AUDIT COMMITTEE

29 June 2015

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2015

Don McLure, Corporate Director Resources

Purpose of the Report

1. Each year, Durham County Council assesses 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 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 2014/15' (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 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 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 then 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 2014:

Year ended 31 March	Net Assets £m
2009	1,240.742
2010	900,094
2011	856,994
2012	571,779
2013	432,248
2014	658,017

11. External Audit also provide a 'Value For Money' conclusion at each year end which gives 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 two criteria:

- *Securing financial resilience* – looking at the Council's financial governance, financial planning and financial control processes;

- *Challenging how it secures economy, efficiency and effectiveness* – looking at how the Council is prioritising resources and improving efficiency and productivity.

12. The focus of the audit was to assess how the Council is addressing the increasing pressures and challenges over the next three to five years given the reduction in central government support and restrictions on council tax rises.

13. In their last Audit Completion Report for 2013/14 which was produced on 30 September 2014, External Audit stated, as evidence of securing financial resilience:

"The Council has good arrangements in place for managing its savings programme. Our testing has indicated that the savings plans we reviewed are established, well monitored and on track to be achieved. The robust approach in managing the savings programme gives assurance that the Council will achieve its 2014/15 savings targets. Already to date over 60 per cent of the target has been met and some £14.2m achieved in the first quarter. Since April 2011 the Council has now made almost £128 million of savings, which represents about 57 per cent of the projected savings target of £224 million.

The Council is in a strong position to continue to meet the financial challenges ahead through accurately forecasting the level of savings required, developing strong plans and robustly managing implementation including high volumes of consultation and communication. This position is further enhanced by the approach of planning and delivering medium term financial plan (MTFP) proposals early where possible. As a result we have not identified a significant risk to our VFM conclusion for securing financial resilience."

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."

14. External Audit further stated on 30 September 2014, as evidence of challenging economy, efficiency and effectiveness:

"The Council has, like other councils, faced significant cuts in funding and changes in how it works such as the transfer of public health, localisation of business rates, the local council tax benefit scheme. 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.

We have not identified a significant risk to our VFM conclusion for challenging economy, efficiency and effectiveness.

Key areas of focus for the future include continued work on a strategic plan for the achievement of the savings required for 2015/16 to 2016/17 and beyond."

Current Position

15. The Council holds general reserves of £28.134m at 31 March 2014 and reserves earmarked for specific future purposes, including those held for schools of £165.952m.

16. The Net Assets of the Council at 31 March 2014 amounted to £658,017m, an increase of £131.714m, which is mainly due to the decrease in its Pensions Liability for employees, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

17. Current forecasts of the likely position as at 31 March 2015 were reported to Cabinet in March 2015. At that time it was anticipated that the Council would hold general reserves of £28.916m and reserves earmarked for specific future purposes, including those held for schools would be £178.593m.

18. The Housing Revenue Account (HRA) forms part of the Council's main accounting statements. General reserves held by the HRA as at 31 March 2014 amounted to £7.156m, and those held for specific purposes were £1.043m.

Future Plans

19. The Council approved its budget for 2015/16 and Medium Term Financial Plan to 2017/18 in February 2015.

Medium Term Financial Plan (MTFP) – 2015/16 to 2017/18

20. Looking back to the 2010 Comprehensive Spending Review (CSR), the Government outlined funding reductions of 28% that Local Government would need to face to contribute to eradicating the national budget deficit by the end of March 2015. The initial strategy for eradicating the national deficit was for public expenditure reductions to finance 80% of the plan with 20% coming from tax increases. Local Government faced the highest reductions in spending across the public sector.

21. The CSR 2010 forecasts have not been met by the Government and the Chancellor of the Exchequer's March 2015 Budget confirmed that the national budget deficit would not now be eradicated until 2018/19. . The national budget deficit at the end of 2014/15 is forecast to be £91bn, a reduction of less than 50% since 2011/12. Government funding reductions for local government are now forecast to be 60%, a doubling of the figure first forecast after the 2010 CSR.

