Audit Committee

20 May 2014

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2014

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Purpose of the Report

1. Each year, Durham County Council assesses whether it should be considered as a 'going concern' organisation, and whether the accounts should be prepared on that basis. This report considers the County Council's status as a going concern and asks Members to agree this.

Background

2. The general principles adopted in compiling the Statement of Accounts are in accordance with the 'Code of Practice on Local Authority Accounting 2013/14' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland and Northern Ireland.

3. 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.

4. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

5. However, it is highly unusual that a local authority would have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority; the impact would be restricted to only that part of the operation.

6. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern

Key Issues

7. 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.

8. 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 apply.

9. 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

10. The assets and liabilities of the seven former District Councils were transferred to the new Unitary County Council on 1 April 2009. The following table shows the Net Assets of the Council at each year end up to 31 March 2013:

Year ended 31 March	Net Assets £m
2009	1,240.742
2010	900,094
2011	856,994
2012	571,779
2013	440,362

11. External Audit also provide a 'Value For Money' conclusion at each year end which gives their opinion on the Council in two areas:

- *Securing economy, efficiency and effectiveness* - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness, by focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and

- *Financial Resilience* - The organisation has proper arrangements in place to secure financial resilience by focusing on whether the Council is prioritising its resources within tighter budgets and the need to improve productivity and efficiency.

12. In their last Annual Completion Statement for 2012/13, External Audit stated, as evidence of securing economy, efficiency and effectiveness:

"The Council has, like other councils, faced significant cuts in funding plus other changes in how it works, including the localisation of business rates, the local council tax benefit scheme and the transfer of public health responsibilities from 1 April 2013. Other significant changes are likely in the near future.

The Council has risen to the challenge well despite staff restructures and on-going retirements. The forward planning which has underpinned the MTFP process to date has been extremely effective and has enabled the Council to maintain its financial strength whilst still investing in key front line services and priorities including the capital programme. Effective forward planning and robust assurance frameworks have ensured that the Council has been successful in delivering the necessary savings required to date. Key issues the Council has recognised for the future include continued work on a strategic plan for the achievement of the savings required for 2014/15 to 2015/16 and beyond."

13. External Audit further stated, as evidence of financial resilience:

"The Council's track record in delivering the savings required in recent years has been successful. The arrangements underpinning this track record have been maintained in 2012/13, with savings targets being met and £26.6m of savings being achieved. The latest Medium Term Financial Plan update sets out how the Council intends to achieve the savings required over the next few years. By 31 March 2013, £93m of savings have been delivered for 2011/12 and 2012/13, with excellent progress being made in realising the £20.9m savings target in 2013/14. Total savings achieved will be £113.9m by the end of 2013/14, but estimated additional savings of £25.9m are going to be required for 2014/15 and a further £62.7m for 2015/16 to 2016/17 to reach the revised £202m total savings target.

The Council regularly reviews its level of reserves. As at 31 March 2013, the Council had total usable reserves of £139.8m. This comprised £105.9m of earmarked reserves of which £19.4m relates to schools and £1.1m for the Housing Revenue account (HRA). The majority of the remaining reserves relate to General fund balances of £24.4m and HRA balances of £7.2m.

The level of general fund balances is considered prudent in the financially challenging austere times the Council is facing over the coming years. The years 2014/15 onwards present an even greater challenge as savings and efficiencies become more difficult to achieve. The Government announced in the March 2013 Budget that local authorities will face an extra 1% budget cut in 2014/15 and an additional 10% funding cut for local authorities in 2015/16. It is now expected that cuts will continue until at least 2017/18 with a possibility that the cuts could continue until 2020.

Key areas of focus in maintaining on-going financial resilience include:

- consistent and clear reporting to Members of the cumulative financial position (revenue and capital) and progress in achieving savings throughout the year; and

- maintaining the rigorous budgetary control of previous periods, particularly as staff rationalisations continue and savings become harder to achieve."

Current Position

14. The Council holds general reserves of £24.410m at 31 March 2013 and reserves earmarked for specific future purposes of £105.874m.

