(0.016)	-	(10.921)	(0.013)
De-recognition - Other	-	(1.563)	(1.848)	-	-	-	(3.411)	(1.848)
Assets reclassified (to)/from Held for Sale	-	(0.002)	-	-	-	-	(0.002)	-
Other movements in Cost or Valuation	-	-	-	-	-	(0.404)	(0.404)	-
At 31 March 2023	355.349	540.306	126.611	11.188	16.251	50.069	1,099.774	89.188
Accumulated Depreciation and Impairment:								
At 1 April 2022	-	26.240	41.503	2.213	-	-	69.956	10.021
Depreciation/Impairment charge	10.062	16.411	10.653	0.162	-	-	37.288	4.728
Reclassifications	-	(0.870)	-	-	0.870	-	-	-
Depreciation written out to the Revaluation Reserve	-	(21.237)	(2.082)	-	(0.479)	-	(23.798)	(7.410)
Depreciation written out to the (Deficit) on the Provision of Services	(10.062)	(8.615)	-	-	(0.391)	-	(19.068)	-
Impairment written out to the (Deficit) on the Provision of Services	-	-	-	-	-	-	-	-
De-recognition - Disposals	-	(0.024)	(6.871)	-	-	-	(6.895)	-
De-recognition - Other	-	(0.206)	(0.108)	-	-	-	(0.314)	(0.121)
At 31 March 2023	-	11.699	43.095	2.375	-	-	57.169	7.218
Net Book Value:								
At 31 March 2023	355.349	528.607	83.516	8.813	16.251	50.069	1,042.605	81.970
At 31 March 2022	355.349	504.219	83.623	8.898	17.246	47.928	1,017.263	89.803

Notes to the Accounts

Movements in 2021-22:	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant and Equipment £m	PFI Assets Included in Property, Plant and Equipment £m
Cost or Valuation:								
At 1 April 2021	335.073	483.386	115.148	11.051	15.439	51.861	1,011.958	93.179
Additions	11.103	20.860	11.728	0.069	0.512	31.802	76.074	1.043
Reclassifications	0.370	25.939	2.547	-	(0.546)	(32.636)	(4.326)	0.064
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	42.661	5.367	-	5.233	-	53.261	6.581
Revaluation Increases/(Decreases) recognised in the Deficit on the Provision of Services	12.123	(35.082)	(2.366)	-	(0.209)	-	(25.534)	-
De-recognition - Disposals	(3.320)	(4.736)	(6.255)	(0.001)	-	-	(14.312)	-
De-recognition - Other	-	(2.569)	(1.043)	(0.008)	-	-	(3.620)	(1.043)
Assets reclassified (to)/from Held for Sale	-	-	-	-	(3.183)	-	(3.183)	-
Other movements in Cost or Valuation	-	-	-	-	-	(3.099)	(3.099)	-
At 31 March 2022	355.349	530.459	125.126	11.111	17.246	47.928	1,087.219	99.824
Accumulated Depreciation and Impairment:								
At 1 April 2021	-	38.870	40.059	2.061	-	-	80.990	8.049
Depreciation/Impairment charge	9.488	15.151	8.917	0.152	-	-	33.708	4.114
Reclassifications	-	(0.038)	-	-	0.038	-	-	-
Depreciation written out to the Revaluation Reserve	-	(18.685)	(1.220)	-	(0.018)	-	(19.923)	(2.088)
Depreciation written out to the (Deficit) on the Provision of Services	(9.488)	(8.905)	(0.452)	-	(0.020)	-	(18.865)	-
Impairment written out to the (Deficit) on the Provision of Services	-	-	-	-	-	-	-	-
De-recognition - Disposals	-	(0.024)	(5.747)	-	-	-	(5.771)	-
De-recognition - Other	-	(0.129)	(0.054)	-	-	-	(0.183)	(0.054)
At 31 March 2022	-	26.240	41.503	2.213	-	-	69.956	10.021
Net Book Value:								
At 31 March 2022	355.349	504.219	83.623	8.898	17.246	47.928	1,017.263	89.803
At 31 March 2021	335.073	444.516	75.089	8.990	15.439	51.861	930.968	85.130

Notes to the Accounts

Movement on balances of Infrastructure assets

In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – new regulation 30M, the authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

	2021-22	2022-23
Movement of Infrastructure assets	£m	£m
Net Book Value (modified historic cost) at 1 April	400.713	413.874
Additions	28.062	27.273
Reclassifications	4.326	6.270
Derecognition	-	-
Depreciation	(18.775)	(19.733)
Impairment	(0.452)	-
Other movement in cost	-	-
Net Book Value (modified historic cost) at 31 March	413.874	427.684

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	2021-22	2022-23
Property Plant and Equipment (PPE)	£m	£m
Infrastructure assets	413.874	427.684
Other PPE assets	1,017.263	1,042.605
Total PPE Assets	1,431.137	1,470.289

Notes to the Accounts

Valuation of Non-Current Assets

Land and buildings were revalued according to a 2-year programme, as at 31 March 2023. In addition to this, valuations were carried out on assets which had a material change in year, that is, where assets had additions of over £1.000 million or a new build costing in excess of £2.500 million. Material change valuations are dated 31 March 2023.

For operational buildings not valued in year, a materiality assessment was carried out by the Council, using appropriate BCIS indices. This resulted in a £14.683 million adjustment, increasing Property, Plant and Equipment, increasing the CIES by £3.810 million and the Revaluation Reserve by £10.873 million.

Surplus Properties were valued as at 31 March 2023, using Fair Value Level 3 inputs for valuation purposes, having regard to comparable evidence, applying a rent and yield or capital value rate where appropriate. Development appraisals have been undertaken on sites where there is a clear development opportunity, (see accounting policies for explanation of fair value levels).

Note 43, Assumptions made about future and other major sources of estimation uncertainty, describes the assumptions made and uncertainties surrounding the Property Plant and Equipment valuations.

Valuation work was undertaken as follows:

Energy From Waste plant and equipment – Hilco Valuation services, 11 Ironmonger Lane, London, EC2V 8EY

HRA Housing stock and all other land and buildings – Bruton Knowles LLP Olympus House, Olympus Park, Quedgeley, Gloucester GL2 4NF

The valuations of land and buildings were in accordance with the requirements of the RICS Valuation – Global Standards incorporating the International Valuation Standards (IVS) and the International Financial Reporting Standards (IFRS) – based on the Code of Practice on Local Authority Accounting (The Code), published by the Chartered Institute of Public Finance and Accounting (CIPFA).

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Notes to the Accounts

Valuation of Non-Current Assets Carried at Current Value

Of the Property, Plant and Equipment not held at cost on the Balance Sheet, 64.0% was valued in year. Those properties which have not been valued in this financial year were valued as at the date of the last valuation report.

The following statement shows the current net book value of the Council's Property, Plant and Equipment by financial year of revaluation:

	Council Dwellings £m	Other Land and Buildings ** £m	Vehicles, Plant, Furniture & Equipment £m	Infrastructure Assets £m	Community Assets * £m	Surplus Assets £m	Assets Under Construction £m	Total £m
Valued at Historical Cost	-	5.607	48.116	427.684	8.813	-	50.069	540.289
Valued at Current Value in:								
2022-23	355.349	192.535	35.400	-	-	16.251	-	599.535
2022-23 Indexation Adjustment **	-	14.683	-	-	-	-	-	14.683
2021-22	-	315.782	-	-	-	-	-	315.782
Total	355.349	528.607	83.516	427.684	8.813	16.251	50.069	1,470.289

*Due to the re-categorisation of assets, an approximation to historical cost has been made in some cases.

**Adjustment to the accounts to represent the movement in building and construction costs on assets valued using the Depreciated Replacement Cost methodology in prior years.

15. Investment Property

There was no material income or expenditure during the financial year.

2021-22		2022-23
£m		£m
(0.021)	Rental income from investment property	(0.021)
0.023	Direct operating expenses arising from investment property	0.023
0.002	Net Gain	0.002

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

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

2021-22		2022-23
£m		£m
2.029	Balance at the start of the year	2.268
-	Reclassifications	(0.001)
-	Assets reclassified (to)/from Held for Sale	(0.005)
-	Disposals	(0.020)
0.239	Net (losses)/gains from fair value adjustments	0.023
2.268	Balance at the end of the year	2.265

Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see accounting policies for explanation of fair value levels).

Valuation Techniques use Level 3 inputs to determine Fair Values for Investment Properties

The fair value of investment property has been determined having regard to comparable evidence, applying a Rent and Yield or Capital Value Rate where appropriate.

Highest and Best use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

Valuers

The investment property portfolio has been valued at 31 March 2023 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by Bruton Knowles LLP, the Council's valuing agents.

16. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council:

	Museum, Art and Artefact Collection	Public Sculptures and Memorials	Historic Buildings	Total
	£m	£m	£m	£m
Cost or Valuation:				
As at 1 April 2022	5.628	1.328	1.070	8.026
Additions	-	-	-	-
Reclassifications	-	-	-	-
Revaluations	-	-	-	-
As at 31 March 2023	5.628	1.328	1.070	8.026
Accumulated Depreciation and Impairment:				
As at 1 April 2022	-	0.052	0.023	0.075
As at 31 March 2023	-	0.052	0.023	0.075
Net Book Value 31 March 2023	5.628	1.276	1.047	7.951
Net Book Value 31 March 2022	5.628	1.276	1.047	7.951

Museum, Art, and Artefact Collection

The Council's museum, art and artefacts collections are included in the Balance Sheet on the basis of their insurance valuation, which is periodically reviewed.

The museum collections are all on loan to the Woodhorn Trust and include the collections from Woodhorn Museum, the Berwick Museum and Art Gallery and the Hexham Old Gaol.

The archive collection is split between Woodhorn and Berwick-upon-Tweed Records Office. Further details can be found on the Woodhorn Museum website www.experiencewoodhorn.com.

The Art collection includes oil paintings on display in public libraries. These were last valued by auctioneers Anderson & Garland as at 31 March 2021.

Public Sculptures and Memorials

Carried at cost on the Balance Sheet, the Council is custodian of Public Art, much of which is the result of the Inspire Initiative established in 2003.

The Council is also custodian or has a duty of care for a variety of monuments and memorials throughout the county, details of which can be found from the Public Monuments and Sculpture

Association National recording project (www.pmsa.org.uk) and the North East War Memorial Project (www.newmp.org.uk).

Historic Buildings

The historic buildings included within the Heritage Assets category are held principally for their contribution to knowledge or culture where they are not used for operational purposes. They are carried at cost on the Balance Sheet and include Blyth Battery and Morpeth Clock Tower.

The County Historic Environment Record (HER) database holds records of all of the historic buildings within the county. The majority of historic buildings owned by the Council are in operational use and are therefore included in the main Property Plant and Equipment section of the Balance Sheet.

Archaeology

The Council owns the HER which is a database and associated GIS data sets, which records all known archaeology sites and historic buildings within the county including Northumberland National Park. This is a public information service and can be found on the Archaeology Data Service website

<https://archaeologydataservice.ac.uk/> and a shortened version is available on the Keys to the Past website

<https://www.keystothepast.info>.

This is not recognised on the Balance Sheet.

17. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2021-22 £m		2022-23 £m
1,036.717	Opening Capital Financing Requirement	1,072.134
	Capital Investment:	
103.208	Property, Plant and Equipment	102.625
9.585	Capital Long Term Debtors	4.264
0.300	Northumberland Enterprise Holdings Limited - Share Capital	-
1.043	PFI / Finance Lease Additions	1.848
47.924	Revenue Expenditure Funded from Capital Under Statute	44.661
	Sources of Finance:	
(6.945)	Capital receipts	(3.138)
(61.951)	Government grants and other contributions	(78.278)
	Sums set aside from revenue/Major Repairs Reserve:	
(8.080)	Major Repairs Reserve	(10.626)
(4.017)	Direct revenue contributions	(2.512)
(21.493)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(49.354)
(6.751)	Voluntary set aside for the financing of capital investment charged against the General Fund and HRA balances	(7.112)
(17.406)	Set aside of capital receipt for the repayment of debt	(6.913)
1,072.134	Closing Capital Financing Requirement	1,067.599
	Explanation of movements in year:	
80.025	Increase in underlying need to borrow (unsupported by government financial assistance)	56.996
(45.651)	Minimum Revenue Provision	(63.379)
1.043	Assets acquired under PFI / PPP contracts	1.848
35.417	Increase in Capital Financing Requirement	(4.535)

18. Intangible Assets

The Council accounts for its software as intangible assets, wherever it is not an integral part of a particular IT hardware item included within property, plant and equipment.

The movement on intangible asset balances during the year is as follows:

2021-22		2022-23	
Total Intangible Assets (Other)*		Total Intangible Assets (Other)*	
Current	Long Term	Current	Long Term
£m	£m	£m	£m
Balance at start of year:			
-	5.298	-	5.413
-	(3.563)	-	(4.176)
-	1.735	-	1.237
Net carrying amount at the start of year			
Additions:			
-	0.115	-	0.060
-	-	-	-
Assets Classified from PPE			
-	-	-	-
Accumulated amortisation on assets reclassified from PPE			
-	-	-	-
Revaluations increase or decreases			
-	-	-	-
-	-	-	(1.194)
Other Disposals - cost			
-	-	-	1.194
Other Disposals - amortisation			
-	(0.613)	-	(0.409)
-	1.237	-	0.888
Net carrying amount at the end of year			
Comprising:			
-	5.413	-	4.279
Gross carrying amounts			
-	(4.176)	-	(3.391)
Accumulated amortisation			
-	1.237	-	0.888
Net carrying amount at the end of year			

*The Council has no internally generated assets.

19. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2022					31 March 2023				
Short Term		Long Term			Short Term		Long Term		
Investments	Debtors	Investments	Debtors		Investments	Debtors	Investments	Debtors	
£m	£m	£m	£m		£m	£m	£m	£m	
Amortised Cost:									
90.000	65.699	-	123.883	Principal	35.000	74.432	-	119.103	
0.122	-	-	-	Add: Accrued interest	0.066	-	-	-	
90.122	65.699	-	123.883	Amortised Cost	35.066	74.432	-	119.103	
-	-	13.490	-	Fair value through other comprehensive income - designated equity Instruments	-	-	13.490	-	
90.122	65.699	13.490	123.883	Total Financial Assets	35.066	74.432	13.490	119.103	
-	20.514	4.638	273.809	Total Non-Financial Assets	-	15.736	5.487	276.543	
90.122	86.213	18.128	397.692	Total	35.066	90.168	18.977	395.646	

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31 March 2022					31 March 2023				
Short Term		Long Term			Short Term		Long Term		
Borrowings	Creditors	Borrowings	Creditors		Borrowings	Creditors	Borrowings	Creditors	
£m	£m	£m	£m		£m	£m	£m	£m	
Amortised Cost:									
(51.552)	(131.043)	(705.378)	-	Principal	(51.552)	(70.984)	(693.826)	-	
(5.426)	-	-	-	Add: Accrued interest	(5.466)	-	-	-	
(56.978)	(131.043)	(705.378)	-	Amortised Cost	(57.018)	(70.984)	(693.826)	-	
-	-	-	-	Fair value through profit and loss	-	-	-	-	
(56.978)	(131.043)	(705.378)	-	Total Financial Liabilities	(57.018)	(70.984)	(693.826)	-	
-	(5.053)	-	(67.318)	Total Non-Financial Liabilities	-	(11.313)	-	(64.392)	
(56.978)	(136.096)	(705.378)	(67.318)	Total	(57.018)	(82.297)	(693.826)	(64.392)	

Notes to the Accounts

The non-financial instruments figures represent items outside the scope of financial instruments; such as amounts in respect of statutory debts and do not arise from contracts (Council Tax and Non-Domestic Rates), rights and obligations arising from leases, Private Finance Initiatives (PFI), receipts in advance, prepayments, cash and cash equivalents, and interests in subsidiaries and entities that are included within the authority's group accounts.

Investments in equity instruments designated at fair value through other comprehensive income

The Council has decided to designate its 15.4% shareholding in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) as fair value through other comprehensive income under IFRS 9 classifications. This decision protects council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

	Nominal Value £m	Fair Value at 31 March 2023 £m	Movement in Fair Value during 2022-23 £m
Newcastle Airport	0.295	13.490	-

Material Soft Loans Made by the Council

The Council has made a number of soft loans to voluntary, other organisations and wholly-owned subsidiaries at less than market rates (soft loans). The Council applies a de minimis level of £0.100 million for new soft loans adjustments.

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made is arrived at from either the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating; or, where it is difficult to identify the prevailing rate of interest, by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid by the borrower.

Notes to the Accounts

Financial Instruments Gains and Losses

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

2021-22					2022-23				
Financial Liabilities measured at Amortised Cost £m	Financial Assets at Amortised Cost £m	Investments in equity instruments designated as fair value through other comprehensive income £m	Total £m		Financial Liabilities measured at Amortised Cost £m	Financial Assets at Amortised Cost £m	Investments in equity instruments designated as fair value through other comprehensive income £m	Total £m	
(23.004)	-	-	(23.004)	Interest expense	(23.847)	-	-	(23.847)	
-	-	-	-	Fee Expense	(0.024)	-	-	(0.024)	
(23.004)	-	-	(23.004)	Total expense in deficit on the provision of services	(23.871)	-	-	(23.871)	
-	6.078	-	6.078	Interest income	-	8.864	-	8.864	
-	6.078	-	6.078	Total income in deficit on the provision of services	-	8.864	-	8.864	
-	-	3.761	3.761	Gain on Revaluation	-	-	-	-	
-	-	3.761	3.761	Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	
(23.004)	6.078	3.761	(13.165)	Net gain/(loss) for the year	(23.871)	8.864	-	(15.007)	

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Fair Value of Financial Assets

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

31 March 2022 Fair Value £m	Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation technique used to measure fair value	31 March 2023 Fair Value £m
13.490	Equity shareholding in Newcastle Airport Local Authority Holding Company Limited	Level 3	Combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations	13.490
13.490		Total Assets		13.490

Through its shares and 15.4% holding in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) the Council has an effective shareholding of 7.9% in Newcastle International Airport Limited (NIAL) (and the group companies of NIAL Group Limited and NIAL Holdings Limited) - see Related Parties note 35.

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

The fair value for Newcastle Airport is based on a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to valuations and other observable and unobservable factors. The last full valuation took place at 31 March 2022.

Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares next year.

There has been no change in valuation technique used during the year for the financial instruments.

Notes to the Accounts

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value disclosures are required)

Except for all the other financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;

Where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value; and,

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

31 March 2022			31 March 2023	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£m	£m		£m	£m
448.849	580.972	PWLB - Maturity	448.343	395.984
0.585	0.872	PWLB - Annuity	0.548	0.722
5.052	5.244	PWLB - EIP	4.042	3.987
178.203	329.021	LOBOs	178.201	199.042
129.667	188.171	Market Loans	119.710	128.237
762.356	1,104.280	Total Financial Liabilities	750.844	727.972

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2023) arising from a commitment to pay interest to lenders above current market rates.

The differences are attributable to fixed interest instruments receivable being held by the Council where the interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

31 March 2022			31 March 2023	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£m	£m		£m	£m
90.122	90.122	Short Term Investments	35.066	35.066
13.490	13.490	Long Term Investments	13.490	13.490
123.883	135.828	Long Term Debtors	119.103	116.307
227.495	239.440	Total Financial Assets	167.659	164.863

20. Nature and Extent of Risks Arising from Financial Instruments

Risk Management

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments; and,
- market risk – the possibility that financial loss might arise for the Council as a result of changes in measures such as interest rates and stock market movements.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on the risk implications for the organisation.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure from the Council's customers. The Council's Counterparty Policy sets out the limits for investments.

Specified Investments

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 years (with annual calls)
Debt Management Organisations	N/A	N/A	Unlimited	6 months
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	12 months
Nationalised and Semi-Nationalised Banks	N/A	N/A	£35m (Group Limit £70m)	12 months
Money Market Funds	AAA	Aaa	£25m (Group Limit £150m)	Instant access
Deposits and Certificates of Deposit with approved eligible financial institutions which meet the following criteria				
Very High Grade UK Clearing Banks/ Building Societies	ST:F1+	ST:P-1	£25m (Group Limit £50m)	12 months
High Upper Medium Grade UK Clearing Banks/ Building Societies	ST:F1	ST:P-1	£15m (Group Limit £30m)	12 months
High Grade Foreign Banks	ST:F1	ST:P-1	£10m (Group Limit £30m)	6 months

Notes to the Accounts

Non-specified Investments

No Treasury Management Strategy limits were exceeded during the reporting period.

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities (Including the North East Combined Authority)	N/A	N/A	Unlimited	15 years
UK Government Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	15 years
Enhanced Cash Funds (Variable net asset value)	AAA	Aaa	£15m per fund (£60m in total)	30 (1) days notice
Deposits or Corporate Bonds with institutions which meet the rating criteria	ST:F1	ST:P-1	£10m per institution	5 Years
	LT:A-	LT:A3		
Deposits or Corporate Bonds with institutions which meet the rating criteria	ST:F2	ST:P-2	£5m per institution	12 months
	LT:A-	LT:A3		
Good, Medium Grade UK Clearing Banks/ Building Societies	ST:F2	ST:P-2		
	LT:BBB	LT:Baa1	£10m per banking Group	6 months
Building Societies which have assets in excess of £10,000m	N/A	N/A	£12m per Building Society	12 months
Building Societies which have assets in excess of £5,000m	N/A	N/A	£10m per Building Society	6 months
Building Societies which have assets in excess of £1,000m	N/A	N/A	£5m per Building Society	3 months

Amounts Arising from Expected Credit Losses

Allowances for impairment losses have been assessed for amortised cost assets (including long-term debtors), applying the expected credit losses model.

As a result of the Covid-19 pandemic, and its impact on airport operations, an expected credit loss adjustment has been made to the loan notes provided to Newcastle International Airport (NIAL) Group Limited – as outlined in Note 35, Related Parties.

It has been concluded that the expected credit losses on all other financial assets are either not material or that the cash flows from the sale of collateral held would negate any such losses. Wherever possible, the Council aims to mitigate its risks and exposure to default by seeking appropriate additional security from the borrower. This is often in the form of a legal charge over the borrower's property / assets. As a result, no allowances for expected credit losses have been made.

Loans to the Council's wholly owned subsidiary, Advance Northumberland Limited, are excluded from the requirements of financial instruments (and therefore the above assessment) as they are covered by more specific provisions about their recognition, measurement and disclosure within the Council's Group Accounts.

Notes to the Accounts

Customer Debt

The Council at 31 March 2023 had £28.622 million (2021-22 £27.127 million) of customer debt, with £10.256 million of this past due (2021-22 £11.306 million). This amount can be analysed by age as follows:

31 March 2022		31 March 2023
£m		£m
15.821	Debt within terms	18.366
3.584	Less than three months	1.991
0.707	Three to six months	0.445
1.844	Six months to one year	2.975
5.171	More than one year	4.845
27.127	Total	28.622

A review of balances at 31 March 2023 suggested that an impairment of doubtful debts allowance of £4.639 million (2021-22 £2.593 million) was appropriate.

In addition to customer debt, the Council has also impaired the non-contractual debt which it holds in relation to Council Tax, Business Rates and Housing Benefits. For Council Tax and Business Rates, any debt that is determined to be individually significant is considered initially on a case-by-case basis, taking into account the recovery action taken to date and the likelihood of recovery. The remaining debt is then grouped, and an aged debt analysis is carried out applying the percentages shown below.

Year	Council Tax			Business Rates		
	Percentage	Debt	Impairment	Percentage	Debt	Impairment
	%	£m	£m	%	£m	£m
2018-19 and older	100	3.722	3.722	100	1.402	1.369
2019-20	80	1.843	1.475	80	0.771	0.617
2020-21	60	2.457	1.474	60	0.675	0.422
2021-22	40	3.564	1.426	40	1.676	0.560
2022-23	10	6.880	0.688	20	4.043	0.571
Total	N/A	18.466	8.785	N/A	8.567	3.539
Council's share	N/A	15.249	8.125	N/A	3.471	1.770

As with other Collection Fund balances, the debt and impairment balances relating to Council Tax and Business Rates are shared between the relevant precepting authorities.

For Housing Benefits, the debt is impaired based on the recovery action taken and the likelihood of recovery.

The Council's overall impairment of doubtful debt is shown below.

	2022-23			
	Debt	Historical Experience of Default	Impairment	Not Impaired Debt
	£m	%	£m	£m
Customers	10.256	1.3	4.639	5.617
Council Tax	15.249	1.8	8.125	7.124
Business Rates	3.471	9.7	1.770	1.701
Housing Benefits	1.635	2.5	0.200	1.435
Total	30.611	2.5	14.734	15.877

Financial Guarantees

The Council has reviewed its exposure to financial guarantees provided in the event of default by other organisations. The only area of risk identified is in relation to guarantees provided to Tyne and Wear Pension Fund in respect of certain employers participating in the Local Government Pension Scheme. Formal agreements are in place in respect of The Association of

Notes to the Accounts

North East Councils, Active Northumberland, Bernicia Group and Karbon Homes, Newcastle International Airport Company Ltd, Northumbria Healthcare NHS Foundation Trust, Queens Hall Art Centre, Woodhorn Charitable Trust, and The Newcastle, North Tyneside and Northumberland Combined Authority but the risk of any guarantee being called upon is assessed as very low, therefore no fair value has been calculated on grounds of materiality.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures set out earlier (the setting and approval of prudential indicators and the approval of the Treasury and Investment Strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

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

The Council's long-term borrowing can be analysed as follows:

31 March 2022		31 March 2023
£m		£m
Analysis by Loan Type		
449.745	Public Works Loans Board	448.205
79.133	Other Market Loans	69.121
176.500	LOBO (Market Loans)	176.500
705.378		693.826
Analysis of Loans by Maturity		
11.552	Between 1 and 2 years	2.303
29.415	Between 2 and 5 years	27.170
47.297	Between 5 and 10 years	52.285
105.314	Between 10 and 20 years	100.268
17.200	Between 20 and 30 years	20.200
128.000	Between 30 and 40 years	125.000
230.600	Between 40 and 50 years	250.600
136.000	Between 50 and 60 years	116.000
705.378		693.826

All trade and other payables are due to be paid in less than one year.

Notes to the Accounts

Market Risk – Interest Rate Risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the liabilities associated with borrowings will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and,
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Comprehensive Income and Expenditure Statement and impact upon the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income and Expenditure Statement.

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

If interest rates had been 1.0% higher at 31 March 2023 with all other variables held constant, the effect would have been:

	31 March 2023 £m
Increase in Interest Payable on Variable Rate Borrowings	1.210
Increase in Interest Receivable on Variable Rate Investments	(1.380)
Impact on Deficit/(Surplus) on the Provision of Services	(0.170)
<u>Decrease in Fair Value of fixed rate borrowing (no impact on CIES)</u>	<u>(109.573)</u>

The impact of a 1.0% fall in interest rates would be as above but with the movements being reversed.

The increase in interest payable on borrowings is largely due to the fact that the Council has £121.000 million of LOBO borrowing which has now gone past its initial fixed interest period and is subject to the potential to be called by the lender at specific intervals. If a loan were called, the Council would be exposed to a potential change in interest rate. Despite recent increases in interest rates, current market forecasts indicate that the rates will return to lower levels, and it is considered that there is a low risk of those LOBO loans with call dates within the next 12 months being called. All LOBO loans have therefore been classified as long term.

Market Risk – Price Risk

The Council does not invest in equity shares but does have shareholdings in Newcastle Airport Local Authority Holding Company and Advance Northumberland Limited. Further information on these shareholdings is contained in Note 35 Related Parties.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares in Newcastle Airport Local Authority Holding Company are classified as "Fair Value through other Comprehensive Income" and are included at fair value. The shares in Advance Northumberland Limited are included at historic cost.

21. Leases

Council as Lessee

Finance Leases

The Council has a number of ground leases for assets included within Property, Plant and Equipment in the Balance Sheet. The land is mostly held on a peppercorn rent and therefore immaterial for reporting purposes.

Operating Leases

The majority of the leases are for land and buildings, with a small number of residual vehicle leases.

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

31 March 2022		31 March 2023
£m		£m
0.867	Not later than one year	1.080
1.023	Later than one year and not later than five years	0.973
0.609	Later than five years	0.567
2.499		2.620

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2022		31 March 2023
£m		£m
1.500	Minimum lease payments	1.383

Council as Lessor

Finance Leases

The Council has numerous finance leases in place, including schools previously controlled by the Council which have converted to Academy Schools which are now on 125-year leases. The Council either receives nil or peppercorn annual rental for these properties.

Operating Leases

The Council leases out property under operating leases for the following purposes:

- for the provision of community services, such as sports facilities and playgroups; and,
- for economic development purposes to provide suitable affordable accommodation for local businesses.

