AUDIT COMMITTEE

30 June 2016

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2016

Durham County Council

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Purpose of the Report

1. Each year, Durham County Council is requied to assess whether it should be considered as a 'going concern' organisation, and whether the Council's Annual Accounts should be prepared on that basis. This report considers the Council's status as a going concern and 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 2015/16' (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. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operations cease to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation.

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 2015:

Year ended 31 March	Net Assets £m
2009	1,240.742
2010	900.094
2011	856.994
2012	571.779
2013	457.004
2014	682.773
2015	466.547

11. The External Auditor also provides 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:

- *The Council has proper arrangements in place for securing financial resilience* – The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future;

- *The Council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness* – The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

12. As part of the work the External Auditors also:

- Reviewed the Annual Goverance Satement;
- Reviewed the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on the Auditors responsibilities (where applicable) and;
- Carried out any risk-based they determined to be appropriate.

13. In their last Audit Completion Report for 2014/15 which was produced on 30 September 2015, External Audit stated, as evidence of securing financial resilience:

<u>Financial Goverance</u>

"The Council appreciates the significant financial pressures it faces in coming years. Systems and processes to manage the financial risks are in place to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The medium term financial plan (MTFP) shows the Council needs to achieve savings of £87.6 million between 2015/16 and 2017/18 which would bring the total level of savings since 2011/12 to £224.5 million. The achievement of efficiency savings continues to be a priority. There is recognition that to achieve this, senior management and Members need to review all areas of potential efficiency.

Through prudent financial management, at 31 March 2015, the Council has increased:

- earmarked reserves to £214.6 million; and
- the general fund balance to £28.9 million.

This will help the Council to manage the impact of expected future reductions in funding and reserves and the Council has planned to utilise reserves in a structured way to support MTFP (5). This includes the planned delivery programme reserve which is intended to reduce the burden of savings in 2015/16 and 2016/17. Other reserves, such as the Adult Demographic Reserve are intended to delay the impact of cost pressures. The Council keeps earmarked reserves under review on a regular basis. As part of its budget setting the Council reviews reserves to ensure that balances earmarked for specific schemes are still relevant, where they are not, the reserve is released.

Within the Council, the statutory s151 officer (Corporate Director, Resources) is a key part of the management team, contributing to strategic decisions."

Financial Planning

"There are robust arrangements in place for planning for the medium and longer-term. The Council has identified savings for 2016/17 and officers and members are discussing savings plans for 2017/18. Workshops are held throughout the year with members and officers.

The Council has been successful in achieving significant savings in recent years. There is recognition that efficiencies are becoming more difficult to achieve and requiring longerlead in times. The Council recognises this and is planning on a worse case scenario. Senior Officers monitor progress of identified savings.

The MTFP includes a risk assessment. This is linked to the Council Strategic Risk Management. Risk one in the Strategic Risk Register relates to the achievement of MTFP savings.

Equality Impact assessments are completed for savings with the aim to assess the likely impact of individual savings proposals. Performance is monitored and reported to Cabinet on a regular basis. The Council has a good history of consultation with staff and the public."

Financial Control

"Underspends and the achievement of significant savings in recent years reflect the Council's good record of financial management. Revenue and capital budgets are regularly reported to Senior Officers and Cabinet. This allows any budget pressures to be identified at an early stage and where required remedial actions to be taken. The MTFP and savings plans are closely monitored with a traffic light system used to identify any high risk areas. The council has a good record of identifying mitigating actions where planned savings are not going to be achieved at the required levels.

As noted above the Council has maintained adequate levels of reserves.

The authority maintain a Treasury Management Strategy and a mid year treasury review is reported to the Audit Committee. The Treasury Management Strategy notes the primary principle governing the Council's investment criteria is the security of its investments."

14. External Audit further stated on 30 September 2015, as evidence of securing economy, efficiency and effectiveness:

Prioritising Resources

"The MTFP demonstrates the leadership of the Council understand the future environment and are putting in place plans to address the identified risks. The first risk in the risk register relates to failure to achieve MTFP savings. This demonstrates the prominence of savings to the council.