22. It is apparent therefore that the financial landscape for Local Authorities will continue to be extremely challenging until at least 2018/19., resulting in the longest period of austerity in modern times. The challenges faced are exacerbated in Durham for a range of reasons:-

    (i) Government grant reductions are not being evenly distributed across the country, as evidenced by the Government's own Spending Power figures. Whilst deprived areas like Durham continue to experience Spending Power reductions above the national average, in some more affluent areas they are actually receiving spending power increases.

    (ii) The Government's methodology for funding local authorities is inextricably linked to the performance of the local economy in the local authority areas via New Homes Bonus Funding arrangements, Business Rate Retention and Local Council Tax Reduction Schemes. Disappointingly, the link to a 'Needs Assessment' is no longer a key determinant of local authority funding.

    (iii) Demand for services and support from local authorities in areas like Durham is increasing with Welfare Reforms continuing to have a significant impact on communities in more deprived areas.

23. Overall, it is forecast that the Council will need to save £225m over the 2011 to 2018 period. This figure is forecast to exceed £250m in 2018/19 based on the forecast public sector funding reductions outlined in the Government's March 2015 Budget Statement.

24. A sum of £136.9m of savings will have been delivered by the end of 2014/15. Forecasted savings over the MTFP (5) period 2015/16 to 2017/18 of £87.6m are required, with the 2015/16 budget requiring savings of £16.3m to achieve a balanced budget.

25. The Council's MTFP strategy for the last four years has been to protect front line services as far as possible and the 2015/16 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time and the likelihood is that front line services will become increasingly impacted over the next three or four years. The Budget report to Full Council in February 2015 summarises how the main proposals are in line with the Council's overall strategy and have

been shaped by residents' and stakeholders' views with a high level analysis of the equalities impact.

26. In line with the MTFP (4) for the period 2014/15 to 2016/17, detailed savings proposals are only included for 2015/16, the first year of MTFP (5). This is due to the significant uncertainty in relation to finance settlements beyond 2015/16.

27. The final Local Government Finance Settlement published on 3 February 2015 only included grant allocations for 2015/16, with no indicative figures provided for later years. It is expected that longer term finance settlements may be received in the future. The forecasts included in MTFP (5) have been extrapolated from the Chancellor's "Red Book" forecasts for the public finances. The Chancellor's 'emergency' budget on 8 July 2015 may provide further information in this regard.

28. The Council's MTFP (5) is aligned to the Council plan, which sets out the Council's strategic service priorities and articulates the financial implications and impacts over a three year budgeting period, 2015/16 to 2017/18.

29. The MTFP provides a comprehensive resource envelope to allow the Council to translate the Council Plan into a financial framework that enables members and officers to ensure policy initiatives can be planned for delivery within available resources and can be aligned to priority outcomes.

30. Looking back to MTFP (1) for the period 2011/12 to 2013/14, the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010. These drivers still underpin the strategy in MTFP (5):-

    (i) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.

    (ii) To fund agreed priorities, ensuring that service and financial planning is fully aligned with the Council Plan.

    (iii) To deliver a programme of planned service reviews designed to keep reductions to front line service to a minimum.

    (iv) To strengthen the Council's financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery outcomes.

    (v) To ensure the Council can continue to demonstrate value for money in the delivery of its priorities.

31. The strategy the Council has deployed to date has been to seek savings from management, support services, efficiencies and, where possible, increased income from fees and charges to minimise the impact of reductions on frontline services as far as possible.

32. Throughout the period covered by the MTFP (1) through to MTFP (5), the totality of savings required has risen from £123m to £225m. It is clear that it will become increasingly difficult to protect frontline services going forwards.

33. To date the Council has implemented the agreed strategy very effectively:-

- £136.9m of savings will have been delivered by the end of 2014/15.

- Savings have been delivered on time and in some areas ahead of time. This is critically important, because slippage would mean that the Council would have to deliver higher savings over time.

- The number of employees earning over £40,000 a year, since 2011 has been reduced by 31%. 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 resulted in the Council having the highest levels of fees and charges in the region, which is important given the socio-economic make-up of the county.

