

<b>TITLE OF REPORT:</b>	<b>Achievement of ‘Going Concern Status’ 2021/22</b>
<b>REPORT OF:</b>	<b>Darren Collins, Strategic Director, Resources and Digital and Borough Treasurer</b>

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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 2021/22 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 strong track record of meeting its financial obligations and maintaining financial sustainability through delivery within budget. Since 2012 the Council has delivered an outturn within its 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 commentary on the Council's value for money arrangements, which considers financial sustainability, governance, and economy, efficiency and effectiveness. The last letter issued in relation to 2020/21, reported to Audit and Standards Committee on 7 March 2022, outlined that Mazars did not identify any significant weaknesses in arrangements.

### **Current Position - 2021/22**

8. Council agreed the revenue budget for 2021/22 on 25 February 2021. This was set at £238.7m including £8.1m of budget savings.
9. £8.1m of savings were agreed for 2021/22 along with temporary budget mitigation. The majority of savings were achieved alongside the mitigation. However, in several areas some savings require further action to be achieved in full during 2022/23 without mitigation support.
10. Budget savings of £0.1m for 2020/21 in relation to a contract review have not yet been achieved in the financial year. Work is progressing to assess contract efficiency savings against budgets across the Council.
11. The overall 2021/22 outturn position for the Council including non-service budgets and financing results in an overall Council revenue position for 2021/22 of a surplus of £0.431m.
12. The 2021/22 outturn position includes specific funding of £17.5m given to the Council to address pandemic impacts which masks several financial challenges in year. Effective financial management has ensured that all covid funding sources and time limited funds have been maximised alongside consideration of setting aside funding for future pressures and lost income.
13. The position is testament to the collective approach taken by groups and services to keep cost pressures under review within the financial year and ensuring that action was taken in a timely manner to ensure an outturn within budget.
14. The Corporate Management Team receive regular updates on budget savings delivery in order to monitor progress and hold lead officers to account.
15. Council originally approved a Capital Programme of £142.9m for the 2021/22 financial year. At the third quarter review the capital programme was set at £107.3m, £82m General Fund schemes and £25.2m HRA. The Capital Programme outturn for 2021/22 was £97.2m, £72m General Fund and £25.2m HRA £10.1m lower than the third quarter review.
16. The HRA outturn required £5.065m use of reserve compared to the budget of £4.973m, this was an increase of £0.092m. The HRA is ring-fenced and does not form part of the General Fund reserve.
17. As part of the Council's budget and policy framework Cabinet receives quarterly reports on performance against the agreed revenue budget and agreed capital programme.
18. The budget outturn positions were reported to Cabinet on 21 June 2022.

19. The Statement of Accounts for 2021/22 have been prepared and the health of the balance sheet has been assessed and the key points (subject to audit) are as follows:
- The general reserve has decreased to £8.5m which complies with MTFS principles
  - Schools' reserves have remained at £8.9m
  - Useable revenue reserves have decreased by £8m as part of outturn to £102.0m as at 31 March 2022.
  - The useable reserves balance increases to £147.8m when the HRA (£26.2m) and capital receipts/grants (£19.6m) balances are added to the revenue reserves.
  - Long term assets have increased from £1,473m to £1,683m due to an increase in the value of property, plant and equipment.
  - Current assets have increased from £208m to £246m mainly due to an increase in current investments.
  - Current liabilities have increased from £182m to £204m mainly due to an increase in current creditors, and a reduction in current borrowing.
  - Long Term Liabilities have decreased from £1,385m to £1,252m mainly as a result of a reduced pension liability.
  - Net Assets have increased from £114m to £473m.
20. On 17 November 2020, Cabinet agreed to the integration of the management and maintenance of the Council's housing stock back into the Council with effect from 1 April 2021. This resulted in the cessation in the operation of The Gateshead Housing Company (TGHC) which has been consolidated back into the Council's Statement of Accounts for 2021/22. TGHC was previously reported under the Group Accounts position in the Council's Statement of Accounts, mainly in relation to the company's pension liability. As part of the consolidation, TGHC's pension liability was subsumed into the Council's position and is reflected in the pension disclosures as at 31 March 2022.
21. A breakdown of the £102.0m revenue reserves as at 31 March 2022 (subject to audit) is shown in the following table:

	<b>Balance Mar-22 £000s</b>
<b>General Reserves</b>	
<b>Total General Fund</b>	<b>(17,446)</b>
General Reserve	(8,500)
LMS Budget Share (Schools) Reserve*	(8,946)
<b>Strategic Earmarked Reserves</b>	
<b>Financial Risk and Resilience</b>	<b>(9,394)</b>
Thrive	(8,444)
<b>Budget Sustainability</b>	<b>(20,015)</b>
<b>Pandemic Services Impact</b>	<b>(25,580)</b>
<b>Pandemic Collection Fund Impact</b>	<b>(12,866)</b>
<b>Ring Fenced Reserves*</b>	
<b>Developers' Contributions*</b>	<b>(2,019)</b>
<b>Unapplied revenue grants*</b>	<b>(1,390)</b>
<b>Public Health Reserve*</b>	<b>(2,607)</b>
<b>Dedicated Schools Grant Reserve*</b>	<b>(2,255)</b>
<b>Total Earmarked Reserves</b>	<b>(84,570)</b>
<b>Total Reserves</b>	<b>(102,016)</b>
* Ringfenced	

22. The outcome of the outturn on the Council element of the general fund reserve was that the remaining balance is £8.5 million. This equates to 3% of 2022/23 net revenue budget (£254.3 million) and assessed as appropriate in the current climate.
23. It is important to note that the position above includes significant temporary funding held to mitigate pandemic impacts. Impacts are expected to continue beyond current year so the Council set aside funding within reserves to cover cost pressures and lost income to manage the medium term financial position. Grant funding of £12.9m was provided by government to specifically replace lost funding to council tax and business rates. This funding is fully committed as it has been used within the financing of the 2022/23 budget in line with the principles of the grant.
24. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee on 28 June 2022 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- 2022/23 Approach to Budget**

25. A three year approach to the budget was agreed by Cabinet in December 2021. This was to undertake to a fundamental review of all areas of the Council's budget. This has previously been outlined as a Zero Based approach and will be phased. The first

phase is underway with the initial focus being on adults and children's social care. This approach to medium term financial sustainability is supported through the planned use of reserves.

26. Council agreed the revenue budget for 2022/23 on 24 February 2022. This was set at £254.3m. The position includes £5.8m of Council financing from the Budget Sustainability Reserve to allow time for a planned schedule of cuts and efficiencies.
27. Council also agreed a £146.7m capital programme and an HRA balanced budget of £82.3m without use of the reserve in 2022/23.
28. Both the revenue and capital budgets first Quarter Review were reported to Cabinet on 19 July 2022. At that time the projected revenue outturn was an overall projected overspend of £1.2m and it was proposed that the capital programme be decreased by £44.7m to the projected outturn of £102.9m.
29. Second quarter reviews will be reported to Cabinet on 22 November 2022.
30. Strong financial management remains critical moving into 2022/23, as many of the drivers for cost pressures and lost income continue from 2021/22, these have arisen from:
  - Unachieved agreed budget savings in 2020/21 and 2021/22 that have become an added pressure into 2022/23.
  - Continued increase in demand in Adult and Children's Social Care services.
  - Unfunded pay pressures, such as public sector pay award and the Governments National Living Wage aspirations, which also impacts on negotiations with care providers and commissioning costs.
  - The performance of traded and investment income linked to the wider economy in particular in leisure services.
  - Increased cost pressures in relation to utilities and inflation on supplies.
  - Significant uncertainties in relation to the pandemic impact on income from business rates and council tax.
  - The financial impacts of the UK's vote to leave the European Union (EU) and the current uncertainty, which is likely to lead to instability in the short to medium-term.
  - Addressing the health, employment and poverty inequalities that the pandemic has added to.
  - Increased demand for welfare, mental health services and debt advice.
  - Increased demand for business advice and support.
31. Cash has been managed to ensure a positive cash flow throughout the pandemic and this continues to be the position projected forward.
32. The revenue and capital budgets will be monitored monthly by Senior Officers, bi-monthly by Corporate Management Team and SMG Projects and quarterly by Cabinet with any changes to budgets agreed by Council.

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

33. The Council's Medium Term Financial Strategy was reported to Cabinet on 25 October. The MTFS estimates a £55m financial gap over the medium term, a

worsening position due to significant pressures manifesting over the last six to twelve months in inflation, pay, utilities and cost of living.

34. A one year financial settlement is expected from Government in December 2022 which may include further cuts to grants.
35. 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.
36. 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.
37. 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.
38. 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.
39. 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 the pandemic are being assessed by management monthly and it is estimated that the HRA reserve of £26.1m will not fall below its minimum recommended balance of £3m over the period.
40. Future risks for the Council include the ongoing impact of the pandemic public health crisis, the continued uncertainty over government funding, increasing demand for adult and children's social care, the uncertainty and continuing delays to funding reform, the impact of leaving the EU, and the impact of the cost of living crisis. These risks will continue to be monitored by Senior Officers and Cabinet.
41. A balanced budget will be agreed by Cabinet and Council in February and any savings identified in the approach throughout the year will be subject to further formal consultation.

## **Conclusion**

42. Based on the assessment undertaken, the Council's Chief Finance Officer (section 151 officer) view is that the Council is aware of the financial 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**

43. 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 the basis of continued provision of services.

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