Significant efficiencies have been delivered in recent years. The Council is prioritising its resources within tighter budgets, and seeking to achieve cost reductions by improving efficiency and productivity. However the Council acknowledges that efficiencies alone will not bridge the funding gaps identified. There is an acknowledgment by management and members that tough decisions will be required if the Council is to achieve its future financial targets.

Consultations are carried out with staff and the public."

Improving Efficiency and Productivity

"The Council has some challenging financial targets to meet in the coming years. Arrangements are in place to evaluate options for making efficiencies and meet savings targets. The Council has access to good quality information and uses comparative information available. The council are members of benchmarking clubs and uses this information to identify potential areas for efficiencies.

Performance management is monitored on a regular basis allowing the council to identify any consequences of decisions made. Significant savings have already been made, and service performance has been maintained."

Current Position

15. The Council held general reserves of £28.9 million at 31 March 2015 and reserves earmarked for specific future purposes, including those held for schools of £214.6 million.

16. The Net Assets of the Council at 31 March 2015 amounted to £466.5 million, a decrease of £216.2 million, which is mainly due to the increase in its Pensions Liability for employees, for which statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. There was also a net reduction in the net book value of Propert, Plant and Equipment long term assets due to the positive ballot and the subsequent transfer of the Council Housing

stock to County Durham Housing Group (CDHG) on 13 April 2015. The Balance Sheet as at 31 March 2015 reflects the value of Council Dwellings based on the Tenanted Market Value.

17. Current forecasts of the likely position as at 31 March 2016 were reported to Cabinet in March 2016. At that time it was anticipated that the Council would hold general reserves of £30.422 million and reserves earmarked for specific future purposes, including those held for schools would be £225.415 million.

Future Plans

18. The Council approved its budget for 2016/17 and Medium Term Financial Plan to 2019/20 in February 2016.

Medium Term Financial Plan (MTFP) – 2016/17 to 2019/20

19. The financial outlook for the Council and the whole of local government remains extremely challenging. The Council has faced government funding reductions since 2010/11 with reductions forecast to continue until at least 2019/20.

20. The Chancellor of the Exchequer's Autumn Statement published on 25 November 2015, announced an overall improvement in the public finances compared to their previous forecasts which afforded some protection for unprotected government departments. Unfortunately this protection was not given to local government and in cash terms, the average reduction in budgets for unprotected government departments over the 2016/17 to 2019/20 period is circa 6%, whereas the reduction for local government over the same period is circa 53% in cash terms.

21. It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, resulting in the longest period of austerity in modern times. By 31 March 2016 the Council will have delivered savings of £153 million since 2011. In the January 2016 MTFP Cabinet report it was forecast that the savings required between 2016/17 and 2019/20 would be circa £124 million. Having further analysed the final Local Government Finance Settlement of 8 February 2016, it is now forecast that the savings required for this period will be £104 million, mainly due to confirmation of receipt of increased Better Care Funding from 2017/18 to 2019/20 and the forecasted council tax income of £15 million from 2016/17 to 2019/20 from the Government's 2% adult social care precept.

22. The Council was originally forecasting that funding reductions would be applied in line with previous government policy, however following lobbying from some local authorities including Durham, the Association

of North East Councils (ANEC) and the Special Interest Group of Municipal Authorities (SIGOMA), the government has made some methodology changes which have beneficially impacted upon our previous savings forecast as shown below:-

(i) Revenue Support Grant (RSG) reductions are now based upon a Core Spending Power calculation which includes Council Tax and Business Rate income as well as RSG. This has resulted in a fairer apportionment of reductions in RSG across all local authorities going forward, but does not address the inequality of cuts applied across the period 2011/12 to 2015/16.