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

31 March 2022		31 March 2023
£m		£m
0.810	Not later than one year	0.461
0.314	Later than one year and not later than five years	0.365
0.676	Later than five years	0.681
1.800		1.507

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

22. Debtors

31 March 2022		31 March 2023
£m		£m
	Short Term:	
20.983	Government bodies	23.322
13.198	NHS Bodies	12.451
49.721	Other entities and individuals	49.735
2.241	Other local authorities	3.894
0.070	Public corporations and trading funds	0.766
86.213	Total Short Term	90.168
	Long Term:	
188.293	Advance Northumberland Commercial	188.117
35.918	Advance Northumberland Development	38.256
39.765	Advance Northumberland Housing	40.648
9.834	Advance Northumberland Housing - Executive	9.521
13.750	NCC - Airport Loan Notes	15.086
1.288	NELEP - Ashwood	1.288
2.850	NELEP - Bates/Blyth Harbour	2.850
9.040	NELEP - East Sleekburn Enterprise Zone	8.589
1.203	Northumberland Aged Miners Housing Association - Solar Panel Loan	1.114
5.200	Northumberland College Loan 2014	5.200
17.000	Northumbria Healthcare NHS Foundation Trust Berwick Hospital Loan	16.000
71.747	Northumbria Healthcare NHS Foundation Trust Hexham Hospital Loan	67.326
1.804	Other Loans	1.651
397.692	Total Long Term	395.646
483.905	Total Debtors	485.814

23. Cash and Cash Equivalents

Cash and Cash Equivalents are made up of the following elements:

31 March 2022		31 March 2023
£m		£m
98.876	Cash and Cash Equivalents	80.673
(11.988)	Bank overdraft	(13.907)
86.888	Total Cash and Cash Equivalents	66.766

24. Assets Held for Sale

Current 2021-22	Non-Current 2021-22		Current 2022-23	Non-Current 2022-23
£m	£m		£m	£m
1.587	0.497	Balance at 1 April	3.793	0.295
		Assets newly classified as held for sale:		
3.383	-	Property, Plant and Equipment	0.008	-
(0.477)	(0.155)	Revaluation losses	-	-
-	-	Revaluation gains	-	-
		Assets declassified as held for sale:		
(0.200)	-	Property, Plant and Equipment	-	-
-	-	Investment property	-	-
(0.500)	(0.047)	Assets sold	(0.182)	-
		Assets transferred from Noncurrent to current	-	-
3.793	0.295	Balance at 31 March	3.619	0.295

25. Private Finance Initiatives (PFI) and Similar Contracts

The following table shows the reconciliation of long-term creditors to the PFI and other finance lease liabilities:

31 March 2022 £m		31 March 2023 £m
	Long term finance lease liability:	
(49.394)	Waste PFI	(47.593)
(9.918)	Fire PFI	(9.460)
(59.312)	Total Finance Lease Liability	(57.053)
	Long term deferred credits:	
(8.006)	Waste PFI	(7.339)
(8.006)	Total Deferred Credits	(7.339)
(67.318)	Total Long Term Creditors	(64.392)

The Council has entered into two PFI schemes as detailed below:

Waste PFI

2022-23 was the 16th year of a 28-year integrated Waste PFI contract covering the construction, maintenance and operation of a range of waste treatment facilities and reception, storage, transport, recycling, composting, energy recovery and landfill disposal of household and commercial wastes

collected by the Council. The Council has the right under the Agreement to use the various waste facilities for the provision of waste services.

The contract specifies a minimum standard for the services to be provided by the contractor. In the event of a service performance shortfall or if facilities become unavailable deductions will be made to the unitary charge payable. The contractor took on the obligation to ensure at all times that the services at each centre meet all the requirements of the Agreement, the Services Specification, the Service Delivery Proposals, Good Industry Practice, Guidance and all applicable Authorities' Policies and Legislation.

The buildings and any plant and equipment at the end of the Agreement will be transferred to the Council for nil consideration, with the exception of an extension to an existing energy from waste facility located outside of the Council's administrative area that will revert to the contractor as it will be at the end of its useful operational life.

The Council has the right to terminate the Agreement by giving the agreed notice period and paying the Authority Default Termination Sum, as detailed in the Agreement.

Payments to the service provider under this scheme depend upon a number of factors, including the performance of the contract.

Notes to the Accounts

The figures below provide information on the movement of the Waste PFI assets held on the Council's Balance Sheet during 2022-23:

	2021-22	2022-23	2022-23	2022-23
	£m	Plant Shell £m	Project Assets £m	£m
Cost brought forward 1 April	73.114	12.120	65.497	77.617
Additions in year	1.043	-	1.848	1.848
Revaluation in year	4.503	0.085	(0.001)	0.084
Disposals	(1.043)	-	(1.860)	(1.860)
Cost carried forward 31 March	77.617	12.205	65.484	77.689
Accumulated depreciation brought forward 1 April	(7.384)	-	(8.556)	(8.556)
Revaluations in year	2.224	0.713	4.496	5.209
Disposals	0.054	-	0.121	0.121
Depreciation charge for year	(3.450)	(0.713)	(3.279)	(3.992)
Depreciation at 31 March	(8.556)	-	(7.218)	(7.218)
Net book value carried forward 31 March	69.061	12.205	58.266	70.471

The following table provides information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2022-23:

	2021-22	2022-23	2022-23	2022-23
	£m	Plant Shell £m	Project Assets £m	£m
Lease liability brought forward 1 April	52.208	10.092	40.889	50.981
Payments made in year	(1.227)	(0.343)	(1.243)	(1.586)
Liability carried forward 31 March	50.981	9.749	39.646	49.395

Notes to the Accounts

The following table provides the best estimates of payments in future periods, on the assumption that the contractor provides a reliable service. Variable elements of the charge have been inflated in line with predicted RPI increases:

	31 March 2022 £m	Lifecycle Replacement £m	Repayment of Liability £m	Interest Charges £m	Service Charges £m	31 March 2023 £m
Within one year	26.211	1.375	1.802	8.189	16.620	27.986
Within two to five years	112.408	5.780	10.375	32.778	71.382	120.315
Within six to ten years	159.788	7.900	23.413	39.157	100.499	170.969
Within eleven to fifteen years	107.180	3.385	13.805	13.771	44.413	75.374
	405.587	18.440	49.395	93.895	232.914	394.644

Notes to the Accounts

The following transactions were processed during 2021-22 and 2022-23:

2021-22		2022-23
£m		£m
13.494	Service Charge	12.383
1.268	Lifecycle Maintenance	1.348
1.227	Capital Repayment	1.586
5.523	Interest	5.393
2.669	Contingent Rent	(0.298)
24.181	Total Payment	20.412
(3.141)	PFI Grant Receivable	(3.141)
21.040	Net Payment	17.271

Notes to the Accounts

Fire & Rescue PFI

2022-23 was the 13th year of a 25-year PFI contract for the construction, maintenance and operation of two fire stations in Pegswood and West Hartford. The Council has the rights under the Agreement to use the stations for the provision of the Fire and Rescue Services.

The contract specifies a minimum standard for the services to be provided by the contractor. In the event of a service performance shortfall or if the facilities become unavailable, deductions will be made to the unitary charge payable. The contractor took on the obligation to ensure at all times the services at each station meet all the requirements of the Agreement, the services specification, the service delivery proposals, good industry practice, guidance and all applicable Authorities' policies and legislation.

The buildings and any plant and equipment at the end of the Agreement will be transferred to the Council for nil consideration.

The Council has the right to terminate the Agreement by giving the agreed notice period and paying the Default Termination Sum, as detailed in the Agreement.

Payments to the service provider under this scheme depend upon a number of factors, including the performance of the contract. Changes to works, the services or the stations agreed, in accordance with the Change Protocol detailed in the Agreement, will result in an adjustment to the annual payments to the service provider.

The figures below provide information on the movement of the Fire and Rescue PFI assets held on the Balance Sheet during 2022-23:

2021-22 £m		2022-23 £m
20.066	Costs brought forward 1 April	22.207
0.064	Recognition of deferred assets within fixed assets	-
2.077	Revaluation Gain	(10.708)
22.207	Cost carried forward 31 March	11.499
(0.664)	Depreciation brought forward 1 April	(1.465)
(0.137)	Revaluations in year	2.201
(0.664)	Depreciation charge for year	(0.736)
(1.465)	Depreciation at 31 March	-
20.742	Net book value carried forward 31 March	11.499

The figures below provide information on the movement of the PFI lease liability held on the Balance Sheet during 2022-23:

2021-22 £m		2022-23 £m
10.713	Lease liability brought forward 1 April	10.334
(0.379)	Payments made in year	(0.416)
10.334	Liability carried forward 31 March	9.918

Notes to the Accounts

The following table provides the best estimate of payments in future periods on the assumption that the contractor provides a reliable service. The amounts include the adjustment to the payments, agreed during 2013-14, relating to changes to works, the services or the stations. The adjustments affect the lifecycle maintenance and the service charges elements of the unitary charge. Variable elements of the charge have been inflated in line with predicted RPI increases:

	31 March 2022	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	31 March 2023
	£m	£m	£m	£m	£m	£m
Within one year	2.664	0.270	0.457	1.111	1.000	2.838
Within two to five years	10.997	1.310	2.330	4.034	4.948	12.622
Within six to ten years	14.586	2.311	4.523	3.614	9.058	19.506
Within eleven to fifteen years	9.646	1.528	2.608	0.440	5.409	9.985
	37.893	5.419	9.918	9.199	20.415	44.951

The following transactions were processed during 2021-22 and 2022-23:

	2021-22		2022-23
	£m		£m
0.848	Service Charge		0.921
0.233	Lifecycle Maintenance		0.251
0.379	Capital Repayment		0.416
1.132	Interest		1.091
0.039	Contingent Rent		0.052
2.631	Total Payment		2.731
(1.619)	PFI Grant Receivable		(1.619)
1.012	Net Payment		1.112

26. Creditors

31 March 2022		31 March 2023
£m		£m
(65.269)	Government bodies	(17.111)
(1.747)	NHS bodies	(1.025)
(63.756)	Other entities and individuals	(59.765)
(3.443)	Other local authorities	(0.940)
(1.881)	Public corporations and trading funds	(3.456)
(136.096)	Total	(82.297)

27. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the Council at 31 March 2023:

	Total Cost	Future Payments
	£m	£m
Berwick Leisure Centre	1.586	1.586
County Hall Solar Car Port	3.060	1.206
Todstead Landslip	3.497	3.497

28. Provisions

Provisions	Redundancy Costs £m	NNDR Appeals £m	Estates Rationalisation £m	Compensation Claims £m	Contractor Claims £m	Total £m
Balance at 1 April 2021	(0.171)	(7.494)	(0.577)	(0.150)	-	(8.392)
Amounts used in 2021-22	0.155	0.711	-	0.003	-	0.869
Additional provisions made in 2021-22	-	(1.916)	-	-	(0.233)	(2.149)
Unused amounts reversed in 2021-22	0.016	-	-	-	-	0.016
Balance at 31 March 2022	-	(8.699)	(0.577)	(0.147)	(0.233)	(9.656)
Amounts used in 2022-23	-	1.354	-	0.067	-	1.421
Additional provisions made in 2022-23	(0.545)	(0.114)	-	-	(0.097)	(0.756)
Unused amounts reversed in 2022-23	-	2.247	-	-	-	2.247
Balance at 31 March 2023	(0.545)	(5.212)	(0.577)	(0.080)	(0.330)	(6.744)
Comprising:						
Short Term	(0.545)	(5.212)	(0.451)	(0.080)	(0.330)	(6.618)
Long Term	-	-	(0.126)	-	-	(0.126)
Total Provisions	(0.545)	(5.212)	(0.577)	(0.080)	(0.330)	(6.744)

Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2022-23 (there were no comparative amounts during 2021-22) and as such the Council has a constructive obligation to meet these costs. The amount included is the best estimate of the liability as at the Balance Sheet date.

National Non-Domestic Rates (NNDR) Appeals

In addition to the local management of business rates authorities are expected to finance their proportion of appeals, made by ratepayers, against the rateable valuation set by the Valuation Office. A provision of £10.426 million has been created within the 2022-23 accounts based on the best estimate of the potential liability required to settle successful appeals. £0.229 million relates to the 2010 valuation list and £10.197 million relates to the 2017 valuation list. This has been allocated 50.0% to Northumberland County Council and 50.0% to Central Government.

Estates Rationalisation

This provision is maintained to cover anticipated costs in relation to rationalising the Council's estate following a review by Estates Management.

Compensation Claims

There are a number of claims that have been received in relation to a depreciation of property values under the Land Compensation Act Part 1 which have not yet been settled. The estimated value of these claims is £0.080 million.

Contractor Claims

Exceptional Insurance costs have been claimed by a contractor amounting to £0.330 million for the period 1 November 2020 to 31 October 2022.

29. Unusable Reserves

31 March 2022		31 March 2023	
£m		£m	
(5.026)	Accumulated Absences Adjustment Account	(5.752)	
579.099	Capital Adjustment Account	608.671	
(9.168)	Collection Fund Adjustment Account	3.401	
(8.393)	Financial Instruments Adjustment Account	(8.116)	
13.195	Financial Instruments Revaluation Reserve	13.195	
(757.497)	Pensions Reserve	(248.139)	
204.229	Revaluation Reserve	216.505	
16.439	Total Unusable Reserves	579.765	

Accumulated Absences Adjustment Account

The Accumulated Absences Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g., unused annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2021-22		2022-23	
£m	£m	£m	£m
(3.894)	Balance at 1 April	(5.026)	
3.894	Settlement or cancellation of accrual made at the end of the preceding year	5.026	
(5.026)	Amounts accrued at the end of the current year	(5.752)	
(1.132)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.726)	
(5.026)	Balance at 31 March	(5.752)	

Notes to the Accounts

Capital Adjustment Account

The balance on the account represents the timing difference between the amount of historical cost of non-current assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

2021-22 £m		2022-23 £m
587.254	Balance at 1 April	579.099
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(52.935)	Charges for depreciation and impairment of non-current assets	(57.021)
(0.632)	Deficit on available-for-sale financial assets	-
(6.669)	Revaluation losses on Property, Plant and Equipment	(19.234)
(0.613)	Amortisation of intangible assets	(0.410)
(47.924)	Revenue expenditure funded from capital under statute	(44.661)
(33.030)	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(14.641)
5.622	Adjusting amounts written out of the Revaluation Reserve	6.246
1.114	Modification adjustments charged to Comprehensive Income and Expenditure Statement in respect of capital financial assets	1.428
0.030	Expected Credit Loss allowances (charged) / credited to Comprehensive Income and Expenditure Statement in respect of capital financial assets	(0.090)
	Capital financing applied in the year:	
6.945	Use of the Capital Receipts Reserve to finance new capital expenditure	3.138
8.080	Use of the Major Repairs Reserve to finance new capital expenditure	10.626
54.071	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	68.440
7.880	Application of grants to capital financing from the Capital Grants Unapplied Grant	9.838
21.493	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	49.354
6.751	Voluntary set aside for the financing of capital investment charged against the General Fund and HRA balances	7.112
17.406	Set aside of capital receipt for the repayment of debt	6.912
4.017	Capital expenditure charged against the General Fund and HRA balance	2.512
0.239	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	0.023
579.099	Balance at 31 March	608.671

Notes to the Accounts

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for transferring across amounts to the General Fund from the Collection Fund:

2021-22 £m		2022-23 £m
(21.907)	Balance at 1 April	(9.168)
12.739	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates calculated for the year in accordance with statutory requirements	12.569
(9.168)	Balance at 31 March	3.401

Financial Instruments Adjustment Account

This represents the difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the net charge required against the General Fund balance in respect of Financial Assets and Financial Liabilities in the Movement in Reserves Statement. The adjustment to the General Fund balance is required by statutory regulations whereas the Comprehensive Income and Expenditure Statement needs to meet the requirements of the CIPFA Code of Practice:

2021-22 £m		2022-23 £m
(8.728)	Balance at 1 April	(8.393)
0.311	Proportion of premiums/(discounts) incurred in previous financial years to be charged/(credited) against the General Fund balance in accordance with statutory requirements	0.253
0.024	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0.024
(8.393)	Balance at 31 March	(8.116)

Financial Instruments Revaluation Reserve

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

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

The reserve reflects the change in value of the Council's shareholding in Newcastle International Airport which did not change during 2022-23:

2021-22 £m		2022-23 £m
9.434	Balance at 1 April	13.195
3.761	Upward Revaluation of Investment	-
13.195	Balance at 31 March	13.195

Notes to the Accounts

Pensions Reserve

Pension costs are recognised in the year in which the benefit entitlements are earned by employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pensions Reserve represents the net liability for future pension costs:

2021-22 £m		2022-23 £m
(907.319)	Balance at 1 April	(757.497)
58.030	Return on plan assets	(50.680)
133.224	Actuarial gains or (losses) arising on changes in financial assumptions	785.064
22.143	Actuarial gains or (losses) arising on changes in demographic assumptions	(8.340)
(11.912)	Other	(164.372)
(89.583)	Reversal of items relating to retirement benefits debited or credited to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(94.132)
37.920	Employer's pensions contributions and direct payments to pensioners payable in the year	41.818
(757.497)	Balance at 31 March	(248.139)

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Revaluation Reserve

The balance on this reserve represents the accumulated gains on the re-valued non-current assets held by the Council since 1 April 2007 less that part of the depreciation charge that has been incurred only because the assets have been re-valued. Whilst these gains increase the net worth of the Council, they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated. On disposal the Revaluation Reserve value for an asset is written off to the Capital Adjustment Account.

2021-22 £m		2022-23 £m
136.668	Balance at 1 April	204.229
91.438	Upward revaluation of assets	50.826
(18.255)	Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(32.304)
(4.761)	Difference between fair value depreciation and historical cost depreciation	(5.841)
(0.861)	Accumulated gains on assets sold or scrapped	(0.405)
-	Amount written off to the Capital Adjustment Account	-
204.229	Balance at 31 March	216.505

30. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pensions Scheme

Teachers employed by the Council are offered membership of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

As a proportion of the total contributions into the Teachers' Pension Scheme, the Council's own contributions equated to approximately 71.8% for 2022-23. The Council paid £12.152 million in 2022-23 (£11.703 million in 2021-22) to the Teachers' Pensions Agency in respect of teachers' retirement benefits, which represents 23.7% of teachers' pensionable pay for the period 1 April 2022 to 31 March 2023.

The contributions due to be paid in the next financial year are estimated to be £12.351 million.

The Scheme is a defined benefit final salary scheme. It is not possible for the Council to identify its share of the underlying liabilities in the scheme, and it is therefore classified as a defined contribution scheme for the purposes of the accounting requirements of IAS 19 and does not form part of the pension deficit described in Note 31.

The Council is responsible for the costs of any early retirement (the Teachers' Unfunded Scheme), and this is included in the pension deficit described in Note 29.

Academies/Agencies

The Council acted as the payroll provider for six academies and one agency during the 2022-23 financial year, namely:

- Cramlington Learning Village Academy (since 1 September 2011);
- Berwick Academy (since 1 November 2011);
- Meadowdale Academy (since 1 April 2012 to May 2022);
- Ponteland Academy (since September 2017);

- Pele Trust (Since 1 February 2019);
- Tyne Community Learning Trust (since 1 September 2019); and
- Active Northumberland (since 1 September 2015 with regard to Teachers Pensions).

As part of this service the Council pays pension contributions to the Teachers' Pensions Agency on behalf of these establishments.

For 2022-23, employer contributions amounting to £4.772 million (23.7% of pensionable pay) and employee contributions amounting to £1.918 million (at rates ranging from 7.4% to 11.7% of pensionable pay), were paid over to the Teachers' Pensions Agency on behalf of the academies/agency listed above.

NHS Pension Scheme

NHS staff who transferred to the Council in 2013-14, and on 1 October 2021, can choose to maintain their membership of the NHS Pension Scheme, administered by the NHS Business Services Authority.

The Scheme provides these staff with specified benefits upon retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is an unfunded defined benefit scheme. For 2022-23, the Council paid employee contributions of £1.255 million (contribution rates ranging from 5.0% to 14.5% of pensionable pay), and employer contributions of £2.018 million (contribution rate representing 14.4% of pensionable pay) to the NHS Pension Scheme in respect of former NHS staff.

The contributions due to be paid in the next financial year are estimated to be £3.174 million.

31. Defined Benefit Pension Schemes

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

The principal risks to the authority of the post-employment schemes are the longevity, inflation and (where relevant) investment asset performance assumptions and experience, statutory changes to the schemes, and structural changes to scheme membership. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies Note 40.

The Council participates in nine post-employment schemes. Seven of these are treated as defined benefit schemes as outlined below. The other schemes are defined contribution schemes and are included in Note 30.

The Local Government Pension Scheme (LGPS) for employees other than teachers and firefighters is administered by South Tyneside Council. The LGPS is a funded defined benefit final salary and career average revalued earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Fund Administering Authority, South Tyneside Council, is responsible for the Governance of the Fund.

The LGPS Unfunded Scheme for employees other than teachers and firefighters is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, which are paid for by the Council on a pay-as-you-go basis. The LGPS Unfunded Scheme provides enhanced pensions for certain former employees who were granted early retirement by the Council. No enhanced LGPS pensions have been granted since November 2003.

The Teachers' Unfunded Scheme for teachers only is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, which are paid for by the Council on a pay-as-you-go basis.

salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, which are paid for by the Council on a pay-as-you-go basis. The Teachers' Unfunded Scheme provides enhanced pensions for certain former employees who were granted early retirement by the Council. No enhanced Teachers' pensions have been granted since January 2004.

The 1992 Firefighters' Pension Scheme (FPS 1992) is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. Under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 the Council and employees pay contributions into a notional fund. The fund is topped up by a government grant if the receipts into it are insufficient to meet the cost of pension and other payments. Any surplus in the fund is recouped by government in the year. With effect from 1 April 2022 this scheme closed to new accrual and all remaining active members were transferred into the reformed 2015 scheme.

The 2006 Firefighters' Pension Scheme (FPS 2006) is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS 1992. With effect from 1 April 2022 this scheme closed to new accrual and all remaining active members were transferred into the reformed 2015 scheme.

The 2015 Firefighters' Pension Scheme (FPS 2015) is administered by Northumberland County Council. This is an unfunded defined benefit career average revalued earnings scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS 1992.

The Firefighters' Injury Pensions and Non-Scheme Ill-Health Pensions are administered by Northumberland County Council. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. These pensions are not covered by the funding arrangements as described above for the FPS and are paid for by the Council on a pay-as-you-go basis.

Notes to the Accounts

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported Cost of Services in the Comprehensive Income and Expenditure Statement when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund (and Housing Revenue Account) via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

2021-22					2022-23					
LGPS	Firefighters' Schemes	LGPS Unfunded Scheme	Teachers' Unfunded Scheme	Total		LGPS	Firefighters' Schemes	LGPS Unfunded Scheme	Teachers' Unfunded Scheme	Total
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement (CIES)										
Cost of Services:										
(62.750)	(4.962)	-	-	(67.712)	Current service cost	(71.310)	(3.865)	-	-	(75.175)
(0.370)	-	-	-	(0.370)	Past service cost	(0.170)	-	-	-	(0.170)
(2.820)	-	-	-	(2.820)	Settlement Cost	1.090	-	-	-	1.090
Financing and Investment Income and Expenditure:										
(2.710)	(4.901)	(0.580)	(0.490)	(18.681)	Net interest expense	(12.630)	(6.007)	(0.680)	(0.560)	(19.877)
(8.650)	(9.863)	(0.580)	(0.490)	(89.583)	Total post-employment benefit charged to the surplus/deficit on the provision of services	(83.020)	(9.872)	(0.680)	(0.560)	(94.132)
Other post-employment benefit charged to the CIES										
Remeasurement of the net defined liability comprising:										
58.030	-	-	-	58.030	Return on plan assets (excluding the amount included in the net interest expense)	(50.680)	-	-	-	(50.680)
118.380	13.724	0.640	0.480	133.224	Actuarial gains and (losses) arising on changes in financial assumptions	695.690	82.134	4.130	3.110	785.064
19.080	2.273	0.410	0.380	22.143	Actuarial gains and (losses) arising on changes in demographic assumptions	(8.990)	-	0.390	0.260	(8.340)
(11.110)	(0.602)	(0.110)	(0.090)	(11.912)	Other	(141.620)	(18.652)	(2.260)	(1.840)	(164.372)
184.380	15.395	0.940	0.770	201.485	Total other post-employment benefit charged to the Comprehensive Income and Expenditure Statement	494.400	63.482	2.260	1.530	561.672
105.730	5.532	0.360	0.280	111.902	Total charge to the Comprehensive Income and Expenditure Statement	411.380	53.610	1.580	0.970	467.540
Movement in Reserves - General Fund Balance:										
78.650	9.863	0.580	0.490	89.583	Reversal of net charges made to the surplus/deficit for the provision of services for post-employment benefit	83.020	9.872	0.680	0.560	94.132
Actual amount charged against the General Fund Balance for pensions in the year:										
(27.630)	-	-	-	(27.630)	Employer's contributions payable to the scheme	(31.280)	-	-	-	(31.280)
-	(5.740)	(2.110)	(2.440)	(10.290)	Net retirement benefits payable to pensioners	-	(6.158)	(2.080)	(2.300)	(10.538)

Notes to the Accounts

Note: The Firefighters' schemes' details are shown below:

2021-22					2022-23				
1992 Firefighters' Pension Scheme £m	2006 Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Firefighters' Injury and Non- Scheme III Health £m	Total £m	1992 Firefighters' Pension Scheme £m	2006 Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Firefighters' Injury and Non- Scheme III Health £m	Total £m
Comprehensive Income and Expenditure Statement									
Cost of Services:									
(0.156)	(0.088)	(4.583)	(0.135)	(4.962)	-	-	(3.755)	(0.110)	(3.865)
Financing and Investment Income and Expenditure:									
(3.994)	(0.286)	(0.507)	(0.114)	(4.901)	(4.787)	(0.342)	(0.738)	(0.140)	(6.007)
(4.150)	(0.374)	(5.090)	(0.249)	(9.863)	(4.787)	(0.342)	(4.493)	(0.250)	(9.872)
Total post-employment benefit charged to the surplus/deficit on the provision of services									
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement									
Remeasurement of the net defined liability comprising:									
9.527	1.122	2.825	0.250	13.724	57.150	6.118	17.348	1.518	82.134
1.822	0.128	0.269	0.054	2.273	-	-	-	-	-
(0.559)	(0.023)	(0.006)	(0.014)	(0.602)	(16.348)	(1.140)	(0.804)	(0.360)	(18.652)
10.790	1.227	3.088	0.290	15.395	40.802	4.978	16.544	1.158	63.482
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement									
6.640	0.853	(2.002)	0.041	5.532	36.015	4.636	12.051	0.908	53.610
Total Charged to the Comprehensive Income and Expenditure Statement									
Movement in Reserves - General Fund Balance:									
4.150	0.374	5.090	0.249	9.863	4.787	0.342	4.493	0.250	9.872
Reversal of net charges made to the surplus/deficit for the provision of services for post-employment benefit									
Actual amount charged against the General Fund Balance for pensions in the year:									
(6.393)	(0.099)	0.942	(0.190)	(5.740)	(6.143)	(0.124)	0.306	(0.197)	(6.158)
Net retirement benefits payable to pensioners									

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2023 is a gain of £561.672 million (£201.485 million gain to 31 March 2022).