15. The Net Assets of the Council at 31 March 2013 amounted to £440.362m, a decrease of £131.714m, which is mainly due to the increase in the Pensions Liability, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

16. Current forecasts of the likely position as at 31 March 2014 were reported to Cabinet in March 2014. At that time it was anticipated that the Council will hold general reserves of £26.821m and reserves earmarked for specific future purposes, including those held for schools will be £134.114m.

17. The Housing Revenue Account (HRA) forms part of the Council's main accounting statements. General reserves held by the HRA as at 31 March 2013 amounted to £7.155m, and those held for specific purposes were £1.150m.

Future Plans

18. The County Council approved its budget for 2014/15 and Medium Term Financial Plan to 2017/18 in February 2014.

Medium Term Financial Plan (MTFP) – 2014/15 to 2017/18

19. The council has faced unprecedented reductions in Government grants since the 2010 Comprehensive Spending Review (CSR) when the expectation for local government was a 28% cut in Government grant for the period 2011/12 to 2014/15. Since that time the majority of the Chancellor of the Exchequer's March Budget and Autumn Statement announcements have included additional cuts to local government funding culminating in the 2015/16 Spending Round announcement of June 2013 which detailed a further 10% funding reduction for local

government in 2015/16. It is now forecast that Government grant to local government will have reduced by over 40% by the end of 2015/16.

20. The Chancellor of the Exchequer also announced the need for a further £25bn of public expenditure reductions for 2016/17 and 2017/18. With £12bn expected to be found from Welfare budgets, £13bn will therefore need to be found from Government Departments. It is expected that Health, Education and Aid budgets will continue to be protected resulting in increased pressure upon the remaining Government Departments. It is therefore forecast that the Government grant reductions for local government in 2016/17 and 2017/18 will be similar in magnitude to those of 2014/15 and 2015/16.

21. It is apparent therefore that the financial landscape for local authorities will remain extremely challenging until at least 2017/18. The challenges faced are exacerbated in Durham for a range of reasons:

    (i) Government grant reductions are not evenly distributed across the country as evidenced by the Government's Spending Power figures. For 2014/15 and 2015/16 the cumulative Spending Power reduction for the council is 6.3% and for the twelve North East councils 7.5%. This compares with a national average reduction of 4.7%, whilst many affluent areas are seeing an actual increase in Spending Power e.g. Surrey +3% and Buckinghamshire +2.5%;

    (ii) Government funding is now inextricably linked to the performance of the local economy via Business Rate Retention and Local Council Tax Support Schemes. The link to a 'Needs Assessment' is no longer the key determinant of local authority funding. The current economic recovery is centred very much around the South and South East which is benefitting local authorities in those areas;

    (iii) demand for services from local authorities is increasing with the impact of Welfare Reforms continuing to have an impact. Deprived areas are particularly impacted and this issue will continue to be a high priority as the Government plans to remove an additional £12bn from welfare budgets during 2016/17 and 2017/18.

22. The council's final finance settlement for 2014/15 was announced by the Government on 5 February 2014. The council's Settlement Funding Assessment (SFA) for 2014/15 is £252.085m which is £26.285m less than the 2013/14 SFA. Funding is forecast to reduce by a further £36.916m in 2015/16.

23. The main issues to note are as follows:

    (i) RSG will reduce by 41% between 2013/14 and 2015/16;

    (ii) these reductions in RSG are partially offset by the inflationary increases (RPI) in Business Rates and Business Rates Top Up Grant;

    (iii) overall, the SFA will reduce by 22.7% between 2013/14 and 2015/16.

24. Overall as at February 2014, it was forecast that the council will need to save £224m over the 2011/12 to 2016/17 period. A sum of £113.9m was saved by 31 March 2014 resulting in a £110.1m savings requirement for the three year period 2014/15 to 2016/17. The 2014/15 budget required savings of £23m to be delivered to achieve a net budget requirement of £438.765m.