(ii) Local authorities providing adult social care services have been given the flexibility to increase council tax by an additional 2% for an adult social care precept over and above the existing 2% referendum level. In reporting the percentage Core Spending Power reduction applied to local government, the government has assumed that all authorities responsible for adult social care will apply the additional 2% social care precept increase in each of the next four years.

(iii) The Better Care Fund (BCF) has been increased by £1.5bn nationally and will be allocated directly to local authorities rather than through a pooled budget arrangement with the National Health Service. The allocation will take into account each local authority's ability to raise income via the additional 2% council tax adult social care precept flexibility. The Council will receive £23 million in this regard, although the majority of this additional funding will not be received until 2018/19 and 2019/20 and the funding for this will come from top sliced funding, primarily the New Homes Bonus.

23. Overall, the Council's final settlement position was slightly better than the provisional settlement due to the receipt of £140k more than forecast from the New Homes Re-imbursement grant. The delivery of additional savings of £104 million across the next four years will be extremely challenging and will mean the Council needing to deliver cumulative savings of £258 million between 2011/12 and 2019/20.

24. The forecasted savings required to balance the 2016/17 budget are £36.8 million and includes forecast savings of £4.3 million in relation to Public Health. The 2016/17 savings plans approved by Council in Fenruary 2016 amounted to £28.3 million. A £4.2 million savings shortfall in 2016/17 will be covered by the utilisation of £1.6 million of the Budget Support Reserve (BSR) and the utilisation of the £2.6 million 2015/16 Collection Fund surplus. The utilisation of these sums have enabled the Council to delay the impact of further cuts in front line services until later years.

25. The Council’s MTFP strategy for the last five years has been to protect front line services as far as possible and the 2016/17 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 four years. This report 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. Detailed savings proposals were only included for 2016/17.

27. The final Local Government Finance Settlement published on 8 February 2016 provided details of RSG cuts up to 2019/20 and also provided the opportunity for local authorities to receive confirmation of this ‘four year settlement’ on the production of an ‘Efficiency Plan’. Cabinet agreed on 13 January to provisionally notify the government how the Council would be minded to submit an efficiency plan in order to receive confirmation of a four year financial settlement subject to approval by Full Council.

28. Despite this very challenging financial period through the scale and sustained level of Government spending cuts and the impact on the Council’s finances, this report includes some very positive outcomes for the people of County Durham including:

(i) Continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme where they will be entitled to up to 100% relief against their council tax payments;

(ii) Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide;

(iii) Continue to work with community groups to explore opportunities for the transfer of council assets so that they can be sustainable into the future through the ‘Durham Ask’ initiative;

(iv) Significant investment in capital expenditure in line with the Council’s highest priority of regeneration in order to protect existing jobs and create as many new jobs as possible including investing in our town centres and industrial estates; extending fast speed broadband access across the whole county and infrastructure including new transport schemes and maintenance of our highways and pavements.

29. The Council’s MTFP (6) is aligned to the Council plan, which sets out the Council’s strategic service priorities over the next three years 2016/17 to 2018/19 with an indicative direction of travel for 2019/20.

30. 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.

31. Looking back to MTFP (1) the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP (6):-

    (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.

32. 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.

33. Throughout the period covered by the MTFP (1) 2011/12 through to MTFP (6) 2019/20, the cumulative savings required has risen from £123 million to £258 million. It is therefore clear that it will become increasingly difficult to protect frontline services going forward.

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

    - £153.2 million of savings will have been delivered by 31 March 2016.

    - 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 34%. 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 with the actual figure being broadly in line with this forecast. Looking ahead with the significant savings requirements over the next two years, the Council is expecting to see further reductions in the workforce. For 2016/17 the forecast is a further reduction of around 400 posts including the deletion of an anticipated 60 vacant posts.

- Following the abolition of the national Council Tax Benefit system in 2013 and despite government funding reductions for the Local Council Tax Reduction Scheme, the Council has been able to maintain a scheme that protects all working age households in line with the support they would have previously received under the Council Tax Benefit system. This is a significant achievement and the Council is one of small number of Councils that have been able to maintain this support at a time when working age households are suffering from continued impacts of the government's welfare reforms.

