

## **Audit Committee**

**1 July 2022**



### **Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2022**

#### **Ordinary Decision**

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

#### **Electoral division(s) affected:**

Countywide

#### **Purpose of the Report**

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

#### **Executive Summary**

2. When preparing the annual statement of accounts, the council complies with the Code of Practice on Local Authority Accounting 2021/22 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the accounts to be prepared on a going concern basis.
3. This report details the reasons why it is recommended that the council be considered as a going concern and it is appropriate for the statement of accounts to be prepared on that basis. In summary those reasons are:
  - (a) the financial position of the council remains healthy;
  - (b) as at 31 March 2022 the council held general reserves of £25.898 million and reserves earmarked for specific future

purposes, including those held for schools, of £269.805 million;

- (c) net assets at 31 March 2022 amounted to £95.097 million;
- (d) the council has been able to set a balanced budget for 2022/23 and has a clear plan in place to continue to deliver local services up to 2025/26 via its medium term financial plan (MTFP);
- (e) the council has a history of stable finance and ready access to financial resources in the future; and
- (f) there are no significant financial, operating or other risks that would jeopardise the council's continuing operation.

## **Recommendations**

4. It is recommended that:

- (a) the council be considered as a going concern and
- (b) the statement of accounts is prepared on that basis.

## **Background**

5. The general principles adopted in compiling the statement of accounts are in accordance with the Code. The Code defines proper accounting practices for local authorities in England, Wales, Scotland, and Northern Ireland.
6. The Code requires that a local authority's statement of accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of the operation.
7. An inability to apply the going concern concept can have a fundamental impact on the financial statements. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operations ceases to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

## **Key Issues**

8. The assumption that a local authority's services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are therefore that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.
9. Local authorities derive their powers from statute and their financing and accounting framework is closely monitored by primary and secondary legislation. It is a fundamental concept of local authority accounting that wherever accounting principles and legislative requirements are in conflict, the legislative requirements then apply.

10. An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current and future performance.

## Historical Position

11. The following table shows the net assets of the council for the last five years:

<b>Year ended 31 March</b>	<b>Net Assets £ million</b>
2018	362.326
2019	388.566
2020	229.807
2021	30.607
2022	95.097

12. Whilst 2021 highlights a large decrease in the council's net assets from 2020, this was mainly due to an accounting entry increase in the estimated pension liability (as calculated by the Pension Fund's Actuary).
13. The 2022 Actuary calculation decreases this liability, and this, along with revalued and impaired Land and Building assets, increased Long Term Borrowing to fund capital commitments and increased short term investments result in an increased net assets balance from 2021.
14. The estimation of the net pension liability depends on a number of complex judgements and as such results in possible volatility in the balance sheet position. The annual atatement of accounts includes disclosure under IAS19 around the sensitivity of the defined benefits obligation to changes in key assumptions.
15. The external auditor provides a 'Value For Money' conclusion at each year end providing their opinion on whether the council has put arrangements in place for securing economy, efficiency, and effectiveness in its use of resources. The council's arrangements are considered against one overall criterion which is made up of three sub criteria as set out by the National Audit Office (NAO).
16. The overall criterion is 'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'. The three

sub-criteria are: informed decision-making; sustainable resource deployment; and working with partners and other third parties.

17. The last Audit Completion Report related to 2020/21 and was reported to the Audit Committee on 30 September 2021. Within that report the external auditor stated he was satisfied that in all significant respects, the council had proper arrangements in place to secure economy, efficiency, and effectiveness in its use of resources for the year ended 31 March 2022.

### **Current Position**

18. At 31 March 2022 the council held general reserves of £25.898 million and reserves earmarked for specific future purposes, including those held for schools, of £269.805 million.
19. The financial position of the council remains healthy. Net assets at 31 March 2022 amounted to £95.097 million, an increase of £64.490 million during 2021/22. This is mainly due to a technical accounting issue in relation to a decrease in the estimated future pension liability for employees, calculated by the Pension Fund Actuary. Other changes relate to a reduction in Fixed Assets Property, Plant and Equipment due to revaluation and impairment of Land and Building assets, increase in Long Term Borrowing to fund capital commitments taking into consideration securing cost certainty and borrowing rates and an increase in short term investments.