25. The following assumptions have been utilised in developing the MTFP Model:

    (i) Government grant reductions for the MTFP period have been developed utilising information from the December 2013 Autumn Statement and the Local Government Finance Settlement which included provisional figures for 2015/16. The estimated grant reductions for 2015/16 and 2016/17 are as follows:

Forecast Government Grant Reduction in 2015/16 and 2016/17

Year	Basis	Amount
		£m
2015/16	Net Reduction in all Government Funding	40.315
2016/17	Net Reduction in all Government Funding	30.000

    (ii) forecast Pay and Price Inflation levels have taken into account the Government's 1% public sector pay cap assumptions for 2014/15 and 2015/16. They have also taken into account the reducing level of price inflation in the economy at the moment with the price inflation allowance being retained at 1.5% for both 2015/16 and 2016/17:

Pay and Price Inflation Assumptions

Year	Pay Inflation	Price Inflation
2014/15	1.0%	1.0%
2015/16	1.0%	1.5%
2016/17	1.5%	1.5%

(iii) continuing budget pressures in relation to Employer Pension Contributions, Concessionary Fares, Energy Prices and CAS Demographic and Hyper-Inflation in relation to adult social care;

(iv) costs associated with the Council Housing Stock Transfer if the bid is successful and the tenants vote in favour of stock transfer;

(v) increased Employer National Insurance costs when the Government's national 'Single Pension' is introduced in 2016/17;

(vi) additional costs associated with the implementation of Single Status. These additional costs are presently being met from the Equal Pay Reserve which is forecasted to run out in 2015/16;

(vii) continuing need to support both the current and additional capital programme;

(viii) Council Tax increases are assumed to be 2% across the MTFP period.

26. When the budget was set in February 2014, detailed savings plans needed to be developed to achieve the following savings targets for 2015/16 and 2016/17.

Savings to be Identified

Year	Amount
	£m
2015/16	39.321
2016/17	47.712

27. Service Groupings are currently developing plans for £22.073m of additional savings for 2015/16 which will be brought before Cabinet in the early summer of 2014. Additional work will continue to identify savings for the forecasted budget gap for 2015/16 and 2016/17.

28. A balanced MTFP Model has been developed after taking into account the assumptions above. The MTFP model is summarised in the following table.

MTFP Summary Position

	2014/15	**2015/16**	**2016/17**	**TOTAL**
	£m	**£m**	**£m**	**£m**
Reduction in Resource Base	14.871	28.164	26.578	69.613
Budget Pressures	8.154	11.157	21.134	40.445
Savings required	**23.025**	**39.321**	**47.712**	**110.058**
Savings to be identified	**-**	**39.321**	**47.712**	**87.033**

29. The strategy the council has deployed to date has been to seek savings from management, support services, efficiencies and increase income from fees and charges to minimise the impact of reductions on frontline services.

30. Throughout the period 2011/12 to 2014/15, the amount of savings required has risen from £123m to £224m up to 2017. It is clear therefore that it will become increasingly difficult to protect frontline services.

31. To date the council has implemented the agreed strategy very effectively.

- £113.9m savings delivered by the end of 2013/14.

- savings have been delivered on time, or in some areas ahead of time. This is critical since slippage would mean that the council would have to deliver higher savings over time;

- 64% of savings to date have been from non-frontline services, exceeding the council's initial aspiration that at least half would be from non-frontline services;

- by the midpoint of 2013/14, the number of employees earning over £40k had been reduced by 29%. This has significantly reduced management costs.

- proportionally more than three times as many manager posts have been removed than frontline staff;

- whilst income from fees and charges has been increased, this has not taken the council to a position of having the highest levels of fees and charges in the region or nationally which is important given the socio-economic make-up of the county;

- 1,520 posts have been removed to date which is in line with the original projections of 1,950 posts by the end of 2014/15. Management of change policies and HR support have ensured that this degree of change has been managed effectively.

32. The importance of delivering savings early if practicable cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring delivery of the savings, enabling a 'smoothing' of implementation from year to year.

33. In general, the fact that the council has been accurate in forecasting the level of savings required, has developed strong plans and robustly managed implementation, including high volumes of consultation and communication, has put us in as strong a position as possible to meet the continued and enhanced challenges.