- The council has been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.

35. The benefits 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 smooth delivery of the savings targets and enabled a managed implementation of proposals across financial years.

36. In general, the Council has been quite accurate in forecasting the level of savings required, which has allowed the development of strong plans and to robustly manage the implementation and delivery on time, including extensive consultation and communication. This has put the Council in as strong a position as possible to meet the ongoing financial challenges across this medium term financial plan 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.

37. It is clear that austerity will continue over the four year period of this medium term financial plan. Where the savings targets were declining year on year from the huge reduction of £66 million in 2011/12, the Council is likely to face two more years where the savings 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 £258 million since 2011/12 up to 2019/20 and means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of services.

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

39. 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 49% of business rates raised locally. Economic regeneration has always been the top priority for the Council. Unfortunately the practical consequences of these changes shifts risks once managed nationally to local authorities should there be a downturn in the local economy and local business rate yield reduces. In addition, the Council also now carries a share in the risk arising from successful rating appeals against the rateable value assigned to a business by the Valuation Office, part of HM Revenues and Customs which can go back many years and predate the introduction of Business Rates Retention.

(iii) The Chancellor of the Exchequer's 2015 Autumn Statement confirmed the government's aspiration that local authorities will be able to retain 100% of business rates collected locally by the end of this parliament. The transfer of 100% of business rates would result in local government as a whole receiving more income than would be required. On this basis, the government has confirmed that additional service responsibilities will be transferred to local government. Although the transfer of service responsibilities will be consulted upon, the government has indicated at this stage that they would favour transferring Public Health funding and Attendance Allowance payments (currently administered by the Department of Works and Pensions) into the Business Rate Retention Scheme. The transfer of

Attendance Allowance in particular is likely to result in local authorities facing a range of additional risks in terms of demand.

(iv) The government's proposed Welfare Reform changes carry 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.

(v) Normal risks such as future actual price and pay inflation beyond MTFP forecasts and demographic pressures also will still apply and are not currently recognised in government funding allocations, increasing the real terms cuts required to set a balanced budget.

40. Since clarity has been received in relation to RSG settlements up to 2019/20, there can be some confidence in the savings targets over the next four years.

41. Work is continuing on refining the savings plans for 2017/18 and developing additional savings plans and strategies for the period 2018/19 and 2019/20. The certainty in terms of RSG settlements in those years will be helpful in terms of financial planning, although delivery of the scale of savings that we need to in these years will be extremely challenging and cuts in front line services will be inevitable.

42. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2016/17 is £401.515m. The financing of the Net Budget Requirement is detailed below.

Financing of the 2016/17 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	77.140
Business Rates	54.841
Business Rates – Top Up Grant	60.996
Business Rates – Collection Fund Surplus	2.617
Council Tax	185.798
New Homes Bonus	10.182
New Homes Bonus Reimbursement	0.267
Education Services Grant	5.407
Section 31 – Small Business Rate Relief	2.432
Section 31 – Empty Property and Retail Relief	0.160
Section 31 – Settlement Funding Adjustment	1.675
TOTAL	**401.515**

43. The government has confirmed that the Council Tax Referendum Limit for 2016/17 remains at 2%. In addition the government has also announced that local authorities which provide adult social care services also have the flexibility to increase council tax by a further 2% through an adult social care precept. A 3.99% council tax increase would generate additional income of £7.1 million in 2016/17 which will enable the Council to protect front line services whilst also covering significant base budget pressures such as the additional costs associated with the introduction of the national living wage.

44. The 2016/17 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 18 November 2015 as 133,892.4 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

45. The revised 2015/16 to 2018/19 capital budget was approved by Cabinet on 18 November 2015. County Council on 24 February 2016 approved the Capital Budget and financing for the period 2015/16 to 2018/19. Details of the current Capital Programme can be found at Appendix 8 of the County Council report.

