

Audit Committee

30 June 2023

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2023

Ordinary Decision



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 2022/23 (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 2023 the council held general reserves of £26.017 million and reserves earmarked for specific future

purposes, including those held for schools, of £224.997 million;

- (c) net assets at 31 March 2022 amounted to £913.855 million;
- (d) 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 up to 2026/27 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:

Year ended 31 March	Net Assets £ million
2019	388.566
2020	229.807
2021	30.607
2022	87.202
2023	913.855

12. The fluctuations are mainly due to accounting entry changes in the estimated pension liability (as calculated by the Pension Fund's Actuary).
13. The 2023 Actuary calculation decreases this liability, and this, along with increased Long Term Borrowing to fund capital commitments and increased short term debtors result in an increased net assets balance from 2022.
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 statement of accounts includes disclosure under IAS19 around the sensitivity of the defined benefits obligation to changes in key assumptions.
15. The 2023 net asset position shown above is subject to change awaiting updated information from the Actuary. An amendment to IAS 19 requires that updated actuarial assumptions are used to remeasure the interest on the net defined benefit obligation for the remainder of the reporting period after special events, such as academy transfers. The draft accounts will require amendment following receipt of the updated actuarial information. The council's external auditor is aware of this matter.
16. 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).

17. 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.
18. The External Auditors annual report relating to 2021/22 was reported to the Audit Committee on 23 May 2023. 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

19. At 31 March 2023, the council held general reserves of £26.017 million and reserves earmarked for specific future purposes, including those held for schools, of £224.997 million.
20. The financial position of the council remains healthy. Net assets at 31 March 2023 amounted to £913.855 million, an increase of £826.653 million during 2022/23. 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 minor changes relate to an increase in Long Term Borrowing to fund capital commitments taking into consideration securing cost certainty and borrowing rates and an increase in short term debtors.

Future Plans

21. The council approved its budget for 2023/24 and Medium Term Financial Plan (MTFP) 13 to 2026/27, on 22 February 2023.

Medium Term Financial Plan (13) – 2023/24 to 2026/27

22. The council is continuing to operate in a period of significant financial uncertainty due to the lack of a long term financial settlement from government and high inflation, mainly resulting from the impact of the Ukraine conflict and turbulence in the financial markets. These geopolitical and national policy issues have driven and continue to drive significant and complex price

inflation fluctuations resulting in upward pressures across a range of council budgets.

23. County Durham suffers from a low tax base due to lower house and property prices relative to other areas and therefore is unable to raise sufficient income from permitted and expected increases in charges to meet its ongoing and unavoidable cost pressures.
24. Significant budget pressures in Adults Social Care and enduring demographic pressures in Children's Social Care along with waste, energy and transport pressures arising from high levels of inflation have been considered within the 2023/24 revenue budget and MTFP approved by Council on 22 February 2023. This position will however need to be kept under review.
25. Additionally, there remains uncertainty in terms of the quantum of recurrent funding to be available to local government from 2025/26 onwards. Financial Planning strategies continue to assess the risk to the council's budgets so that strategic decisions can be made to ensure that balanced budgets can be set going forward.
26. The budgetary pressures as a consequence of the legacy issues linked to COVID19 pandemic will undoubtedly impact on the council for a number of years to come.
27. Going forward, the financial outlook for the council will continue to be extremely challenging for the foreseeable future. There will potentially be a range of further financing decisions needed by the council throughout the current MTFP (13) period.
28. The risk in this regard will be considered and assessed in future MTFP (14) Cabinet reports, which will set out updated financial forecasts for the period 2024/25 to 2027/28.
29. By the end of 2022/23, the council had delivered circa £250 million of financial savings with additional savings of £12.383 million approved for 2023/24. It is forecast that the total savings requirement for the period 2011/12 to 2026/27 will be £327 million.
30. The council's MTFP for the last 14 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 has ensured that all options

are consistently considered to protect front line services wherever possible.

31. Nevertheless, going forward, front line services will inevitably become progressively more impacted over the coming years if funding continues to be restricted.
32. The council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.
33. 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.
34. In general, the council has been quite accurate in forecasting the level of savings required, which has allowed the early development of savings 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.
35. After taking into account base budget pressures, additional investment and savings, the council's net budget requirement for 2023/24 is £520.176 million. The financing of the net budget requirement is detailed in the following table.

