AUDIT COMMITTEE

28 June 2017

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2017

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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 2016/17' (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 2017:

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
2016	568.129
2017	385.270

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 one overall criterion which is made up of three sub criteria.

12. The overall criterion set out by the National Audit Office (NAO) is ‘in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people’. The three sub-criteria are:

    (a) Informed decision-making;
    (b) Sustainable resource deployment; and
    (c) Working with partners and other third parties.

13. The External Auditors having completed their assessment, and having carried out a ‘reality check’, concluded that their initial risk assessment remained appropriate and were confident in their conclusion that the Council has adequate arrangements in place for each criterion.

14. The Extermal Auditors stated that ‘overall the Council continues to respond well to the financial and other pressures it has faced, at a time of unprecedented reductions in public sector spending, and continues to have a strong record of delivering savings and keeping within budget’.

15. Full details can be found in the last Audit Completion Report for 2015/16 which was produced on 30 September 2016 and reported to the Audit Committee.

Current Position

16. The Council held general reserves of £23.0 million at 31 March 2017 and reserves earmarked for specific future purposes, including those held for schools of £233.5 million.

17. The Net Assets of the Council at 31 March 2017 amounted to £385.3 million, a decrease of £182.9 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.

Future Plans

18. The Council approved its budget for 2017/18 and Medium Term Financial Plan to 2019/20 in February 2017.

Medium Term Financial Plan (MTFP) – 2017/18 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 and it has been confirmed that they will continue until at least 2019/20. It is possible however that reductions could continue beyond this point.

20. The Chancellor of the Exchequer's 8 March 2017 Budget reported a further deterioration in the public finances. The national finances continue to face significant uncertainty. The performance of the economy is not meeting expectations which has resulted in the previous government dropping the policy of achieving a surplus in the national finances. This was replaced with an aspiration to eradicate the deficit by the end of the next parliament.

21. It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging until at least 2019/20, but possibly beyond, resulting in the longest period of austerity in modern times. By 31 March 2017, the Council will have delivered savings of £185.7 million since 2011. Based upon the provisional Local Government Finance Settlement, it is forecast that the savings required for the MTFP (7) period 2017/18 to 2019/20 will be £59.6 million resulting in total savings over the 2011/12 to 2019/20 period of £245.3 million.

22. The Final Local Government Finance Settlement confirmed a £21.1 million reduction in Revenue Support Grant (RSG) for the Council in 2017/18. This reduction is in line with the four year settlement the Council has secured by submitting an Efficiency Plan to government. The four year settlement has confirmed additional RSG reductions in both 2018/19 and 2019/20.

23. In addition to the reductions in Revenue Support Grant, the Council will face additional reductions over the MTFP (7) period in specific grants in relation to New Homes Bonus, Public Health, Education Services and Benefit Administration. In addition, updated forecasts of demographic and other inflationary pressures arising from the National Living Wage have had to be accommodated within the MTFP (7) forecasts.

24. The delivery of additional savings of £59.6 million across the next three years will be extremely challenging as the Council strives to protect front line services wherever possible.

25. The forecasted savings required to balance the 2017/18 budget are £36 million. The 2017/18 savings requirement includes replacing the use of £4.2 million of one off funds (Collection Fund surplus £2.6 million and Budget Support Reserve £1.6 million) utilised in 2016/17 to balance the budget. Savings plans amount to £23.4 million with the £12.6 million savings shortfall being covered by the utilisation of the Budget Support Reserve (BSR). The utilisation of the BSR will enable the Council to smooth reductions in expenditure and to help to reduce the impact of significant government funding cuts on key services.

26. The Council's MTFP strategy for the last five years has been to protect front line services as far as possible and the 2017/18 proposals are in line with this strategy. This strategy is becoming increasingly difficult to maintain over time with the Council's Transformation Programme being developed to ensure all options are exhausted to ensure front line services can be protected wherever possible. It is still likely, however, that front line services will become increasingly impacted over the next three years as the year on year impact of the scale of the cuts impacts on the resources the Council has available to provide key services. 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.

27. Detailed savings proposals were only included for 2017/18.

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:

    (a) 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;

    (b) 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;

    (c) 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;

    (d) 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, industrial estates and infrastructure including new transport schemes and maintenance of our highways and pavements.

29. The Council's MTFP (7) is aligned to the Council Plan, which sets out the Council's strategic service priorities. 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) the following drivers for the Council's financial strategy were agreed by Cabinet on 28 June 2010, which still underpin the strategy in MTFP (7):-

(a) To set a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in council tax;

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

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

(d) 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;

(e) 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 prioritise 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) 2011/12 through to MTFP (7) 2019/20, the cumulative savings required has risen from an origionally forecast £123 million to a revised and updated forecast £245.3 million. It is therefore clear that it will become increasingly difficult to protect frontline services going forward.