- It was originally forecast in MTFP (1) that there would be a reduction in posts of 1,950 by the end of 2014/15. Based upon the 2015/16 savings plan it is forecast that post number reductions will still be around 1,950. Management of change policies and HR support have ensured that this degree of change has been managed effectively.

34. The importance of delivering savings early if practical to do so cannot be over emphasised. The generation of reserves in the form of cash limits has been essential in ensuring the delivery of the savings and enables a managed implementation of proposals across financial years.

35. In general, the Council has been fairly accurate in forecasting the level of savings required, which has allowed the development of strong plans and to robustly manage implementation, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the continued and enhanced challenges

across this medium term financial plan and beyond, where savings proposals will undoubtedly become more complex and difficult to deliver in future years.

36. It is clear that austerity will continue over the three year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66m in 2011/12, the Council is likely to face several years where the targets will be higher than those for 2015/16. Obviously, the fact that each year's reduction is on top of those of previous years is leading to a forecasted, cumulative total of £225m since 2011/12 up to 2017/18 and means that the Council continues to face a very considerable financial challenge.

37. In addition, Local Government generally is facing more uncertainty about future funding and absorbing more risks from Central Government.

38. Increased risk is arising from several sources:-

(i) Under the Local Council Tax Reduction Scheme, previous national risk arising from any increased numbers of benefits claimants has been transferred to Local Authorities since 2013/14. The risk is greater for authorities like Durham that serve relatively more deprived areas and have relatively weaker economic performance than the national average.

(ii) Business Rates Retention was introduced in 2013/14 to incentivise local authorities to focus on economic regeneration by being able to retain more business rates raised locally from new businesses. Economic regeneration has always been the top priority for the Council. Unfortunately, the changes again shift risk, once managed nationally, to Local Authorities should there be a downturn in the local economy and local business rate yield reduces.

(iii) Welfare Reform carries increased financial risk to the Council in areas such as the Benefits Service, homelessness and housing. Similarly Council Tax may become more difficult to collect, creating increased financial pressure.

(iv) Ongoing Council Tax capping restrictions – The Council's medium term financial planning is predicated on an annual 2% Council Tax increase; any Government imposed percentage reduction in this cap will create an annual pressure of circa £800,000 per 0.5% Council Tax reduction.

(v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply.

39. Since clarity is expected to emerge following the Chancellor's emergency budget on 8 July 2015 regarding the future levels of local government funding from 2016/17, savings plans have yet to be fully developed beyond 2015/16 and therefore only one year's savings proposals are included in MTFP (5).

40. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2015/16 is £409.873m. The financing of the Net Budget Requirement is detailed below.

Financing of the 2015/16 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	100.240
Business Rates	54.809
Business Rates – Top Up Grant	60.491
Business Rates – Collection Fund Surplus	0.500
Council Tax	174.134
New Homes Bonus	8.322
New Homes Bonus Reimbursement	0.377
Education Services Grant	6.002
Section 31 – Small Business Rate Relief	2.398
Section 31 – Empty Property and Retail Relief	0.919
Section 31 – Settlement Funding Adjustment	1.681
TOTAL	**409.873**

41. The Government confirmed that Local Authorities would receive a Council Tax Freeze Grant equivalent to a 1% increase in Council Tax, if they agreed not to increase Council Tax in 2015/16. The grant for Durham would be an estimated £2.180m. The Government also confirmed that the Council Tax Referendum Limit for 2015/16 would be 2%. The Council decided to not accept the freeze grant and agreed a Council Tax increase of 1.99%, which was below the referendum limit, and will generate £1.218m of additional income.

42. The 2015/16 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 17 December 2014 as 130,493.0 Band D equivalent properties. Based upon the Council's track record in collecting Council Tax from Council Tax payers, the tax base for Council Tax setting and income generation processes will continue to be based upon a 98.5% collection rate in the long run.

Capital Funding

43. The revised 2014/15 to 2017/18 capital budget was approved by Cabinet on 11 February 2015. County Council on 25 February 2015 approved the Capital Budget and financing for the period 2014/15 to

2017/18. Details of the current Capital Programme can be found at Appendix 8 of the County Council report.