46. Service Groupings developed capital bid submissions during the summer 2015 alongside the development of revenue MTFP (6) proposals. Prior to Cabinet's agreement on 17 February 2016 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:-

    (v) Service Grouping assessment of priority.

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

    (vii) 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.

47. 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.

48. Specific capital programmes were included in MTFP (5) financed from assumed allocations of capital grants. These allocations have now been confirmed and the only significant reduction was in respect of the Local Transport Plan (LTP) – Highways Maintenance grant. The 2016/17 allocation of £10.897 million is £0.989 million less than originally forecast and the budget was revised and approved by Cabinet in November 2015.

49. In addition, the Council has received confirmation for additional capital grants for 2016/17 and has included indicative grants for 2017/18 in developing the MTFP (6) Capital Programme. If the actual allocations for 2017/18 vary from the forecast then the capital budget may need to be adjusted accordingly.

50. 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.

51. In the Autumn Statement the Chancellor of the Exchequer announced that local authorities would be given flexibility under certain circumstances to utilise capital receipts to finance one off revenue costs associated with service transformation and reform. Additional details were included in the local government finance settlement in this regard.

52. An revenue budget of £2 million has been included in the MTFP (6) for 2017/18 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 (6) Capital Programme.

53. The government has identified that revenue expenditure would qualify to be financed from capital receipts in the following circumstances:-

(i) Qualifying expenditure is expenditure on any project designed togenerate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

(ii) The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's, or several authorities', and/or to another public sector body's net current expenditure.

(iii) Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

(iv) The Secretary of State believes that individual local authorities or groups of authorities are best placed to decide which projects will be most effective for their areas.

(v) Set up and implementation costs of any new processes or arrangements can be counted as qualifying expenditure. However, the ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

54. The government believes that it is important that individual authorities demonstrate the highest standard of accountability and transparency. The draft guidance recommends that each authority should prepare a strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent. This strategy can be included as part of the annual budget documentation and approved by full Council or the equivalent at the same time as the annual budget.

55. At this stage it is not considered that there are a large range of opportunities for the Council to utilise this new flexibility. Careful consideration also needs to be given to the other options of funding such expenditure as identified above e.g. from contingencies or from reserves. Notwithstanding this it is recognised that it would not be unreasonable for the Council to consider utilising this new flexibility to finance severance costs associated with the MTFP process.

56. On that basis to ensure that the Council has this option available it will be recommended that as part of the Council's overall approach to efficiency that it is noted at this stage that capital receipts could be utilised to finance severance costs.

57. If this option is taken up there will be a natural impact upon the financing of the capital programme. In former years the Council has set a target of £10 million of capital receipts income to support the capital programme. A target of £10 million is in place for 2016/17 which was included in MTFP (5). It is also recommended at this stage that a £10 million sum is included in the 2017/18 capital financing budget.

58. If a decision is made and agreed by Cabinet in the future to utilise capital receipts to finance severance costs then the impact upon the capital financing budget will need to be considered.

59. During 2016/17 there may be other opportunities that manifest for the Council to utilise this new capital receipts flexibility to finance service transformation and reform one off costs. If there is a business case in this regard Cabinet approval will be sought and the case in question included in a formal Efficiency Strategy.

60. In previous years an additional £2 million of revenue was provided in the budget to finance Prudential Borrowing to continue the support for new projects within the Capital Programme. High cash balances however have delayed the need for the Council to borrow to the levels and forecast and Interest rates continue to be at historically low levels. On that basis it is forecast that the current budget available for prudential borrowing will be able to absorb the costs associated with the capital bids detailed within this report. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant.

61. A comprehensive 2016/17 capital programme was approved as part of MTFP (5) 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.

62. After considering all factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP (6) Capital Programme as shown in the following table.

