

Audit Committee

28 June 2024

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2024

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 provides a summarised financial performance assessment of the council's ability to continue to be treated as a going concern.

Executive Summary

2. When preparing the annual statement of accounts, the council complies with the Code of Practice on Local Authority Accounting 2023/24 (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 for recommending that the council be considered as a going concern, and why 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 2024 the council held general reserves of £32.061 million and reserves earmarked for specific future purposes, including service cash limit reserves but

excluding those held for schools of £176.309 million, and including those reserves held for schools of £203.538 million;

- (c) net assets at 31 March 2024 amounted to £1.030 billion million;
- (d) the council has been able to set a balanced budget for 2024/25 and has a clear plan in place to continue to deliver local services up to 2027/28 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) Members approve the council's status as **a going concern** and
- (b) note that the statement of accounts has been prepared on this basis.

Background

5. The general principles adopted in compiling the statement of accounts are in accordance with the Code of Practice on Local Authority Accounting 2023/24 (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. The inability to apply the going concern concept can have a fundamental impact on the financial statements. Whilst it is unusual for a local authority to have a going concern risk, it is not unknown. In recent years, increased numbers of local authorities have issued Section 114 notices to report the potential to incur expenditure that is unlawful according to the Local Government Finance Act 1988. Once a Section 114 notice is issued, an authority may not incur new spending without authorisation from its S151 officer. Elected member and central government are also required to examine options for balancing budgets under these circumstances.
8. Whilst council's may face financial difficulties, the assumption that a local authority's services will continue to operate for the foreseeable future is made because they 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).
9. There may be cases where part of an authority's operations ceases to be viable or affordable. This, however, 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

10. 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.

11. 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

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

Year ended 31 March	Net Assets (inc. Pension Fund Actuary Adjustments) £Million	Net Assets (exc. Pension Fund Actuary Adjustments) £Million
2020	229.807	1.561.098
2021	30.607	1.544.927
2022	87.202	1.386.922
2023	913.855	1.384.275
2024	1.029.981	1.331.161

13. The fluctuations each year are mainly due to accounting entry changes in the estimated pension liability (as calculated by the Pension Fund's Actuary). The Net assets for each financial year excluding Actuary Adjustments are shown within the second column to the table. Further summarised changes are shown in paragraph 20.
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. These are shown in Notes 4 and 39 to the accounts.
15. The 2024 net asset position shown above is subject to change following updated information from the Actuary regarding the unfunded liability – Discretionary Benefits Arrangements. These are the termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS and Teachers Pension Scheme. 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 2022/23 was reported to the Audit Committee on 28 November 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 2023.

Current Position

19. At 31 March 2024, the council held general reserves of £32.061 million and reserves earmarked for specific future purposes, including those held for schools, of £203.538 million. Excluding schools, the value of reserves earmarked for specific purposes was £176.309 million.
20. The financial position of the council remains healthy. Net assets at 31 March 2024 amounted to £1.030 billion, an increase of £116.125 million during 2023/24. The main changes between the two financial years are as follows:
 - Long term and current assets have reduced by £65 million, the main reasons being a reduction in short term investments and cash and cash equivalents as a result of treasury management and capital programme decisioning to delay borrowing due to recent interest rate levels, alongside increases in property plant and equipment long term assets (following annual and rolling programme valuation exercises).
 - Long term and current liabilities have reduced by £181 million , the main reasons being a reduction in the pension liability for employees as calculated by the Pension Fund Actuary (£175

million) and a reduction in long term borrowing commitments taking into consideration securing cost certainty and favourable borrowing rates (£40.5 million).

Future Plans

21. The council approved its budget for 2024/25 and Medium Term Financial Plan (MTFP) 14 to 2027/28, on 28 February 2024.

Medium Term Financial Plan (14) – 2024/25 to 2027/28

22. The council continues to operate in a period of significant financial uncertainty and volatility, During 2023/24 this uncertainty was again driven by continuing short term local government finance settlements, our inherent low tax raising capacity due to our low tax base alongside ongoing significant unfunded inflationary pressures, increased demand and complexity of demand for a range of services and the ongoing inflationary impact of pay awards. The financial outlook for the council is forecast to remain extremely challenging for the foreseeable future.
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. The council also continued to face significant enduring and unavoidable demographic / cost pressures in Children's Social Care Children and Young People's Services particularly in relation to Children's Social Care placements during 2023/24, with further budget uplifts required to offset shortfalls included within the 2024/25 budget and MTFP.
25. The longer-term inflationary impact and pressures on the council's finances remains difficult to gauge at this stage. Whilst the 2024/25 revenue budget and MTFP approved by Council on 28 February 2024 considered these inflationary implications this position will need to be kept under regular review. A further range of financing decisions by the council throughout its current MTFP (14) period may be required. Reserves will potentially be required to meet any shortfall in funding.
26. Additionally, there remains uncertainty in terms of the quantum of recurrent funding to be available to local government particularly from 2025/26 onwards. Financial Planning strategies continue to assess the risk to the council's budgets so that strategic decisions

can be made to ensure that balanced budgets can be set going forward.