34. It is clear that austerity will continue over the lifetime of the three years of the current MTFP up to 31 March 2016. Where the savings targets were declining year on year from the huge reduction of £66m in 2011/12, the council now faces several years where the targets are growing year on year from 2014/15. Obviously, the fact that each year's reduction is on top of those of previous years leading to a cumulative £224m since 2011/12 up to 2016/17 means that the council continues to face a very considerable financial challenge.

35. In addition, local government generally is facing more uncertainty about future funding and absorbing more risks from central Government Increased risk arises from several sources:

- under the Local Council Tax Reduction Scheme, national risk arising from any increased numbers of benefits claimants has been transferred in the case of council tax support to local authorities since 2013/14. The risk is greater for authorities like Durham that serve deprived areas and have weaker economic performance than the national average;

- Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration. This has always been the top priority for the council. Unfortunately, the changes again shift risk once managed nationally to local authorities if there is a downturn in the local economy and local business rate yield reduces;

- Welfare Reform carries increased financial risk to the council in areas such as the Benefits Services, homelessness and housing. Similarly council tax may become more difficult to collect, creating increased financial pressure;

- ongoing Council Tax capping restrictions – the MTFP is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create a pressure of circa £800k per 0.5% reduction;

- forecasts for public health and social care allocations are not known for the full period covered by MTFP4. Similarly, it is not known whether the national health formula review will have a knock on effect on health and social care budgets. The future of the Dilnot review on the funding of adult social care is not yet clear but will have financial implications for one of the council's largest budgets;

- normal risks such as price and pay inflation beyond MTFP forecasts obviously still apply.

36. Since clarity is expected to emerge throughout 2015, outline savings plans have yet to be fully developed beyond 2014/15. Planning work for MTFP5 for 2015/16 to 2017/18 began in April 2014.

37. The MTFP for 2013/14 to 2016/17 agreed by council on 20 February 2013 identified a range of forecast base budget pressures for 2014/15. Throughout the intervening period Cabinet has approved updated MTFP reports which have reviewed and updated estimates. The table below details the final forecasted position on the 2014/15 Base Budget pressures:

2014/15 Base Budget Pressures

Pressure	Amount
	£m
Carbon Reduction – Carbon Tax	0.370
Expiry of LGR Disturbance Allowances	(0.220)
Pay Inflation – 1%	1.950
Price Inflation – 1%	1.475
Corporate Risk Contingency Budget	0.093
Reduced Employer Pension Contributions	(0.700)
Energy Price Increases	0.200
Insurance Claims	1.000
Housing Benefit Admin Grant Reduction	0.500
Reduction in Community Buildings Running Costs	(0.180)
Delay in Realising Leisure/Culture Saving	0.616
CAS Demographic and Hyper Inflationary Pressures	1.000
Reduction in Borrowing Costs for Current Capital Programme	(0.250)
TOTAL	**5.854**

Consultation and Additional Investment

38. The council has a strong track record of involving the public in setting its budget. A major prioritisation exercise was conducted in late 2010 which identified the areas of spend that the public most wanted to see protected from cuts and those which the public prioritised for cuts. This strongly influenced the MTFP for the period 2011 to the present.

39. Recognising that Participatory Budgeting (PB) events attract a wide range of people including families, children and young people as well as older people, the council decided to use PB events to consult on the next phase of savings. Whilst the first public consultation on the budget in 2010 covered the original £123m savings to be delivered over the four years to March 2015, the council now faces further substantial savings to March 2017. It was therefore decided to ask the public their priorities once again.

40. The 2013 consultation built on the council's experience to ensure it developed a better understanding of residents' views about the financial pressures to be faces over the coming years. The council's

task was to create and implement an engagement process that reflected the debates and the difficult decisions that need to be taken by this council.

41. Because of the scale of savings required and the complex range of services the council delivers, the primary means of consultation was designed to comprise deliberative focus groups held at the 14 AAP PB events.

42. In total almost 1,300 of forum event attendees also took part in one of the 270 budget consultation sessions that took place there.