Service Grouping	**2016/17**	**2017/18**
	£m	**£m**
ACE	0	2.100
CAS	1.143	6.778
Neighbourhoods	1.289	20.581
RED	1.949	17.158
Resources	0	3.424
Total	**4.381**	**50.041**

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

New MTFP (6) Capital Programme

Service Grouping	2015/16	2016/17	2017/18	2018/19	Total
	£m	£m	£m	£m	£m
ACE	3.991	3.307	2.244	0	9.542
CAS	40.683	23.105	7.520	0	71.308
Neighbourhoods	40.903	36.511	25.030	4.150	106.594
RED	34.543	63.026	26.942	0	124.511
Resources	11.616	9.026	3.424	0	24.066
TOTAL	**131.736**	**134.975**	**65.160**	**4.150**	**336.021**
Financed by					
Grants and Contributions	52.318	40.452	25.392	0	118.162
Revenue and Reserves	13.167	0.072	0	0	13.239
Capital Receipts	16.631	15.883	17.897	0	50.411
Borrowing	49.620	78.568	21.871	4.150	154.209
TOTAL	**131.736**	**134.975**	**65.160**	**4.150**	**336.021**

64. The council has been able to set a balanced budget for 2016/17 and has a clear plan in place to continue to deliver local services up to 2020. Based on this, it is clear that the County Council is a going concern.

Financial Reserves

65. 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.

66. The Council's current reserves policy is to:-

(i) Set aside sufficient sums in Earmarked Reserves as is considered prudent. The Interim 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.

(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 to up to £30 million.

67. 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.

68. 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".

69. 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.

70. 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 16 March 2016. A range of reserves are being utilised to support MTFP (6). Details are as follows:-

- **MTFP Redundancy and ER/VR Reserve** – this reserve was originally created in 2010 with a balance of £26.9 million. The reserve was replenished during 2013/14 when a further £15 million was contributed to the reserve and was replenished again in 2015/16 when a further £10 million was contributed. At the end of 2015/16 it is presently forecast that the balance on the reserve will be £15.9 million. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (6) period. This reserve will continue to be closely monitored.

- **Budget Support Reserve (BSR)** – It is forecast that £1.6 million of the £30 million BSR will be utilised to support the MTFP in 2016/17 and £11.6 million in 2017/18. The residual balance of £16.8 million will be available to support the budget in later years.

- **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable re-profiling of when MTFP savings are realised. A sum of £0.210 million is to be utilised in 2016/17.

71. Overall, it is forecast that over £11.8 million of earmarked reserves will be utilised to support the 2016/17 budget.

72. 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 £30 million.

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

Risk

74. 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 (6) period. Some of the key risks identified include:

    (i) Ensure the achievement of a balanced budget and financial position across the MTFP (6) 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 Local Government Finance Settlement. The inclusion in this report of an Efficiency Plan should secure a four year RSG settlement from the government. There is still a risk however that a deterioration in the public finances could result in further savings targets for local government in excess of those agreed to date.

    (iv) The localisation of council tax support passed the risk for any increase in council tax benefit claimants onto the Council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers.

(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 (6).

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

Housing Revenue Account (HRA)

76. On 13 April 2015, the Council transferred its housing stock of circa 18,500 dwellings to the County Durham Housing Group Ltd. Consent was received from the Secretary of State to close down the HRA any time from 30 April 2015 onwards as the Council is no longer a social housing landlord and not required to maintain a ring-fenced HRA.

77. There were some residual transactions still taking place reflecting the relatively short period of activity in 2015/16 and also costs associated with delivering stock transfer in April which have been met from available income and reserves. All transactions are now complete and the HRA is closed.

Conclusion

78. 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.

79. 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.

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

Recommendation

81. 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 – 24 February 2016 – Medium Term Financial Plan, 2016/17 to 2019/20 and Revenue and Capital Budget 2016/17

(b) County Council – 24 February 2016 – Budget 2016/17. Report under Section 25 of Local Government Act 2003

(c) Cabinet - 16 March 2016 - Forecast of Revenue and Capital Outturn 2015/16 for General Fund and Housing Revenue Account – Period to 31 December 2015

(d) Annual Completion Report – 2014/15 – 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