### **Future Plans**

20. The council approved its budget for 2022/23 and Medium Term Financial Plan (MTFP) 12 to 2025/26, in February 2022.

### **Medium Term Financial Plan (12) – 2022/23 to 2025/26**

21. The Council is continuing to operate in a period of significant financial uncertainty brought about by a combination of the ongoing impact of the pandemic, our inherent low tax raising capacity due to our low tax base, and significant budget pressures in social care brought about by National Living Wage increases and enduring demographic pressures in Childrens Social Care and in waste services alongside other unfunded pressures arising from the present high levels of inflation impacting on energy and fuel costs in particular plus uncertainties surrounding the pay award that will ultimately be agreed. The

financial outlook for the Council will continue to be extremely challenging for the foreseeable future.

22. The longer-term financial outlook for the council will continue to be extremely uncertain until the Fair Funding Review is concluded, and the financial impacts of the Social Care Reforms and outcomes of the Fair Cost of Care exercise are fully determined.
23. It is unlikely however that there will be clarity in any of these areas until late 2022 at the earliest leading to potential implementation in 2024/25.
24. No detail on links to a Business Rate Reset, further Business Rate Retention (BRR) or consideration of the inclusion of the Public Health Grant in BRR has yet been published therefore significant uncertainty beyond 2022/23 remains. This continues to make accurate medium term financial planning extremely difficult.
25. There is currently no certainty in terms of the quantum of funding available to local government from 2023/24 onwards, nor how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding depending on the principles that are ultimately agreed for fair funding distribution.
26. The longer-term financial impact of the pandemic remains uncertain at this stage. There will potentially be a range of interventions required by the council and ongoing impacts post pandemic that will have as yet unquantified financial pressures. Cash Limit Reserves and the General Reserves will potentially be required to meet any shortfalls in the funding that will be available.
27. The risk in this regard will be considered and assessed in future MTFP(13) Cabinet reports.
28. By the end of 2021/22, the council had delivered £248 million of financial savings with additional savings of £2.5 million approved for 2022/23. It is forecast that total savings for the period 2011/12 to 2024/25 will be £286 million.
29. The council's MTFP for the last thirteen years, has focused on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management as well as focussing on income generation where possible. As this strategy has become increasingly more difficult to maintain over time, the

council's Transformation Programme ensures that all options are consistently considered to protect front line services wherever possible.

30. Nevertheless, front line services will inevitably become progressively more impacted over the coming years if funding continues to be restricted.
31. The council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.
32. 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.
33. In general, the council has been quite 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 as strong a position as possible to meet the ongoing financial challenges across this MTFP and beyond, where savings proposals are becoming more complex and difficult to deliver and will inevitably require increased utilisation of reserves to offset any delays and smooth in reductions across financial years.
34. After taking into account base budget pressures, additional investment and savings, the council's net budget requirement for 2022/23 is £466.732 million. The financing of the net budget requirement is detailed in the following table.

## Financing of the 2022/23 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	29.100
Business Rates – Local Share	52.873
Business Rates – Top Up Grant	72.780
Section 31 Grant	25.026
Collection Fund Deficit	-9.788
Council Tax	252.142
New Homes Bonus	4.082
Social Care Pressures Grant	30.955
Services Grant	8.776
Lower Tier Services Grant	0.786
<b>NET BUDGET REQUIREMENT</b>	<b>466.732</b>

## Capital Funding

35. On 23 February 2022 Council approved the 2021/22 revised capital budget and the MTFP (12) capital budget for the period 2022/23 to 2024/25.
36. Service groupings developed capital bid submissions alongside the development of revenue MTFP (12) proposals. Bids were submitted in the main for 2022/23 to maintain the two year rolling programme approach to the capital budget. The capital Member Officer Working Group (MOWG) considered the capital bid submissions taking the following into account:
- (a) service grouping assessment of priority;
  - (b) affordability based upon the availability of capital financing. This process takes into account the impact of borrowing on the revenue budget;
  - (c) whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.
37. Whilst considering capital bid proposals, MOWG have continued to recognise the benefits of committing to a longer term capital programme to aid effective planning and programming of investment. At the same time, MOWG also recognised the need

for caution in committing the council to high levels of prudential borrowing at this stage for future years.

38. 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.
39. The following table provides summary information of the Capital budget approved at Council.