43. Since not everyone had time to attend specific local events, there was also the opportunity for residents to take part through either paper based, or an on-line self-completion questionnaire. Paper based surveys were handed out to people attending the forum events and resulted in 2,074 responses. The online questionnaire was promoted through the council's consultation webpages and received 517 responses.

44. The council noted the consistency of response from MTFP consultation responses in relation to the winter maintenance budget. With this in mind the council reviewed the winter maintenance budget, especially in light of the significant expenditure incurred over the last two winters. To ensure sufficient funding is available to finance a 'normal' winter's maintenance cost, additional investment of £1.3m was required.

45. The council continues to invest in infrastructure. An additional £2m of revenue will be provided in the 2014/15 budget to finance Prudential Borrowing to continue the support for new projects within the capital programme. A key priority of the capital programme is to stimulate regeneration and job creation within the local economy.

Savings

46. The savings plans for each Service Grouping for 2014/15 to 2016/17 are detailed in the following table. Service Groupings have received savings targets of £22.073m for 2015/16 and savings plans are being worked up and will be reported to Cabinet during the development of MTFP5 for 2015/16 to 2017/18.

Service Grouping Savings Plan 2014/15 – 2016/17

Service Grouping	2014/15	2015/16	2016/17	TOTAL
	£m	£m	£m	£m
ACE	0.410	0.606	-	**1.016**
CAS	12.430	13.966	-	**26.396**
NS	3.767	5.581	-	**9.348**
RED	1.092	1.280	-	**2.373**
RES	2.893	1.574	-	**4.467**
Other	2.434	-	-	**2.434**
Savings to be identified	-	16.315	47.712	**64.108**
TOTAL	**23.025**	**39.321**	**47.712**	**110.058**

47. In addition to ongoing work in relation to the 2015/16 savings, work will also begin and continue to be worked up over the MTFP process to identify the required savings for 2016/17.

48. The revised forecast saving for the period 2011/12 to 2016/17 is detailed below:

Total Savings 2011/12 to 2016/17

Period	Saving
	£m
2011/12 to 2013/14	113.9
2014/15 to 2016/17	110.1
TOTAL	**224.0**

2014/15 Net Budget Requirement

49. After taking into account base budget pressures, additional investment and savings targets, the council's recommended Council Net Budget Requirement for 2014/15 is £438.765m. The financing of the Net Budget Requirement is detailed below:

Financing of the 2014/15 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	138.710
Business Rates	52.342
Business Rates – Top Up Grant	59.357
Council Tax	168.844
New Homes Bonus	6.784
New Homes Bonus Reimbursement	0.390
Education Services Grant	7.237
Section 31 – Small Business Rate Relief	2.194
Section 31 – Settlement Funding Adjustment	1.204
Section 31 – Empty Property and Retail Relief	1.703
TOTAL	**438.765**

Capital Funding

50. The need to invest in Capital Infrastructure during the economic downturn is seen as an essential means of regenerating the local economy and for job creation. Additional investment will maintain and improve infrastructure across the County, help retain existing jobs, create new jobs and ensure the performance of key council services are maintained and improved.

51. After considering all relevant factors, the Capital Member Officer Working Group (MOWG) have recommended that the following value of schemes be approved for inclusion in the Capital Programme. The additional 2014/15 schemes can be afforded by utilising unapplied capital grants and utilising the 2014/15 prudential borrowing allowance not already committed in MTFP for 2013/14. The new 2015/16 schemes can be afforded by utilising capital grants, capital receipts and prudential borrowing.

52. The new schemes will ensure the council continues to invest in priority projects and essential maintenance programmes.