Notes to the Accounts

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount in the Balance Sheet is a result of the Council's obligation in respect of its defined benefit plan as follows:

2021-22					2022-23					
LGPS	Firefighters' Schemes	LGPS Unfunded Scheme	Teachers' Unfunded Scheme	Total		LGPS	Firefighters' Schemes	LGPS Unfunded Scheme	Teachers' Unfunded Scheme	Total
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
(1,894.610)	(224.957)	(26.120)	(21.930)	(2,167.617)	Present value of the defined benefit obligation	(1,423.570)	(165.189)	(22.460)	(18.660)	(1,629.879)
1,410.120	-	-	-	1,410.120	Fair value of plan assets	1,381.740	-	-	-	1,381.740
(484.490)	(224.957)	(26.120)	(21.930)	(757.497)	Net liability arising from defined benefit obligation	(41.830)	(165.189)	(22.460)	(18.660)	(248.139)

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

	LGPS £m	1992 Firefighters' Pension Scheme £m	2006 Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Firefighters' Injury & non scheme Ill Health £m	LGPS Unfunded Scheme £m	Teachers' Unfunded Scheme £m	Total £m
Opening balance as at 1 April 2022	(1,894.610)	(180.348)	(12.715)	(26.596)	(5.298)	(26.120)	(21.930)	(2,167.617)
Current service cost	(71.310)	-	-	(3.755)	(0.110)	-	-	(75.175)
Interest cost	(50.490)	(4.787)	(0.342)	(0.738)	(0.140)	(0.680)	(0.560)	(57.737)
Contributions from scheme participants	(9.320)	-	(0.008)	(0.888)	-	-	-	(10.216)
Remeasurement gains and (losses):								
Actuarial gains and (losses) arising from changes in financial assumptions	695.690	57.150	6.118	17.348	1.518	4.130	3.110	785.064
Actuarial gains and (losses) arising from changes in demographic assumptions	(8.990)	-	-	-	-	0.390	0.260	(8.340)
Other	(141.620)	(16.348)	(1.140)	(0.804)	(0.360)	(2.260)	(1.840)	(164.372)
Past service cost	(0.170)	-	-	-	-	-	-	(0.170)
Benefits paid	54.920	6.143	0.132	0.582	0.197	2.080	2.300	66.354
Settlements	2.330	-	-	-	-	-	-	2.330
Closing balance as at 31 March 2023	(1,423.570)	(138.190)	(7.955)	(14.851)	(4.193)	(22.460)	(18.660)	(1,629.879)
Opening balance as at 1 April 2021	(1,952.590)	(193.381)	(13.667)	(23.652)	(5.529)	(28.590)	(24.650)	(2,242.059)
Current service cost	(62.750)	(0.156)	(0.088)	(4.583)	(0.135)	-	-	(67.712)
Interest cost	(40.630)	(3.994)	(0.286)	(0.507)	(0.114)	(0.580)	(0.490)	(46.601)
Contributions from scheme participants	(8.090)	(0.041)	(0.038)	(0.731)	-	-	-	(8.900)
Remeasurement gains and (losses):								
Actuarial gains and (losses) arising from changes in financial assumptions	118.380	9.527	1.122	2.825	0.250	0.640	0.480	133.224
Actuarial gains and (losses) arising from changes in demographic assumptions	19.080	1.822	0.128	0.269	0.054	0.410	0.380	22.143
Other	(11.110)	(0.559)	(0.023)	(0.006)	(0.014)	(0.110)	(0.090)	(11.912)
Past service cost	(0.370)	-	-	-	-	-	-	(0.370)
Benefits paid	51.060	6.434	0.137	(0.211)	0.190	2.110	2.440	62.160
Settlements	(7.590)	-	-	-	-	-	-	(7.590)
Closing balance as at 31 March 2022	(1,894.610)	(180.348)	(12.715)	(26.596)	(5.298)	(26.120)	(21.930)	(2,167.617)

Notes to the Accounts

Reconciliation of the movement in the fair value of the scheme (plan) assets:

2021-22		2022-23
£m	Local Government Pension Scheme	£m
1,334.740	Opening fair value of scheme assets	1,410.120
27.920	Interest income	37.860
	Remeasurement gain and (loss):	
58.030	The return on plan assets, excluding the amount included in the net interest expense	(50.680)
27.630	Contributions by the employer	31.280
8.090	Contributions by participants	9.320
(51.060)	Benefits paid	(54.920)
4.770	Settlements	(1.240)
1,410.120	Closing balance of scheme assets	1,381.740

Local Government Pension Scheme assets comprised:

Page 283	2021-22		2022-23	
	Total	Quoted	Unquoted	Total
	%	%	%	%
	LGPS assets comprised:			
	1.8	1.8	-	1.8
	18.8	19.5	-	19.5
	57.0	40.1	11.1	51.2
	2.0	1.3	-	1.3
	-	4.5	-	4.5
	12.0	0.0	11.2	11.2
	8.4	-	10.5	10.5
	100.0	67.2	32.8	100.0

Notes to the Accounts

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions such as mortality rates and salary levels. Aon, an independent firm of actuaries, has assessed the liabilities for the pension schemes shown in the accounts, based on the latest full valuations of the schemes. For the LGPS the latest full actuarial valuation of the Fund took place as at 31 March 2022. For the FPS 1992, FPS 2006, FPS 2015 and the Firefighters' Injury Pensions and Non-Scheme Ill-Health Pensions the latest full actuarial valuation took place as at 31 March 2019. For the LGPS Unfunded Scheme and the Teachers' Unfunded Scheme, the latest full actuarial valuation took place as at 31 March 2021.

Cost Management in the LGPS and FPS

Legislation requires HM Treasury (HMT) to undertake periodic valuations to monitor the cost of the LGPS and the FPS to ensure they remain sustainable and affordable.

HMT paused their 2016 reviews following the McCloud judgement in the Court of Appeal. These have now been un-paused, and HMT Directions were made over 2021 which allowed HMT and the Scheme Advisory Board (SAB) reviews to proceed. The SAB review recommended no changes to the Scheme. It is expected that the HMT review will also recommend no changes. Aon has made no allowance for the potential outcome of the cost management exercise in this year's current service cost.

Notes to the Accounts

The significant assumptions used by the actuary have been:

31 March 2022					31 March 2023				
LGPS	Firefighters' Schemes	LGPS Unfunded Scheme	Teachers' Unfunded Scheme		LGPS	Firefighters' Schemes	LGPS Unfunded Scheme	Teachers' Unfunded Scheme	
Mortality assumptions in years:									
Longevity at age 65 for current pensioners:									
21.8	21.5	21.8	21.8	Men	21.6	21.6	21.6	21.6	
25.0	23.6	25.0	25.0	Women	24.6	23.7	24.6	24.6	
Longevity at age 65 for future pensioners:									
23.5	23.2	-	-	Men	22.9	23.3	-	-	
26.7	25.4	-	-	Women	26.1	25.5	-	-	
Financial Assumptions:									
3.0%	3.0%	3.0%	3.0%	Inflation - CPI	2.7%	2.7%	2.7%	2.7%	
4.5%	4.5%	-	-	Salary increases	4.2%	4.2%	-	-	
3.0%	3.0%	3.0%	3.0%	Pension increases	2.7%	2.7%	2.7%	2.7%	
3.0%	3.0%	-	-	Pension accounts revaluation rate	2.7%	4.2%	-	-	
2.7%	2.7%	2.7%	2.7%	Discount rate	4.7%	4.7%	4.7%	4.7%	

The Council employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2023.

The Firefighters' Pension Schemes, LGPS Unfunded Scheme and the Teachers' Unfunded Scheme have no assets to cover their liabilities.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analyses changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur and changes in some of the assumptions may be interrelated. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Notes to the Accounts

Impact on the Defined Benefit Obligation in the Scheme	Increase in assumption £m	Increase in assumption %	Decrease in assumption £m	Decrease in assumption %
Local Government Pension Scheme (LGPS Funded)				
Longevity (increase or decrease in 1 year)	37.010	2.6	(37.010)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	1.420	0.1	(1.420)	(0.1)
Rate of increase in pensions (increase or decrease by 0.1%)	21.350	1.5	(19.930)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(22.780)	(1.6)	22.780	1.6
Firefighters' Pension Scheme (FPS 1992)				
Longevity (increase or decrease in 1 year)	3.593	2.6	(3.593)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	-	-	-	-
Rate of increase in pensions (increase or decrease by 0.1%)	1.935	1.4	(1.935)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(1.935)	(1.4)	1.935	1.4
New Firefighters' Pension Scheme (FPS 2006)				
Longevity (increase or decrease in 1 year)	0.207	2.6	(0.207)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	-	-	-	-
Rate of increase in pensions (increase or decrease by 0.1%)	0.191	2.4	(0.183)	(2.3)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.183)	(2.3)	0.191	2.4
New Firefighters' Pension Scheme (FPS 2015)				
Longevity (increase or decrease in 1 year)	0.416	2.6	(0.416)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	0.272	1.7	(0.272)	(1.7)
Rate of increase in pensions (increase or decrease by 0.1%)	0.192	1.2	(0.176)	(1.1)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.448)	(2.8)	0.464	2.9

Sensitivity analysis on the LGPS Unfunded Scheme, The Teachers' Unfunded Scheme and the Firefighters' Injury Pensions and non-scheme Ill-Health Pensions scheme has not been included on materiality grounds.

Notes to the Accounts

Impact on the Council's Cash Flows

The Council anticipates paying the following amounts in 2023-24 in relation to the seven post-employment schemes covered by this note:

	LGPS £m	1992 Firefighters' Pension Scheme £m	2006 Firefighters' Pension Scheme £m	2015 Firefighters' Pension Scheme £m	Firefighters' Injury & non scheme III Health £m	LGPS Unfunded Scheme £m	Teachers' Unfunded Scheme £m	Total £m
Regular employer contributions payable to Tyne and Wear Pension Fund	27.830	-	-	-	-	-	-	27.830
Payments to beneficiaries	-	-	-	-	-	2.290	2.530	4.820
Payments to beneficiaries' net of member contributions receivable, where contributions include the Government Grant	-	6.309	0.127	(1.523)	0.202	-	-	5.115
Total	27.830	6.309	0.127	(1.523)	0.202	2.290	2.530	37.765

Additional employer contributions will also be payable by the Council to Tyne and Wear Pension Fund in relation to the strain on the fund, for example, where an employee is made redundant and their LGPS pension becomes payable before their normal retirement date.

Notes to the Accounts

Duration of the defined benefit obligations

The duration of the Council's liabilities is the average period, expressed in number of years, between the calculation date and the date on which the scheme benefit falls due. Duration for the seven post-employment schemes covered by this note are as follows:

31 March 2022		31 March 2023
No. of years		No. of years
	Weighted average duration for LGPS, LGPS Unfunded Scheme and Teachers' Unfunded Scheme	16.0
19.0		
16.7	Weighted average duration for FPS 1992	14.2
27.8	Weighted average duration for FPS 2006	23.6
33.6	Weighted average duration for FPS 2015	28.6
	Weighted average duration for Firefighters' Injury and Non-Scheme III Health Pensions	13.0
15.3		

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Split of the defined benefit obligations

The split of the defined benefit obligations at the last valuation date between the categories of members was as follows:

	Active Members	Deferred Members	Pensioners
	%	%	%
Local Government Pension Scheme	32.0	14.0	54.0
1992 Firefighters' Pension Scheme	26.0	4.0	70.0
2006 Firefighters' Pension Scheme	56.0	23.0	21.0
2015 Firefighters' Pension Scheme	93.0	7.0	-
Firefighters' Injury and non-scheme III- Health Pensions	33.0	-	67.0
Local Government Pension Scheme Unfunded Scheme	-	-	100.0
Teachers' Unfunded Scheme	-	-	100.0

Notes Supporting the Cash Flow Statement

32. Cash Flows from Operating Activities

The cash flows for operating activities include the following items:

2021-22 £m		2022-23 £m
(21.600)	Interest received	(24.206)
32.164	Interest paid	29.809

The deficit on the Provision of Services has been adjusted for the following non-cash movements:

2021-22 £m		2022-23 £m
52.935	Depreciation	57.021
7.301	Impairment and downward valuations	19.234
0.613	Amortisation	0.410
26.109	(Increase)/decrease in creditors	(61.781)
(21.999)	Increase in debtors	(8.160)
(0.995)	(Increase)/decrease in inventories	(0.152)
51.663	Movement in Pension Liability	52.314
33.030	Carrying amount of non-current asset and non-current assets held for sale, sold or derecognised	14.641
1.001	Other non-cash items charged to the net deficit on the provision of services	(2.959)
149.658	Subtotal of non-cash movements	70.568

The deficit on the Provision of Services has been adjusted for the following items that are investing and financing activities:

2021-22 £m		2022-23 £m
(9.382)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.516)
(66.723)	Any other items for which the cash effects are investing or financing cash flows	(80.453)
(76.105)	Subtotal of adjustments included in the Deficit on the Provision of Services that are investing or financing activities	(86.969)

33. Cash Flows from Investing Activities

2021-22 £m		2022-23 £m
(99.891)	Purchase of property, plant and equipment, investment property and intangible assets	(104.019)
(125.300)	Purchase of short term and long term investments	(185.349)
(8.238)	Other payments for investing activities	(4.264)
9.382	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	6.516
159.250	Proceeds from short term and long term investments	239.500
94.212	Other receipts from investing activities	85.374
29.415	Net cash flows from investing activities	37.758

34. Cash Flows from Financing Activities

2021-22 £m		2022-23 £m
25.041	Cash receipts of short term and long term borrowing	40.000
(1.606)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2.002)
(80.583)	Repayments of short and long term borrowing	(51.552)
9.239	Other payments for financing activities	9.010
(47.909)	Net cash flows from financing activities	(4.544)

Notes to the Accounts

	1 April 2022	Financing cashflows	Changes which are not financing cash flows		31 March 2023
			Acquisition	Other	
	£m	£m	£m	£m	£m
Long term borrowings	705.378	-	-	(11.552)	693.826
Short term borrowings	56.978	(11.552)	-	11.592	57.018
On balance sheet PFI	59.312	-	-	-	59.312
Other payments	(19.192)	9.009	-	-	(10.183)
Total liabilities from financing activities	802.476	(2.543)	-	0.040	799.973

	1 April 2021	Financing cashflows	Changes which are not financing cash flows		31 March 2022
			Acquisition	Other	
	£m	£m	£m	£m	£m
Long term borrowings	756.893	0.037	-	(51.552)	705.378
Short term borrowings	61.090	(55.579)	-	51.467	56.978
On balance sheet PFI	61.314	(1.606)	-	(0.396)	59.312
Other payments	(28.431)	9.239	-	-	(19.192)
Total liabilities from financing activities	850.866	(47.909)	-	(0.481)	802.476

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Other Notes

35. Related Parties

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

The Government

The Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.

Note 11 illustrates the different sources of grant income that the Council receives.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2022-23 goods and services were commissioned from organisations in which Members had an interest. Also, funding consists of other grants paid to organisations in which Members had an interest. All interests were declared by the appropriate Members. Members had interests in 95 organisations with transactions totalling £100.134 million in respect of goods or services provided to the Council (88 and £139.295 million in 2021-22).

During 2022-23 goods and services amounting to £4.535 million were provided by the Council to 63 organisations in which Members had an interest (£5.883 million and 65 in 2021-22).

Included in the above sums are amounts due from the Council of £0.749 million and due to the Council of £0.511 million as at 31 March 2023 (£1.020 million and £0.201 million in 2021-22).

Officers

During 2022-23 goods and services were provided to or commissioned from organisations in which officers had an interest. All interests were declared by the appropriate officers. Officers had interests in 7 organisations with transactions totalling £6.333 million in respect of goods or services provided to the Council (13 and £50.934 million in 2021-22).

During 2022-23 goods and services amounting £1.363 million were provided by the Council to 5 organisations in which officers had an interest (£1.620 million and 9 in 2021-22).

Included in the above sums are amounts due from the Council of £0.145 million and due to the Council of £0.000 million as at 31 March 2022 (£0.030 million and £0.031 million in 2021-22).

Schedules of related party transactions are available to inspect upon request.

Note 8 discloses the remuneration of senior officers.

Active Northumberland

The Council commissions Active Northumberland to provide leisure services. There is a Leisure Partnership Agreement for 2022-23 which formally documents the commissioner/provider contractual relationship between the Council and Active Northumberland for the provision of leisure services. The Council retains ownership of the leisure assets which Active Northumberland runs on behalf of the Council. Whilst the Council determines what activities it requires Active Northumberland to deliver on its behalf, the Council is not involved operationally with how those services are delivered and this is a matter for the Active Northumberland Board. A number of Service Level Agreements between Active Northumberland and the Council were in place during 2022-23.

An assessment of the Council's relationship with Active Northumberland in 2022-23 concluded that there was no requirement to consolidate the financial position of Active Northumberland within the Council's group position. The assessment concluded that the Council did not have significant control over Active Northumberland and the traded position was not material to the overall group position. The Council committed to pay Active Northumberland a management fee of £2.060 million in 2022-23 (£2.160 million in 2021-22). In

Notes to the Accounts

addition, other agreed funding of £1.124 million was accrued in 2022-23 (£0.371 million in 2021-22).

Entities Controlled or Significantly Influenced by the Council.

Advance Northumberland Group

The financial results of Advance Northumberland are consolidated within the Group Accounts section of this document.

The loans the Council has made to Advance Northumberland are shown in Note 22, Debtors.

The Advance Northumberland Group brings together services in housing, commercial property, regeneration and economic growth and investment (EG&I). The group consists of five wholly owned companies and one joint venture; its principal activities are as follows:

Advance Northumberland Limited

The company acts as a holding entity for the companies that comprise the Advance Northumberland Group. Advance Northumberland Limited conducts business in its own right.

The activities of the company are:

- Performance & Governance including strategic direction;
- Financial Control and Monitoring including Tax;
- Human Resource services;
- Marketing and Communications; and,
- Business Operations.

Advance Northumberland (Commercial) Limited: The principal activities of the company are to acquire and develop commercial properties for the purposes of capital appreciation and generation of rental income.

Advance Northumberland (Housing) Limited: The principal activity of the company is the provision of rented residential accommodation in Northumberland. This includes both private rent and affordable housing.

Advance Northumberland (Developments) Limited: The principal activities of the company are to provide project management services in connection
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with capital developments undertaken by the Advance Northumberland Group and the Council. Ascent Homes is the housebuilding arm of the Advance Northumberland (Developments) Limited entity providing new homes throughout Northumberland. It builds homes for sale to the private and affordable markets to assist in meeting the strategic requirements of Advance Northumberland and the Council.

Advance Northumberland (Financial) Limited: During the year, some of the project management activities have begun being delivered by this company. Going forward, all project management activities will migrate from Developments to Financial.

Prudhoe Estates LLP Limited

The group holds a joint venture agreement with Northumberland Estates with both holding a 50.0% ownership in Prudhoe Estates LLP, which is a property development company.

As at 31 March 2023 the Advance Group owed the Council (the ultimate holding company) £285.391 million (£281.613 million in 2021-22) primarily in respect of principal and interest due on a commercial loan facility; whilst the Council owed Advance Northumberland Group £1.191 million (£1.893 million in 2021-22) primarily for capital grant claims for Northumberland Energy Park Phase 1 and Bedlington Town Centre projects. During 2022-23 the Council paid the Advance Group £2.610 million (£2.179 million in 2021-22), mainly for capital grant claims for Northumberland Energy Park Phase 1 and Ashwood Business Park projects. Income to the Council from the Advance Group was £14.660 million (£14.541 million in 2021-22), mainly due to interest payable on the commercial loan facility.

Northumberland Enterprise Holdings Limited

On 17 September 2020 Northumberland Enterprise Holdings Limited was incorporated at Companies House. The Council is the sole shareholder.

Northumberland Enterprise Holdings Limited was created as a holding company for further subsidiary companies that will subsequently be formed for trading purposes and would form part of the Northumberland Enterprise Holdings Limited group.

Notes to the Accounts

Northumbria Integrated Consultancy Limited

Northumbria Integrated Consultancy Ltd was the first subsidiary of Northumberland Enterprise Holdings Ltd. It was incorporated on 29 March 2021.

The purpose of the company was to provide consultancy services, other than financial management.

The company is currently inactive, and the process has commenced to dissolve the company.

At 31 March 2023 Northumberland Enterprise Holdings Ltd owed the Council (the ultimate holding company) nothing (nil at 31 March 2022); whilst the Council also owed Northumberland Enterprise Holdings Ltd nothing (nil at 31 March 2022). During 2022-23 the Council paid Northumberland Enterprise Holdings Ltd nothing (£0.300 million in 2021-22). Income to the Council from Northumberland Enterprise Holdings Ltd was also nothing (£0.140 million in 2021-22).

Energy Central Campus Limited

A new 'Energy Central Campus Company Limited by Guarantee' was incorporated on 2 November 2021 to provide a vehicle through which all Energy Central Campus projects and activities will be delivered. The Company has three founding Directors: The Council's representative is the Executive Director - Children, Young People and Education, alongside the Chief Operating Officers of ORE Catapult and the Port of Blyth. The Articles for the Company have been established to ensure there is no risk to the Council, or its partners, of there being a controlling mind. The Company's transactions and balances are currently immaterial and, once operational, the Council is unlikely to have a significant level of control that would necessitate the consolidation of the Company into the Council's group accounts.

Newcastle International Airport

The Council has designated its Newcastle Airport equity instrument as fair value through other comprehensive income under IFRS9 classifications. This decision protects Council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released.

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company.

On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51.0% owned by LA7 and 49.0% owned by InfraBridge (previously known as AMP Capital Investors Limited) following their purchase on 16 November 2012. The 51.0% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities.

NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 15.4% interest in NALAHCL, valued at £13.490 million (£13.490 million in 2021-22). The shares are not held for trading outside of the LA7.

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

Through its shares in NALAHCL the Council has an effective shareholding of 7.9% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2022 (nil for the year ended 31 December 2021).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012-13, issuing £67.665 million shareholder loan notes of which £11.916 million is provided by the Council (£11.916 million in 2021-22). The loan notes will be repayable in 2032 with interest normally being received up to that date on a six monthly basis.

Notes to the Accounts

Due to major curtailments in the airport operations as a result of the Covid-19 pandemic the Council has agreed to modify the terms of these loans and has accepted that under the unprecedented circumstances the airport can defer interest repayments for the following three years (four years in 2021-22) with catch up payments to be made in instalments over a later period. Under the loan agreement the Council is entitled to compound interest for any late payments, and this has been factored into the repayments the airport will make once the catch up payments commence. This has resulted in a further restatement of the loan value with a cumulative modification loss of £0.797 million (£1.006 million in 2021-22) being recognised. The decrease in loss recognised is credited to the financing and investment income and expenditure line of the CIES. Furthermore, the Council looked at several observable factors regarding the robustness of the airport operations going forward resulting in an expected lifetime loss provision of £0.289 million (£0.198 million in 2021-22) in the event all repayments are not made or further delayed at some time in the future.

The increase in lifetime loss has been debited to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement. However, as the council has accounted for the loan to the airport as a capital item, both the modification loss and expected lifetime loss provision have been reversed out of the Comprehensive Income and Expenditure Statement and charged to the Capital Adjustment Account, resulting in no bottom line impact within the Comprehensive Income and Expenditure Statement.

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

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

36. Trust and Other Third Party Funds

The following trust funds, relating to bequests and third party funds, are held and administered by the Council. The funds do not represent assets of the Council and they are not included in the Council's Balance Sheet.

31 March 2022		31 March 2023
£m		£m
2.218	Section 278 and Section 38 Monies Held	2.246
5.223	Bank Accounts for Adult Clients in Care	6.319
1.339	Other	1.615
8.780	Total	10.180

Section 278 and Section 38 Monies Held

This funding relates to agreements with developers and are dependent on the developer meeting the obligations of the agreement. Due to the nature of these types of works, these agreements do not have a time frame prescribed for repayment.

Bank Accounts for Adult Clients in Care

The Council administers individual bank accounts for those people in the care of the Council.

Other

This includes funds held on behalf of Trust Schools, charitable trusts and individuals.

37. Impairment Losses

There have been no impairment losses during 2022-23.

38. Contingent Liabilities

Home Housing Association

Future payments may be required to Home Housing association, a subsidiary of Home Group Limited, in relation to the guarantee given against loan stock which was used to fund the build of approximately 100 properties. The Council's proportion of the total liability is £2.723 million (3.2%) and may only be called upon in the event of certain legislative changes, which would make the Association unable to meet its obligations under the loan from its own resources.

The guarantee will expire in 2037, 50 years from the date of original agreement in 1987.

The risk of the guarantees being called upon is assessed as low, therefore no fair value has been calculated on the grounds of materiality.

Water Rates Collection

The former Alnwick District Council entered into a contract with Northumbrian Water (NWL), whereby it collected water charges from its tenants on its behalf and was paid a commission. This contract novated to the Council as a result of Local Government Reorganisation in 2009. The High Court has found that similar contracts between London Borough of Southwark and Thames Water and the Royal Borough of Kingston and Thames Water is a contract for resale of water under which the recovery of commission is limited by law. The Royal Borough of Kingston appealed the decision to the Court of Appeal which was unsuccessful. The key issue in the cases was that the local authorities were acting as a 'customer' in which

case they were reselling water services and should have passed savings on to tenants.

Following the Southwark ruling, an agreement was entered into between the Council and NWL which came into force on 1 April 2018. This agreement explicitly sets out that the Council is not acting as a water re-seller for the purposes of the Water Resale Order 2001 and 2006 and is acting solely as agent for NWL.

Given that the Council has not received any claims in respect of its previous contractual relationship with NWL no provision has been made in the accounts at 31 March 2023. The Council has estimated the potential liability from similar claims to be £0.195 million, to be met from the Housing Revenue Account.

Union Chain Bridge

The project to repair and conserve the 203-year-old, Grade 1 listed, Union Chain Bridge which spans the River Tweed between England and Scotland commenced in 2019. The project entailed the suspension bridge being painstakingly dismantled, with component parts being inspected for structural integrity so that sound elements were repaired and reused, and any unsound elements replaced, and the suspension bridge then being reconstructed. The Main Works Contractor was appointed using an 'NEC 4 Target Price with Activity Schedule' form of contract. A number of difficulties have been encountered in the delivery of the project which have necessitated compensation event notices being issued to the contractor. Whilst the reconstruction works are now complete and the bridge reopened to the

public in April 2023, there are a number of compensation events where the contractor has disputed the valuation, and these are now subject to formal dispute proceedings under the provisions of the contract. There are also several compensation events where the value of the works has not yet been agreed by the contractor, which have the potential to also progress into formal dispute proceedings. Discussions are continuing with the Main Works Contractor in an attempt to agree the valuations of the remaining compensation events and to seek resolution to the matters in dispute. In default of agreement these matters would proceed into formal adjudication proceedings with the adjudicator determining the outcome of the dispute and the value of the Final Account.

39. Contingent Assets

There are no contingent assets.

40. Accounting Policies

General Principles

The Statement of Accounts summarises the Council's transactions for the 2022-23 financial year and its position at the year end of 31 March 2023. The authority is required to prepare an annual Statement of Accounts in line with the Accounts and Audit Regulations 2015. The Regulations require that they are prepared in accordance with proper accounting practices.

These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021-22, supported by

Notes to the Accounts

International Financial Reporting Standards (IFRS).

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

The accounts have been prepared on a going concern basis, on the basis of continued provision of services.

Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made;
- Interest receivable on investments and payable on borrowings are accounted for respectively on the basis of the effective interest rate for the

relevant financial instrument rather than the cash flows fixed or determined by the contract; and,

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The only exception to the adoption of accruals relates to accounting for income and expenditure by those schools that do not use the full functionality of the Council's finance systems and therefore account on a cash basis. This exception does not have a material impact on the accounts.

Accruals are recognised where the value exceeds £0.010 million.

Exceptional Items

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

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of

acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

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

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

Charges to Revenue for Non-Current Assets

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

Notes to the Accounts

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction. This is shown within the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

Pension Fund Accounts

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund

became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020.

The Merger Regulations removed Northumberland County Council from the LGPS Regulations as a body required to maintain a LGPS fund or prepare accounts from 1 April 2020. South Tyneside Council is the administering body for that Fund and the Tyne and Wear Pension Fund Accounts are presented in South Tyneside Council's Statement of Accounts only on this basis.

Employee Benefits

Benefits Payable during Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable at the 31 March. Any accrual made is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

Employees and former employees of the Council are members of nine pension schemes:

- **The Local Government Pension Scheme** administered by South Tyneside Council;
- **The LGPS Unfunded Scheme** administered by Northumberland County Council;
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council;
- **The 1992 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The 2006 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The 2015 Firefighters' Pension Scheme** administered by Northumberland County Council;
- **The Firefighters' Compensation Scheme** Pensions administered by Northumberland County Council;
- **The Teachers' Pension Scheme** administered by Capita Teachers' Pensions on behalf of the Department for Education; and,
- **The NHS Pension Scheme** administered by NHS Business Services Authority on behalf of the Department of Health.

These schemes provide members with defined benefits, earned as employees worked for the Council.

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payment of benefits is recognised in the Council's Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to these schemes in the year.

The other seven schemes are accounted for as defined benefit schemes.

Local Government Pension Scheme

Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 1 April 2020. The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020 (UK Statutory Instrument 2020 No 502) came into force on 3 June 2020 giving this merger retrospective effect. All assets and liabilities of Northumberland County Council Pension Fund became the assets and liabilities of Tyne and Wear Pension Fund on 1 April 2020, and therefore Northumberland County Council Pension Fund's final day as a reporting entity was 31 March 2020.

The Merger Regulations removed Northumberland County Council from the LGPS Regulations as a body required to maintain a LGPS fund or prepare accounts from 1 April 2020. South Tyneside Council is the administering body for that Fund and the Tyne and Wear Pension Fund Accounts are presented in South Tyneside Council's Statement of Accounts only on this basis.

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, and former employees, based on assumptions about mortality rates, commutation rates, and projected earnings for current employees, etc.;
- Liabilities are discounted to their current value, using the appropriate discount rate (based on the rate of return on high quality corporate bonds);
- The assets of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
- quoted securities at current bid price;
- unquoted securities at professional estimate;
- unitized securities at current bid price; and,
- property at market value.

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- The change in the Net Pensions Liability is analysed into the following components:

Component	Description
Service cost comprising:	
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
Past service cost	The increase in liabilities arising as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority	The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Remeasurement comprising:	
Return on plan assets	Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Contributions paid to the pension fund	Cash paid as employer's contributions to the pension fund in settlement of liabilities – not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year not the amount calculated in accordance with relevant accounting standards. There are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable in the year. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Events after the Reporting Period

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

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

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

Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow

characteristics. There are three main classes of financial assets measured at:

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

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore largely classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

Notes to the Accounts

Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made to a non-subsidiary body, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

When soft loans are made to subsidiary bodies of the Council, as with other soft loans the fair value is estimated as the present value of all future cash receipts discounted using the

prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating. However, the write-down to fair value is not taken to surplus or deficit on the provision of services as in substance this is an additional investment by the Council into its subsidiary. The difference between the loan amount and the fair value of the loan is accounted for as an investment in the Council's financial statements.

Financial Assets Measured at Fair Value through Other Comprehensive Income

The Council has elected to classify its equity shareholdings in Newcastle Airport Local Authority Holding Company Limited (NALAHCL) and Advance Northumberland Limited into a 'fair value through other comprehensive income' treatment, rather than 'fair value through profit or loss', as the assets are not held for trading.

The impact of the election is that movements in fair value will not be debited/credited to the Surplus or Deficit on the Provision of Services as they arise. Instead, movements will be accumulated in the Financial Instruments Revaluation Reserve until the asset is derecognised, at which point the net gain or loss would be transferred to the General Fund Balance.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease

receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Foreign Currency Translation

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

Government Grants and Contributions

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

- the Council will comply with the conditions attached to the payments; and,

Notes to the Accounts

- the grants or contributions will be received.