### **MTFP (12) Capital Programme**

<b>Service Grouping</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult and Health Services	0.377	0.833	0.000	0.000	1.210
Children and Young People's Service	16.893	37.802	33.030	0.000	87.725
Neighbourhoods & Climate Change	45.403	62.223	41.327	0.700	149.563
Regeneration, Economy & Growth	89.976	146.623	90.927	16.422	340.948
Resources	9.330	11.267	2.196	0.000	22.795
<b>TOTAL</b>	<b>158.979</b>	<b>258.748</b>	<b>167.392</b>	<b>17.122</b>	<b>602.241</b>
<b>Financed by:</b>					
Grants & Contributions	73.129	51.153	36.418	0.813	161.513
Revenue & Reserves	18.286	9.327	7.355	0.812	35.780
Capital Receipts	7.713	9.698	7.583	0.000	24.994
Borrowing	59.851	188.570	116.037	15.496	379.954
<b>TOTAL</b>	<b>158.979</b>	<b>258.748</b>	<b>167.392</b>	<b>17.122</b>	<b>602.241</b>

40. The council has been able to set balanced revenue and capital budgets for 2022/23 and has a clear plan in place to continue to deliver local services up to 2025/26. Based upon this, it is evident that the council is a going concern.

### **Financial Reserves**

41. Reserves are held as a:
- (a) working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;

- (b) contingency to cushion the impact of any unexpected events or emergencies e.g. flooding and other exceptional winter weather - this also forms part of general reserves;
  - (c) means of building up funds, earmarked reserves to meet known or predicted future liabilities.
42. The council's current reserves policy is to:
- (a) set aside sufficient sums in earmarked reserves as is considered prudent;
  - (b) aim to maintain general reserves of between 5% and 7.5% of the net budget requirement in the medium term, which in cash terms is up to £35 million.
43. Based on the level of reserves held, the council has demonstrated robust financial management that underpins its status as a going concern.

## **Risk**

44. 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(12) period. Some of the key risks identified include:
- (a) ensuring the achievement of a balanced budget and financial position across the MTFP(12) period.
  - (b) ensuring timely and comprehensive savings plans are in place across the council, to mitigate extensive utilisation of reserves
  - (c) ensuring savings plans are risk assessed across a range of factors e.g., impact upon customers, stakeholders, partners, and employees.
  - (d) uncertainty in terms of the quantum of recurrent funding to be available to local government from 2023/24 onwards, and how this funding will be apportioned between authorities. It is clear however that there are significant risks to the council's funding depending on the principles that are ultimately agreed for fair funding distribution.
  - (e) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the

council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.

- (f) the council retaining 49% of all business rates collected locally but also being responsible for settling all rating appeals. Increasing business rate reliefs and the revised 'check and challenge' appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon MTFP(12).
  - (g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards. Of particular concern is the volatility of energy prices, all these factors will continue to be closely monitored.
  - (h) the council continuing to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(12) period this issue will need to be closely monitored.
  - (i) the funding position for the High Needs Dedicated Schools Grant. The five year plan for high needs block funding and expenditure was approved by Cabinet in 2020.
  - (j) it is not possible to be clear at this point as to any long-term impact from COVID-19 on council costs but especially council income. This will continue to be closely monitored with any ongoing impact built into future MTFP plans.
  - (k) the impact of requirements associated with the health and social care levy especially in relation to the expectation of a fair cost of care process and the changes to adult care charging.
45. Based upon the above there are no financial risks which would indicate that the council is not a going concern.

## **Conclusion**

46. When approving the accounts, the Audit Committee Members, being those charged with governance for the council, will need to consider which of the following three basic scenarios is the most appropriate:

- (a) The body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
  - (b) The body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;
  - (c) The body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.
47. Based upon the assessment undertaken, in my view:
- (a) The council has a history of stable finance and ready access to financial resources in the future;
  - (b) There are no significant financial, operating or other risks that would jeopardise the council's continuing operation.
48. The council is therefore clearly a going concern and it is appropriate for the statement of accounts to be prepared on that basis.

#### **Other useful documents**

- (a) County Council – 23 February 2022 – Medium Term Financial Plan, 2022/23 to 2025/26 and Revenue and Capital Budget 2022/23
- (b) County Council – 23 February 2022 – Budget 2022/23 Report under Section 25 of Local Government Act 2003
- (c) Audit Committee – 30 September 2021 - Audit Completion Report 2020/21 – Durham County Council
- (d) Cabinet – 16 March 2022 - Forecast of Revenue and Capital Outturn 2021/22 - Period to 31 December 2021.
- (e) Audit Committee – 1 July 2022 – Statement of Accounts for the year ended 31 March 2022

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## **Appendix 1: Implications**

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### **Legal Implications**

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2021/22 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

### **Finance**

The report considers the County Council as a 'going concern'.

### **Consultation**

None.

### **Equality and Diversity/ Public Sector Equality Duty**

None.

### **Climate Change**

None.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

### **Risk**

None.

### **Procurement**

None.