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

(a) £185.7 million of savings will have been delivered by 31 March 2017;

(b) in the vast majority of cases, savings have been delivered on time and in some areas ahead of time. This is critically important, as non-delivery would place additional pressure upon the revenue budget;

(c) 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;

(d) it was originally forecast 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 2017/18 the forecast is for a further reduction of 302 posts including the deletion of 65 vacant posts. It is currently forecast that by the end of 2017/18 the reduction in post numbers will be 2,674, of which 663 will have been via the deletion of vacant posts;

(e) 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. This has only been possible through prudent financial planning;

(f) the Council has also been able to protect those services prioritised by the public such as winter maintenance whilst also continuing to support a fully funded capital programme.

34. The benefits of delivering savings early if practical to do so, cannot be over emphasised. The utilisation of reserves has been essential in ensuring the smooth delivery of the savings targets and enabled a managed implementation of proposals across financial years.

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

36. It is clear that austerity will continue over the three year period of MTFP (7) resulting in at least nine years of significant funding reductions and the need to identify significant annual savings to balance the budget. The fact that each year's reduction is on top of those of previous years leads to a forecasted, cumulative total of £245.3 million of required savings across the period 2011/12 up to 2019/20. This means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of service.

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

38. Increased risk is arising from several sources:-

(a) 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;

(b) 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 pre-date the introduction of Business Rates Retention;

(c) 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 will 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. A detailed exercise is presently underway to determine how the move to 100% business rate retention will work with consultations expected over the coming twelve months. It is forecast that 100% business rate retention will be introduced in 2020/21;

(d) The government's ongoing 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;

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

(f) Future settlements are dependent upon the national finances. Uncertainties in relation to Brexit could impact upon the national finances and as such impact upon future settlements for local government.

39. 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 three years. On that basis detailed savings plans have been developed for 2017/18 with work ongoing to develop savings plans for 2018/19 and 2019/20.

40. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2017/18 is £387.594 million. The financing of the Net Budget Requirement is detailed below.

Financing of the 2017/18 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	56.000
Business Rates	48.739
Business Rates – Top Up Grant	67.625
Collection Fund Surplus	3.000
Council Tax	195.706
New Homes Bonus	8.882
New Homes Bonus Reimbursement	0.267
Education Services Grant	1.500
Section 31 Grant	5.875
TOTAL	**387.594**

41. The Government has confirmed that the maximum the Council can increase council tax by is 1.99% without approval from a majority of council tax payers to increase it higher after a public referendum. The Government has also confirmed the option to increase council tax by an additional 6% for an adult social care precept over the next three years. The Council has the option to accelerate these increases and increase Council tax by up to 3% in both 2017/18 and 2018/19. The maximum increase that can be applied in 2019/20 is 2% and the adult social care precept can increase by no more than 6% over the 2017/18 to 2019/20 period. Although an increase of 3% in both 2017/18 and 2018/19 would generate additional council tax in each year, an increase of 2% in each of the three years would result in the council receiving a forecast £0.1million more council tax by 2019/20. On that basis a policy of 2% annual increases each would result in an overall lower savings target across MTFP (7) of £0.1 million.

42. After considering the impact upon the Council's budget and, importantly upon council tax payers, the Council approved a 1.99% Council Tax increase in the Council's Band D Council Tax in 2017/18 which is below the 2% Referendum Limit. In addition the Council approved a 2% increase to the Adult Social Care precept. The total increase will generate additional income of £7.5 million. The additional income 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.

43. The 2017/18 Council Tax Base which is the figure utilised to calculate Council Tax income forecasts, was approved by Cabinet on 16 November 2016 as 135,620.9 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

44. The capital budget was last approved by Cabinet on 16 November 2016. County Council on 22 February 2017 approved the Capital Budget and financing for the period 2016/17 to 2019/20. Details of the current Capital Programme can be found at Appendix 8 of the County Council report.

45. Service Groupings developed capital bid submissions during the summer 2016 alongside the development of revenue MTFP (7) proposals. Bids were submitted in the main for 2018/19 to maintain the two year rolling programme approach to the capital budget. Bids were also submitted for 2017/18 which were deemed to be priority. The Capital Member Officer Working Group (MOWG) had considered the Capital bid submissions taking the following into account:-

(a) Service Grouping assessment of priority;

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

(c) Whether schemes could be self-financing i.e. capital investment would generate either revenue savings or additional income to repay the borrowing costs to fund the schemes.

46. 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.

47. Specific capital programmes were included in MTFP (6) financed from assumed allocations of capital grants. These allocations have now been confirmed and were in line with forecasts built into MTFP (6).

48. In addition, the Council has included indicative grants for 2018/19 in developing the MTFP (7) Capital Programme. If the actual allocations for 2018/19 vary from the forecast then the capital budget may need to be adjusted accordingly.

49. 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.

50. In the 2015 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.

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

(a) 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;

(b) 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;

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

(d) 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;

(e) 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.

