

TITLE OF REPORT: Achievement of 'Going Concern Status' 2019/20

REPORT OF: Darren Collins, Strategic Director, Resources and Digital
and Borough Treasurer

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 2019/20 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 in line with best practice.

Context

5. The provisions in the Accounting Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that local authorities have no ability to cease being a going concern as described by IAS 1 Presentation of Financial Statements. As local authorities cannot be dissolved without statutory prescription, it would not be appropriate for the Council's financial statements to be prepared on any other than a going concern basis.
6. Although the financial context continues to be challenging and uncertain the Council has a track record of meeting its financial obligations and maintaining financial sustainability. In the past 8 years the Council has delivered an outturn within its original budget. A Council wide approach to the budget, which is priority driven and over a medium-term planning horizon will ensure that this continues to be the case.
7. 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 2018/19 concluded that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Current Position- 2019/20

8. Council agreed the original revenue budget for 2019/20 on 21 February 2019. This was set at £206.999m. This was subsequently revised to £207.262m on 20 November 2019 following the receipt of additional better care funding of £0.263m. The overall service revenue outturn for 2019/20, including transfers to and from reserves and financing, results in an under spend of £0.237m (0.1%). As previously reported the Council has received a refund of VAT in relation to Leisure Services of £3.893m. The Council's stated intention in relation to this one-off benefit has been to transfer this into the General Reserves to support the MTFs. When added to the monitoring position outturn this results in an overall Council revenue position for 2019/20 of a surplus of £4.130m.
9. The final capital outturn position is an underspend of £14.4m when compared to the revised budget of £93.9m.
10. Revenue and capital monitoring is reported on quarterly basis to Cabinet as per the budget framework.
11. Council agreed the original Housing Revenue Account (HRA) budget for 2019/20 on 24 January 2019. This was set as a net deficit of £8.382m funded from planned use of reserves. The HRA outturn is a £0.519m use of reserve, compared to the budget, this is a reduction of £7.864m. The HRA is ring-fenced and does not form part of the General Fund reserve.
12. The Statement of Accounts for 2019/20 have been prepared and the health of the balance sheet has been assessed and the key points are as follows:
 - The general reserve has decreased by £3.749m to £11.058m, and this represents 5% of the 2019/20 revenue budget.
 - Schools reserves have decreased by £0.770m to £5.479m.
 - Useable revenue reserves have increased by £7.025m to £59.929m as at 31 March 2020.
 - The useable reserves balance increases to £120.762m when the HRA (£31.035m) and capital receipts/ grants (£29.799m) balances are added to the revenue reserves.
 - Long Term Assets have increased from £1,422m to £1,445m due to an increase in the value of Property, Plant and Equipment.
 - Current Assets have increased from £143m to £189m mainly due to an increase in cash and cash equivalents.
 - Current Liabilities have increased from £116m to £151m mainly due to an increase in current borrowing.
 - Long Term Liabilities have decreased from £1,288m to £1,233m mainly as a result of a decrease in pension liability.
 - Net Assets have increased from £161m to £250m.
13. 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 increased from £115m to £200m.

14. A breakdown of the £59.9m revenue reserves as at 31 March 2020 is shown in the following table:

Reserves	Mar-20 £000s
<u>General Fund</u>	
General Reserve	(11,058)
LMS Budget Share Reserve*	(5,479)
Total General Fund Reserve	<u>(16,537)</u>
<u>Earmarked Reserves</u>	
<u>Strategic Reserves</u>	
Financial Risk and Resilience	(14,161)
Economic, Housing and Environmental Investment	(8,404)
Poverty, Health and Equality Investment	(7,293)
<u>Ring Fenced Reserves</u>	
Developers' Contributions*	(1,762)
DSG Reserve*	(1,212)
Unapplied revenue grants*	(8,909)
Public Health Reserve*	(1,650)
Total Earmarked Reserves	<u>(43,391)</u>
Total Reserves	<u>(59,928)</u>
Total Ring fenced*	(19,012)
Non Ring-fenced and Available to support the Budget	(40,916)
	<u>(59,928)</u>

15. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee on 20 July 2020 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- 2020/21 Budget

16. Council agreed the original revenue budget for 2020/21 on 27 February 2020. This was set at £220.761m, the budget was balanced by increasing council tax by 3.99% (1.99% council and 2% ASC precept) and budget savings of £0.451m. The budget was balanced without any budgeted use of the general reserve.
17. The original budget for the capital programme for 2020/21, as agreed by Council on 25 February 2020, totalled £110.475m.
18. Due to the pandemic changes to both the revenue and capital budgets were reported to Cabinet on 15 September 2020.