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

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

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

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

Heritage Assets

Tangible and Intangible Heritage Assets (described here as “Heritage Assets”)

The Council’s Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Council’s history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed; these rules together with the accounting treatment for heritage assets are as follows.

Museum, Art and Artefact Collection

The Council’s museum and art collections are reported on the Balance Sheet based on their insurance valuations, which are periodically reviewed.

The Council does not consider it appropriate to charge depreciation on the assets as they have high residual values and indeterminate lives.

The collection is relatively static and acquisitions and donations are rare. Where these do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

Public Sculptures and Memorials

Due to the nature of the assets held and the lack of comparable values, the Council considers that obtaining valuations for the vast

majority of Public Sculptures & Memorials would involve a disproportionate cost in comparison to the benefits to the users of the Council’s financial statements. This is because of the nature of the assets held and the lack of comparable values. Other than recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet.

These assets have indeterminate lives hence the Council does not consider it appropriate to charge depreciation.

Historic Buildings

Similar to community assets, the Council considers that obtaining valuations for this type of asset would involve a disproportionate cost in comparison to the benefits to the users of the Council’s financial statements. The Council holds this class of asset at cost on the Balance Sheet.

Archaeology

Due to the diverse nature of the assets held and lack of comparable market values, the Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. Consequently, the Council does not recognise these assets on the Balance Sheet.

The Council does not make any purchases of archaeological items.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has

Notes to the Accounts

suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. Heritage assets which have a doubtful provenance or are unsuitable for public display may be disposed of. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of Property, Plant and Equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Intangible Assets

Capital expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences), and are expected to have future economic benefits or service potential to the Council, are classified as intangible assets.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured at cost. Amounts are only revalued where the fair value of the assets can be determined by reference to an active market.

Intangible assets are given finite useful lives, based on an assessment of the period that the asset is expected to be of use to the Council.

The useful lives assigned to the major intangible asset types are:

Asset Type	Estimated Useful Life
Applications Software	5 Years
Library Management System & Housing Management System	5 Years
Fire Service call taking and mobilising system	5 Years
Vehicle Tracking System & Parking Enforcement Software	5 Years

The carrying amount of an intangible asset is amortised on a straight-line basis over its useful life.

For statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010 million) the Capital Receipts Reserve.

Interests in Companies and Other Entities

The Council has material interests in companies that have the nature of subsidiaries and is required to prepare Group accounts. In the Council's own single entity accounts the interests are recorded as financial assets at cost, less any provision for losses. In preparing the Group accounts, the following have been applied:

- All relationships within the scope of the Group accounts have been assessed;

- Transactions between the Council and its subsidiaries have been eliminated from the Group statement of accounts and accompanying notes; and,
- The financial statements of the subsidiaries are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 the Financial Reporting standard and this may give rise to differences in accounting treatment. Where material differences are identified, the subsidiary accounts are aligned to the accounting policy of the Council upon consolidation.

Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure

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Statement. The same treatment is applied to gains and losses on disposal.

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

Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

The Council is not required to raise council tax to cover depreciation or revaluation and

impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net

Notes to the Accounts

investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and,
 - finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this

point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Non-current Assets Held for Sale

Property assets where a disposal is highly probable within the next 12 months and the asset is available for sale in its present condition are classified as assets held for sale. Management must be committed to the sale within one year from the date of classification. The asset is revalued immediately before

reclassification and then carried at the lower of this amount and fair value less costs to sell.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of either:

- the carrying amount before classification as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale; or,
- the recoverable amount at the date of the decision not to sell.

When an asset is disposed of the carrying amount of the asset on the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, alongside any receipts from the disposal.

Amounts received are categorised as capital receipts and credited to the Capital Receipts Reserve. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing and is appropriated to the Capital Adjustment

Notes to the Accounts

Account through the Movement in Reserves Statement.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Overheads and Support Services

Corporate departments work within pre-determined budgets and generally their costs are not distributed to service departments. The exceptions are primarily services funded by external grant or where the service operates within a ring-fenced budget, for example the Housing Revenue Account.

Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. For General Fund items of Property, Plant and Equipment, a de minimis level of £0.010 million is applied below which expenditure is charged directly to the Comprehensive Income and Expenditure Statement as it is incurred.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at current value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made

conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- community assets and assets under construction – depreciated historical cost;
- Infrastructure - measured at depreciated historical cost. However, this is a modified form of historical cost – opening balances for highways infrastructure assets were originally recorded in balance sheets at amounts of capital undischarged for sums borrowed as at 1 April [1994 England and Scotland] [1996 Wales], which was deemed at that time to be historical cost. Where impairment losses are identified, they are accounted for by the carrying amount of the asset being written down to the recoverable amount;
- vehicles, plant and equipment - depreciated historical cost basis as a proxy for current value due to the short useful lives, or low value (or both). Energy from Waste PFI plant is valued at current value;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);

Notes to the Accounts

- surplus assets - current value, determined using the fair value approach by the measurement of the highest and best use value; and,
- all other assets – current value, determined using the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Assets included in the Balance Sheet at current value are revalued at least every five years to ensure that their carrying amount is not materially different from their current value at the year-end.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the

date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed each year for possible impairment. If a material impairment is identified a material change valuation is carried out to value the asset at its current value.

Disposals and Derecognition

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement, alongside any receipts from the disposal.

Amounts received for a disposal in excess of £0.010 million are categorised as capital receipts and credited to the Capital Receipts Reserve, this can only be used for new capital investment or set aside to reduce the Council's

underlying need to borrow (the capital financing requirement). A proportion of receipts relating to housing is payable to the government.

The authority has determined in accordance with Regulation [30M England or 24L Wales] of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets when there is replacement expenditure is nil.

The written-off value of disposals and derecognitions is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing.

Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Depreciation

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

The depreciation charge is applied on a straight line basis over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	4 to 40 years (as determined by the valuation officers)
Infrastructure: (assessed by Highways Engineers using industry standard where applicable)	
Carriageway	25 years
Footpaths & Cycleways	25 years
Street Furniture	25 years
Street Lighting	40 years
Structures	100 years
Traffic Management	15 years
Coast Protection	40 years
Vehicles, Plant and Equipment:	
Fire engines	10 to 15 years
Furniture and Fittings, ICT, other equipment	3 to 15 years
Grounds maintenance / car parking equipment	10 to 11 years
Other vehicles	3 to 15 years
Play / sport / gym equipment	3 to 20 years
Salt Barns	25 years
Solar Panels	25 years
PFI Assets:	
Buildings and Infrastructure	25 to 40 years
Waste Plant Shell & Equipment	5 to 50 years

Where an item of Property, Plant and Equipment has major components where the cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period), the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;

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

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court

case that could eventually result in the making of a settlement or the payment of compensation.

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

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

Notes to the Accounts

arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Contingent Assets

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

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

Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there

is no net charge against council tax for the expenditure.

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

Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

Value Added Tax (VAT)

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

Tax Income - Council Tax and National Non Domestic Rates (NNDR).

Council Tax and NNDR income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year.

Council Tax and NNDR income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a Billing Authority, the difference between the Council Tax and NNDR included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement.

Council Tax and NNDR income is recognised when the obligating event that triggers the payment to the Council has taken place; it is probable that the economic benefits or service potential associated with the transaction will flow to the Council; and the amount of revenue can be measured reliably.

Revenue relating to Council Tax and NNDR is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

Accounting for Schools

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) are considered to be entities controlled by the Council and are recognised in the Council's single entity accounts. Therefore, all schools'

Notes to the Accounts

transactions, cash flows and balances are recognised in each of the financial statements.

Schools' non-current assets (school buildings and playing fields) are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school governing body own the assets or have had rights to use the assets transferred to them through a licence arrangement.

When a maintained school converts to an Academy, the school's non-current assets held on the Council's balance sheet are treated as a disposal. The carrying value of the asset is written off to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off asset value is not a charge against the General Fund, as the cost of non-current asset disposals resulting from schools transferring to an Academy is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Fair Value

The Council measures some of its non-current assets such as surplus assets and Investment Properties and some of its financial instruments such as equity share holdings at fair value at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or,
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The valuation of these assets and liabilities, use appropriate techniques for each circumstance, maximising the use, relevant known data, and minimising the use of estimates.

To increase consistency and comparability in fair value measurement and related disclosures, the inputs to valuation techniques used to measure fair value are categorised into three levels:

- **Level 1** inputs - unadjusted quoted prices in active markets for items identical to the asset being measured.
- **Level 2** inputs – inputs other than those in level 1 that are directly or indirectly observable.
- **Level 3** inputs – unobservable inputs for the asset or liability.

41. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code requires the Council to disclose information relating to the impact of accounting changes required by any new accounting standards issued but not yet incorporated into the Code for 2022-23.

Accounting changes that are to be introduced in future years and may require retrospective application are as follows:

- IFRS 16 Leases (for those local authorities that have decided to voluntarily implement IFRS 16 in 2023-24; NCC has opted out of early adoption);
- Definition of Accounting Estimates (amendments to IAS 8);
- Disclosure of Accounting Policies (amendments to IAS 1 and IFRS Practice Statement 2);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments to IAS 12); and,
- Updating a Reference to the Conceptual Framework (amendments to IFRS 3).

These changes are not expected to have a material impact on the Council's financial performance or financial position.

42. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 40, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

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

- The Council is deemed to control the services provided under the contracts for both Waste Management and Fire and Rescue PFI's. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the associated assets (valued at £70.471 million for Waste and £11.499 million for Fire and Rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet;
- The Council recognises school land and buildings on its Balance Sheet where the Council, the school or the school's Governing Body directly own the asset or have ownership rights and control of the property. Where the land and building assets used by the school are owned by an entity other than the Council, school, or school Governing Body then it is not included in the Council's Balance Sheet; and,
- Despite recent increases in interest rates, current market forecasts indicate that the rates will return to lower levels, and it is considered that that there is a low risk of those LOBO loans with call dates within the next 12 months being called. All LOBO loans have therefore been classified as long term.

Notes to the Accounts

The Council has completed a school by school assessment across the different types of schools it controls within the County. The types of schools that have been assessed are shown below:

Type of School	Total No. of Schools	No. of Primary Schools	No. of Secondary Schools	No. of Special Schools	No. of All Through Schools	No. of Pupil Referral Units
Community	71	55	9	7	-	-
Foundation	5	3	2	-	-	-
Pupil Referral Unit	1	-	-	-	-	1
Voluntary Aided	20	20	-	-	-	-
Voluntary Controlled	8	8	-	-	-	-
Total Maintained Schools	105	86	11	7	-	1
Academies	61	40	18	2	1	-
Free Schools	1	1	-	-	-	-
Total Schools	167	127	29	9	1	1

All Community schools and the Pupil Referral Unit are owned by the Council and the land and buildings used by the schools are included on the Council's Balance Sheet. The Council has not recognised assets relating to Voluntary Aided, Voluntary Controlled, Foundation, Free schools or Academies. Where Academy schools are leased from the Council on a 125 year lease, they are treated as a disposal from the balance sheet, as this is deemed to be the majority of the asset's life.

The following schools converted to academy status during 2022-23:

- St. Aidan's Catholic School;
- St. Robert's Catholic School;
- St. Cuthberts' RC First School.

As these schools are voluntary aided, the assets were not included on the Council's Balance Sheet, with the exception of St Robert's Playing field which had a Net Book Value of £0.033 million prior to disposal.

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

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The balance of Property, Plant and Equipment held by the Council at 31 March 2023 was £1,470.289 million. Assets are depreciated over their useful lives which are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. Where an asset is considered specialised or there is no active market, it is valued by the depreciated replacement cost (DRC) method. This considers the costs to construct a modern equivalent asset (MEA) to deliver the same service. The Council's valuers estimate these values with reference to build costs published by the Royal Institute of Chartered Surveyors	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls. If markets respond differently to the assumptions made the carrying amount of the asset would be under or overstated. This would be adjusted when the assets are next revalued. A 1.0% change to the valued assets (excluding those held at cost), would result in a £8.855 million change to the balance of Property, Plant and Equipment held by the Council, and a £1.447 million difference to the depreciation charged to the CIES.
Pensions liability	At 31 March 2023, the Council had a net pension liability of £248.139 million. Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £22.780 million. However, the assumptions interact in complex ways. During 2022-23, the Council's actuary advised that the net pension liability for funded LGPS benefits had reduced by £695.690 million due to changes in the financial assumptions and increased by £141.620 million due to changes in liability experience. There was also an increase of £8.990 million due to changes in the demographic assumptions.

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44. Events After the Reporting Period

The Statement of Accounts will be authorised for issue by the Section 151 Officer on 31 May 2023. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2023, the figures in the financial statements and notes will be adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31 March 2023.

Academy Conversions

There are five schools expected to convert to academy status in 2023-24. Morpeth All Saints Church of England First School and Newbrough Church of England Primary School both converted on 1 April 2023. St Michael's Church of England Primary School, Wark Church of England Primary School and the Richess Community High School are all expected to convert between July 2023 and December 2023. The Property, Plant and Equipment line in the Balance Sheet contained valuations totalling £28.009 million for the schools which will transfer out of Council ownership.

45. Restatements and Prior Period Adjustments

Restatements

A number of disclosures relating to 2021-22 have been restated. Some restatements (arising from changes in the council's management structure) have been made to 2021-22 data to facilitate comparison with 2022-23. The table below shows the impact of the changes between Portfolios as presented in the Comprehensive Income and Expenditure Statement.

	2021-22 Council Position			2021-22 Group Position		
	As per 2021-22 Accounts	Portfolio Changes	Restated Position	As per 2021-22 Accounts	Portfolio Changes	Restated Position
	£m	£m	£m	£m	£m	£m
Adult Social Care & Commissioning	107.781	-	107.781	107.781	-	107.781
Chief Executive	29.660	(0.658)	29.002	29.706	(0.658)	29.048
Children's Services	106.992	-	106.992	106.964	-	106.964
Communities & Business Development	19.118	(1.206)	17.912	19.118	(1.206)	17.912
Corporate Expenditure & Income	5.382	-	5.382	5.382	-	5.382
Finance	55.857	0.530	56.387	55.976	0.530	56.506
Local Authority Housing (HRA)	(24.121)	-	(24.121)	(24.121)	-	(24.121)
Planning & Local Services	80.272	-	80.272	80.505	-	80.505
Public Health & Community Services	8.042	-	8.042	8.042	-	8.042
Regeneration, Commercial & Economy	3.228	1.334	4.562	1.246	1.334	2.580
Subsidiary Companies	-	-	-	(14.769)	-	(14.769)
Cost of Services	392.211	-	392.211	375.830	-	375.830

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Housing Revenue Account

Housing Revenue Account (HRA) Income and Expenditure Statement for the year ended 31 March 2023

The account reflects the statutory obligation to “ring-fence” and show separately the financial transactions relating to the provision of housing. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2021-22 £m	Note	2022-23 £m
Expenditure:		
8.533	Repairs and maintenance	9.505
9.554	Supervision and management	10.375
2.415	Rents, rates, taxes and other charges	2.979
9.686	Depreciation and Amortisation of Assets	10.268
0.007	Debt management costs	0.007
0.028	Revenue expenditure funded from capital under statute	0.075
0.261	Movement in the allowance for Doubtful Debts (not specified by the Code)	0.237
30.484	Total Expenditure	33.446
Income:		
(29.661)	Dwelling rents (gross)	(29.898)
(0.299)	Non dwelling rents (gross)	(0.300)
(2.549)	Charges for services and facilities	(2.634)
(0.574)	Contributions towards expenditure	(0.686)
(21.683)	Revaluation gains	(2.264)
(54.766)	Total Income	(35.782)
(24.282)	Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement	(2.336)
0.161	HRA services' share of Corporate and Democratic Core costs	0.138
(24.121)	Net cost for HRA Services	(2.198)
HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:		
(0.534)	Capital grants and contributions receivable	(0.103)
3.588	Interest payable and similar charges	4.214
(0.007)	Interest and investment income	(0.927)
0.751	Pensions net interest expense	0.814
(20.323)	Deficit/(surplus) for the year on HRA Services	1.800

Movement on the Housing Revenue Account Statement

This statement shows how the HRA Income and Expenditure Statement surplus reconciles to the movement in the HRA balance for the year.

2021-22 £m		Note	2022-23 £m
(28.890)	Balance on the HRA at the end of the previous year		(29.873)
(20.323)	Surplus for the year on the HRA Income and Expenditure Statement		1.800
20.271	Adjustments between accounting basis and funding basis under Statute	1	(0.637)
(0.052)	Net increase before transfers to or from reserves		1.163
(0.931)	Transfer to/(from) earmarked reserves	10	(0.437)
(0.983)	(Increase)/Decrease in year on the HRA		0.726
(29.873)	Balance on the HRA at the end of the current year		(29.147)

1. Note to the Movement on the Housing Revenue Account Statement

2021-22 £m		2022-23 £m
	Analysis of adjustments between accounting basis and funding basis under Statute included within the Movement on the HRA Statement	
21.683	Transfers to the Capital Adjustment Account	2.264
0.534	Capital grants and contributions applied	0.103
(0.028)	Revenue Expenditure Funded from Capital Under Statute	(0.075)
(2.826)	HRA share of contributions to the Pensions Reserve	(3.395)
(0.023)	Accumulated Absences	0.005
0.931	Capital expenditure funded by the HRA	0.461
20.271	Total	(0.637)

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2. Housing Stock

2021-22 No.		2022-23 No.
7,030	Houses and Bungalows	6,970
1,354	Flats	1,347
3	Shared Ownership	3
8,387	Total	8,320

2a. An analysis of the change in stock is as follows:

2021-22 No.		2022-23 No.
8,426	Stock at 1 April	8,387
30	Additions	2
-	- Appropriations	-
2	Conversions	-
-	- Re-categorisation	-
(71)	Sales	(69)
8,387	Stock at 31 March	8,320

3. Housing Revenue Account Assets

	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant and Equipment £m	Surplus Assets £m	Investment Properties £m	Intangible Assets £m	Assets under construction £m	Total £m
Gross book value at 1 April 2022	355.349	2.105	0.075	0.761	0.335	0.403	0.048	359.076
Re-categorisation	0.002	-	-	-	(0.005)	-	(0.002)	(0.005)
Additions	11.138	0.001	-	-	-	-	0.397	11.536
Disposals	(3.310)	-	(0.075)	-	-	-	-	(3.385)
Revaluations	(7.830)	0.175	-	(0.509)	-	-	-	(8.164)
Gross book value at 31 March 2023	355.349	2.281	-	0.252	0.330	0.403	0.443	359.058
Depreciation at 1 April 2022	-	0.158	0.075	-	-	0.222	-	0.455
Re-categorisation	-	-	-	-	-	-	-	-
Depreciation & Amortisation - charged in year	10.062	0.146	-	-	-	0.060	-	10.268
Disposals	-	-	(0.075)	-	-	-	-	(0.075)
Revaluations	(10.062)	-	-	-	-	-	-	(10.062)
Depreciation at 31 March 2023	-	0.304	-	-	-	0.282	-	0.586
Net book value at 31 March 2023	355.349	1.977	-	0.252	0.330	0.121	0.443	358.472
Net book value at 1 April 2022	355.349	1.947	-	0.761	0.335	0.181	0.048	358.621

The value of HRA dwellings at 31 March 2023 of £355.349 million shown in the Balance Sheet is valued on the basis of existing use social housing (EUV-SH) of 44.0%. The vacant possession value of the HRA dwellings at 1 April 2022 was £807.611 million, this illustrates the economic cost to Government of providing council housing at less than open market rents when compared to the EUV-SH valuation of £355.349 million at the same date. The EUV-SH reflects a valuation for a property if it were sold with sitting tenants paying rents at less than open market rents and tenant's rights including the Right to Buy.

The value of land has not been valued separately from the buildings and has only been split on subsequent revaluations. Therefore, the value of the land within 'other land and buildings' is £0.565 million. Surplus Assets consists of land valued at £0.075 million, and investment properties include £0.005 million worth of land.

Due to a delay in receiving HRA Dwelling valuations for the year ended 31 March 2023 the previous year's figures have been included in the accounts. This will be updated once received.

4. Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve (MRR) with the main credit to the reserve being an amount equivalent to the total depreciation charges for all HRA assets. Until 2011-12, under Item 8 of Part 6 of the Local Government and Housing Act 1989, councils were able to transfer the difference between the depreciation credit to the reserve and the Major Reserves Allowance (MRA) back to the HRA. From 2012-13 councils were no longer allowed to reverse non-dwelling depreciation and were only allowed to reverse dwelling depreciation on a transitional basis until 2017-18. Subsequent to this from 1 April 2017, it has been announced that both dwelling and non-dwelling depreciation can be reversed from 2017-18 and subsequent years until further guidance is issued.

The Council is able to fund HRA related capital expenditure directly from the reserve, along with any voluntary set aside to repay debt. The movement in the Major Repairs Reserve is shown below:

2021-22 £m		2022-23 £m
	Income:	
(9.686)	Depreciation on Non-Current Assets	(10.268)
(9.686)	Total Income	(10.268)
	Expenditure:	
8.080	Houses	10.626
8.080	Total Expenditure	10.626
(1.606)	Increase in year on the MRR	0.358
(8.607)	Balance brought forward at 1 April	(10.213)
(10.213)	Balance carried forward at 31 March	(9.855)

5. HRA Capital Expenditure and Financing

2021-22 £m		2022-23 £m
	Expenditure:	
11.133	Houses	11.609
-	Land & Buildings	-
0.048	Vehicle, Plant and Equipment	-
11.181	Total Expenditure	11.609
	Financing:	
0.534	Government Grants	0.103
1.636	Capital Receipts	0.419
0.931	Revenue Contribution to Capital	0.461
8.080	Major Repairs Reserve	10.626
11.181	Total Financing	11.609

6. Capital Receipts

The Local Government Act 2003 stipulates that income from the disposal of assets must be split into usable and reserved elements. The reserved element is paid over to the national pool and the usable element can be used to fund capital expenditure.

For 2022-23 and 2023-24 the government has announced that 100.0% of Right to Buy receipts can be retained and not paid over. They can be used to reinvest in capital expenditure as long as they are spent within 5 years of receipt. In 2022-23 £1.418 million would have been paid into the pool (2021-22 £1.511 million) but is being retained. A summary of receipts for the year is included below:

	2021-22 £m	2022-23 £m
Expenditure:		
(3.618) Houses		(3.595)
- Discount Repayments		(0.029)
(3.618) Total Expenditure		(3.624)

7. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a debit of £2.580 million representing the excess of current service cost over pension contributions, as a result of implementing IAS 19.

The net charge resulting from implementing IAS 19 is reversed within the HRA meaning there is no effect on the amount to be met from rents.

8. Tenant Arrears

At the end of the final collection week in 2022-23, tenant rent arrears were as follows:

As at 31 March 2022			As at 31 March 2023	
£m	%		£m	%
Rents:				
0.988	3.3	Current tenants	0.951	3.2
1.011	3.4	Former tenants	0.900	3.0
1.999	6.7	Balance at 31 March	1.851	6.2

9. Provision for Impairment of Debt

The impairment allowance for doubtful debts required at 31 March 2023 is £1.580 million compared with £1.865 million at 31 March 2022, a decrease of £0.285 million.

Debts of £0.525 million were written off during the year and a contribution of £0.240 million was added to the allowance.

The impairment allowance for doubtful debts at 31 March 2023 is:

2021-22 £m		2022-23 £m
2.403	Balance at 1 April	1.865
(0.787)	Bad Debts written on/off during year	(0.525)
0.249	Increase in provision	0.240
1.865	Balance at 31 March	1.580

The charge for movement in the allowance for doubtful debts within the Income and Expenditure Statement of £0.237 million includes the increase in allowance for doubtful debts for Council dwelling rents of £0.240 million and sundry debtor allowance for doubtful debts of £0.003 million.

10. Earmarked Reserve - HRA

An Earmarked Reserve was created within the HRA during 2018-19 to fund the development and delivery of a housing development plan. During the year £0.437 million was utilised to fund capital expenditure in line with the plan.

The movement in Earmarked Reserve is shown below:

2021-22 £m		2022-23 £m
(3.108)	Balance at 1 April	(2.177)
0.931	Transferred (to)/from Earmarked Reserve	0.437
(2.177)	Balance at 31 March	(1.740)

Collection Fund

Notes to the Collection Fund Account

The Collection Fund reflects the statutory obligation of billing authorities to maintain a separate Collection Fund, distinct from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and National Non Domestic Rates (NNDR) on behalf of those bodies (including the Council) for whom the income has been raised.

Collection Fund surpluses or deficits declared by the billing authority relating to Council Tax and NNDR are apportioned to the relevant precepting bodies in the subsequent financial year. For Northumberland, the Council Tax precepting body is the Police and Crime Commissioner for Northumbria and the NNDR precepting body is Central Government.

2021-22		Note	2022-23		Total £m
Total £m	Council Tax £m		NNDR £m		
Income:					
(224.432)	Council Tax	1	(237.378)	-	(237.378)
(67.439)	Business Rates	2	-	(75.890)	(75.890)
(0.358)	Transitional Protection Payments		-	0.350	0.350
(292.229)	Total Income		(237.378)	(75.540)	(312.918)
Expenditure:					
Apportionment of previous year's (deficit)/surplus:					
(22.010)	Northumberland County Council		4.215	(12.547)	(8.332)
(0.094)	Police and Crime Commissioner for Northumbria		0.318	-	0.318
(20.394)	Central Government - Share		-	(12.547)	(12.547)
Precepts, demands and shares:					
235.550	Northumberland County Council	2	206.070	36.153	242.223
9.391	Parish and Town Councils		9.869	-	9.869
15.382	Police and Crime Commissioner for Northumbria		16.708	-	16.708
40.525	Central Government - Share	2	-	36.153	36.153
Charges to Collection Fund:					
0.486	Costs of collection		-	0.495	0.495
Increase/(Decrease) in Impairment Allowance for Doubtful					
1.375	Debts		1.785	0.263	2.048
2.408	Increase/(Decrease) in Appeals Provision		-	(6.972)	(6.972)
5.593	Disregarded amounts		-	5.195	5.195
268.212	Total Expenditure		238.965	46.193	285.158
(24.017)	Deficit/(surplus) for year		1.587	(29.347)	(27.760)
45.933	Opening fund balance		(3.099)	25.015	21.916
21.916	Closing fund balance		(1.512)	(4.332)	(5.844)
Allocated to:					
9.626	Northumberland County Council		(1.406)	(2.166)	(3.572)
(0.217)	Police and Crime Commissioner for Northumbria		(0.106)	-	(0.106)
12.507	Central Government		-	(2.166)	(2.166)
21.916			(1.512)	(4.332)	(5.844)

1. Council Tax

The Council collects Council Tax charged on residential properties based upon property valuations estimated at 1 April 1991. These valuations are classified into 8 valuation bands.

The calculation of the tax base (adjusted for discounts and exemptions and expressed as an equivalent number of Band D dwellings) was approved at Full Council in February 2022. The net Council Tax liability in 2022-23 was £237.378 million (£224.432 million in 2021-22).

Properties No.	2021-22			Proportion	2022-23		
	Band D equivalent Properties No.	Council Tax Charge £	Council Tax Band		Properties No.	Band D equivalent Properties No.	Council Tax Charge £
-	60.22	1,093.11	A (Disabled)	5/9	168	61.99	1,139.58
70,609	30,569.55	1,311.73	A	6/9	70,547	30,875.46	1,367.49
25,063	16,030.48	1,530.35	B	7/9	25,316	16,262.95	1,595.40
20,474	15,817.07	1,748.97	C	8/9	20,660	15,982.88	1,823.32
17,115	15,632.90	1,967.59	D	9/9	17,369	15,926.81	2,051.23
11,227	12,685.99	2,404.83	E	11/9	11,430	12,972.62	2,507.06
6,954	9,384.12	2,842.07	F	13/9	7,115	9,647.44	2,962.88
4,293	6,732.77	3,279.32	G	15/9	4,348	6,841.70	3,418.72
550	941.58	3,935.18	H	18/9	507	967.32	4,102.46
156,285	107,854.68		Total		157,460	109,539.17	
	152.77		Band D equivalent adjustments			157.72	
	108,007.45		Gross Tax Base			109,696.89	
	(1,072.52)		Adjustment for non collection			(1,091.40)	
	106,934.93		Net Tax Base			108,605.49	

2.National Non-Domestic Rates (NNDR)

The Council collects Business Rates for its area based on rateable values, set by the Valuation Office Agency, and multipliers, set by Central Government. The two Business Rates multipliers, expressed as a rate in the pound (pence/£), are shown in the following table:

2021-22		2022-23
p/£		p/£
51.2	Standard Multiplier	51.2
49.9	Small Business Multiplier	49.9

The total non-domestic rateable value of all properties in Northumberland is shown in the table below:

2021-22		2022-23
£m		£m
235.846	Rateable Value at 31 March	238.918

The Council retains 50.0% of the rates income collected and the remaining 50.0% was paid to government. The relevant shares payable for 2022-23 were estimated before the start of the financial year in line with regulations. Those estimates are shown in the following table:

2021-22		2022-23
£m		£m
40.525	Northumberland County Council	36.153
40.525	Central Government	36.153

A system of top ups and tariffs is in place to ensure that authorities receive income in line with their previously assessed 'baseline' amount. Tariffs due from authorities payable to government are used to finance the top ups paid by government to those authorities who do not achieve their targeted baseline funding. In this respect the Council received a top up grant in 2022-23 of £27.535 million. A further safety net system acts to ensure that any local authority is protected from a net localised business rate yield of less than 92.5% of its assessed baseline funding.