53. The 2014/15 to 2016/17 capital budget will be as follows:

Capital Programme 2014/15 to 2016/17

Service Grouping	2014/15	2015/16	2016/17	TOTAL
	£m	**£m**	**£m**	**£m**
Asssistant Chief Executives	3.471	3.255	-	6.726
Children and Adult Services	56.839	20.890	0.087	77.816
Neighbourhoods	38.840	23.008	11.429	73.277
Regeneration and Economic Development.	56.269	22.806	0.263	79.338
Resources	10.873	10.456	2.604	23.933
TOTAL	**166.292**	**80.415**	**14.383**	**261.090**
Financed by:				
Grants and Contributions	69.055	28.342	1.515	98.912
Revenue and Reserves	4.993	-	-	4.993
Capital Receipts	10.000	-	-	10.000
Capital Receipts - BSF/Schools	10.474	11.600	-	22.074
Borrowing	71.770	40.473	12.868	125.111
TOTAL	**166.292**	**80.415**	**14.383**	**261.090**

54. The council has been able to set a balanced budget for 2014/15 and has a plan in place to continue to deliver local services up to 2018. Based on this, it is clear that the County Council is a going concern.

Financial Reserves

55. Reserves are held:

    (i) 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 Reserve.

    (ii) as a 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;

    (iii) as a means of building up funds, earmarked reserves to meet known or predicted future liabilities.

56. The council's current reserves policy is to:

    (i) set aside sufficient sums in Earmarked Reserves as is considered prudent. The Corporate Director Resources should continue to be authorised to establish such reserves as required, to review them for both adequacy and purpose on a regular basis reporting appropriately to the Cabinet Portfolio Member for Finance and to Cabinet;

    (ii) Aim to maintain General Reserves in the medium term of between 5% and 7.5% of the Net Budget Requirement which in cash terms equates between £22m and £33m.

57. Each earmarked reserve, with the exception of the Schools' reserve, is reviewed on an annual basis. The Schools' reserve is the responsibility of individual schools with balances at the year end which make up the total reserve.

58. A Local Authority Accounting Panel Bulletin published in November 2008 (LAAP77) makes a number of recommendations relating to the determination and the adequacy of Local Authority Reserves. The guidance contained in the Bulletin "represents good financial management and should be followed as a matter of course".

59. This bulletin highlights a range of factors, in addition to cash flow requirements that councils should consider. These include the treatment of inflation, the treatment of demand led pressures, efficiency savings, partnerships and the general financial climate, including the impact on investment income. The bulletin also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term option. If Members were to choose to use general reserves as part of this budget process appropriate action would need to be factored into the MTFP to ensure that this is addressed over time so that the base budget is not reliant on a continued contribution from general reserves.

60. The forecast balance on all reserves are reported to Cabinet every quarter as part of the Forecast of Outturn reports. An adjustment to Reserves was reported to Cabinet during 2013/14 in relation to the MTFP Redundancy and ER/VR Reserve. In addition a range of reserves are being utilised to support the MTFP 2014/15 to 2016/17. These are detailed below:

(i) **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m with the aim of covering the cost of all ER/VRs up to 31 March 2015. The forecast balance at the end of 2013/14 on this reserve is £2.558m. Although detailed plans are yet to be developed across the MTFP it was deemed prudent to replenish this reserve to provide confidence in the authority's ability to finance future severance costs. Cabinet agreed on 18 December 2013 to transfer £15m into this reserve. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP period. This reserve will continue to be closely monitored.

Reserve Transfers to Replenish MTFP Redundancy and ER/VR Reserve

Reserve	Amount
	£m
Service Grouping Cash Limits	10.000
General Reserve	5.000
TOTAL	**15.000**

(ii) **Adult Demographic Reserve** – this reserve continues to be utilised to delay the impact of cost pressures, thus delaying the need to achieve additional savings. A sum of £3.15m is to be utilised in 2014/15.

(iii) **Equal Pay Reserve –** the cost of successfully implementing Single Status in order to put in place a new pay and grading structure that satisfies all equal pay legislation has proven to be greater than the £6.5m budget that was made available. The Equal Pay Reserve is being utilised to delay the impact of this cost pressure thus delaying the need to achieve additional savings in the short term. A sum of £3.475m is utilised in 2014/15.

(iv) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £2.617m is to be utilised in 2014/15.

(v) **General Reserves** – the implementation of Garden Waste charging is to be introduced from 1 April 2015 rather than 1 April 2014, General Reserves of £0.933m will be utilised in 2014/15 on a 'one off' basis to finance this delay.