19. The pandemic has had a substantial financial impact on the Council's in year revenue position. The projected revenue outturn for 2020/21 as at 30 June 2020 was £245.839m compared to the budget of £220.761m, resulting in a projected overspend of £25.078m. This overspend is mitigated by additional grant funding (COVID, Public Health and Better Care Funding) resulting in an overall projected overspend of £8.014m. The projection for the year also includes the application of £0.950m of reserves consistent with agreed usage. Ongoing actions to mitigate the budget shortfall were presented in the report. In addition, in early July the Government announced a scheme for reimbursement of irrecoverable fees and charges which will reduce the projected overspend.
20. Cash has been managed to ensure a positive cash flow throughout the pandemic and this continues to be the position projected forward.
21. Slippage of £14.057m was identified on capital budgets at the first quarter on several key schemes which have been carried forward into 2020/21 with resources from the 2019/20 financial year. In addition, the report proposed £10.193m increase including the re-profiling of allocations to reflect the final funding settlement and to support business critical activity and recovery timelines
22. The revenue and capital budgets will be monitored monthly by Senior Officers and quarterly by Cabinet with any changes to budgets agreed by Council.
23. The Council's General Reserve stands at £11.058m. This is 5% of the revenue budget which meets MTFS principles and reserve policy.

Future Position- Medium Term Financial Strategy (MTFS)

24. The current MTFS covers the period 2020/21 to 2024/25 and this estimates a funding gap of £49.925m over the five-year period. The MTFS estimates are currently being refreshed and will be reported to October Cabinet.
25. In order to meet this challenging funding gap, work has already started on planning an approach to the 2021/22 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.
26. During 2020 the Council and its residents have been impacted by the COVID-19 Public Health crisis. The lives and livelihoods of all residents have been severely affected by the impact of the Coronavirus pandemic and the measures that have been put in place to control the infection. From a financial perspective some of the cost pressures and loss of income will have both an immediate and longer-term impact on the council finances. As a result, it is likely that the Council will accelerate current work on a priority driven approach to the Budget that will deliver outcomes consistent with Thrive principles.
27. 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. Reserve levels and use will be kept under review and reported to Cabinet.

28. 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 October 2019 and this covered the period 2020/21 to 2024/25. The review incorporated estimated demand pressures facing the Council, projected funding reductions and performance of the Council in delivering budgets. The outcome of the latest review will be reported to Cabinet October 2020.
29. The Council aims to ensure that reducing resources are used to maximum effect and allows the council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. It is evident however the continuing reductions in funding and increases in demand will have an inevitable impact on both the nature and scope of services that the council is able to deliver. The council will aim to manage the process of change to its services effectively.
30. Due the pandemic emerging priorities are providing support into communities, moving services to digital and supporting the voluntary and community sector. It may be that decisions on priority areas are brought forward and addressed now.
31. The Council will also actively look to streamline its processes in order to support effective decision making and make the best use of available capacity. Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the council's outcomes and improve service efficiency and delivery. This will include working collaboratively with key partners to share costs or transfer responsibilities.
32. The Council has an ambitious capital strategy and its key investment aspirations are based on the principle of invest to save, with a rate of return over the life of the assets, generating income streams which contribute to Council services, the local economy and further investment.
33. 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. The economic uncertainties' and market volatility caused by COVID-19 are being assessed by management monthly and it is estimated that the HRA reserve of £31.035m will not fall below its minimum recommended balance of £3m until 2025/26.
34. Future risks for the Council include the ongoing impact of the COVID-19 public health crisis, 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

35. 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

36. It is recommended that the Committee agrees 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.

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