27. The MTFP(14) report to Council on 28 February forecast a £37.833 million funding shortfall for the council from 2025/26 to 2027/28. Against this backdrop it is essential that the council has a strong balance sheet and access to earmarked reserves which are available to support future budget shortfalls. With this in mind a thorough review of all earmarked reserves has been completed as part of the 2023/24 final outturn process with a key aim of seeking to replenish and increase corporate reserves such as the MTFP Support Reserve and the Early Retirement/Voluntary Redundancy (ER/VR) reserve to ensure corporate capacity is in place to support future MTFP's.
28. Risks will continue to 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 2023/24, the council had delivered circa £262 million of financial savings since 2010 with additional savings of £8.083 million approved for 2024/25. It is forecast that the total savings requirement for the period 2011/12 to 2027/28 will be £316 million.
30. The council's MTFP for the last 15 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 alongside the presence of unfunded and unavoidable base budget pressures which cannot be accommodated from council tax and business rate income.
32. The council continues to have a robust financial standing with sound and continuously improving financial management procedures and processes in place.
33. The financial reporting process is embedded throughout the council, with formal forecast of outturn reports considered by

Service Management Teams, CMT and Cabinet on a quarterly basis.

34. 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.
35. 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.
36. Formal forecast of outturn reports are considered by Service Management Teams , CMT and Cabinet on a quarterly basis.
37. After taking into account base budget pressures, additional investment and savings, the council's net budget requirement for 2024/25 is £564.871 million. The financing of the net budget requirement is detailed in the following table.

Funding Stream	Amount
	£Million
Revenue Support Grant	35.176
Business Rates – Local Share	59.929
Business Rates – Top Up Grant	78.907
Section 31 Grant	40.149
Council Tax	286.639
New Homes Bonus	0.640
Social Care Pressures Grant	64.857
Services Grant	0.888
NET BUDGET REQUIREMENT	564.871

Capital Funding

38. On 28 February 2024 Council approved the 2023/24 revised capital budget and the MTFP (14) capital budget for the period 2024/25 to 2026/27.
39. Service groupings developed capital bid submissions alongside the development of revenue MTFP (14) proposals. Bids were submitted in the main for 2025/26 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) the Corporate Plan priorities and the content of the Capital Strategy service grouping assessment of priority and need;
 - (b) service grouping assessment of priority and need
 - (c) affordability based upon the availability of capital financing and impact on the revenue budget from any new facilities. This process considers the impact of borrowing upon the revenue budget and any other revenue liabilities or impacts in terms of running costs. The MTFP(14) assessment in this regard has very much had to consider the ongoing financial uncertainty facing the council and local government and the ongoing demographic and inflationary budget pressures the council is facing. This will need to be a more significant consideration in MTFP(15) if the current uncertainty persists or if there is a return to austerity; and;
 - (d) 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.
40. Whilst considering capital bid proposals, MOWG has 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 given the significant financial challenges the council faces in balancing its budgets across the coming years and the increased cost of borrowing given the increase in interest rates over the last 18 months.

41. It is recognised that the ability to invest further in the capital programme requires the council and local government, to have received a long-term financial settlement to enable the affordability of an extended capital programme to be assessed against forecast future revenue savings requirements.
42. The following table provides summary information of the Capital budget and MTFP(14) capital programme approved at Council in 28 February 2024.

