Audit Committee

29 June 2018

Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2018

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Purpose of the Report

1. Durham County Council is required to assess whether it should be considered as a 'going concern' organisation, and whether the Council's Annual Accounts should be prepared on that basis. This report considers the Council's status as a going concern and recommends that Members approve 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 2017/18' (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. 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. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

Key Issues

5. 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.

6. 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.

7. 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

8. The following table shows the net assets of the Council for the last five years:

Year ended 31 March	Net Assets £m
2014	682.773
2015	466.547
2016	568.129
2017	369.011
2018	280.370

9. The External Auditor provides a 'Value For Money' conclusion at each year end providing their opinion on whether the Council has put arrangements in place for securing economy, efficiency and effectiveness in its use of resources. The Council's arrangements are considered against one overall criterion which is made up of three sub criteria as set out by the National Audit Office (NAO).

10. The overall criterion is 'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'. The three sub-criteria are: Informed decision-making; Sustainable resource deployment; and Working with partners and other third parties.

11. The last Audit Completion Report was produced in relation to 2016/17 and reported to the Audit Committee on 29 September 2017. Within that report the External Auditor stated he was satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Current Position

12. The Council held general reserves of £24.5 million at 31 March 2018 and reserves earmarked for specific future purposes, including those held for schools, of £224.4 million.

13. The net assets of the Council at 31 March 2018 amounted to £280.4 million, a decrease of £88.6 million during 2017/18. This 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

14. The Council approved its budget for 2018/19 and Medium Term Financial Plan to 2021/22 in February 2018.

Medium Term Financial Plan (MTFP) 8 – 2018/19 to 2021/22

15. 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.

16. It is apparent therefore that the financial landscape for local authorities will continue to be extremely challenging resulting in the longest period of austerity in modern times. By 31 March 2018, the Council had delivered savings of £209 million since 2011. Based upon the provisional Local Government Finance Settlement, it is forecast that the savings required for the MTFP (8) period 2018/19 to 2021/22 will be £43 million resulting in total savings over the 2011/12 to 2021/22 period of £252 million.

17. The Final Local Government Finance Settlement confirmed a £14.1 million reduction in Revenue Support Grant (RSG) for the Council in 2018/19. 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 2019/20.

18. Specific grants will also be reduced by £5.4 million over the MTFP (8) 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 (8) forecasts.

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

20. 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 (8):-

(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.

21. Throughout the period covered by the MTFP (1) 2011/12 through to MTFP (8) 2021/22, the cumulative savings required has risen from an origionally forecast £123 million to a revised and updated forecast £252 million. It is therefore clear that it will become increasingly difficult to protect frontline services going forward. However, to date, the Council has implemented the agreed strategy very effectively.

22. 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.

23. 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.

24. It is clear that austerity will continue over the three year period of MTFP (8) resulting in at least eleven years of significant funding reductions and the need to identify significant annual savings to balance the budget. This means that the Council continues to face a very considerable financial challenge to balance budgets whilst providing a good level of service.

25. After taking into account base budget pressures, additional investment and savings, the Council's Net Budget Requirement for 2018/19 is £395.544 million. The financing of the Net Budget Requirement is detailed below.

Financing of the 2018/19 Budget

Funding Stream	Amount
	£m
Revenue Support Grant	41.860
Business Rates	51.889
Business Rates – Top Up Grant	70.350
Collection Fund Surplus	7.506
Council Tax	209.712
New Homes Bonus	6.504
Section 31 Grant	7.723
TOTAL	**395.544**

Capital Funding

26. The capital budget was approved by Cabinet on 15 November 2017. County Council on 21 February 2018 approved the Capital Budget and financing for the period 2017/18 to 2020/21.

27. Service Groupings developed capital bid submissions alongside the development of revenue MTFP (8) proposals. Bids were submitted in the main for 2018/19 to maintain the two year rolling programme approach to the capital budget. The Capital Member Officer Working Group (MOWG) considered the Capital bid submissions taking the following into account:

(a) 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.

28. 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.

29. A comprehensive 2018/19 capital programme was approved as part of MTFP (8) 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.

MTFP (8) Capital Programme

Service Grouping	2017/18	2018/19	2019/20	2020/21 to 2021/22	Total
	£m	£m	£m	£m	£m
Adults and Health	0.326	0.000	0.000	0.000	0.326
CYPS	19.825	23.983	12.583	0.000	56.391
REAL	81.244	70.974	98.138	13.699	264.055
Resources	6.308	6.061	7.111	4.000	23.480
Transformation & P.	3.680	3.091	9.775	0.000	16.546
TOTAL	**111.383**	**104.109**	**127.607**	**17.699**	**360.798**
Financed by					
Grants and Contributions	53.697	34.028	38.066	0.000	125.791
Revenue and Reserves	5.320	13.006	29.900	4.600	52.826
Capital Receipts	17.591	22.439	10.000	0.000	50.030
Borrowing	34.775	34.636	49.641	13.099	132.151
TOTAL	**111.383**	**104.109**	**127.607**	**17.699**	**360.798**

30. The council has been able to set a balanced budget for 2018/19 and has a clear plan in place to continue to deliver local services up to 2022. Based upon this, it is evident that the County Council is a going concern.

Financial Reserves

31. 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.

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

(a) Set aside sufficient sums in Earmarked Reserves as is considered prudent;

(b) Aim to maintain General Reserves of between 5% and 7.5% of the Net Budget Requirement in the medium term, which in cash terms is up to £30 million.

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

Risk

34. 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. Some of the key risks identified include:

(a) Ensure the achievement of a balanced budget and financial position;

(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 the MTFP;

(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(8) period, this issue will need to be closely monitored;

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

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

Conclusion

36. 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.

37. Based upon 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.

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

Recommendations

39. It is recommended that:

    (a) the Council be considered as a going concern and

    (b) the Statement of Accounts are prepared on that basis.

Background papers

(a) County Council – 21 February 2018 – Medium Term Financial Plan, 2018/19 to 2020/21 and Revenue and Capital Budget 2018/19

(b) County Council – 21 February 2018 – Budget 2018/19. Report under Section 25 of Local Government Act 2003

(c) Annual Completion Report – 2016/17 – Durham County Council

(d) Cabinet – 14 March 2018 – Forecast of Revenue and Capital Outturn 2017/18 – Period to 31 December 2017.

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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 -
Compliance with the Accounts and Audit Regulations 2015 and the CIPFA Code of Practice on Local Authority Accounting 2017/18 which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.