44. Service Groupings developed capital bid submissions during the summer 2014 alongside the development of revenue MTFP (5) proposals. Prior to Cabinet's agreement on 11 February 2015 the Capital Member Officer Working Group (MOWG) chaired by the Leader of the Council, had considered the Capital bid submissions taking the following into account:-

(i) Service Grouping assessment of priority.

(ii) Affordability based upon the availability of capital financing. This process takes into account the impact of borrowing upon the revenue budget.

(iii) 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.

45. 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.

46. Specific capital programmes were included in MTFP (4) financed from assumed allocations of capital grants. These allocations have now been confirmed.

47. In addition, the Council has received confirmation for additional capital grants for 2015/16 and has included indicative grants for 2016/17 in developing the MTFP (5) Capital Programme. It should be noted that funding for 'Disabled Facilities' and 'General Social Care' are financed from the Better Care Fund. If the actual allocations for 2016/17 vary from the forecast then the capital budget may be adjusted accordingly.

48. Capital receipts are generated from asset sales and from VAT shelter arrangements in relation to previous council housing stock transfers within the former district councils. Overall, it is estimated that £10m of capital receipts will be generated in 2016/17, which will support the additional schemes for approval.

49. An additional revenue budget of £2m has been included in the MTFP (5) for 2016/17 to support prudential borrowing. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant. The residual sum is available to support additional new schemes in the MTFP (5) Capital Programme.

50. A comprehensive 2015/16 capital programme was approved as part of MTFP (4) in line with the Council policy of developing a two year rolling capital programme. 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. 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 factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP (5) Capital Programme as shown in the following table.

Service Grouping	2015/16	2016/17
	£m	£m
ACE	0	2.100
CAS	1.424	5.635
Neighbourhoods	0.910	20.508
RED	4.325	15.684
Resources	0.250	1.755
Total	**6.909**	**45.682**

52. After considering all relevant factors above, and the additional schemes the revised capital budget and its financing will be as follows:-

New MTFP (5) Capital Programme

Service Grouping	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
ACE	3.741	3.768	2.100	0	9.609
CAS	57.976	34.366	8.159	0.315	100.816
Neighbourhoods	43.474	35.691	24.327	7.631	111.123
RED	36.809	61.307	18.382	0	116.498
Resources	7.253	13.348	6.614	0	27.215
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**
Financed by					
Grants and Contributions	62.315	40.082	30.221	0.315	132.933
Revenue and Reserves	8.387	0.280	0	0	8.667
Capital Receipts	10.229	16.619	14.673	6.687	48.208
Borrowing	68.322	91.498	14.689	0.944	175.453
TOTAL	**149.253**	**148.479**	**59.583**	**7.946**	**365.261**

53. The council has been able to set a balanced budget for 2015/16 and has a clear 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

54. 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 Reserves.

    (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.

55. 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 and then reporting to the Cabinet Portfolio Member for Finance and to Cabinet.

56. 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 to up to £31m. 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.

57. 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".

58. 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 the budget process appropriate action would need to be factored into the MTFP to ensure that this would be addressed over time so that the base budget is not reliant on a continued contribution from General Reserves.

59. The forecast balance on all reserves is reported to Cabinet every quarter as part of the Forecast of Outturn reports and Cabinet received the latest report on 18 March 2015. A range of reserves are being utilised to support MTFP (5). Details are as follows:-

- **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9m. The reserve was replenished during 2013/14 when a further £15m was contributed to the reserve. At the end of 2014/15 it is presently forecast that the balance on the reserve will be £13m. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (5) period. This reserve will continue to be closely monitored.

- **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 £4.15m is to be utilised in 2015/16.

- **Equal Pay Reserve** – The cost of successfully implementing Single Status in October 2012, in order to put in place a pay and grading structure that satisfied all equal pay legislation was greater than the £6.5m available budget. 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. It is forecast that the reserve will be utilised in both 2015/16 and 2016/17. The sum to be utilised in 2015/16 will be £4.536m.

- **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable reprofiling of when MTFP savings are realised. A sum of £0.267m is to be utilised in 2015/16.