52. 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.

53. 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.

54. 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.

55. If this option is adopted 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 2017/18 which was included in MTFP (6). It is also recommended at this stage that a £10 million sum is included in the 2018/19 capital financing budget. It is recognised however that it is becoming more difficult to achieve the £10 million target as the availability of land for sale reduces. This position will be reviewed during development of MTFP (8).

56. 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.

57. During 2017/18 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.

58. The Council continues to recognise the importance of investing in capital infrastructure and the need to boost the local economy. With this in mind following one off revenue funding streams were approved to support the capital programme:

(a) Collection Fund Surplus – £3 million;

(b) Newcastle Airport Dividend – as part of the refinancing of the airport the Council received a £2.64 million dividend from the shareholding in the airport.

59. 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. A proportion of this budget is being utilised to support the leasing costs of replacement vehicles and plant.

60. A comprehensive 2017/18 capital programme was approved as part of MTFP (6) 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.

61. After considering all factors, including the availability of capital finance, the additional schemes were approved for inclusion in the MTFP (7) Capital Programme as shown in the following table.

Service Grouping	**2017/18**	**2018/19**
	£m	**£m**
CYPS	1.750	23.882
REAL	2.735	35.836
Resources	0	1.774
Transformation & Partnerships	0	2.100
Total	**4.485**	**53.592**

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

New MTFP (7) Capital Programme

Service Grouping	2016/17	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m	£m
Adults and Health	0.896	0.526	0.000	0.000	1.422
CYPS	24.901	12.007	23.882	0.000	60.790
REAL	78.811	83.609	62.978	10.832	236.230
Resources	4.179	10.435	1.774	0.000	16.388
Transformation & P.	4.042	3.167	2.100	0.000	9.309
TOTAL	**112.829**	**109.744**	**90.734**	**10.832**	**324.139**
Financed by					
Grants and Contributions	37.544	44.726	35.588	0.100	117.958
Revenue and Reserves	2.040	4.935	1.155	0.000	8.130
Capital Receipts	8.728	17.700	18.568	0.000	44.996
Borrowing	64.517	42.383	35.423	10.732	153.055
TOTAL	**112.829**	**109.744**	**90.734**	**10.832**	**324.139**

63. The council has been able to set a balanced budget for 2017/18 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

64. Reserves are held:-

(a) 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;

(b) 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;

(c) As a means of building up funds, ‘earmarked’ reserves to meet known or predicted future liabilities.

65. The Council’s current reserves policy is to:-

(a) 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;

(b) 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 £31 million.

66. 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.

67. 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".

68. 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.

69. 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 15 March 2017. A range of reserves are being utilised to support MTFP (7). Details are as follows:-

(a) **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 2016/17 the balance on the reserve is £12.8 million. Having this reserve in place will be a major factor in managing the savings realisation process effectively across the MTFP (7) period. This reserve will continue to be closely monitored;

(b) **Budget Support Reserve (BSR)** – It is forecast that an additional £12.622million of the Budget Support Reserve will be utilised to support the MTFP in 2017/18. The residual balance of £30 million will be available to support the budget in later years and the level of this reserve will be reviewed through the development of MTFP(8);

(c) **Cash Limit Reserves** – Service Groupings continue to utilise Cash Limit Reserves to enable re-profiling of when MTFP savings are realised. A sum of £0.8 million is to be utilised in 2017/18.

70. Between the period 2011/12 to 2017/18 it is forecast that over £70 million of reserves, including the BSR, will have been utilised to support the MTFP. It is recommended at this stage 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 £29 million.

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

Risk

72. 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 (7) period. Some of the key risks identified include:

(a) Ensure the achievement of a balanced budget and financial position across the MTFP (7) period;

(b) Ensure savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;

(c) Government funding reductions are based upon the Local Government Finance Settlement. A four year finance settlement has been secured and should provide certainty in relation to future RSG reductions. 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;

(d) 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;

(e) 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 (7);

(f) The impact of future increases in inflationary factors such as the national living wage will need to be closely monitored;

(g) The council continues to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP(7) period this issue will need to be closely monitored;

(h) The possible impact of Brexit which could affect future government finance settlements, inflation and European funding.

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

Conclusion

74. 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:

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

(b) The body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view;

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

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

(d) The Council has a history of stable finance and ready access to financial resources in the future;

(a) There are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation.

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

Recommendation

77. 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 – 22 February 2017 – Medium Term Financial Plan, 2017/18 to 2019/20 and Revenue and Capital Budget 2017/18

(b) County Council – 22 February 2017 – Budget 2017/18. Report under Section 25 of Local Government Act 2003

(c) Annual Completion Report – 2015/16 – Durham County Council

(d) Cabinet – 15 March 2017 – Forecast of Revenue and Capital Outturn 2016/17 – Period to 31 December 2016.

Contact: Ian Herberson Tel: 03000 261861

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