Service Grouping	2023/24	2024/25	2025/26	2026/27	Total
	£Million	£Million	£Million	£Million	£Million
Adult and Health Services	2.246	0.325	-	-	2.571
Children and Young People's Service	59.193	69.067	12.014	1.795	142.069
Neighbourhoods & Climate Change	56.603	68.811	1.640	1.206	128.260
Regeneration, Economy & Growth	134.507	177.797	79.463	7.768	399.535
Resources	6.638	5.792	0.095	-	12.525
TOTAL	259.187	321.793	93.212	10.769	684.960
Financed by:					
Grants & Contributions	117.007	71.927	25.553	3.266	217.753
Revenue & Reserves	7.071	0.824	0.629	0.438	8.963
Capital Receipts	34.609	3.012	4.542	-	42.163
Borrowing	100.500	246.030	62.487	7.064	416.081
TOTAL	259.187	321.793	93.212	10.769	684.960

43. The council has been able to set balanced revenue and capital budgets for 2024/25 and has a clear plan in place to continue to deliver local services up to 2027/28. Based upon this, it is evident that the council is a going concern.

Financial Reserves

44. 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.
45. The council's current reserves policy approved at 28 February 2024 Council 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 £42.4 million.
46. As at 31 March 2024 the council held general reserves of £32.061 million and reserves earmarked for specific future purposes, including those held for schools, of £203.538 million. Excluding sums held on behalf of schools, the reserves earmarked for specific future purposes totals £176.309 million.
47. The council continues to undertake comparative reviews of reserve levels with other authorities as part of its financial benchmarking. Based on the level of reserves held, the council has demonstrated robust financial management that underpins its status as a going concern.

CIPFA Financial Management Code Peer Review

48. The CIPFA Financial Management Code Finance Peer Review undertaken during 2023/24 assessed the council as a strong 3 star against a maximum score of 4. Overall, a score of 3.25 was provided. Across the 12 different scoring criteria (the three financial management styles across four management dimensions) the council scored three in all but one. The council scored the maximum score of 4 for the Supporting Performance financial style and People management dimension.
49. CIPFA's overall view on finance in the council was that financial management at Durham County Council is good. This means that the Council has sound financial management capability and can support the organisation in stable conditions. CIPFA advised they had seen evidence of sound financial management, and that strong foundations are in place.
50. In CIPFA's view, the council demonstrates many of the key characteristics of a successful Finance function, and they reported that had seen examples of best practice in the council's approach.

51. Whilst CIPFA also identified an area for improvement in relation to driving transformational change, they concluded that given the strength of the council's financial management, the council could potentially achieve this improvement within 12 months.
52. The CIPFA Financial Management Peer Review further supports the council's ability to continue to be treated as a going concern.

Risk

53. 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 (14) period. The key corporate risks identified include:
 - (a) the significant uncertainty in relation to future funding settlements from government, which will significantly impact upon the medium-term financial plan.
 - (b) the inability to recruit and retain educational psychologists at a time of rising demand may seriously inhibit the delivery of services and lead to significant delays in statutory Education, Health and Care needs assessments.
 - (c) the risk of being unable to meet the authority's statutory sufficiency duty to provide sufficient accommodation in the local authority area to meet the needs of Children Looked After and children in need.
 - (d) the risk that the Council fails, in its role as a community leader, to set an example and help partners, local businesses and communities make the necessary adaptations and mitigations in pursuit of the target of being a carbon-neutral County by 2050 (climate change).
 - (e) the inability to recruit and retain children's social workers and social work managers may seriously inhibit the delivery of services.
 - (f) failure to protect a child from death or serious harm (where service failure is a factor or issue).
 - (g) failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue)

- (h) If timely and comprehensive savings plans are not in place across the council, required savings may not be achieved, necessitating extensive utilisation of reserves.
54. The council is well placed to adapt to the challenges it faces and take advantage of opportunities offered as they arise. There are risks as highlighted above, but there are also well established and robust risk management processes in place and, together with robust financial management and reporting, the council remains in a strong position as it moves into 2024/25. Taking this into consideration, there are no risks which would indicate that the council is not a going concern.

Conclusion

55. 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.
56. 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.
57. 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 – 28 February 2024 – Medium Term Financial Plan, 2024/25 to 2027/28 and Revenue and Capital Budget 2022/23
- (b) County Council – 28 February 2024 – Budget 2024/25 Report under Section 25 of Local Government Act 2003
- (c) Audit Committee – 29 February 2024 – CIPFA Finance Peer Review Report
- (d) Cabinet – 13 March 2024 - Forecast of Revenue and Capital Outturn 2024/25 - Period to 31 December 2023.
- (e) Audit Committee – 28 November 2023 – Auditor’s Annual Report for the year ending 31 March 2023
- (f) Audit Committee – 28 June 2024– Statement of Accounts for the year ended 31 March 2024

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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 2023/24 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 2023/24 revenue financial outturn and net assets of the council. Revenue and capital budgets for 2024/25 along with summarised MTFP (14) information is 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.