In 2021-22 the government announced a series of measures to assist businesses in response to the Covid-19 pandemic. This included extending the relief granted to retail, hospitality and leisure businesses and meant that the income received in the Collection Fund was significantly reduced compared to the expected level. The relief provided in 2022-23 amounted to £8.637 million (£16.985 million in 2021-22). The Council was reimbursed for its share of the relief provided in the form of Section 31 grant income which is included in taxation and non-specific grant income within the Comprehensive Income and Expenditure Statement.

Group Accounts

Group Accounts Explanatory Foreword

The CIPFA Code of Practice requires that where an authority has material financial interests and a significant level of control over one or more entities, it should prepare group accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

Bodies Consolidated within the Group Accounts

On 22 January 2018 Advance Northumberland Limited was incorporated at Companies House. Advance Northumberland and its subsidiary companies started trading within 2018-19.

On 17 September 2020 Northumberland Enterprise Holdings Limited was incorporated at Companies House. Northumberland Enterprise Holdings Limited and its subsidiary company Northumbria Integrated Consultancy Limited started trading within 2021-22. Northumbria Integrated Consultancy Limited is currently inactive, and the process has commenced to dissolve this company.

Both the Advance Northumberland Group and Northumberland Enterprise Holding Group are classified as wholly owned subsidiaries of the Council and have been consolidated within the group position on a line-by-line basis, with all intra-group transactions and balances removed.

Further information in respect of the Council's relationship with Advance Northumberland Limited and Northumberland Enterprise Holdings Limited is shown within note 35 to the Council's Financial Statements, Related Parties.

Bodies Not Consolidated within the Group Accounts

An assessment of the Council's relationship with Active Northumberland in 2022-23 concluded that there was no requirement to consolidate its financial position within the Council's group position. The assessment concluded that the Council did not have significant control over Active Northumberland. Further information in respect of the Council's relationship with Active Northumberland is contained within note 35 to the Council's Financial Statements, Related Parties.

An assessment of the Council's relationship with Energy Central Campus Limited for 2022-23 concluded that there was no requirement to consolidate the new jointly-owned company into the Council group. The assessment concluded that, whilst the Council currently has significant control over Energy Central Campus Limited, its financial interest in the company is immaterial. It should also be noted that the level of Council control is likely to become insignificant (i.e. less than 20.0%) once the company is fully operational, due to planned structure changes. Further information in respect of the Council's relationship with Energy Central Campus Limited is contained within note 35 to the Council's Financial Statements, Related Parties.

Group Comprehensive Income and Expenditure Statement

This statement sets out the income and expenditure relating to the Group, together with any appropriations to reserves.

	As Restated 2021-22			2022-23		
	Gross Expenditure £m	Gross Income £m	Net Expenditure £m	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
	225.664	(117.883)	107.781	237.035	(115.922)	121.113
	34.378	(5.330)	29.048	37.931	(4.157)	33.774
	307.613	(200.649)	106.964	283.394	(201.231)	82.163
	27.838	(9.926)	17.912	41.271	(11.422)	29.849
	5.403	(0.021)	5.382	5.085	(0.988)	4.097
	127.904	(71.398)	56.506	130.698	(61.303)	69.395
	30.645	(54.766)	(24.121)	33.584	(35.782)	(2.198)
	118.264	(37.759)	80.505	132.551	(43.228)	89.323
	33.056	(25.014)	8.042	32.202	(29.006)	3.196
	12.049	(9.468)	2.581	12.604	(11.178)	1.426
	29.929	(44.697)	(14.768)	36.653	(47.428)	(10.775)
	952.743	(576.911)	375.832	983.008	(561.645)	421.363
	51.923	(27.095)	24.828	32.389	(13.829)	18.560
	50.791	(28.099)	22.692	49.973	(21.282)	28.691
	-	(408.492)	(408.492)	0.114	(441.947)	(441.833)
	1,055.457	(1,040.597)	14.860	1,065.484	(1,038.703)	26.781
			(73.184)			(18.522)
			(3.761)			-
			(201.485)			(561.672)
			(278.430)			(580.194)
			(263.570)			(553.413)

The 2021-22 comparative Cost of Services figures have been restated to reflect the current service structure. These changes are illustrated in Note 45 of the Single Entity Statements.

Group Movement in Reserves Statement

The following statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Deficit/(Surplus) on the Provision of Services shows the true economic cost of providing the Group's services; more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes.

2022-23	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Earmarked HRA Reserve £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Total Council Usable Reserves £m	Total Council Unusable Reserves £m	Council's share of Group Reserves £m	Total Group Reserves £m
Balance brought forward 1 April 2022	(71.077)	(183.148)	(29.873)	(2.177)	(4.951)	(61.306)	(10.213)	(362.745)	(47.353)	(10.515)	(420.613)
Movement in Reserves during 2022-23:											
Deficit/(Surplus) on the provision of services	46.051	-	1.800	-	-	-	-	47.851	-	(21.070)	26.781
Other Comprehensive Income and Exp'd	-	-	-	-	-	-	-	-	(580.194)	-	(580.194)
Total Comprehensive Income and Expenditure	46.051	-	1.800	-	-	-	-	47.851	(580.194)	(21.070)	(553.413)
Adjustments between accounting basis & funding basis under regulations and adjustment between Group Accounts and Council Accounts	(21.954)	-	(0.637)	-	(3.379)	(2.172)	0.358	(27.784)	14.788	12.996	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	24.097	-	1.163	-	(3.379)	(2.172)	0.358	20.067	(565.406)	(8.074)	(553.413)
Transfers to/(from) Earmarked Reserves	(4.973)	4.973	(0.437)	0.437	-	-	-	-	-	-	-
(Increase)/Decrease in 2022-23	19.124	4.973	0.726	0.437	(3.379)	(2.172)	0.358	20.067	(565.406)	(8.074)	(553.413)
Balance at 31 March 2023 carried forward	(51.953)	(178.175)	(29.147)	(1.740)	(8.330)	(63.478)	(9.855)	(342.678)	(612.759)	(18.589)	(974.026)

Group Movement in Reserves Statement

2021-22	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account £m	Earmarked HRA Reserve £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Total Council Usable Reserves £m	Total Council Unusable Reserves £m	Council's share of Group Reserves £m	Total Group Reserves £m
Balance brought forward 1 April 2021	(71.467)	(174.430)	(28.890)	(3.108)	(4.025)	(56.534)	(8.607)	(347.061)	182.639	7.379	(157.043)
Movement in Reserves during 2021-22:											
Deficit/(Surplus) on the provision of services	69.688	-	(20.323)	-	-	-	-	49.365	-	(34.505)	14.860
Other Comprehensive Income and Exp'd	-	-	-	-	-	-	-	-	(278.430)	-	(278.430)
Total Comprehensive Income and Expenditure	69.688	-	(20.323)	-	-	-	-	49.365	(278.430)	(34.505)	(263.570)
Adjustments between accounting basis & funding basis under regulations and adjustment between Group Accounts and Council Accounts	(78.016)	-	20.271	-	(0.926)	(4.772)	(1.606)	(65.049)	48.438	16.611	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(8.328)	-	(0.052)	-	(0.926)	(4.772)	(1.606)	(15.684)	(229.992)	(17.894)	(263.570)
Transfers to/(from) Earmarked Reserves	8.718	(8.718)	(0.931)	0.931	-	-	-	-	-	-	-
(Increase)/Decrease in 2021-22	0.390	(8.718)	(0.983)	0.931	(0.926)	(4.772)	(1.606)	(15.684)	(229.992)	(17.894)	(263.570)
Balance at 31 March 2022 carried forward	(71.077)	(183.148)	(29.873)	(2.177)	(4.951)	(61.306)	(10.213)	(362.745)	(47.353)	(10.515)	(420.613)

Group Balance Sheet

The Balance Sheet summarises the financial position of the Group as a whole. It shows the value of Group assets and liabilities at the end of the financial year.

31 March 2022 £m	Note	31 March 2023 £m	31 March 2022 £m	Note	31 March 2023 £m	
1,468.797	Property, Plant & Equipment	1,3	1,515.353	(11.988)	Bank Overdraft	(13.907)
7.951	Heritage Assets	7.951	(57.308)	Short Term Borrowing	(57.018)	
248.932	Investment Property	2	(141.728)	Short Term Creditors	(89.295)	
1.237	Long Term Intangible Assets	0.888	(2.181)	Short Term Provisions	(6.618)	
0.295	Assets Held for Sale - non current	0.295	(2.146)	Revenue Grants Receipts in Advance	(1.902)	
19.280	Long Term Investments	20.178	(12.272)	Capital Grants Receipts in Advance	(15.535)	
123.882	Long Term Debtors	119.102	(227.623)	Current Liabilities	(184.275)	
1,870.374	Long Term Assets	1,922.421	(67.318)	Long Term Creditors - PFI	(64.392)	
90.122	Short Term Investments	35.066	(705.485)	Long Term Borrowing	(693.825)	
3.793	Assets Held for Sale - current	3.619	(7.475)	Long Term Provisions	(0.126)	
2.255	Inventories	2.407	(757.497)	Net Defined Pensions Liability	(248.139)	
40.334	Work in Progress	6	(5.944)	Capital Grants Receipts in Advance	(10.081)	
84.136	Short Term Debtors	87.367	(11.021)	Deferred Tax Liability	(10.975)	
111.962	Cash and Cash Equivalents	92.937	(1,554.740)	Long Term Liabilities	(1,027.538)	
332.602	Current Assets	263.418	420.613	Net Assets	974.026	
			362.745	Usable Reserves - Council	342.678	
			47.353	Unusable Reserves - Council	612.759	
			10.515	Usable Reserves - Subsidiaries	18.589	
			420.613	Total Reserves	974.026	

Group Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

2021-22 £m		2022-23 £m
(14.860)	Net surplus/(deficit) on the provision of services	(26.781)
120.365	Adjustments to net deficit on the provision of services for non-cash movements	50.455
(76.105)	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	(86.969)
29.400	Net cash flows from Operating Activities	(63.295)
47.493	Investing Activities	43.419
(51.889)	Financing Activities	(1.068)
25.004	Net increase in cash and cash equivalents	(20.944)
74.970	Cash and cash equivalents at the beginning of the reporting period	99.974
99.974	Cash and cash equivalents at the end of the reporting period	79.030

Accounting Policies

The financial results of the Council and its subsidiary at 31 March 2023 have been consolidated in accordance with IFRS 10. All entities within the Group have a reporting date of 31 March. All transactions and balances between the Group companies have been eliminated on consolidation.

The Group accounting policies are specified within the Council only statement. There are some slight divergences from these policies within the Group as stated below:

Capital Expenditure

There is no de-minimis level for capital expenditure for the Advance Northumberland Group.

Depreciation

Depreciation is charged on the following basis:

Asset	Depreciation Period
Land and Buildings	Reducing balance basis over lease period (30/50 years) 10.0% - 33.0% per annum reducing balance – 33.0% per annum
Plant and Machinery	straight-line
Photovoltaics	5.0% per annum straight line
Motor vehicles	25.0% per annum reducing balance
No depreciation is provided in first year of acquisitions	

Investment properties are included in the Balance Sheet at fair value with changes in fair value being recognised through the Profit and Loss Account. It is the policy of the company for a qualified independent valuer to perform the valuation annually. No depreciation is provided in respect of investment properties.

Deferred Taxation

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Group is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future. Deferred tax is provided on Revaluation gains and /or(losses).

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date that are

expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to the sale of the asset.

Critical Judgments in Applying Accounting Policies

The Council's wholly owned subsidiary: Advance Northumberland Limited, owns assets which are classified as investment property, in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23. Investment properties are those which are used solely to earn rentals or capital appreciation or both. Investment properties are accounted for at fair value.

Explanatory Notes to the Group Accounts

Where figures in the Group accounts differ materially from the Council's accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes below give information on the areas that have materially changed on consolidation of the Group entities into the Council's accounts.

1. Group Property, Plant and Equipment

Movements in 2022-23	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant and Equipment £m	PFI Assets Included in Property, Plant and Equipment £m
Cost or Valuation:								
At 1 April 2022	355.349	532.549	128.205	11.111	17.246	82.215	1,126.675	99.824
Additions	11.138	28.006	6.577	0.072	-	39.114	84.907	1.848
Reclassifications	0.002	18.660	0.161	0.006	3.704	(28.802)	(6.269)	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(6.687)	4.000	-	(2.589)	-	(5.276)	(10.623)
Revaluation Increases/(Decreases) recognised in the Deficit on the Provision of Services	(7.830)	(28.379)	0.001	-	(2.094)	-	(38.302)	-
De-recognition - Disposals	(3.310)	(0.188)	(7.430)	(0.001)	(0.016)	-	(10.945)	(0.013)
De-recognition - Other	-	(1.563)	(1.848)	-	-	-	(3.411)	(1.848)
Assets reclassified (to)/from Held for Sale	-	(0.002)	-	-	-	-	(0.002)	-
Other movements in cost/valuation	-	(0.195)	(0.157)	-	-	(0.383)	(0.735)	-
At 31 March 2023	355.349	542.201	129.509	11.188	16.251	92.144	1,146.642	89.188
Accumulated Depreciation and Impairment:								
At 1 April 2022	-	26.764	42.775	2.213	-	-	71.752	10.021
Depreciation/Impairment charge	10.062	16.445	10.791	0.162	-	-	37.460	4.728
Reclassifications	-	(0.870)	-	-	0.870	-	-	-
Depreciation written out to the Revaluation Reserve	-	(21.237)	(2.082)	-	(0.479)	-	(23.798)	(7.410)
Depreciation written out to the Deficit on the Provision of Services	(10.062)	(8.615)	(0.020)	-	(0.391)	-	(19.088)	-
De-recognition - Disposals	-	(0.024)	(6.871)	-	-	-	(6.895)	-
De-recognition - Other	-	(0.206)	(0.108)	-	-	-	(0.314)	(0.121)
Other movements in cost/valuation	-	(0.031)	(0.113)	-	-	-	(0.144)	-
At 31 March 2023	-	12.226	44.372	2.375	-	-	58.973	7.218
Net Book Value:								
At 31 March 2023	355.349	529.975	85.137	8.813	16.251	92.144	1,087.669	81.970
At 31 March 2022	355.349	505.785	85.430	8.898	17.246	82.215	1,054.923	89.803

Movements in 2021-22	Council Dwellings £m	Other Land and Buildings £m	Vehicles, Plant, Furniture & Equipment £m	Community Assets £m	Surplus Assets £m	Assets Under Construction £m	Total Property, Plant and Equipment £m	PFI Assets Included in Property, Plant and Equipment £m
Cost or Valuation:								
At 1 April 2021	335.073	485.476	118.244	11.051	15.439	82.270	1,047.553	93.179
Additions	11.103	20.860	11.728	0.069	0.512	35.680	79.952	1.043
Reclassifications	0.370	25.939	2.547	-	(0.546)	(32.636)	(4.326)	0.064
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	42.661	5.367	-	5.233	-	53.261	6.581
Revaluation Increases/(Decreases) recognised in the Deficit on the Provision of Services	12.123	(35.082)	(2.366)	-	(0.209)	-	(25.534)	-
De-recognition - Disposals	(3.320)	(4.736)	(6.272)	(0.001)	-	-	(14.329)	-
De-recognition - Other	-	(2.569)	(1.043)	(0.008)	-	-	(3.620)	(1.043)
Assets reclassified (to)/from Held for Sale	-	-	-	-	(3.183)	-	(3.183)	-
Other movements in cost/valuation - correction of opening balance	-	-	-	-	-	(3.099)	(3.099)	-
At 31 March 2022	355.349	532.549	128.205	11.111	17.246	82.215	1,126.675	99.824
Accumulated Depreciation and Impairment:								
At 1 April 2021	-	39.357	41.199	2.061	-	-	82.617	8.049
Depreciation/Impairment charge	9.488	15.188	9.064	0.152	-	-	33.892	4.114
Reclassifications	-	(0.038)	-	-	0.038	-	-	-
Depreciation written out to the Revaluation Reserve	-	(18.685)	(1.220)	-	(0.018)	-	(19.923)	(2.088)
Depreciation written out to the Deficit on the Provision of Services	(9.488)	(8.905)	(0.467)	-	(0.020)	-	(18.880)	-
De-recognition - Disposals	-	(0.024)	(5.747)	-	-	-	(5.771)	-
De-recognition - Other	-	(0.129)	(0.054)	-	-	-	(0.183)	(0.054)
At 31 March 2022	-	26.764	42.775	2.213	-	-	71.752	10.021
Net Book Value:								
At 31 March 2022	355.349	505.785	85.430	8.898	17.246	82.215	1,054.923	89.803
At 31 March 2021	335.073	446.119	77.045	8.990	15.439	82.270	964.936	85.130

Movement on balances of Infrastructure assets

In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – new regulation 30M relating to infrastructure assets. The authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets. The value at 31 March 2023 is £427.684 million (at 31 March 2022 £413.874 million). (see note 14 of the Single Entity statements for details).

2. Investment Property

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

31 March 2022		31 March 2023
£m		£m
238.012	Balance at 1 April	248.932
0.261	Additions	0.875
-	Reclassifications	(0.001)
-	Reclassifications - for sale	(0.005)
(9.516)	Disposals	(0.351)
20.175	Net losses from fair value adjustments	9.204
248.932	Balance at 31 March	258.654

Fair Value Hierarchy

All of the Council's investment property portfolio has been assessed as Level 2 for valuation purposes. Within the Advance Northumberland Group, investment properties amounting to £252.647 million have been valued at Level 2 and the remainder of those properties subject to a revaluation during 2021-22 were valued at Level 1.

Valuation Techniques used to determine Level 2 Fair Values for Investment Properties

The fair value of investment property has been determined having regard to comparable evidence, applying a Rent and Yield or Capital Value Rate where appropriate.

Highest and Best use of Investment Properties

In estimating the fair value of the Advance Northumberland Group's investment properties, the highest and best use of the properties is deemed to be their current use.

Valuers

The investment property portfolio has been valued at 31 March 2023 in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The Advance Northumberland Group's valuing agents for financial year 2022-23 were George F White Limited for commercial properties and Aspin and Company Limited for the residential properties.

3.Group Valuation of Non-Current Assets

Valuation of Non-Current Assets Carried at Current Value

The following statement shows the progress of the Group's rolling programme for the revaluation of non-current assets. The valuations for the Council were carried out by Bruton Knowles LLP. The Advance Northumberland Group's valuations were carried out by George F White Limited for the commercial properties, and Aspin and Company Limited for the residential properties.

	Council Dwellings £m	Other Land and Buildings** £m	Vehicles, plant, furniture and equipment £m	Community Assets* £m	Surplus Assets £m	Assets under construction £m	Group Total £m
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	5.607	49.737	8.813	-	92.144	156.301
Valued at Current Value in:							
2022-23 Indexation Adjustment**	-	14.683	-	-	-	-	14.683
2022-23	355.349	192.535	35.400	-	16.251	-	599.535
2021-22	-	315.782	-	-	-	-	315.782
2017-18	-	1.368	-	-	-	-	1.368
Total	355.349	529.975	85.137	8.813	16.251	92.144	1,087.669

In accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 SI 1232/2022 – new regulation 30M relating to infrastructure assets, the authority has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets. The value at 31 March 2023 is £427.684 million (see note 14 of the Single Entity statements for details).

* Due to the re-categorisation of assets, an approximation to historical cost has been made in some cases.

** Adjustment to the accounts to represent the movement in building and construction costs on assets valued using the Depreciated Replacement Cost methodology in prior years.

4. Pension Schemes Accounted for as Defined Contribution Schemes

Advance Northumberland (Housing) Limited operates a group personal pension, with defined contributions that meet the requirements of auto enrolment. The assets of the scheme are in a fund independent from those of the company.

5. The Nature and Extent of Significant Restrictions within the Group

Dividends will only be paid from the Advance Northumberland Limited subsidiaries to Advance Northumberland Limited. During 2022-23, £0.400 million (£0.250 million in 2021-22) was paid to Advance Northumberland Limited from Advance Northumberland (Housing) Limited.

6. Group Work in Progress

The following statement shows the value of developments for sale outside of the Advance Group.

31 March 2022		31 March 2023
£m		£m
35.921	Balance at 1 April	40.334
3.366	Correction of Opening Balance	0.115
19.860	Additions	21.086
(18.813)	Disposals	(19.513)
40.334	Balance at 31 March	42.022

7.Officers' Remuneration

The Accounts and Audit Regulations 2015 require authorities to disclose the number of employees whose remuneration in the year was £50,000 and above, shown in bands of £5,000. Remuneration is defined as all amounts paid to or receivable by an employee, expense allowances chargeable to tax and the money value of benefits. The change in the profile of number of employees within each band reflects salary increments and pay awards, early retirements and part-year effects of staff joining or leaving the Group within the year.

The note excludes senior employees whose individual remuneration is in the remuneration of senior officers' disclosure within the Single Entity accounts.

2021-22		Remuneration Band	2022-23	
All Employees Council	All Employees Group		All Employees Council	All Employees Group
149	157	£50,000 to £54,999	202	212
86	88	£55,000 to £59,999	101	109
55	60	£60,000 to £64,999	65	67
40	42	£65,000 to £69,999	66	71
24	24	£70,000 to £74,999	33	35
8	8	£75,000 to £79,999	14	14
7	8	£80,000 to £84,999	7	7
3	4	£85,000 to £89,999	7	7
7	8	£90,000 to £94,999	5	7
4	5	£95,000 to £99,999	8	9
2	2	£100,000 to £104,999	2	2
1	1	£105,000 to £109,999	-	-
2	2	£110,000 to £114,999	-	-
-	-	£115,000 to £119,999	3	3
2	2	£120,000 to £124,999	1	1
1	1	£125,000 to £129,999	2	2
2	2	£130,000 to £134,999	-	1
-	-	£135,000 to £139,999	1	2
393	414	Total	517	549

Firefighters' Pension Fund

Firefighters' Pension Fund

Details of the Firefighters' Pension Fund is shown in the tables below:

2021-22 £m	Fund Account	2022-23 £m
	Contributions:	
1.821	From employer - normal	2.025
-	From employer - ill health	-
0.809	From members	0.902
2.630		2.927
	Transfers in:	
0.484	Individual transfers from other schemes	1.140
3.114		4.067
	Benefits:	
(5.878)	Pensions	(6.143)
(0.962)	Commutations and lump sum retirement benefits	(0.584)
(0.053)	Other eligible expenditure - scheme pays	(0.101)
(6.893)		(6.828)
3.779	Net amount payable before top-up grant	2.761
(3.779)	Top-up grant payable by the Government	(2.761)
-	Net Amount Payable for the year	-

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31 March 2022 £m	Net Assets Statement	31 March 2023 £m
	Current assets:	
0.121	Top-up grant receivable from the Government	-
-	Amount receivable from the General Fund	0.924
	Current liabilities:	
-	Top up grant owed to the Government	(0.924)
(0.121)	Amount payable to the General Fund	-
-		-

8. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the Firefighters' Pension Schemes and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the Balance Sheet date.

Note 31 to the Council's Financial Statements shows the liability to pay pensions and benefits which fall due after the Balance Sheet date, in accordance with IAS 19 Retirement benefits.

9. Accounting Policies

The principal accounting policies are as follows:

Contributions

Contributions represent the total amounts receivable from the Council and the pensionable employees. Employer contributions are made at rates determined by the Government Actuary's Department, at a nationally applied rate of 37.3% (of pensionable pay) for the 1992 Firefighters' Pension Scheme, 27.4% for the 2006 Firefighters' Pension Scheme and 28.8% for the 2015 Firefighters' Pension Scheme. Also, the Council is required to make payments into the pension fund in respect of ill-health retirements, when they are granted.

No provision is made in the accounts for employees' and employer's contributions relating to sums due on pay awards not yet settled.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

No provision is made in the accounts for the liability to pay pensions and other benefits after the Net Assets Statement date.

Transfer Values

Transfer values are those sums paid to or received from other pension schemes and the Firefighters' Pension Scheme outside England for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

10. Fund's Operations

New financial arrangements came into effect from 1 April 2006 for both the 1992 and the 2006 Firefighters' Pension Schemes under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The financial arrangements have no impact on the terms and conditions of each scheme.

The Firefighters' schemes are statutory unfunded pension schemes, administered by the Council. The benefits for both schemes are defined and guaranteed in law. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

Employee contributions, employer contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by government. Therefore the fund is balanced to nil each year by receipt of pension top-up grant or by paying the surplus back to the government.

The Schemes are unfunded and therefore the fund has no investment assets.

11. Pension Administration

The pension administration for the Firefighters' Pension Scheme was transferred to a shared service with West Yorkshire Pension Fund on 1 March 2018.

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Glossary of Terms

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Glossary of Terms

Accrual

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary

An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary determines the rate of employer contributions due to the Pension Fund every three years.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

Amortised

Written off over an appropriate period of time.

Audit of Accounts

An independent examination of the Council's Statement of Accounts.

Balance Sheet

A summary of an Authority's financial position at the year end. It shows the balances and reserves at an Authority's disposal and its long term indebtedness, and the long term and current assets employed in its operations, together with summarised information on non-current assets held.

Budget

A statement of the Council's expected level of income and expenditure over a set period, usually one year.

Business Rates

See National Non-Domestic rates (NNDR).

Capital Adjustment Account

A reserve set aside from revenue resources or capital receipts to fund capital expenditure or the repayment of external loans and certain other capital financing transactions.

Capital Asset

An item bought to improve, build, prepare or replace plant, machinery, buildings, land and other structures.

Capital Expenditure

Expenditure on the acquisition of a non-current asset; or, expenditure which adds to the life or value of an existing non-current asset.

Capital Receipt

The income obtained from selling a capital asset. This is either set aside to the Capital Financing Account for the repayment of loans or used to finance new capital expenditure.

Cash Flow Statement

Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes. It provides a link between the Balance Sheet at the beginning of the year, the Comprehensive Income and Expenditure Statement for the year and the Balance Sheet at the end of the year.

CIPFA

The Chartered Institute of Public Finance and Accountancy is the accountancy body which recommends accounting practice for the preparation of local authority accounts. CIPFA publishes the Code of Practice setting out the roles for presentation of the Statement of Accounts.

Collection Fund

The fund administered by an authority collecting council tax and business rates.

Comprehensive Income and Expenditure Statement

A statement which details the total income received and expenditure incurred by the Council during the year in line with IFRS reporting as required by the CIPFA Code of Practice.

Contingent Asset

A possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liability

A contingent liability is either:

- A possible obligation arising from past events whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the Council's control; or,
- A present obligation arising from past events where it is not probable that there will be an

Glossary

Glossary of Terms

associated cost, or the amount of the obligation cannot be measured accurately.

Council Tax

The means of raising money locally to pay for local authority services. This is a property based tax where the amount levied depends upon the valuation of each dwelling.

Creditors

Amounts owed by the Council for goods or services that it has received but for which payment has not been made by the year end.

Current Assets and Liabilities

Current assets are items that are, or can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term. By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Debtors

Amounts owed to the Council at the year end where services have been delivered but payment has not been received.

Deferred Capital Receipts

Deferred Capital Income comprises amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses, which form the main part of mortgages under loans for purchase and improvement of property.

Defined Benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined Contribution Scheme

A pension or other retirement benefit scheme into which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Delegated Budgets

Budgets for which schools and other services have complete autonomy in spending decisions.

Depreciated Replacement Cost

A method of assessing market value where there is no comparable evidence available and equating to the current cost of reproducing or replacing an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Depreciation

The theoretical loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

Earmarked Reserves

These reserves represent monies set aside that can only be used for a specific usage or purpose.

Estimation Uncertainty

Potential error included in the accounts as a result of estimates used to generate particular balances.

Finance Leases

A lease that transfers most of the risks and rewards of ownership of an asset to the lessee.

Financial Instruments

Contracts that give rise to a financial asset in one entity and a financial liability or equity holding in another entity.

General Fund

The Council's main revenue fund to which all revenue transactions are credited and from which revenue liabilities are discharged.

Government Grants

Revenue grants and contributions are credited to the appropriate service revenue account. Capital grants and contributions are credited to the Government Grants and Contributions Deferred Account.

Heritage Assets

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

Housing Revenue Account (HRA)

This account reflects the statutory obligation to "ring-fence" and show separately the financial transactions relating to the provision of housing. Included within the section on the HRA is the Statement of Movement on the HRA which discloses how the HRA Income & Expenditure

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Glossary of Terms

Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year.

Impairment

The deterioration of an asset, through damage, dilapidation etc., which affects the value of that asset.

Income

Money which the Council receives, or expects to receive, from any source, including fees, charges, sales and grants.

Infrastructure

Non-current assets belonging to the Council which do not necessarily have a resale value, and for which a useful life span cannot be readily assessed.

Intangible Assets

Non-financial non-current assets that do not have physical substance, but, are identifiable and are controlled by the organisation through custody or legal rights.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during a period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Inventory

The amount of unused or unconsumed materials held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Investments

Short term investments comprise of temporary surplus funds with banks or similar institutions.

