

TITLE OF REPORT: Achievement of 'Going Concern Status' 2018/19

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

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 2018/19 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 2018/19 savings of £157m 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 2017/18 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Current Position- 2018/19

7. The 2018/19 revenue budget was approved at £203.466m. This included the identification of savings totalling £13.650m.
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 £1.139m. This increased the general reserve from £13.668m to £14.807m as at 31 March 2019.

9. Capital monitoring has been reported quarterly to Cabinet and the final capital outturn position is an underspend of £0.630m when compared to the revised budget of £87.900m.
10. The Housing Revenue Account (HRA) outturn is an overspend of £2.401m, which has been transferred from the HRA reserve, resulting in a decrease in the reserve balance to £31.553m.
11. The Statement of Accounts for 2018/19 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 £1.139m to £14.807m, and this represents 7.2% of the 2019/20 revenue budget.
 - Schools reserves have increased by £1.044m to £6.249m.
 - Useable revenue reserves have decreased by £2.119m to £52.904m as at 31 March 2019.
 - The useable reserves balance increases to £109m when the HRA (£32m) and capital receipts/ grants (£24m) balances are added to the revenue reserves.
 - Long Term Assets have decreased from £1,435m to £1,416m due to a decrease in the value of Property, Plant and Equipment.
 - Current Assets have decreased from £147m to £139m mainly due to a decrease in short term investments.
 - Current Liabilities have decreased from £118m to £112m mainly due to a decrease in short term borrowing.
 - Long Term Liabilities have increased from £1,240m to £1,252m mainly as a result of an increase in long term borrowing.
 - Net Assets have decreased from £224m to £191m.
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 £187m to £151m.
13. A breakdown of the £53m revenue reserves as at 31 March 2019 is shown in the following table:

	Opening Balance Apr-18 £000s	Revenue Outturn 2018/19 £000s	Remaining Balance Mar-19 £000s
General Fund			
General Reserve	(13,668)	(1,139)	(14,807)
LMS Budget Share Reserve	(5,205)	(1,044)	(6,249)
Total General Fund Reserve	(18,873)	(2,183)	(21,056)
Earmarked Reserves			
Strategic Reserves			
Business Rates Reserve	(5,000)	0	(5,000)
Insurance Reserve	(3,000)	0	(3,000)
Grant Clawback Reserve	(1,000)	0	(1,000)
Workforce Development Reserve	(6,009)	0	(6,009)
Discretionary Social Fund Reserve	(648)	113	(535)
Budget Flexibility Reserve	(2,571)	281	(2,290)
Economic Growth, Culture and Place Shaping Reserve	(4,212)	1,327	(2,885)
Strategic Revenue Investment Reserve	(4,206)	0	(4,206)
Voluntary Sector Reserve	(475)	138	(337)
Anti Poverty Reserve	(862)	105	(757)
Ring Fenced Reserves			
Developers' Contributions	(2,427)	721	(1,706)
DSG Reserve	(1,156)	340	(816)
Unapplied revenue grants	(1,952)	837	(1,115)
Public Health Reserve	(2,632)	440	(2,192)
Total Earmarked Reserves	(36,150)	4,302	(31,848)
Total Reserves	(55,023)	2,119	(52,904)

14. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee on 24 June 2019 following the Committees review of the evidence of assurance provided on the Council's internal controls, risk management and governance arrangements. The statement concluded that the Governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Future Position- 2019/20 Budget

15. The Council approved the 2019/20 revenue budget of £206.499m on 21 February 2019. The budget was balanced by increasing council tax by 3.99% and by identifying £13.113m of general fund savings. The budget was balanced without any budgeted use of the general reserve.
16. The Council also approved the 2019/20 capital budget of £119m on 21 February as part of a five year £368m programme of planned capital investment. £95m of this 2019/20 capital budget is for General Fund schemes and £24m 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 2019/20 savings.

18. The Council's General Reserve stands at £14.807m. This is more than the minimum requirement in line with best practice that would amount to £6.210m representing 3% of the Council net budget for 2019/20.

Future Position- Medium Term Financial Strategy (MTFS)

19. The current MTFS covers the period 2019/20 to 2023/24 and this estimates a funding gap of £76.689m over the five year period.
20. In order to meet this challenging funding gap, work has already started on planning an approach to the 2020/21 budget. This work will focus on the implementation of the Council Thrive Policy agenda and the four areas of the Council's financial strategy: economic growth, income generation, managing demand and efficiencies/savings.
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 will be carried out as part of the MTFS refresh.
22. The MTFS is reviewed at least annually to ensure Members are aware of the latest estimated future financial position of the Council. The last review was considered by Cabinet in July 2018 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. The current MTFS is currently being reviewed and will be considered by Cabinet in September 2019. The backdrop to this MTFS review is likely to be increased uncertainty in Government funding as the likelihood increases that the Government spending review and fair funding review will be postponed.
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 2024/25 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.