

**TITLE OF REPORT:** Achievement of 'Going Concern Status' 2016/17

**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 2016/17 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 there continues to be a risk 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 members 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 2016/17 savings of £130m 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 2015/16 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 22 September 2016.
7. The Council undertook a peer challenge earlier this year which was published in July 2017 and this described the Council as a consummate performer in respect of its financial management and this was a council wide achievement.

## Current Position- 2016/17

8. The 2016/17 revenue budget was approved at £198.883m. This included the identification of savings totalling £18.796m and the approval of £3.971m general fund reserves to mitigate some of these savings in 2016/17 to allow time to implement the changes that were required to be delivered.
9. Revenue monitoring has been reported on a quarterly basis to Cabinet and the final revenue outturn position subject to audit, was an underspend of £1.305m. The general reserve increased by £0.456m to £16.797m as at 31 March 2017 as a result of the £1.305m underspend and a £2.897m Airport Dividend together with the use of the general reserve to support savings mitigation as agreed in the 2016/17 budget.
10. Capital monitoring has been reported quarterly to Cabinet and the final capital outturn position is an underspend of £6.008m when compared to the original budget of £71.069m due to slippage in the capital programme.
11. The Housing Revenue Account (HRA) outturn is an underspend of £5.553m compared to a budgeted overspend of £2.303m. As a result of this underspend £3.250m has been transferred to the HRA reserve, resulting in an increase in the reserve balance to £27.359m.
12. The 2016/17 draft statement of accounts 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 £0.456m to £16.797m, and this represents 8.5% of the 2017/18 revenue budget.
  - Schools reserves have decreased by £1.573m to £5.473m.
  - Useable revenue reserves totalled £56m as at 31 March 2017. The useable reserves balance increases to £101m when the HRA (£27m) and capital receipts/ grants (£18m) balances are added.
  - Long Term Assets have increased from £1,342m to £1,450m due to an increase in the value of Property, Plant and Equipment.
  - Current Assets have decreased from £158m to £130m due to a decrease in short term investments and cash.
  - Current Liabilities have increased from £147m to £148m.
  - Long Term Liabilities have increased from £1,105m to £1,154m mainly as a result of the pension liability increasing from £477m to £543m.
  - Net Assets have increased from £248m to £278m.
13. A breakdown of the £56m revenue reserves as at 31 March 2017 is shown in the table below:

	Opening Balance April 2016 £000s	Revenue Outturn 2016/17 £000s	Closing Balance March 2017 £000s
<b>General Fund</b>			
General Reserve	(16,341)	(456)	(16,797)
LMS Budget Share Reserve*	(7,046)	1,573	(5,473)
<b>Total General Fund Reserve</b>	<b>(23,387)</b>	<b>1,117</b>	<b>(22,270)</b>
<b>Earmarked Fund Reserves</b>			
<b>Strategic Reserves</b>			
Business Rates	(5,000)	0	(5,000)
Insurance	(3,000)	0	(3,000)
Grant Clawback	(1,314)	0	(1,314)
Gateshead Development Pool	(6,009)	0	(6,009)
Economic Growth Reserve	(3,456)	66	(3,390)
Discretionary Social Fund Reserve	(957)	176	(781)
Strategic Change Reserve	(2,500)	1,191	(1,309)
Budget Flexibility Reserve	(2,996)	1,202	(1,794)
<b>Ring Fenced Reserves</b>			
Developers' Contributions*	(2,036)	99	(1,937)
DSG Reserve*	(3,357)	190	(3,167)
Unapplied revenue grants*	(4,259)	617	(3,642)
Public Health Reserve*	(1,772)	(659)	(2,431)
<b>Total Earmarked Fund Reserves</b>	<b>(36,656)</b>	<b>2,882</b>	<b>(33,774)</b>
<b>Total Reserves</b>	<b>(60,043)</b>	<b>3,999</b>	<b>(56,044)</b>
Total Ring fenced*	(18,470)	1,820	(16,650)
No Ring-fence	(41,573)	2,179	(39,394)
	<b>(60,043)</b>	<b>3,999</b>	<b>(56,044)</b>

14. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee 19 June 2017 following their review of the evidence of assurance provided on the Council's internal controls, risk management and governance arrangements.

### Future Position- 2017/18 Budget

15. The Council approved the 2017/18 revenue budget of £197.486m on 23 February 2017. The budget was balanced by increasing council tax by 4.99% and by identifying £13.190m of general fund savings. The budget was balanced without any budgeted use of the general reserve.
16. The Council also approved the 2017/18 capital budget of £95.2m on 23 February as part of a five year £310m programme of planned capital investment. £65.9m of this 2017/18 capital budget is being funded from the general fund and £29.3m relates to investment in the Housing Revenue Account.
17. The revenue and capital budgets will be monitored monthly by Senior Officers and quarterly by Members. This will include the delivery of the 2017/18 savings.

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

18. The revised MTFS covers the period 2018/19 to 2022/23 and this estimates a funding gap of £88.044m over the five year period with a £20.609m gap in 2018/19.
19. In order to meet this challenging funding gap, work has already started on identifying budget options for the two year period 2018/19 and 2019/20.
20. 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 smooth this transition and mitigate any future risks. 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 £17.433m by March 2023. As part of this refresh new earmarked reserves have been created to support priority activity.
21. The MTFS is refreshed at least annually to ensure Members are aware of the latest estimated future financial position facing the Council. The latest refresh was considered by Cabinet in July and this covered the period 2018/19 to 2022/23.
22. 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 current HRA Business Plan estimates that the HRA reserve will fall below the minimum recommended balance of £3m during 2024/25.
23. 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 100% business rate retention, the impact of the UK vote to leave the EU and the impact of the 2017 General Election. These risks will continue to be monitored by Senior Officers and Members.

## **Conclusion**

24. Based on the assessment undertaken, the Council's Chief Finance Officer (section 151 officer) view is that the Council is fully 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**

25. 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.