Lender Option Borrower Option (LOBO)

A LOBO is a loan from a financial institution where the interest rate is agreed at the outset of the arrangement. The lender then has the option to increase the rate at specific agreed periodic intervals through the term of the loan. If at one of these points the lender exercises the option to increase the interest rate on the loan the borrower has the option to repay the loan and end the agreement.

Long Term Borrowing

The main element of long term borrowing is comprised of loans that have been raised to finance capital investment projects.

Market Value

The monetary value of an asset as determined by current market conditions.

Minimum Revenue Provision (MRP)

The statutory minimum amount that must be charged to the Comprehensive Income and Expenditure Statement in each financial year to repay external debt.

Movement in Reserves Statement

This financial statement presents the movement in useable and unusable reserves (the Council's total reserves).

National Non-Domestic Rates (NNDR)

National Non-Domestic Rates, also known as Business Rates, is a tax on non-domestic

properties based on property valuations and multipliers set by Government.

Net Book Value

The amount at which non-current assets are included in the Balance Sheet i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Non-Current Assets Held for Sale

A category of financial instrument which includes investments traded in an active market and equity instruments other than those for which a reliable value cannot be determined.

Operating Leases

This is a method of financing assets which allows the Council to use, but not own the asset and therefore is not capital expenditure. A third party purchases the asset on behalf of the Council, who then pays the lessor an annual rental charge for the use of the asset.

Past Service Cost

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension Liabilities

See scheme liabilities.

Precept

The amount of money levied on the Council's Collection Fund by other public bodies to finance services.

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Glossary of Terms

Prepayments

Amounts paid by the Council in the year of account that related to goods and services not received until subsequent years.

Prior Period Adjustments

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative

Long term contracts with the private sector to procure the design, build and running of assets for the delivery of public services.

Property, Plant and Equipment

Non-current assets that yield benefits to the Council and the services they provide for a period of more than one year.

Provisions

Provisions represent sums set aside for any liabilities of uncertain amount or timing that have been incurred.

Receipts in Advance

Amounts received by the Council during the year of account relating to services delivered in subsequent years.

Remuneration

All sums paid to or receivable by an employee, and includes sums due by way of expenses allowances (so far as those sums are chargeable to United Kingdom income tax), and the estimated

monetary value of any other benefits received by an employee otherwise than in cash.

Reserves

An amount set aside for a specific purpose in one year and carried forward to meet future obligations.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or,
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange in services rendered by employees.

Revaluation Reserve

The accumulated gains in value on non-current assets held by the Council since 1 April 2007 less the part of depreciation charges that have been incurred because the assets have been valued.

Revenue Expenditure

Revenue expenditure is spending on day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies & services.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of non-current assets.

Revenue Support Grant

A general grant paid by the Government to local authorities, to support local authority revenue expenditure.

Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

Section 151 Officer

The Officer designated to assume overall responsibility for the administration of the financial affairs of the Council and for the preparation of the Council's Statement of Accounts.

Soft Loan

Loans, normally to voluntary sector organisations, below the market rate of interest.

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Contact Information

Contacts

Contact Information

This document is also available on the Council's website at the following link:

[Statement of Accounts](#)

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Northumberland County Council

AUDIT COMMITTEE

26 July 2023

Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2023

Report of Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

Executive Director: Jan Willis, Executive Director of Transformation and Resources

1. Purpose of the Report

Northumberland County Council is required to assess whether it should be considered as a ‘going concern’ organisation, and whether the Council’s annual Statement of Accounts should be prepared on that basis. This report considers the Council’s status as a going concern and recommends that Members approve this.

2. Recommendations

It is recommended that Members of the Audit Committee approve that the Council is considered to be a going concern and that the Statement of Accounts 2022-23 is prepared on that basis.

3. Key Issues

When preparing the annual Statement of Accounts, the Council complies with the Code of Practice on Local Authority Accounting 2022-23 (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the Statement of Accounts to be prepared on a going concern basis.

This means that the Statement of Accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future.

The assumption that a local authority’s services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government).

This report details the management consideration of Going Concern as at 31 March 2023, and beyond. The reasons for recommending that the Council be considered as a going concern and that it is appropriate for the statement of accounts to be prepared on that basis are summarised below:

- a) The Code confirms that on the basis that local authorities cannot be created or dissolved without statutory prescription, it would not be appropriate for their financial statements to be provided on anything other than a going concern basis.
- b) The financial position of the Council remains strong. The Council was able to set a balanced budget for 2023-24 and has a strong record of delivering within budget and achieving savings.
- c) As at 31 March 2023, the Council held general reserves of £50.955 million and reserves earmarked for specific future purposes, including those held for schools, of £179.915 million.
- d) Net assets at 31 March 2023 amounted to £921.445 million.
- e) The Council has a history of stable finance and ready access to financial resources in the future.
- f) There are no significant financial, operating, or other risks that would jeopardise the Council's continuing operation.

Based on the assessment undertaken, the Executive Director of Transformation & Resources and Section 151 Officer's view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of known risks, and therefore the Council is a going concern, and the Statement of Accounts should be and have been prepared on that basis.

4. Background

The general principles adopted in compiling the Statement of Accounts are in accordance with the Code as published by CIPFA. The Code defines proper accounting practices for local authorities in England, Wales, Scotland, and Northern Ireland.

The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue to be in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of the operation.

An inability to apply the going concern concept can have a fundamental impact on the financial statements. In reality, it would be highly unusual for a local authority to

have a going concern problem. There may be cases where part of an authority's operation ceases to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

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

a) Financial Position 2022-23

The Council has a strong record of delivering within budget and achieving savings.

In February 2022 the Council set its 2022-23 budget and identified savings of £9.704 million to be delivered to support the budget.

The Council carries out frequent management accounts reporting to enable effective budget monitoring, to ensure that budget holders regularly assess delivery against budget and allow time for considered actions. Revenue monitoring has been reported on a quarterly basis to the Cabinet. The final revenue outturn position (subject to audit) including all technical adjustments required to finalise the Statement of Accounts was a net underspend of £5.916 million, after accounting for transfers to earmarked reserves and provisions agreed as part of the provisional outturn report at the Cabinet meeting on 9 May 2023, which has been transferred to the General Fund. This has reduced the general fund reserve from £70.079 million to £50.955 million as at 31 March 2023.

All references to the prior year's figures (year ended 31 March 2022) are subject to audit.

Capital monitoring has been reported quarterly to the Cabinet and the final capital outturn position was an underspend of £37.290 million when compared to the revised budget of £188.840 million.

The Housing Revenue Account (HRA) outturn is an overspend of £0.739 million, which has been transferred from the HRA reserve, resulting in a reduction in the reserve balance to £29.147 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is £1.740 million at 31 March 2023.

The HRA 30-year Business Plan specifically assesses the future sustainability of the HRA and is reviewed at least twice a year as part of the budget setting and final accounts processes. It is currently estimated that the HRA business plan is sustainable.

The financial position of the Council remains healthy. Net assets at 31 March 2023 amounted to £921.445 million (£974.026 million on a Group basis). This is an increase of £528.249 million during 2022-23, which is due mainly to a reduction in the estimated pension liability for employees of £494.348 million, a reduction in

short-term investments totalling £55.056 million and a reduction in short-term creditors totalling £53.799 million. The pension liability is calculated by the Pension Fund Actuary, and statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. In addition, there was an increase of £39.152 million in Property, Plant and Equipment following in-year valuation, an extensive review of the Council's Infrastructure assets and historic accumulated depreciation, as well as an uplift of those assets not valued during the year based on Building Cost Information Service (BCIS) indices which rose substantially during the year.

b) Medium-Term Financial Plan 2022-23 to 2025-26

The Council approved its budget for 2023-24 and Medium-Term Financial Plan (MTFP) 2023-27, on 22 February 2023.

The Council has continued to effectively manage its resources during a period of increasing cost pressures and funding uncertainty. The future funding outlook for the public sector and local government is extremely uncertain.

The financial landscape for the Council is likely to remain challenging for the foreseeable future. The one year settlement announced by the Government in December 2022 for 2023-24 does not help with longer term financial planning, however the settlement did provide some degree of comfort by announcing some indicative figures for 2024-25. In addition, the Fair Funding Review and review of the Business Rates Retention system has been delayed, with the earliest implementation date being 2025-26. The outcome of these reviews will determine the quantum of funding available to local government and the share available to the Council. It is clear that there are significant risks to the Council's funding depending on the principles that are ultimately agreed for fair funding distribution and how any redistribution of business rates income is implemented.

The Covid-19 outbreak had a significant financial impact on the Council during 2020-21 and the recovery will take place over a number of years. There was an increase in claims for Local Council Tax Support and a reduction in business rate income due to rate reliefs and business closures, some of which still continues. This is compounded by the current economic outlook, which continues to place increasing pressure on household and business finances.

The Council continues to face a range of significant budget pressures including general inflation, utilities inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contributions.

The MTFP sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards

corporate priorities. The MTFP describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

The Council's MTFP has focussed on protecting front line services as far as possible, prioritising efficiencies from back-office functions and maximising income. As well as investing in an Innovation and Improvement Team the Council has committed an additional £3.000 million per annum from 2022-23 to support transformation work and invest in resources to work across the Council.

The Council has a strong track record of savings delivery.

In general, the Council has been relatively accurate in forecasting the level of savings required, which has allowed the development of strong plans and enabled the Council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the Council in a strong position to meet the ongoing financial challenges across this MTFP and beyond. However, savings proposals are becoming more complex and difficult to deliver and this may require increased utilisation of reserves to offset any delays and smoothing of reductions.

After taking into account base budget pressures, additional investment and savings, the Council's net budget for 2023-24 is £401.483 million.

The financing of the net budget requirement is detailed in the following table.

Financing of the 2023-24 Budget

Funding Stream	Amount £m
Council Tax	231.950
Retained Business Rates	92.861
Revenue Support Grant	12.430
Other Corporate Grants	46.360
Strategic Management Reserve	12.739
General Fund Reserve	0.000
Collection Fund Smoothing Reserve	1.944
Council Transformation Fund	3.000
Public Health	0.199
Total	401.483

The Council has been able to set a balanced budget for 2023-24 and has a clear plan in place to invest in capital infrastructure and to deliver local services over the life of the MTFP, and beyond. Based upon this, it is evident that the Council is a going concern.

c) Capital Funding

On 22 February 2023 full Council approved the capital budget for 2023-24 and the medium-term Capital Programme for the period 2023-24 to 2026-27.

The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation. The Council also recognises the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.

The Council has been able to set a balanced budget for 2023-24 and has a clear plan in place to continue to deliver local services. Based upon this, it is evident that the Council is a going concern.

d) Reserves

Reserves are held as a:

- i. Working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing
- ii. Contingency to cushion the impact of any unexpected events or emergencies
- iii. Means of building up funds, earmarked reserves to meet known or predicted future liabilities.

As at 31 March 2023, the Council held general reserves of £50.955 million and reserves earmarked for specific future purposes, including those held for schools, of £179.915 million.

Details of individual reserves are contained within Appendix A.

Based on the level of reserves held, the Council has demonstrated robust financial management that underpins its status as going concern.

5. Risk

The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the Council's responsibility for business rates and council tax support. All risks will be assessed continually throughout the MTFP period. Some of the key risks identified include:

- a) ensuring the achievement of a balanced budget and financial position across the MTFP period;
- b) ensuring savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;
- c) there is no certainty over the quantum of government funding available for local government beyond 2023-24, although indicative allocations have been given for 2024-25. Given the pressures faced, particularly from social care, it is imperative that the quantum is increased and that a long-term settlement is agreed;

- d) the outcome of the Government's Fair Funding Review and review of Business Rates has been postponed by at least a further two years; resulting in implementation in 2025-26 at the earliest. These reviews could result in significant changes to the distribution of government funding;
- e) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the Council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers;
- f) the legacy of the coronavirus pandemic and economic outlook is again expected to have an impact in the medium term on business rates income;
- g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards as well as utilities and fuel will need to be closely monitored;
- h) the Council continues to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP period this issue will need to be closely monitored;
- i) the funding position for the High Needs Dedicated Schools Grant. It is hoped that the government fully recognises this pressure as part of the Comprehensive Spending Review;
- k) the potential ongoing impact of Brexit, which could affect future government finance settlements, business rates income, price inflation and European funding.

Based upon the above there are no risks which would indicate that the Council is not a going concern.

6. Conclusion

Based on the assessment undertaken, the Executive Director of Transformation and Resources view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of known risks, and therefore the Council is a going concern, and the Statement of Accounts should be and have been prepared on that basis.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Statement of Accounts summarises the financial performance of the Council for the 2022-23 financial year.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background Papers:

Northumberland County Council Draft Statement of Accounts 2022-23 (subject to audit)

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

	Name
Monitoring Officer/Legal	Stephen Gerrard
Executive Director of Transformation & Resources & S151 Officer	Jan Willis
Executive Director	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder	Richard Wearmouth

Author and Contact Details:

Suzanne Dent
Finance Manager
Telephone: 01670 625515
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Description	Balance at 1 April 2022 £m	Increase/ (Decrease) £m	Balance at 31 March 2023 £m
General Reserves / Balances			
General Fund Reserve	70.079	(19.124)	50.955
Total General Reserve	70.079	(19.124)	50.955
Ring Fenced Reserves / Balances			
HRA	29.873	(0.726)	29.147
Major Repairs Reserve – HRA	10.213	(0.358)	9.855
HRA Capital Investment	2.177	(0.437)	1.740
Total Ring-Fenced Reserve / Balances	42.263	(1.521)	40.742
Specific Reserves / Balances			
Capital Receipts - GF	0.183	(0.090)	0.093
Capital Receipts – HRA	4.768	3.469	8.237
Capital Grants Unapplied	61.306	2.172	63.478
Total Specific Reserves / Balances	66.257	5.551	71.808
Earmarked Reserves			
ADC Parks & Open Spaces	0.009	(0.009)	-
ADC Section 106	0.046	(0.044)	0.002
Balances held by Schools	9.192	(0.251)	8.941
Borderlands Energy Masterplan	0.816	(0.008)	0.808
Business Recovery	2.322	-	2.322
Cessation of the NHS Partnership Agreement	0.262	(0.262)	-
Collection Fund Smoothing	15.155	(13.211)	1.944
Community Led Housing	0.687	(0.082)	0.605
Contain Outbreak Management	2.130	(1.870)	0.260
Council Commissioned Services	8.981	(1.461)	7.520
Council Tax Hardship & Discount Scheme	-	6.588	6.588
Council Transformation Fund	17.902	(0.758)	17.144
Dedicated Schools Grant	4.032	0.469	4.501
Economy & Regeneration Investments	0.358	(0.308)	0.050
Empty Dwelling Management Order	0.047	0.030	0.077
Estates Rationalisation	7.242	(0.985)	6.257
Exceptional Inflationary Pressures	5.208	(4.191)	1.017
Fire and Rescue Service HMICFRS Improvement Fund	0.050	(0.024)	0.026
Firefighters' Immediate Detriment	0.250	(0.050)	0.200
Firefighters' Pension Fund Admin Grant	0.033	-	0.033
Food Waste	-	0.058	0.058
Haltwhistle Repairs	0.039	(0.003)	0.036
Highways Commuted Maintenance Funds	-	1.127	1.127
Highways Maintenance Investments	0.225	-	0.225
Homes for Ukraine	-	4.586	4.586
Insurance	8.479	(0.657)	7.822
Legal Challenges	1.800	(0.729)	1.071
NCC Economic Regeneration	0.139	(0.001)	0.138

Description	Balance at	Increase/	Balance at
	1 April 2022	(Decrease)	31 March 2023
	£m	£m	£m
Open Spaces Maintenance Agreements	0.087	0.007	0.094
Parks and Green Spaces	-	0.250	0.250
Planning Delivery Grant	0.654	0.424	1.078
Problematic Empty Properties	0.050	(0.003)	0.047
Recruitment & Retention	0.500	(0.061)	0.439
Regeneration Additional Capacity	0.190	0.215	0.405
Regeneration Development	2.473	0.479	2.952
Repairs & Maintenance	0.250	-	0.250
Replacement of Defective Street Lanterns	-	2.930	2.930
Restructuring	2.000	(1.162)	0.838
Revenue Grants	17.331	3.022	20.353
School Libraries	0.007	-	0.007
Sealodge	0.023	(0.013)	0.010
Section 106	10.830	3.867	14.697
Severe Weather	7.500	-	7.500
Social Fund	2.936	(2.443)	0.493
Sports Development	0.253	0.044	0.297
Storm Arwen	2.178	(1.985)	0.193
Strategic Management	48.237	1.471	49.708
Transformation of the Revenue & Benefits Service	0.215	-	0.215
Violence Reduction	0.030	0.009	0.039
Winter Services	2.000	-	2.000
Women's Safety in Public Places	-	0.022	0.022
Total Earmarked Reserves	183.148	(4.973)	178.175
Total Usable Reserves	361.747	(20.068)	341.680



Northumberland County Council

AUDIT COMMITTEE

DATE: 26 JULY 2023

STRATEGIC AUDIT PLAN 2022/23 – FINAL MONITORING STATEMENT

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to provide Audit Committee with a final monitoring statement in respect of the Strategic Audit Plan for 2022/23.

Recommendations

It is recommended that the Audit Committee notes and considers the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix 1**.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan. In particular it supports the "Achieving Value for Money" priority of the Corporate Plan 2023-26.

Key issues

The Strategic Audit Plan 2022/23 was presented to, and approved by, the Audit Committee at its meeting on 23 March 2022. The Strategic Audit Plan helps to ensure that Internal Audit is able to meet its aims as an independent appraisal function for the Council and sets out Internal Audit's objectives (based on an assessment of risks and opportunities for the organisation).

A final monitoring statement, outlining progress against the Plan for 2022/23, is attached as **Appendix 1**. It takes each audit review area and associated key objectives, as agreed by Audit Committee, and notes the progress achieved. During 2022/23, 48 assignments were originally programmed. Of these assignments, 26 (54%) are complete, with fieldwork complete in 7 of 9 reviews currently being finalised. The table below shows the current status of all planned activity for 2022/23:

Status of Planned 22/23 Assignments	22/23	Percentage
Complete	26	54%
Currently being completed	9	19%
Reprogrammed to 2023/24	12	25%
Work not required	1	2%
Total	48	100%

A further 10 assignments have been completed, which were not included within the Strategic Audit Plan. In addition, work has also been completed in relation to 10 assignments that had commenced in the previous financial year.

In order to ensure that we continue to support the Authority and provide coverage of emerging high-risk and priority areas, the Strategic Audit Plan is kept under continuous review. This is a normal part of the planning and delivery process in accordance with professional guidance and is informed by various factors such as, more appropriate timing for reviews (i.e. as a result of pending changes in legislation), to allow resources to be redirected to unplanned work (i.e. investigations and urgent work requested by management), and to respond to changes in resource levels within the service.

As a result of the continuous review of the Strategic Audit Plan, the following changes to planned activity occurred during 2022/23:

- The planned audit of 'Northumberland Enterprise Holdings Limited – shareholder governance arrangements' was not required as the Council's objectives for this subsidiary company changed during 2022/23.
- 12 planned assignments were not undertaken. These have all been risk assessed and have all been included in the 2023/24 Strategic Audit Plan.
- A number of special investigations were undertaken where potential fraud and theft were suspected.
- A number of reviews were completed at the request of the Executive Director – Transformation and Resources (s151 Officer) in relation to potentially unlawful payments following the s114 report.
- Certification of an additional 9 grant claims was undertaken, all of which were found to be compliant with the grant conditions, with a combined value of £24.14 million.

The Council's shared service arrangement with North Tyneside Council for the provision of Internal Audit and Risk Management services ended on 31 March 2022 and during 2022/23, a new structure for the wholly in-house service was agreed and recruitment undertaken into a number of roles. This has had an impact upon completion of planned activity during 2022/23 due to some posts being vacant for part of 2022/23, along with some sickness absence. Despite these changes, the service delivered 90.5% of the planned productive audit days set out in the 2022/23 resource plan.

Background

The Internal Audit team has a key role in helping the Council towards achievement of its objectives by exploring areas of potential efficiency and matters of probity and internal control. Preparation of a Strategic Audit Plan ensures that Internal Audit resources are deployed in areas that will provide optimum benefit and value to the Council. The Plan is kept under review to take into account changes in governance arrangements and the control environment that occur during the year.

The Strategic Audit Plan for 2022/23 was presented to, and approved by, the Audit Committee at its meeting on 23 March 2022. The Plan, which is based upon an

assessment of risks and opportunities, sets out in detail the planned Internal Audit coverage for the year, and helps to ensure that internal auditing can fulfil its prescribed definition of “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations”¹.

In accordance with good professional practice and the Public Sector Internal Audit Standards (PSIAS), reports on performance against the Plan are presented to the Audit Committee on a twice-yearly basis. An interim monitoring statement showing progress against the 2022/23 Plan, was presented to the Audit Committee on 30 November 2022 and it was agreed that a final outturn statement (**Appendix 1**) would be presented at the end of the financial year.

Implications

Policy	Effective Internal Audit is an essential part of the County Council’s governance arrangements. Internal Audit examines the Council’s systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. Based on an assessment of risk, the Strategic Audit Plan sets out the planned areas in which this coverage will be focussed.
Finance and value for money	The audit of the Council’s activities, as set out in the Strategic Audit Plan, promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste, and inefficiencies.
Legal	The Accounts and Audit Regulations 2015, require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Audit Executive (Chief Internal Auditor) should report periodically to senior management and the board on Internal Audit matters, including performance against planned activity.
Procurement	None
Human Resources	A robust Strategic Audit Plan provides clarity for officers within the Internal Audit service on the key outcomes which each audit assignment is intended to deliver. It is supported by an operational resourcing plan, ensuring that work can be properly planned and allocated.
Property	None

Equalities	N/A
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¹ Public Sector Internal Audit Standards, CIPFA/IIA, 2017

(Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	
Risk Assessment	The audit plan is prepared using a risk-based approach, thus ensuring that coverage is focussed on those areas of Council activity with high levels of risk to the achievement of key objectives.
Crime & Disorder	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified. The Strategic Audit Plan includes planned coverage on counter fraud assurance work.
Customer Consideration	The Strategic Audit Plan 2022/23 was based on a risk-based audit needs assessment following consultation with customers of our Service including the Audit Committee, Chief Executive, Executive Directors, relevant Service Directors and Heads of Service and the Cabinet Member for Corporate Services.
Carbon reduction	None
Wards	All

Background papers:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, 2017;
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, 2019;
- (c) Strategic Audit Plan 2022/23, March 2022
- (d) The Accounts and Audit Regulations 2015, April 2015;
- (e) Northumberland County Council Constitution & Finance and Contract Rules.

Report sign off

	initials
Monitoring Officer/Legal	N/A
Executive Director of Transformation & Resources (s151 Officer)	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

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Advice & Programme Assurance

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Advice, Contingencies & Assurance	<ul style="list-style-type: none"> • Advice & Guidance • Contingencies & Work Requests • Fraud & Special Investigations 	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	<p>Advice & Guidance, Contingencies & Work Requests and Fraud & Special Investigations – All Complete.</p> <p>A number of additional and ad-hoc work items have been undertaken in these areas throughout the year, including:</p> <ul style="list-style-type: none"> • Procedures for the retention / deletion of email accounts; • Reviews in relation to potentially unlawful payments following s114 report (1 critical and 1 high priority recommendation), • Support to the ongoing review of the Council's Constitution and Finance and Contract Rules • Support to services regarding document retention and storage of electronic data, and maintaining separation of duties following changes to staff roles. • A number of investigations into potential fraud and theft; including alleged bank mandate fraud and falsification of Council documentation.

Advice & Programme Assurance (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Programme Assurance	New Systems / Methods of Service Delivery	<p>Internal Audit may be asked to add value by providing assurance on aspects of the approach and work undertaken and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported are continually reviewed and assessed. Consultation on the Audit Plan identified the following areas that may benefit from Internal Audit's support:</p> <ul style="list-style-type: none"> • Covid-19 Business Grant Funding Assurance • Governance Review implications • New partnership arrangements with Harrogate • International Arrangements • Capital Programme Management Arrangements • Electoral Integrity Bill requirements • Public Health Grant arrangements • Arrangements for managing contracts we deliver and associated performance management • Support for Energy Bills Rebate 	<p>Complete – support has been provided in a number of areas/projects, including:</p> <p>2021/22 review completed:</p> <ul style="list-style-type: none"> • Northumberland Communities Together – Grant Allocation Processes - Significant Assurance (4 medium and 2 low priority recommendations) <p>2022/23 work undertaken:</p> <ul style="list-style-type: none"> • Covid-19 Business Grant Funding, including pre and post payment assurance and return to BEIS (provided advice and guidance to Finance) • Capital Programme Management Arrangements (Draft Report Issued) • Arrangements for managing contracts we deliver and associated performance management (Draft Report Issued) • Support for Energy Bills Rebates (provided advice and guidance to Finance) <p>In addition to those areas identified during the Audit Plan consultation process, support was also provided to a working group established to review the issues preventing the County Council complying with the Payment Card Industry Data Security Standards.</p> <p>The review of International Arrangements was not required following the commissioning of an external review. Work in relation to Governance Review implications has been included as an assurance review within the 2023/24 Strategic Audit Plan:</p>

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	Pre-Submission Review of Grant Claims	There are a number of funding organisations that require an Internal Audit review prior to final claim submission. Internal Audit will undertake the necessary assurance checks as these grant submissions become due.	<p>Complete –Certification of £48.312m grant funding was completed. For all completed certifications the grant return was found to be compliant with the grant providers’ audit requirements.</p> <p>The following planned grant certification work has been completed:</p> <ul style="list-style-type: none"> • Local Transport Plan & associated grants – £23.426m • Bus Service Operators Grant - £0.500m • Supporting Families – £0.230m (4 planned certifications) • The Sele First School - £0.013m <p>The following unplanned grant certification was completed during the year (resulting in the planned time budget for this area of work being exceeded):</p> <ul style="list-style-type: none"> • Covid-19 Capacity Fund - £1.288m • Covid-19 Test and Trace Contain Outbreak Management Fund - £13.122m • North-East Rural Growth Network Capacity Funding Grant - £7.301m • Public Health Funding for Additional Drug Treatment Crime and Harm Reduction Activity- £0.350 m • Green Homes Grant 1 - £1.864m • Green Homes Grant 2 - £0.029m • Adult Weight Management Service - £0.118m • Biodiversity Grant - £0.043m • Supporting Families – £0.028m (additional certification requested by management)

Audit and Assurance – Corporate and Cross Cutting (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	Follow up on Recommendations	Monitoring the implementation of Internal Audit recommendations in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	Complete – Reported to Audit Committee during the year.
	Annual Opinion	An annual opinion on the ‘adequacy and effectiveness of the framework of governance, risk management and control’ will be drafted and presented to the Chief Executive, Executive Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council’s Annual Governance Statement.	Complete - 2021/22 opinion reported to Audit Committee in May 2022 and the 2022/23 Annual Opinion reported to Audit Committee in July 2023.

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Audit and Assurance – Corporate and Cross Cutting (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	Governance and Value for Money Reviews	<p>To review whether appropriate internal controls exist within a sample of significant business arrangements within Northumberland County Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas proposed to be reviewed under this heading in 2022/23 include:</p> <ul style="list-style-type: none"> • Governance arrangements over accountable body status for Borderlands and Future High Street Funds • Civil Contingencies & Business Continuity • Performance Management Framework • Information Governance • Recruitment and retention, processes governing changes to terms and conditions and how employees leave the organisation. • Delivery of Major Capital Projects – Follow-up review • Contract Management Arrangements - Follow-up review • Finance Assumptions - Asset Management Arrangements and Valuation of Assets • Exceptional Governance Matters – Management of Identified Risks • Ethical Governance arrangements • Advance Northumberland – shareholder governance arrangements • Northumberland Enterprises Holdings Limited – shareholder governance arrangements • Youth Services - Follow-up review • S106 Arrangements – Follow-up review 	<p>2021/22 reviews completed:</p> <ul style="list-style-type: none"> • Review of Planning Procedures – Limited Assurance (2 high, 5 medium and 4 low priority recommendations) • Health & Wellbeing - Significant Assurance (4 medium and 5 low priority recommendations) • Arrangements for Managing Delivery of the Council’s Climate Change Action Plan - Significant Assurance (5 medium and 3 low priority recommendations) <p>2022/23 Reviews completed:</p> <ul style="list-style-type: none"> • Civil Contingencies & Business Continuity – Limited Assurance (9 medium and 1 low priority recommendation) <p>2022/23 Reviews pending:</p> <ul style="list-style-type: none"> • Information Governance (Draft Report Issued) • Ethical Governance Arrangements (Draft Report Issued) • Governance arrangements over accountable body status for Borderlands and Future High Street Funds • Recruitment and retention <p>Reviews reprogrammed to 2023/24:</p> <ul style="list-style-type: none"> • Performance Management Framework • Contract Management Arrangements - Follow-up review • Finance Assumptions - Asset Management Arrangements and Valuation of Assets • Exceptional Governance Matters – Management of Identified Risks • Advance Northumberland – shareholder governance arrangements • Youth Services - Follow-up review • S106 Arrangements – Follow-up review • Delivery of Major Capital Projects – Follow up Review

			Work no longer required: <ul style="list-style-type: none">• Northumberland Enterprises Holdings Limited – shareholder governance arrangements
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Audit and Assurance – Service Area Specific (continued)

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Education and Skills	Schools' Financial Value Standard (SFVS)	To co-ordinate schools in the completion of their mandatory returns, and provide assurance to the Section 151 Officer relating to their annual report to the Department for Education.	Complete – Planned work for 2022/23 complete. All eligible schools submitted their assessments by the statutory deadline of 31 March 2023 and the required assurance statement was completed on behalf of the Executive Director of Transformation and Resources (s151 Officer) prior to the 31 May 2023 DfE submission deadline.
Page 384	Schools & Other Educational Establishments	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of the County's schools on a risk assessed basis.	<p>2021/22 school reviews:</p> <ul style="list-style-type: none"> • A review to provide assurance regarding the administration of School Local Accounts was completed with the fifth, and final, individual school report issued (Significant Assurance with 6 Medium and 1 Low priority recommendation) and a central report summarising the findings and themes from all five reviews (Significant Assurance with 3 medium and 2 low priority recommendations). <p>2022/23 school reviews:</p> <ul style="list-style-type: none"> • A review to provide assurance regarding the adequacy and effectiveness of controls and procedures in place to achieve value for money in schools. Five schools were selected for the review, with final reports issued to four schools (all four receiving Reasonable Assurance audit opinions), and a draft report to be discussed and agreed with the remaining school. The four final reports contain 14 medium and 12 low priority recommendations. A summary report summarising the findings will be issued once the remaining school report is finalised.