Funding Stream	Amount
	£m
Revenue Support Grant	32.991
Business Rates – Local Share	55.712
Business Rates – Top Up Grant	75.956
Section 31 Grant	34.468
Collection Fund Deficit	-3.895
Council Tax	268.372
New Homes Bonus	1.860
Social Care Pressures Grant	49.564

Services Grant	5.148
NET BUDGET REQUIREMENT	520.176

Capital Funding

36. On 22 February 2023 Council approved the 2022/23 revised capital budget and the MTFP (13) capital budget for the period 2023/24 to 2025/26.
37. Service groupings developed capital bid submissions alongside the development of revenue MTFP (13) proposals. Bids were submitted in the main for 2024/25 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.
38. 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.
39. 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.
40. The following table provides summary information of the Capital budget approved at Council.

MTFP (13) Capital Programme

Service Grouping	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m
Adult and Health Services	0.100	1.589	0.000	0.000	1.689
Children and Young People's Service	18.048	79.466	7.495	0.440	105.449
Neighbourhoods & Climate Change	57.915	65.348	0.200	0.000	123.463
Regeneration, Economy & Growth	84.736	130.435	160.204	50.699	426.074
Resources	4.275	9.530	0.882	0.000	14.687
TOTAL	165.074	286.368	168.781	51.140	671.362
Financed by:					
Grants & Contributions	82.518	89.514	30.177	14.396	216.605
Revenue & Reserves	7.992	1.879	3.142	0.032	13.046
Capital Receipts	74.563	10.890	4.023	0.000	89.477
Borrowing	0.000	184.084	131.439	36.711	352.235
TOTAL	165.074	286.368	168.781	51.140	671.362

41. The council has been able to set balanced revenue and capital budgets for 2023/24 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

42. Reserves are held as 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;
 - 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;
 - means of building up funds, earmarked reserves to meet known or predicted future liabilities.
43. The council's current reserves policy is to:
- 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 £39 million.
44. Based on the level of reserves held, the council has demonstrated robust financial management that underpins its status as a going concern.

Risk

45. 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 (13) period. Some of the key risks identified include:
- (a) ensuring the achievement of a balanced budget and financial position across the MTFP (13) 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 2025/26 onwards,
 - (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 (13).
 - (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 both Adults and Children's social care services. Although pressures have been considered across the MTFP (13) 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 April 2022. This plan is now being updated to reflect the final outturn position and changes to future year forecasts, which are being developed as part of the DfE's Delivering Better Value Programme (DBV).
- (j) uncertainty as to any long-term impact from COVID-19 on council budgets especially regarding reductions in income from leisure, theatre and other facilities. This will continue to be closely monitored with any ongoing impact built into future MTFP plans.

46. Based upon the above there are no financial risks which would indicate that the council is not a going concern.

Conclusion

47. When considering 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.
48. 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.
49. 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 – 22 February 2023 – Medium Term Financial Plan, 2023/24 to 2026/27 and Revenue and Capital Budget 2022/23
- (b) County Council – 22 February 2023 – Budget 2023/24 Report under Section 25 of Local Government Act 2003
- (c) Cabinet – 15 March 2023 - Forecast of Revenue and Capital Outturn 2022/23 - Period to 31 December 2022.
- (d) Audit Committee – 23 May 2023 – Auditor's Annual Report for the year ending 31 March 2022
- (e) Audit Committee – 30 June 2023 – Statement of Accounts for the year ended 31 March 2023

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Appendix 1: Implications

Legal Implications

Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2022/23 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 provides overview of the 2022/23 revenue financial outturn and net assets of the council. Revenue and capital budgets for 2023/24 along with summarised MTFP (13) information also included within the report consider the County Council a 'going concern'.

Consultation

None.

Equality and Diversity/ Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

The summarised financial information within the report considers movement within employee budgets. The report references savings with the MTFP which have included employee savings.

Accommodation

None.

Risk

The information contained within this report has been extracted from the general ledger and scrutinised and supplemented with information supplied by the Service Management Teams and budget holders. The financial information has been produced taking into consideration historic financial data, year- end accounting practices and robust financial planning strategies (including MTFP and annual budget

processes). This should mitigate any risks regarding challenge over the accuracy and validity of the going concern statement

Procurement

None.