60. The table below details the known reserves being utilised to support MTFP (5).

Earmarked Reserves utilised to support MTFP (5) in 2015/16

Reserve	Sum Utilised in 2015/16
	£m
Adult Demographic	4.150
Equal Pay	4.536
Cash Limit	0.267
TOTAL	**8.953**

61. In addition to the above, the MTFP Redundancy and ER/VR Reserve will also be utilised during 2015/16 to support the delivery of MTFP (5) savings. Overall, it is forecast that over £10m of earmarked reserves will be utilised to support the 2015/16 budget.

62. The County Council agreed that the current Reserve Policy of maintaining the General Reserve of between 5% and 7.5% of the Net Budget Requirement is retained. This will result in a General Reserve range of up to £31m.

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

Risk

64. 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 localism of business rates and the localisation of council tax support. All risks will be assessed continually throughout the MTFP (5) period. Some of the key risks identified include:

(i) Ensure the achievement of a balanced budget and financial position across the MTFP (5) 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 December 2014 Autumn Statement. In recent years the level of funding cuts required for Local Government have increased every year.

(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 MTFP (5).

(vi) The MTFP (5) 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) Following the General Election on 7 May 2015 it is likely that there will be a Comprehensive Spending Review in the autumn of 2015. The impact of this will need to be considered as part of the development of MTFP (6) for the period 2016/17 to 2018/19.

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

Housing Revenue Account (HRA)

66. The Council transferred its housing stock of circa 18,500 dwellings to the County Durham Housing Group (CDHG) on 13 April 2015, as agreed with the Department of Communities and Local Government. Therefore, for the majority of 2015/16, Durham County Council will no longer maintain a statutory ring-fenced Housing Revenue Account.

67. Regulations require that tenants receive at least four weeks' notice of a change in housing rents and therefore Durham was required to set rents for the final time for 2015/16. In future, this will be the responsibility of the County Durham Housing Group Limited.

68. Under current national rent policy the Government sets a guideline increase or decrease based on the consumer price index in the previous September plus 1%. The increase in rents for Durham County Council tenants in 2015/16 consists of the consumer price index as at September 2014 of 1.2% plus a real time price increase of 1%.

69. The HRA currently includes responsibility for managing and maintaining around 3,200 garages which generate income to the account. For 2015/16 increases in garage rents are linked to the CPI as at September 2014 of 1.2% plus 1 percentage point (for consistency with the annual rent increase for dwellings). Private tenants are required to pay VAT on garage rents, whilst Council tenants are excluded from the VAT charge. The weekly charges for 2015/16 (based on 52 weeks) are £7.26 (for council tenants who are exempt from VAT) and £8.71 (for private tenants where we need to charge VAT).

Revenue and Capital Budget

70. Although the Stock Transfer took place in April 2015 the Council was required to report the notional HRA budget is for 2015/16. The revenue budget and capital budget for 2015/16 are as follows:

	£m
Revenue Budget	33.759
Capital Budget	23.816

71. The individual management fees for the four providers is follows:

	£m
Dale Valley Homes	5.657
East Durham Homes	12.092
Durham City Homes	8.434
County Durham Housing Group	7.576

72. Transfers of services under combinations of public sector bodies do not negate the presumption of going concern. Based on this, there is no information which would indicate that the County Council is not a going concern.

Conclusion

73. 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:

- 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.

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

- the 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.
- the Housing Stock Transfer, although a transfer of a function, does not impact on the presumption of the Council’s ability to continue to operate.

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

Recommendation

76. 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 – 25 February 2015 – General Fund Medium Term Financial Plan, 2015/16 to 2017/18 and Revenue and Capital Budget 2015/16 and 2015/16 Council House and Garage Rent Proposals

(b) County Council – 25 February 2015 – Budget 2015/16. Report under Section 25 of Local Government Act 2003

(c) Cabinet - 18 March 2015 - Forecast of Revenue and Capital Outturn 2014/15 for General Fund and Housing Revenue Account – Period to 31 December 2014

(d) Annual Completion Report – 2013/14 – 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