Counter Fraud and Internal Control and Probity

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Counter Fraud	Pro-active anti-fraud work	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office's National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	Complete
Internal Control and Probity	Core Financial Systems; Business Rates; Council Tax; Payroll; Creditor Payments; Cash and Bank; Debt and Income Management; Rent Assessment and Collection; Housing and Council Tax Benefit	The core financial systems encompass the main ways in which the Council either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, with emphasis dictated by the organisation's risk profile determined on an annual basis.	<p>2021/22 reviews completed</p> <ul style="list-style-type: none"> • Payroll - Limited Assurance (1 high, 3 medium and 4 low priority recommendations) <p>2022/23 Reviews pending:</p> <ul style="list-style-type: none"> • Payroll (Draft Report Issued) • Debt and Income Management • Creditors • Cash and Bank • Housing Benefit and Council Tax Support <p>Reviews reprogrammed to 2023/24:</p> <ul style="list-style-type: none"> • Business Rates • Council Tax • Rent Assessment and Collection

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Northumberland County Council

AUDIT COMMITTEE

DATE: 26 JULY 2023

KEY OUTCOMES FROM INTERNAL AUDIT REPORTS (Issued November 2022 to April 2023)

Report of the Head of Internal Audit and Risk Management

Purpose of report

The purpose of this report is to advise Audit Committee of key outcomes from Internal Audit reports issued between November 2022 and April 2023 (**Appendix 1**).

Recommendations

It is recommended that the Audit Committee considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued in this period, summarised in **Appendix 1**.

Link to Corporate Plan

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan. In particular it supports the "Achieving Value for Money" priority of the Corporate Plan 2023-26.

Key issues

A Key Outcomes statement, summarising the outcomes from Internal Audit reports issued during the period November 2022 – April 2023 is attached as **Appendix 1**. Information has been provided on the level of assurance for each audit, the number of recommendations made (classified according to priority), areas of good practice identified, and main findings.

Background

The work programme established for the Audit Committee ensures that the Committee receives regular reports summarising the outcomes from Internal Audit's planned work during the year. This is important in ensuring that Audit Committee is able to maintain oversight of emerging risks and governance themes as these arise during the year. This also reflects the Public Sector Internal Audit Standards (PSIAS), which state that "in addition to the annual report, the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should

address emerging issues in respect of the whole range of areas to be covered in the annual report”.

A summary of key outcomes from planned Internal Audit reports issued between November 2022 and April 2023, including findings, areas of good practice identified, and action taken to date by management in response to each audit, is attached as **Appendix 1**. This information, along with intelligence gained from other substantive audit work and project assurance work, supports the development of the Annual Opinion from the Chief Internal Auditor on the Framework of Governance, Risk Management and Control.

Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work are included in Internal Audit’s annual report. At the time of writing this report, additional reports are at final clearance stage and will be issued imminently. These reports will be included in the next report to the Audit Committee.

Implications

Policy	Effective internal audit is an essential part of the County Council’s governance arrangements. Internal Audit examines the Council’s systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The Strategic Audit Plan sets out the planned areas in which this coverage will be focused, based on an assessment of risk.
Finance and value for money	The audit of the Council’s activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.
Legal	The Accounts and Audit Regulations 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year.
Procurement	None
Human Resources	None
Property	None

Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	N/A
Risk Assessment	Risks have been considered and there are no risks identified directly arising from this report. The Strategic Audit Plan is prepared using a risk-based approach, thus ensuring that coverage is focused on those areas of Council activity with high levels of risk to the achievement of key objectives.
Crime & Disorder	There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.
Customer Consideration	All Internal Audit reviews were shared with and reported to the relevant audit client upon conclusion of each audit assignment, with actions agreed by management. Management comments on the summary of key outcomes from Internal Audit reports have been included in the report.
Carbon reduction	None
Wards	All

Background papers:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, revised April 2017;
- Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors;
- The Accounts and Audit Regulations 2015, April 2015;
- Northumberland County Council Finance and Contract Rules, December 2011;
- Strategic Audit Plan 2021/22, July 2021 & Strategic Audit Plan 2022/23, March 2022; and
- Internal Audit Reports and Briefing Notes prepared during 2022/23.

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

	initials
Monitoring Officer/Legal	N/A
Executive Director of Transformation & Resources (s151 Officer)	N/A
Relevant Executive Director	N/A
Chief Executive	N/A
Portfolio Holder(s)	N/A

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Northumberland
County Council

Internal Audit and Risk Management Service

Key Outcomes from Internal Audit Assignments (November 2022 – April 2023)

1 Introduction – Governance Framework

- 1.1 Internal Audit is an independent, objective assurance function designed to add value and improve an organisation’s operations. Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to help an organisation accomplish its objectives by “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 1.2 It is important that the Audit Committee receives regular updates on key findings and governance themes from Internal Audit’s work. This is also emphasised in the PSIAS which require the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control and also to report on emerging issues in year.

2 Purpose of this Report

- 2.1 This report summarises the outcomes from Internal Audit reports which have been finalised, in consultation with management, and issued in the period from November 2022 – April 2023. Information has been provided on the level of assurance for each audit (described below), the number of recommendations made (classified according to priority), areas of good practice identified, and main findings. The progress made / action taken by management in respect of key issues identified from each audit has also been included.
- 2.2 It is intended that by providing regular reports on key outcomes from Internal Audit’s work, this will enable the Audit Committee to develop an ongoing awareness of the soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor’s annual opinion on this matter each May.
- 2.3 In this report, details of seven audit assignments are presented. Two of the audit assignments received a ‘reasonable assurance’ opinion, four received a ‘limited assurance’ opinion, with one assignment where an opinion was not expressed. There were 30 ‘medium’ priority recommendations made, but no ‘critical’ or ‘high’ priority recommendations. These reports are detailed in **Section 4** below.
- 2.4 It is too early to report on action taken for a number of recommendations as the target dates have not yet been reached. In these cases, recommendations will be followed up later in the year in accordance with Internal Audit’s agreed processes. Details of evidence checking processes are included at **Section 5** below.

- 2.5 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, Internal Audit has a significant and increasing role in advising on new systems within the Authority. Whilst the time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit’s resource, in that assurance is obtained that effective controls are incorporated into new major systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment.
- 2.6 Internal Audit has completed the certification of a number of grant returns, and has continued to be involved in the post payment assurance and counter fraud elements of covid business grants.
- 2.7 A summary of the programme assurance and grant certification work undertaken by Internal Audit in the period is included at **Section 6** of this report.
- 2.8 Internal Audit has also supported a number of special investigations and management requests. Key themes arising from this work will be included in Internal Audit’s annual report.

3 Opinion Framework

3.1 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited. During 2022-23 the opinion classifications were amended and a new Internal Audit report format introduced. The current opinion classifications are set out in the following table:

Level of Assurance	Description
Substantial Assurance	There is an effective system of internal control in place designed to achieve the Council’s objectives with only minor issues being identified which require improvement.
Reasonable Assurance	There is a generally sound system of control in place. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the system’s objectives at risk in some areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the system’s objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (have resulted) in failure to achieve the system’s objectives in the areas reviewed.

3.2 The opinions given to audits issued during this period are shown in **Section 4**.

3.3 In addition to the overall opinion given on every internal audit, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out in the following table:

Classification	Description
Critical	Action that is considered critical to ensure the organisation is not exposed to unacceptable risk and the recommendation should be implemented immediately.
High	Action that is considered urgent to ensure the service area is not exposed to high risks and the recommendation should be implemented as a priority.
Medium	Action that is considered necessary to avoid exposure to considerable risks and the recommendation should be implemented within an appropriate time frame.
Low	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

3.5 Prioritisation of Internal Audit recommendations is moderated through Internal Audit’s quality control and file review processes.

4 Main Outcomes – Audit Reports Issued during period November 2022 – April 2023

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Oracle Fusion ICT System Review	To determine whether the Oracle Fusion system and procedures in operation are functioning satisfactorily.	Limited	0	0	6	3
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>There were effective automated back-up controls in place for the Oracle Fusion system. Daily back-ups were created and retained for one week, additionally there were two weekly back-ups created which were retained for four weeks. Backups were stored securely.</p> <p>36 inactive user reviews were completed every three months, accounts which are identified as inactive were reviewed and locked as required. A review of user access was completed with services annually, with services required to confirm staff user access is appropriate.</p>		<ul style="list-style-type: none"> Audit log reports and the Authority's Security Information Event Management (SIEM) software were not being used to monitor the system for potential error and security events. (2 x Medium) Password control requirements were not in line with the corporate standard. (Medium) Assurance could not be provided that a segregation of duties had been maintained within customised user profiles. (Medium) There were six generic user accounts with administrative access which have been created for Information Services. (Medium) Testing to provide assurance that the secondary back up system is functioning correctly and can be utilised effectively in the event of primary system failure had not been completed. (Medium) 		<p>The Final Report was issued on 27 March 2023.</p> <p>At the time the final report was issued, management self-certified that two medium priority recommendations had been implemented. Two of the remaining recommendations have not passed their target implementation dates. Management have confirmed that two factor identification is scheduled to be implemented, in order to reduce security risks.</p> <p>In accordance with Internal Audit's agreed processes, a follow-up review has been included within the 2023/24 Strategic Audit Plan.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Office 365 System Review	To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with Council policy.	Limited	0	0	4	6
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>There were effective automated back-up controls in place for the Office 365 system. Daily back-ups were created and retained. Backups were stored securely within high availability cloud storage.</p>		<ul style="list-style-type: none"> • Conditional access settings which allow users to access the system via mobile devices were not effective and secure. Users may access the system from devices without security features enabled. (Medium) • There were six generic user accounts with administrative access which have been created for Information Services (IS). (Medium) • The review of the accounts of senior staff leaving the Council, to ensure that data is retained or deleted as appropriate was not being carried out fully. (2 x Medium) 		<p>The Final Report was issued on 9 March 2023.</p> <p>Internal Audit has been able to confirm that one medium priority recommendation has been implemented and management have self-certified that another medium priority recommendation has been implemented. The remaining two medium recommendations have not yet reached the agreed target implementation date. In accordance with Internal Audit's agreed processes, a follow-up review has been included within the 2023/24 Strategic Audit Plan.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Public Services Network (PSN) Code of Connection Submission 2022	To provide independent assurance on the accuracy of the PSN submission prior to authorisation of the submission by the Chief Executive.	Not Applicable	-	-	-	-
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
Page 397	A Remedial Action Plan has been developed by Information Services, including responses to all issues identified by testing undertaken by an independent specialist company.	<ul style="list-style-type: none"> Information Services did not provide Internal Audit with the PSN submission until after the deadline for submission. Once Internal Audit's review was completed and the submission was authorised by the Interim Chief Executive, the form was submitted over a month after the recertification deadline. A review of the submission form identified that the 'Security Gaps' section of the form had been completed incorrectly. Security testing had been carried but at the time of the audit review, only 76% of 'high' and 59% of 'medium' priority issues had been resolved. The Cabinet Office did not accept the submission and requested the Council to make progress against the twelve of the sixteen 'high' priority issues specifically related to the telephony infrastructure. One of the high priority issues did not have an estimated timeframe for resolving it recorded. 		<p>The Final Briefing Note was issued on 17 November 2022.</p> <p>Action has been taken by Information Services and the PSN accreditation was achieved in January 2023.</p> <p>Public Services Network (PSN) Code of Connection Submission 2024 is scheduled to be reviewed as part of the Internal Audit Plan 2023-24 and issues identified will be followed up as part of that review.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Hardware & Software Follow Up	To follow up on recommendations agreed with management and determine whether matters arising in relation to controls and procedures in operation over the acquisition, management, reconciliation and disposal of the Council's computer hardware and software assets have been resolved.	Limited	0	0	2	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
Revised security controls prevent devices which are inactive for 90 days or more, or have versions of Microsoft Windows which are no longer supported with security updates, from accessing the network.		Three recommendations were outstanding from the previous audit carried out in 2021/22. Of the three recommendations, one was found to be implemented, one had not been implemented and in the area of the third recommendation it was found that further action was required. <ul style="list-style-type: none"> The re-issued recommendation related to storing securely and maintaining accurate records of devices for disposal. (Medium) The revised recommendation related to the operating systems of devices not being reviewed and that end of life planning for devices was not in place. Testing identified 31 devices with Windows 7 operating system installed, for which security support ceases on 10/01/2023. (Medium). 		The Final Report was issued on 3 January 2023. <p>Management have confirmed that a new provider for disposals is now in place and has made their first collection. A spreadsheet list of items collected by them is maintained. Management have also confirmed that Security Configuration Management software is in place to monitor and manage the end of life for operating systems installed on devices.</p> <p>An Internal Audit review of Hardware & Software is scheduled to be carried out as part of the Internal Audit Plan 2023-24.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Schools Thematic Reviews – Value for Money –First School	To review and appraise the adequacy and effectiveness of controls and procedures in place to achieve value for money in accordance with the Scheme for Financing Schools, Local Authority guidance and best practice.	Reasonable	0	0	6	5
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
Testing confirmed that there is a generally sound system of control in place in most of the areas examined.		<ul style="list-style-type: none"> The 2022/23 budget summary was distributed to Governors, by email. However, there was no evidence in minutes examined to confirm the Governing Body had formally approved the budget. (Medium). The Governing Body were not receiving monitoring reports of the school’s budget position. (2 x Medium). The School Development Plan did not include any costs associated with improvement actions. (Medium). Two expenditure items which exceeded £10k were identified. In each case, only one quote had been received and required approval from the Governing Body was not evidenced (Medium). Several contracts are in place, but legal advice in respect of these had not been sought. A copy of the photocopier contract could not be provided, and approval by the Governing Body was not evidenced. (Medium). 		<p>The Final Report was issued on 28 April 2023.</p> <p>The last target implementation date for the recommendations is September 2023 after which the school will be contacted to confirm implementation of the recommendations.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	Schools Thematic Reviews – Value for Money – Primary School	To review and appraise the adequacy and effectiveness of controls and procedures in place to achieve value for money in accordance with the Scheme for Financing Schools, Local Authority guidance and best practice.	Reasonable	0	0	3	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
Testing confirmed that there is a generally sound system of control in place in most of the areas examined.		<ul style="list-style-type: none"> A School Development Plan is in place however the plan did not include any costs associated with improvement actions (Medium). Two cases where accumulated expenditure exceeded £10k, highlighted requirements in accordance with School Financial Regulations relating to purchases were not always followed (Medium). Examination of three contracts established that two were reviewed by the school’s legal adviser, however there was no evidence that legal advice was sought for the third contract (Medium). 		<p>The Final Report was issued on 28 April 2023.</p> <p>The last target implementation date for the recommendations is September 2023 after which the school will be contacted to confirm implementation of the recommendations.</p>			

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	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	Civil Contingencies and Business Continuity Audit	To review the arrangements in place for Business Continuity Management (BCM) across the Council and to assess its ability to maintain continuity in the event that a business disruption was to occur.	Limited	0	0	9	1
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The audit has identified that progress has been made since the previous audit in 2020. The Civil Contingencies Team have developed new Business Impact Analysis and Business Continuity Plan templates and almost all service areas have completed and returned these to the Civil Contingencies Team. The Civil Contingencies Team are in regular contact with the service areas yet to provide their Business Continuity Plans.</p>		<ul style="list-style-type: none"> The Business Continuity Management Policy & Framework has been periodically reviewed, but it could not be confirmed that the Policy & Framework had been reviewed and approved by Executive management. (Medium). At the time of the audit, four service areas had not yet completed their Business Impact Analysis and/or their Business Continuity Plan. (Medium). A review of five service areas' Business Continuity Plans shows the Plan Owner, Issued Date or Review Date was not recorded in three of the five plans (Medium). One of the business continuity plans identified the scenario of a lost or stolen laptop. However, a potential data leak was not addressed nor the requirement to contact the Information Governance team (Medium). Once all business continuity plans are completed and issued to the CCT, a physical copy will be stored at the safe off-site location. However, until this is implemented the risk remains that plans cannot be put into action if the electronic version is not available (Medium). Corporate purchase cards were temporarily used to support the Authority during the pandemic but have 		<p>The Final Report was issued on 28 April 2023. The report recognised that the next critical phase in developing the Council's Business Continuity arrangements is a corporate issue cutting across all service areas to ensure all employees with responsibilities for Business Continuity are appropriately trained and that a regime of testing of BCPs is developed and maintained.</p> <p>Management has self-certified that five medium priority recommendations have been implemented and that work on implementing a further two recommendations is progressing, with interim arrangements in place. The two remaining medium priority recommendations have not yet reached the agreed target implementation date, but management have advised that implementation is on target.</p> <p>In accordance with Internal Audit's agreed processes, a follow-up review will be</p>			

	<p>now been returned. There may be occasions out of normal working hours where purchase orders would not be possible, and the use of corporate purchase cards may be the most appropriate solution (Medium).</p> <ul style="list-style-type: none"> • Arrangements for business continuity training required strengthening. (Medium). • An Executive Team on-call rota exists for responding to major incidents, however, of the 16 individuals listed, only eight were members of Executive Team (Medium). • All service area and several corporate business continuity plans had yet to be tested (Medium). 	<p>scheduled in the year following the audit being finalised. In this instance a follow-up review will be scheduled within the 2024/25 Strategic Audit Plan.</p>
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5 Evidence Checking and Progress with Implementation of Recommendations

- 5.1 For recommendations where a Significant Assurance opinion has been issued Internal Audit evidence check that medium, high and critical recommendations have been implemented, once self-certified as implemented by management. For audits where a Limited Assurance opinion has been provided, a follow-up audit is included in the following year's Strategic Audit Plan and full implementation and embeddedness of recommendations will be evidence checked at the time of the follow up. In these cases, prior to the undertaking of follow-up reviews, managers will be required to self-certify that medium, high and critical recommendations have been implemented.
- 5.2 Internal Audit reports issued during the period November 2022 to April 2023 included 30 medium priority and 17 low priority recommendations. There were no critical or high priority recommendations in the period under review. Of these recommendations issued, 21 of the medium priority recommendations related to limited assurance opinion audits for which follow ups will be included within the 2023/24 and 2024/24 Audit Plans, and evidence checking of recommendations carried out at this time. Additionally, the Public Services Network (PSN) Code of Connection Submission will be reviewed in 2023 and progress will be considered at that time. The remaining 9 medium priority recommendations were made to two schools, both of which have the last target implementation date of September 2023 after which the school will be contacted to confirm implementation of the recommendations and appropriate evidence checking performed.

A new system for the monitoring and reporting of Internal Audit recommendation implementation has been developed with Information Services and is planned to be finalised and implemented during 2023/24. This will enable Internal Audit to monitor and report on the implementation of Internal Audit recommendations more effectively in future reports to Audit Committee.

6 Programme Assurance, Grant Certification and Investigation Work Undertaken

Area of Work	Summary of Work Undertaken
Project Assurance – Tribepad	An overview of IT controls within the Tribepad recruitment system prior to the system going live in April 2023. No significant issues were identified from this work.
Internal Audit reviews in relation to potentially unlawful payments following s114A report	A number of reviews were completed at the request of the Executive Director – Transformation and Resources (s151 Officer) in relation to potentially unlawful payments following the s114A report
Alleged bank mandate fraud	Internal Audit undertook a review to determine whether a fraudulent payment may have occurred and whether weaknesses in controls may have been a contributing factor. The review found that there was evidence of a fraudulent payment being made and the police and relevant bank fraud teams were notified. Internally, action has been taken to strengthen controls.
Two investigations regarding falsification of Council document	Internal Audit supported a service area in two separate reviews where what appeared to be Council documents were in the possession of residents/business owners. The review found that the documents in question had not existed in, or been issued from, Council systems. Both matters were referred to the police and the residents/business owners were provided with an update.
Participation in the Cabinet Office’s National Fraud Initiative	Northumberland County Council participates in the National Fraud Initiative data matching exercise to assist in the prevention and detection of fraud and are required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. Co-ordination of submission of data for the 2022/23 national exercise and compliance with data protection requirements
Schools’ Financial Value Standard	On behalf of the Chief Finance Officer (s151 Officer), Internal Audit co-ordinate, receive and review Schools’ Financial Value Standards submissions, for the Authority’s grant-maintained schools. Internal Audit liaised with schools to ensure that assessments were submitted by all eligible schools by the statutory deadline of 31 March 2023 and the required assurance statement was completed on behalf of the Executive Director of Transformation and Resources (s151 Officer) prior to the DfE submission deadline.

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Area of Work	Summary of Work Undertaken
Grant Certification – Supporting Families	<p>Programme of targeted intervention – Government pays local authorities for each family that meet set criteria. 3 returns were submitted by the Council in the period:</p> <ul style="list-style-type: none"> • November 2022 Return Certification Value £0.028m • January 2023 Return Certification Value £0.106m • March 2023 Return Certification Value £0.020m
Grant Certification – Adult Weight Management Services Grant	<p>Supporting adult weight management services to support people living with excess weight and obesity to lose weight and maintain healthier lifestyles. Certification Value £0.118m.</p>
Grant Certification – Green Homes Grant Local Authority Delivery (GHG LAD) 2	<p>The GHG LAD scheme sets out to improve the energy efficiency rating of low income and low EPC rated households. Nine Solar PV installations were completed. Certification Value £0.0288m.</p>
Grant Certification – Biodiversity Grant	<p>The Environment Act 2021 includes provisions that make the achievement of 10% biodiversity gain mandatory for most developments under the Town and Country Planning Act 1990. Biodiversity net gain (BNG) is an approach to development that leaves biodiversity in a measurably better state than before. This means protecting existing habitats and ensuring that lost or degraded habitats are compensated for by enhancing or creating habitats that are of greater value to wildlife and people. The requirement is due to come into force in November 2023. The purpose of this grant is to provide funding to the local authorities towards expenditure incurred in their preparations for the introduction of mandatory BNG. Certification Value £0.043m.</p>

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Northumberland County Council

AUDIT COMMITTEE

26 JULY 2023

Treasury Management Annual Report for the Financial Year 2022-23

Report of: Councillor Richard Wearmouth, Deputy Leader and Portfolio Holder for Corporate Services

Lead Officer: Jan Willis, Executive Director of Transformation and Resources
(Section 151 Officer)

Purpose of the Report

This report provides details of performance against the Treasury Management Strategy Statement (TMSS) 2022-23 approved by the County Council on 23 February 2022. The report provides a review of borrowing and investment performance for 2022-23, set in the context of the general economic conditions prevailing during the year. It also reviews specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by the Authority in the TMSS.

Recommendations

It is recommended that Members:

- **Receive the report and note the performance of the Treasury Management function for 2022-23; and,**
- **Present the report to County Council.**

Link to the Corporate Plan

This report is aligned to the priorities outlined in the Council's Corporate Plan 2023-26, specifically the priority "Achieving Value for Money".

Key Issues

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and present the

actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The report provides a review of the Treasury Management activities for 2022-23; and sets out performance against the Treasury Management Strategy Statement for 2022-23.

TREASURY MANAGEMENT ANNUAL REPORT 2022-23

1. INTRODUCTION

1.1. Background

This Treasury Management Annual Report provides a review of the activities of the Treasury Management function for the period 01 April 2022 to 31 March 2023 and shows performance against the Treasury Management Strategy Statement (TMSS) for 2022-23. Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

Treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore, important as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members.

1.3. Basis and Content of Treasury Management Annual Report for 2022-23

The report covers:

- Overview of and compliance with the Treasury Management Strategy for the financial year 2022-23;
- Economic conditions and interest rates during 2022-23;
- Overview of the treasury position at 31 March 2023;
- Borrowing activity for 2022-23;
- Investment activity for 2022-23;
- Performance against budget; and,
- Treasury management limits and prudential indicators position.

2. TREASURY MANAGEMENT STRATEGY FOR 2022-23

2.1. Overview of the 2022-23 Strategy

The 2022-23 Treasury Management Strategy Statement was approved on 23 February 2022. At the time the expectation for interest rates within the TMSS for 2022-23 was for the UK Bank Rate (often referred to as Base Rate) to rise to 0.75% by Quarter 4 2023, and for longer term borrowing rates to rise steadily, in line with expected increases in inflation.

With investment returns anticipated to remain low (at least in the short term), the proposed strategy for 2022-23 was to continue to operate with an under borrowing position - i.e. use investments in lieu of external borrowing – and to meet the remaining external borrowing requirement for the year (estimated at that time at £185 million net of maturing loans) primarily from shorter term / temporary borrowing, but with the caveat that medium to longer term borrowing may also be considered, particularly if rate increases materialise earlier than projected (due to increased optimism in the economy etc.).

2.2. Compliance

All treasury activities met the Treasury indicators set out in the TMSS, and borrowing was within the borrowing limits set by the Council. Throughout the period, all treasury activities have been conducted within the parameters of the TMSS 2022-23, alongside best practice suggested by the CIPFA Treasury Management Code and Central Government.

3. ECONOMIC CONDITIONS AND INTEREST RATES DURING 2022-23

3.1. Economy

The UK economy has been volatile throughout 2022-23 due to the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies.

CPI inflation increased rapidly over 2022-23 and rose to a peak reading of 11.1% in October 2022. The main factors were the rising cost pressures from shortages of energy, exacerbated by the war in Ukraine, and shortages of some food categories.

In an attempt to slow down inflation the Bank of England increased the Bank Rate throughout 2022-23 starting at 0.75% and finishing at 4.25%.

As of February 2023 CPI was 10.4%, most commentators expect inflation to drop towards 4.0% by the end of 2023. However, the Bank of England is faced with a difficult challenge due to wage inflation caused by a low UK unemployment rate and average wage increases at over 6.0%.

3.2. Borrowing Rates

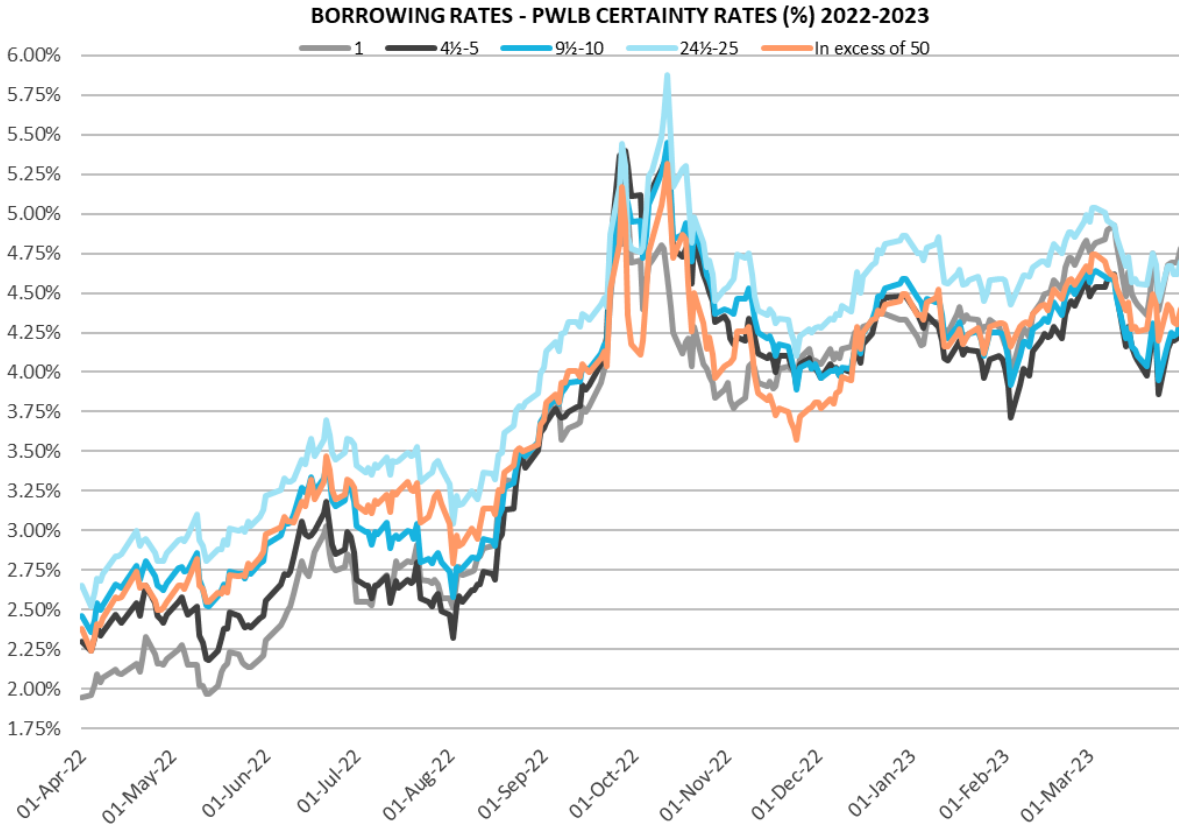
PWLB borrowing rates are based on gilt yields (the interest rate of government debt), and in turn the inverse relationship between gilt prices and gilt yields – when demand increases, prices rise and yields fall. And because gilts are generally regarded as a

'safe-haven', demand typically strengthens when worries grow about the outlook for the economy; and vice versa.