(vi) **Procurement Reserve** – procurement savings of £0.640m have been identified to support the MTFP. Originally it was expected that these would be achieved in 2014/15. However, it is now envisaged that £0.104m of these identified savings will not be delivered until 2015/16 and the Procurement Reserve will cover the cost of this shortfall on a 'one off basis' in 2014/15.

(vii) **Other Earmarked Reserves** – Service Groupings have plans to expend £1.409m of other Earmarked Reserves in line with each Earmarked Reserves protocol.

61. The table below details the forecast Reserves position as at 31 March 2014. School Reserves are not included below as they can only be utilised for schools.

Forecast Reserves Position

Reserves	Quarter 2	ER/VR	MTFP (4) Support	Planned Expenditure	Revised Balance
	£m	£m	£m	£m	£m
General Reserve	29.314	(5.000)	(0.933)	-	23.381
Cash Limit	31.151	(10.000)	(2.437)	(0.180)	18.534
Earmarked Reserves	54.768	15.000	(6.732)	(1.409)	61.627
TOTAL	**115.233**	**-**	**(10.102)**	**(1.589)**	**103.542**

62. Based on the level of reserves held, the County Council has demonstrated robust financial management that underpins its status as a going concern.

Risk

63. The council had previously recognised that a wide range of financial risks needed to be managed and mitigated across the medium term. The risks faced are exacerbated by the localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP period. Some of the keys risks identified include:

(i) ensure the achievement of a balanced budget and financial position across the MTFP period;

(ii) ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and staff;

(iii) Government funding reductions are based upon the 2015/16 indicative figures included in the Local Government Finance Settlement with the 2016/17 assumptions based upon Government funding cuts continuing in the future in line with recent years. This level of reduction will be required to achieve the £25bn of public expenditure reductions in 2016/17 and 2017/18 recently detailed by the Chancellor of the Exchequer.

(iv) the localisation of council tax support passes 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.

(v) the council retains 49% of all business rates collected locally but is also responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and appeals settlements continue to make this income stream highly volatile and will require close monitoring to fully understand the implications upon the MTFP;

(vi) the MTFP model builds in estimates of pay and price inflation. Although price inflation levels are reducing, there could be a significant impact if the Low Pay Commission agrees to large increases in the Minimum Wage. Many council contractors would be likely to request above inflation contract price increases if the Minimum Wage increased at a level above inflation;

(vii) the Government has indicated that consideration is being given to introducing revised methodologies for apportioning health funding across the country. Whilst this could impact significantly upon Clinical Commissioning Groups (CCGs), there could also be a detrimental impact upon the council due to the significant health income streams but particularly the Public Health Grant.

64. Based on the above there are no risks which would indicate that the County Council is not a going concern.

Conclusion

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

- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;

- 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;

- the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

66. Based on the assessment undertaken, in my view:

- the County Council has a history of stable finance and ready access to financial resources in the future,

- there are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation.

67. Therefore the County Council is a going concern and it is appropriate for the Statement of Accounts to be prepared on that basis.

Recommendation

68. It is recommended that the Council should be considered as a going concern and that the Statement of Accounts should be prepared on that basis.

Background papers

(a) County Council – 26 February 2014 – General Fund Medium Term Financial Plan, 2014/15 – 2016/17 and Revenue and Capital Budget 2014/15

(b) County Council – 26 February 2014 – Budget 2014/15. Report under Section 25 of Local Government Act 2003

(c) Cabinet - 19 March 2013 - Forecast of Revenue and Capital Outturn 2013/14 for General Fund and Housing Revenue Account – Period to 31 December 2013

(d) Annual Completion Report – 2012/13 – Durham County Council

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Appendix 1: Implications

Finance -

The report considers the County Council as a ‘going concern’.

Staffing -

None

Risk -

None

Equality and Diversity / Public Sector Equality Duty -

None

Accommodation -

None

Crime and Disorder -

None

Human Rights -

None

Consultation -

None

Procurement -

None

Disability Issues -

None

Legal Implications -

None