

**TITLE OF REPORT:** Achievement of 'Going Concern Status' 2017/18

**REPORT OF:** Darren Collins, Strategic Director, Corporate Resources

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### **Purpose of the Report**

1. The purpose of this report is to consider the Council's status as a going concern and request Committee to agree this.

### **Background**

2. As Local Authorities are created and abolished only by statutory changes there is an underlying assumption in the 2017/18 CIPFA/ LASAAC Code of Practice on Local Authority Accounting (Accounting code) that their accounts will be prepared on a going concern basis.
3. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that the Chief Finance Officer (section 151 officer) may need to consider whether action is required under section 114 of the 1988 Act, where the section 151 officer must report, following consultation with the council's monitoring officer, to all authority's Councillors if they believe expenditure is likely to exceed incoming resources in the current or in any future year.
4. This report outlines the assessment of the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.

### **Context**

5. The Council has a strong record of delivering within budget and achieving savings. During the period 2010/11 to 2017/18 savings of £143m have been identified and substantially delivered.
6. The Annual Audit Letter from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The last letter issued in relation to 2016/17 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion on 31 July 2017.

### **Current Position- 2017/18**

7. The 2017/18 revenue budget was approved at £197.486m. This included the identification of savings totalling £13.190m. The budget was increased to £202.649m following the announcement of the Improved Better Care Fund funding of £5.163m.

8. Revenue monitoring has been reported on a quarterly basis to Cabinet and the final revenue outturn position subject to audit, was an underspend of £1.268m. This increased the general reserve from £12.400m to £13.668m as at 31 March 2018.
9. Capital monitoring has been reported quarterly to Cabinet and the final capital outturn position is an underspend of £15.083m when compared to the revised budget of £89.866m due to timing of expenditure within the capital programme. The variation has largely been carried forward within resources to the 2018/19 financial year.
10. The Housing Revenue Account (HRA) outturn is an underspend of £6.528m compared to a budgeted underspend of £0.066m. As a result of this underspend £6.594m has been transferred to the HRA reserve, resulting in an increase in the reserve balance to £33.954m.
11. The Statement of Accounts for 2017/18 have been prepared and the health of the balance sheet has been assessed and the key points are as follows:
  - The general reserve has increased by £1.268m to £13.668m, and this represents 6.7% of the 2018/19 revenue budget.
  - Schools reserves have decreased by £0.268m to £5.205m.
  - Useable revenue reserves totalled £55m as at 31 March 2018. The useable reserves balance increases to £107m when the HRA (£34m) and capital receipts/ grants (£18m) balances are added.
  - Long Term Assets have decreased from £1,450m to £1,435m due to a decrease in the value of Property, Plant and Equipment.
  - Current Assets have increased from £130m to £152m mainly due to an increase in short term investments.
  - Current Liabilities have decreased from £148m to £123m mainly due to a decrease in short term borrowing.
  - Long Term Liabilities have increased from £1,154m to £1,240m mainly as a result of an increase in long term borrowing.
  - Net Assets have decreased from £278m to £224m.
12. The accounts have also been prepared on a Group basis incorporating The Gateshead Housing Company. The net assets of the group as a whole have decreased from £263m to £187m, mainly as a result of an increase in long term borrowing and the pensions liability.
13. A breakdown of the £55m revenue reserves as at 31 March 2018 is shown in the table below:

	Opening Balance Apr-17 £000s	Reserves Review MTFS £000s	Revised Reserves MTFS £000s	Revenue Outturn 2017/18 £000s	Remaining Balance Mar-18 £000s
<b>General Fund</b>					
General Reserve	(16,797)	4,397	(12,400)	(1,268)	(13,668)
LMS Budget Share Reserve*	(5,473)		(5,473)	268	(5,205)
<b>Total General Fund Reserve</b>	<b>(22,270)</b>	<b>4,397</b>	<b>(17,873)</b>	<b>(1,000)</b>	<b>(18,873)</b>
<b>Earmarked Reserves</b>					
<b>Strategic Reserves</b>					
Business Rates Reserve	(5,000)		(5,000)	0	(5,000)
Insurance Reserve	(3,000)		(3,000)	0	(3,000)
Grant Clawback Reserve	(1,314)		(1,314)	314	(1,000)
Workforce Development Reserve	(6,009)		(6,009)	0	(6,009)
Discretionary Social Fund Reserve	(781)		(781)	133	(648)
Strategic Change Reserve	(1,309)	1,309	0		
Budget Flexibility Reserve	(1,794)		(1,794)	(777)	(2,571)
Economic Growth, Culture and Place Shaping Reserve	(3,390)		(3,390)	(822)	(4,212)
Strategic Revenue Investment Reserve	0	(4,206)	(4,206)	0	(4,206)
Voluntary Sector Reserve	0	(500)	(500)	25	(475)
Anti Poverty Reserve	0	(1,000)	(1,000)	138	(862)
<b>Ring Fenced Reserves</b>					
Developers' Contributions*	(1,937)		(1,937)	(490)	(2,427)
DSG Reserve*	(3,167)		(3,167)	2,011	(1,156)
Unapplied revenue grants*	(3,642)		(3,642)	1,690	(1,952)
Public Health Reserve*	(2,431)		(2,431)	(201)	(2,632)
<b>Total Earmarked Reserves</b>	<b>(33,774)</b>	<b>(4,397)</b>	<b>(38,171)</b>	<b>2,021</b>	<b>(36,150)</b>
<b>Total Reserves</b>	<b>(56,044)</b>	<b>0</b>	<b>(56,044)</b>	<b>1,021</b>	<b>(55,023)</b>
Total Ring fenced*	(16,650)	0	(16,650)	3,278	(13,372)
No Ring-fence	(38,085)	0	(39,394)	(2,257)	(41,651)
	<b>(54,735)</b>	<b>0</b>	<b>(56,044)</b>	<b>1,021</b>	<b>(55,023)</b>

14. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee 18 June 2018 following the Committees review of the evidence of assurance provided on the Council's internal controls, risk management and governance arrangements.

### Future Position- 2018/19 Budget

15. The Council approved the 2018/19 revenue budget of £203.466m on 22 February 2018. The budget was balanced by increasing council tax by 4.99% and by identifying £13.650m of general fund savings. The budget was balanced without any budgeted use of the general reserve.
16. The Council also approved the 2018/19 capital budget of £102.862m on 22 February as part of a five year £306.961m programme of planned capital investment. £74.582m of this 2018/19 capital budget is being funded from the general fund and £28.280m relates to investment in the Housing Revenue Account.
17. The revenue and capital budgets will be monitored monthly by Senior Officers and quarterly by Cabinet with any changes to budgets agreed by Council. This will include the delivery of the 2018/19 savings.

18. The Council's General Reserve stands at £13.668m. This is more than the minimum requirement in line with best practice that would amount to £6.104m representing 3% of the Council net budget for 2018/19.

### **Future Position- Medium Term Financial Strategy (MTFS)**

19. The revised MTFS covers the period 2019/20 to 2023/24 and this estimates a funding gap of £76.689m over the five year period with a £29.223m gap in 2019/20.
20. In order to meet this challenging funding gap, work has already started on identifying budget options for the three year period 2019/20 to 2021/22. This work focuses on the four areas of the Council's financial strategy: economic growth, income generation, managing demand and efficiencies/ savings and the implementation of the Council Thrive Policy agenda.
21. The Council acknowledges that it will be difficult to continue to deliver substantial savings without significant changes in the way we deliver services and therefore reserves have been maintained to assist transition and mitigate future risk. A full review of reserves and the estimated use over the MTFS period has been carried out as part of the MTFS refresh and it is estimated that reserves will total £25.577m by March 2024.
22. The MTFS is reviewed at least annually to ensure Members are aware of the latest estimated future financial position of the Council. The latest review was considered by Cabinet in July and this covered the period 2019/20 to 2023/24. The review incorporated estimated demand pressures facing the Council, projected funding reductions and performance of the Council in delivering budgets.
23. The HRA 30 year Business Plan specifically assesses the future sustainability of the HRA and is reviewed at least twice a year as part of budget setting and final accounts. It is currently estimated that the HRA business plan is sustainable until 2025/26 with the reserve falling below the minimum recommended balance of £3m the following year.
24. Future risks for the Council include the continued reduction in central government funding, increasing demand for Adult and Children's Social Care, the uncertainty concerning the possible move to 75% business rate retention and the impact of the UK vote to leave the EU. These risks will continue to be monitored by Senior Officers and Cabinet.

### **Conclusion**

25. Based on the assessment undertaken, the Council's Chief Finance Officer (section 151 officer) view is that the Council is aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

## **Recommendation**

26. It is recommended that the Committee agree that the Council is considered to be a going concern based on the assessment in this report and that the accounts are prepared and approved on that basis.