Gilt yields have risen dramatically as a result of economies opening up post-covid and rapid rises in inflation. At present the Bank of England is being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

The following graph shows PWLB (borrowing) rate movements during the year, for a selection of maturity periods.



3.3. Investment Rates

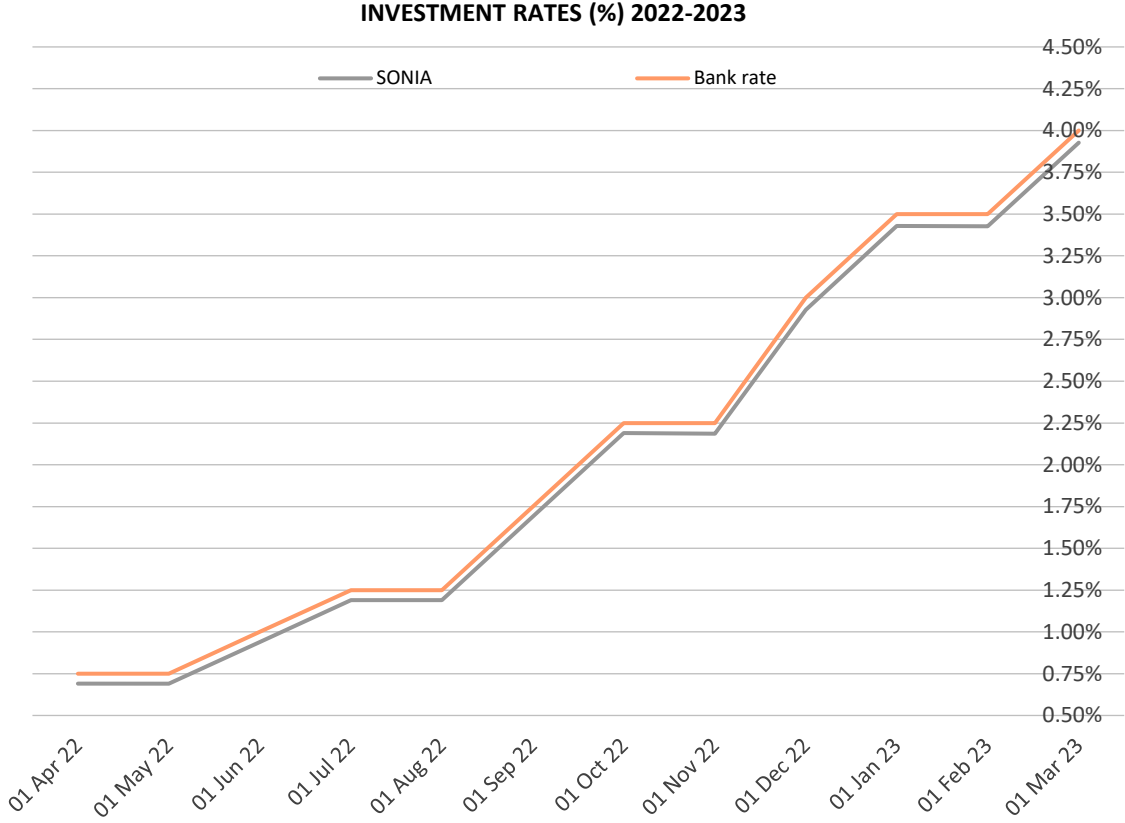
The expectation for interest rates within the treasury management strategy for 2022-23 was that the UK Bank Rate would rise to 0.75% by Quarter 4 2023

Investment returns picked up throughout the course of 2022-23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and

“laddering” deposits on a rolling basis to lock in the increase in investment rates as the duration was extended, became an on-going feature of the investment landscape.

The following graph shows a comparison of investment rate movements during the year, please note that the council has changed from using LIBID (London Interbank Bid Rate) to SONIA (Sterling Overnight Index Average).



4. THE PORTFOLIO POSITION AT 31 MARCH 2023

4.1. Current Borrowing

The Council’s debt at 01 April 2022 and 31 March 2023 is shown below:

TABLE 1: BORROWING	Total Principal 31 March 2022 £m	Weighted Average Rate %	Total Principal 31 March 2023 £m	Weighted Average Rate %
Public Works Loan Board Loans	451.281	2.66	449.745	2.66
LOBOs	176.500	3.95	176.500	3.95
Market / Local Authority (>1yr)*	129.10	2.62	79.100	3.69
Market / Local Authority (<1yr)*	0.000	-	40.000	4.00
Salix	0.049	-	0.033	-
TOTAL EXTERNAL BORROWING	756.930	2.96	745.378	3.14

* Note: above figures are based on the term of loans at their inception.

4.2. Current Investments

The table below summarises the investment position at 01 April 2022 and 31 March 2023:

TABLE 2: INVESTMENTS	Total Outstanding 31 March 2022 £m	Weighted Average Rate %	Total Outstanding 31 March 2023 £m	Weighted Average Rate %
Fixed Term Investments – Long Term (>1yr)*	25.000	3.23	-	-
Fixed Term Investments – Short Term (<1yr)*	65.000	0.42	35.000	4.32
Money Market Funds	98.100	0.53	79.450	4.09
TOTAL INVESTMENTS (excl. Cash)	188.100	0.85	114.450	4.16

* Note: above figures are based on the term of investments at their inception.

5. BORROWING ACTIVITY 2022-23

5.1. Introduction

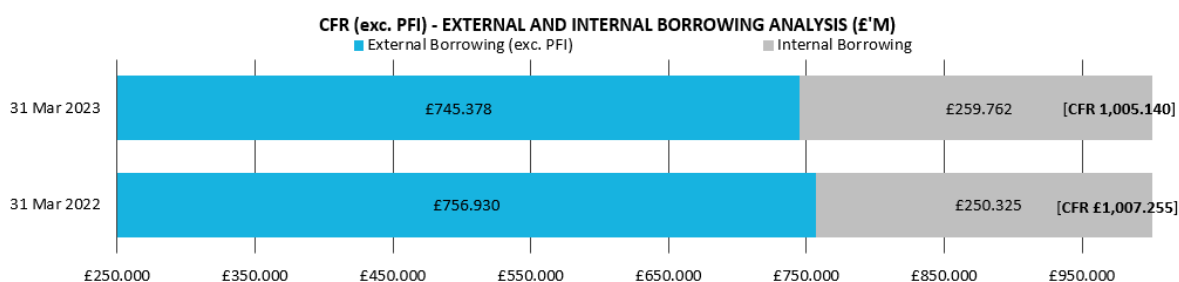
The Council borrows to fund the Capital programme, as well as to fund loans to third parties for policy reasons.

5.2. Borrowing Need – Capital Financing Requirement

The Council’s long-term borrowing requirement or need to borrow is measured by the Capital Financing Requirement (“CFR”). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of ‘cash-backed’ balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans. At least in the short term, investment balances can be ‘used’ in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as ‘internal’ or ‘under’ borrowing.

The following graph summarises the CFR (excluding PFIs) and external borrowing movements during the year:



The inter-relationship (and reconciliation between the CFR, external borrowing and investments is further analysed in the 'Balance Sheet Review' attached at Appendix 1.

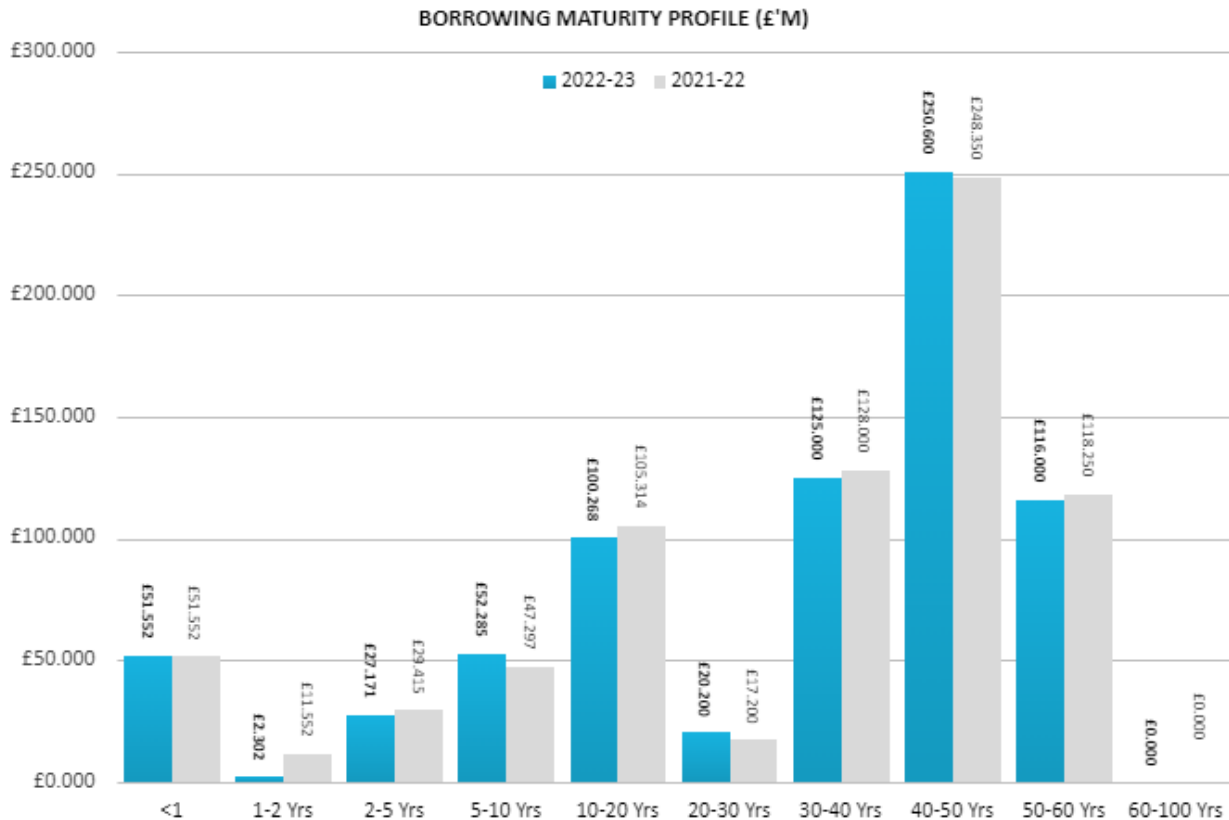
The CFR (excluding Public Finance Initiatives (PFIs)) decreased by £2.115 million during the year, and was lower than originally budgeted at 31 March 2023 at £1,005.140 million against an original budget of £1,114.755 million. This was due to significant underspends and re-profiling within the 2022-23 capital programme.

£51.552 million of loans matured and were repaid in year. Combined with new Local Authority loans of £40.000 million which resulted in total external borrowing decreasing from £756.930 million at the start of the year to £745.378 million at 31 March 2023. The weighted average maturity (WAM) of the portfolio decreased slightly from 32.91 to 32.45 years.

The new Local Authority loans of £40.000 million are all short-term loans. The uncertainty around interest rates alongside the market opinion that the interest rates will fall in 2024 resulted in a preference for short-term borrowing to avoid locking into a higher interest rate unnecessarily.

The decrease in borrowing led to an increase in 'internal borrowing' (i.e. the difference between the CFR and actual external borrowing) of £9.437 million, from £250.325 million at the start of year to £259.762 million at 31 March 2023, which is shown in the graph above.

The following graph shows the maturity of the loan portfolio at 31 March 2023 by monetary value (£745.378 million in total). LOBOs are shown as held to maturity. Despite recent increases in interest rates, current market forecasts indicate that the rates will return to lower levels, and it is considered that there is a low risk of those LOBO loans with call dates within the next 12 months being called. All LOBO loans have therefore been classified as long term.



5.3. Borrowing Performance / Benchmarking

The weighted average rate of interest paid on all borrowing during the year was 3.00%, and the average rate on loans at 31 March 2023 was 3.14%, an increase of 0.18% compared to the start of the year figure of 2.96% (due to the maturing short-term, lower rate, borrowing).

Overall borrowing levels were lower than originally budgeted, due to the re-profiling of the capital programme, and therefore the reduced need to borrow.

Interest paid on external borrowing was £1.144 million below budget at £22.383 million (original budget of £23.527 million). This was largely attributable to the reduced capital spend and the reduced need to borrow. Weighted average borrowing for the year totalled £746.028 million compared to an original estimate of £853,615 million. However, as a result of interest rate increases being higher than anticipated, the overall average rate of interest paid was higher than budgeted – at 3.00% compared to an original estimate of 2.76%.

6. INVESTMENT ACTIVITY 2022-23

6.1. Introduction

The Council has significant levels of ‘cash-backed’ balances that are available for investment; in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

The Council's investment policy (as set out in the Treasury Management Strategy Statement for 2022-23) is governed by the Ministry of Housing, Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by two of the main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

All investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

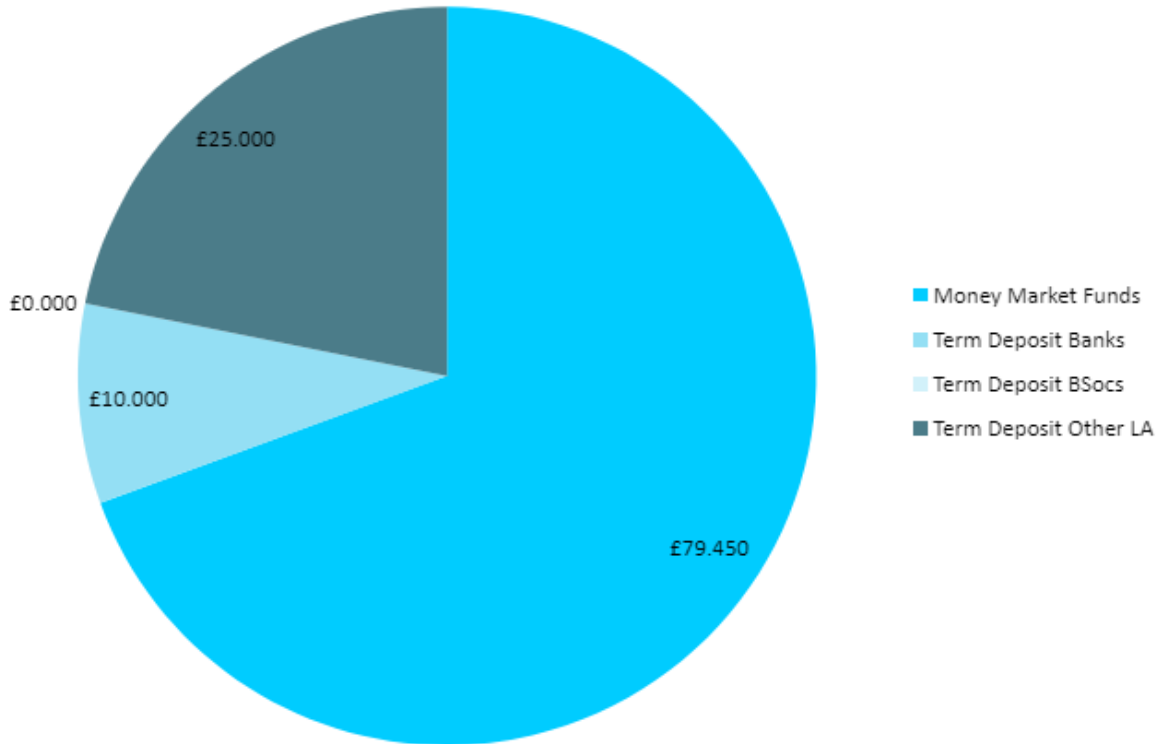
As identified in section 5 above, a significant proportion of available investment balances were used as 'internal borrowing' to support the financing of the CFR. This totalled £259.762 million at 31 March 2023 - an increase of £9.437 million compared to 31 March 2022. At the same time, the level of balances available for investment decreased during the year by £10.410 million, and the net difference between outstanding creditors and debtors (referred to as working capital) decreased by £53.748 million. (See Balance Sheet Review at Appendix 1).

As a result, overall external investments (excluding cash and accrued interest) decreased during the year from £188.100 million to £114.450 million, and the Council maintained an average balance of £169.880 million of internally managed funds.

The weighted average maturity (WAM) of the £114.450 million of investments held at the year-end was 0.04 years (0.14 years at 31 March 2022).

An analysis of the year-end investment balance (excluding cash) by counterparty category is shown in the following chart:

INVESTMENT COUNTERPARTY ANALYSIS 31 MAR 2023(£'M)



6.2. Investment Performance / Benchmarking

As covered in section 3.3 above, investment rates increased throughout 2022-23.

Budgeted investment returns for 2022-23 were based on a weighted average rate of return of 1.10% and an average daily balance of £66.708 million. Actual average investment balances were significantly higher than anticipated at £169.880 million - largely due to underspend in the capital programme and reserves not being utilised as quickly as originally anticipated. These ‘additional’ sums were invested short term (for liquidity reasons), and due to interest rates increasing further than anticipated, this increased the overall weighted rate of return for the year compared to budget at 2.11%.

Overall, income from core treasury management investments exceeded the budget for the year by £2.856 million, totalling £3.589 million against an original estimate of £0.733 million.

The weighted rate of return is slightly lower than the comparable average Sterling Overnight Interbank Average (SONIA) of 2.26%. It should be noted that 2022-23 is the first year that the SONIA rate has been used as the benchmark.

Data from Link Asset Services’ investment benchmarking club shows Northumberland compares very favourably. Looking at the weighted average rate on investments held at 31 March 2023, Northumberland’s rate of 4.16% was higher than the average for its benchmarking group (3.97%), as well as English Unitary Authorities (3.76%) and overall Link benchmarking group population (3.62%).

Note: the above figures are exclusive of interest received on loans to third parties. These loans are made for policy reasons; and not day-to-day treasury undertakings in relation to the investment of cash flows etc.; and, as a result are not classed as core treasury management activities. Actual returns on these facilities totalled £19.500 million, which was slightly lower than the original budget by £0.349 million.

7. OVERALL TREASURY MANAGEMENT BUDGET PERFORMANCE

Overall net Treasury Management costs (including Minimum Revenue Provision, amortisation of premiums and discounts and PFI contracts etc.) were £6.590 million lower than budgeted, at £62.468 million when compared to the budget of £69.058 million. The key variances are summarised in the following table:

	Additional Cost/(Saving)
	£m
Interest Payable – External Borrowing	(1.144)
Interest Payable – PFI	(2.512)
Interest Receivable – Treasury Management Activity	(2.856)
Interest Receivable – Loans to Third Parties.....	0.349
Minimum Revenue Provision (MRP)	(0.570)
Other	0.143
TOTAL NET UNDERSPEND	(6.590)

Notes:

- Contrary to section 6.2, the above figures DO include interest received from loans to third parties; on the basis that the underlying borrowing (and therefore interest payable) in respect of these loans is reflected in the above costs and cannot be separately identified and excluded.
- The under budget PFI charges are largely due to reduced waste volume, a large credit as a result of the electricity sold from the recycling process and a change in the Contingent Rental Charge.
- MRP charges for the year were lower than budgeted due a lower opening CFR at the beginning of year (due to capital underspends in 2021-22).
- The above figures include MRP set aside for the loans to Advance Northumberland and Newcastle Airport but exclude the MRP payments made in respect of other third-party loans, which are funded from the principal repayments made by the borrower and therefore have a neutral impact on Council budgets.

8. PRUDENTIAL INDICATORS AND TREASURY LIMITS 2022-23

The Prudential Code has been developed by CIPFA. The Code has a central role in capital finance decision making, including borrowing for capital investment. Its key objectives are to provide a framework for local authority finance that will ensure individual authorities’ capital expenditure plans are affordable; all external borrowing is

within prudent and sustainable levels; and, that treasury management decisions are taken in accordance with good professional practice.

To ensure compliance with the Code, councils are required to approve a set of Prudential Indicators for the financial year and adhere to these indicators during the course of that year. Details of the Prudential Indicators and Treasury Management Limits for 2022-23 are provided in Appendix 2.

Implications

Policy The report provides a review of the Treasury Management activities for 2022-23 and sets out performance against the Treasury Management Strategy Statement for 2022-23. It is consistent with “Achieving Value for Money” priority included in the Council’s Corporate Plan 2023-26.

Finance and value for money The financial implications of the 2022-23 investment and borrowing transactions have been taken into account within the revenue budget and outturn for 2022-23.

Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.

Legal Under Section 1 of the Local Government Act 2003 (the Act) the Council may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs.

The Act and supporting regulations also require the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010).

Procurement There are no direct procurement implications for the County Council.

Human Resources There are no direct staffing implications for the County Council.

Property There are no direct property implications for the County Council.

Equalities Not applicable for the County Council.

(Impact Assessment attached)

Yes No
N/A

Risk Assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	There are no Carbon Reduction implications for the County Council.
Wards	All.

Background Papers:

Treasury Management Strategy Statement for 2022-23. Approved by Council on 23 February 2022.

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes (revised 2011).

CIPFA Prudential Code for Capital Finance in Local Authorities.

Guidance on Local Government Investments; The Local Government Act 2003.

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265).

Report sign off:

Monitoring Officer	Stephen Gerrard
Executive Director of Transformation and Resources & Section 151 Officer	Jan Willis
Chief Executive	Helen Paterson
Portfolio Holder	Richard Wearmouth

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PERFORMANCE AGAINST CAPITAL PRUDENTIAL INDICATORS

Authorised Limit and Operational Boundary for External Debt

These are important indicators and are part of the Local Government Act 2003 requirements.

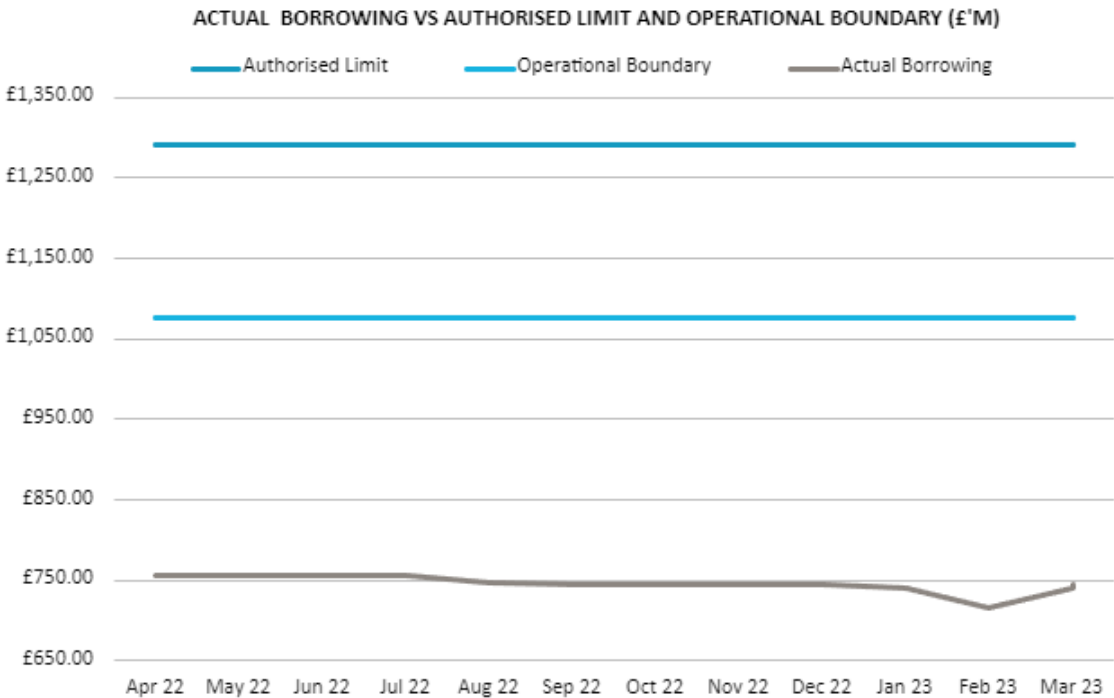
The authorised limit - is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

The table below demonstrates that during 2022-23 the Council has maintained gross borrowing within its authorised limit.

	Authorised Limit for External Debt £m	Operational Boundary £m	Actual 31 March 2023 £m
External Borrowing	1,252.818	1,044.015	745.378
Other Long Term Liabilities (PFI)	76.603	63.836	54.453
TOTAL EXTERNAL DEBT	1,329.421	1,107.851	799.831

The following graph shows the external borrowing limits and actual borrowing over the



Treasury Management Limits on Activity

The purpose of this is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.

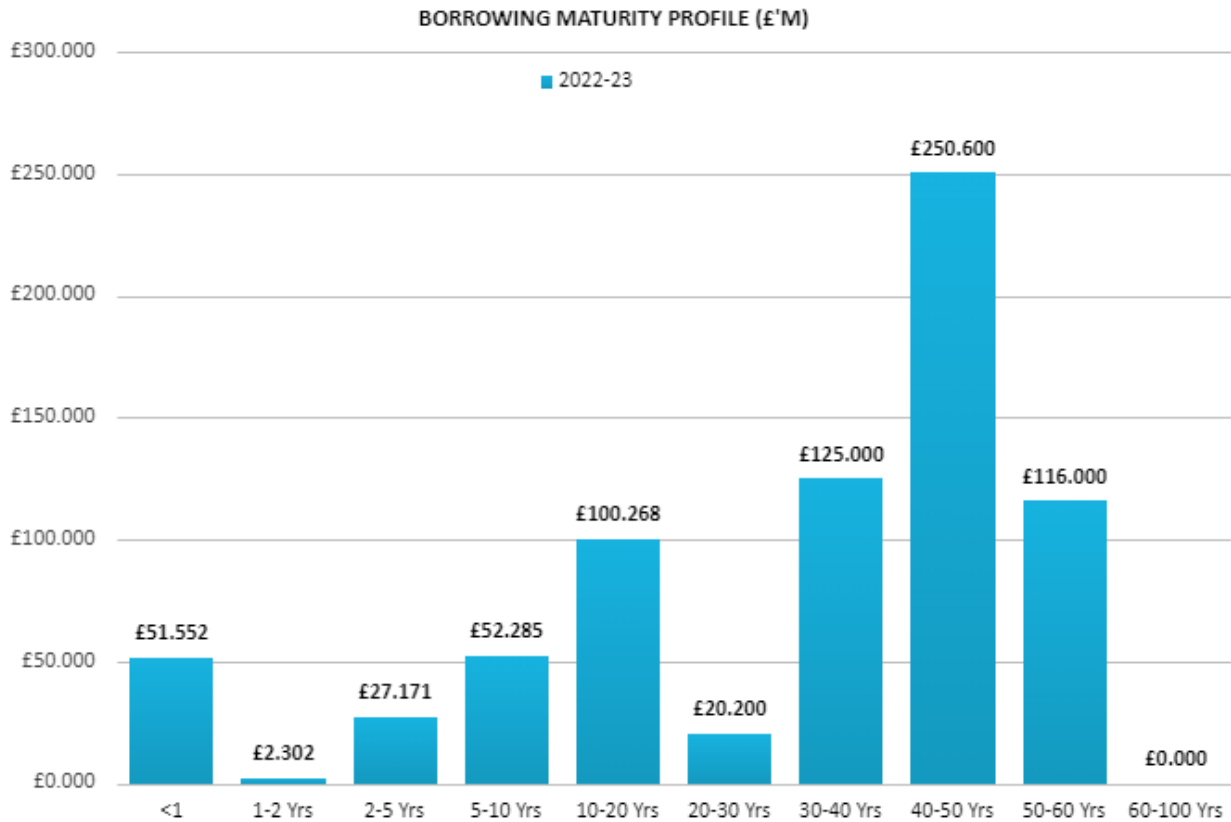
Lender option, borrower option loans (LOBOs) callable within 12 months are classed as variable; and if the rate is fixed for a longer period they are classed as fixed. At 31 March 2023 the total of variable rate loans was £121.000 million and is within the set limit.

	Limit for 2022-23	Actual 31 March 2023
Fixed Rate Exposure	0% - 100%	83.77%
Variable Rate Exposure	0% - 50%	16.23%

Maturity Structure of Borrowing

Measuring maturity structure of borrowing ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of debt do not mature at a time when interest rates for refinancing the debt may be high.

The following graph shows maturity of loans by monetary value. LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months as markets predict rates will come down.



Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

	Limit 2022-23 £m	Actual Highest £m	Actual 31 March 2023 £m
Principal sums invested > 364 days	120.000	25.000	0.000

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