

<b>TITLE OF REPORT:</b>	<b>Achievement of ‘Going Concern Status’ 2022/23</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 2022/23 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 update report issued in relation to 2021/22, presented to Audit and Standards Committee on 7 February 2023, outlined that Mazars did not identify any significant weaknesses in arrangements. As part of this update report, Mazars confirmed that there are no changes to the requirements for the auditor's value for money commentary on the Council's arrangements for 2022/23.

### **Current Position - 2022/23**

8. Council agreed the revenue budget for 2022/23 on 24 February 2022. This was set at £254.3m including a requirement of £5.8m to be funded from the budget sustainability reserve.
9. The overall 2022/23 outturn position for the Council including non-service budgets and financing results in an overall Council revenue position for 2022/23 of a surplus of £3.4m.
10. 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.
11. The Corporate Management Team receive regular updates on budget delivery in order to monitor progress and hold lead officers to account.
12. Council originally approved a Capital Programme of £146.7m for the 2022/23 financial year. At the third quarter review the capital programme was set at £80.4m, £60.4m General Fund schemes and £20.0m HRA. The Capital Programme outturn for 2022/23 was £77.3m, £56.7m General Fund and £20.6m HRA £3.1m lower than the third quarter review.
13. The HRA outturn required £6.5m use of reserve compared to the agreed use of £3.0m use of reserves the second quarter on 24 November 2022, this was an increase of £3.5m. The HRA is ring-fenced and does not form part of the General Fund reserve.
14. 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.
15. The budget outturn positions were reported to Cabinet on 20 June 2023.
16. The Statement of Accounts for 2022/23 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 use of £8.8m which complies with MTFS principles
  - Schools' reserves decreased by £0.7m.
  - Useable revenue reserves have decreased by £7m as part of outturn to £95m as at 31 March 2023.

- The useable reserves balance increases to £146m when the HRA (£20m) and capital receipts/grants (£31m) balances are added to the revenue reserves.
- Long term assets have increased from £1,683m to £1,725m due to an increase in the value of property, plant and equipment.
- Current assets have decreased from £245m to £158m mainly due to a reduction in current investments.
- Current liabilities have decreased from £204m to £143m mainly due to a decrease in current creditors, and a reduction in cash and cash equivalents.
- Long Term Liabilities have decreased from £1,213m to £717m mainly as a result of a reduced pension liability.
- Net Assets have increased from £511m to £1,023m.

17. A breakdown of the £95m revenue reserves as at 31 March 2023 (subject to audit) is shown in the following table:

	<b>Balance Mar-23 £000s</b>
General Reserve	(11,873)
LMS Budget Share Reserve	(8,280)
<b>General Fund</b>	<b>(20,153)</b>
Earmarked reserves:	
Financial Risk and Resilience	(19,163)
Thrive	(7,513)
Budget Sustainability	(36,700)
Developers' contributions	(2,180)
Unapplied revenue grants	(1,395)
Public health	(3,819)
Dedicated Schools Grant (DSG)	(3,964)
<b>Total earmarked reserves:</b>	<b>(74,734)</b>
<b>Total reserves</b>	<b>(94,887)</b>

18. The outcome of the outturn on the Council element of the general fund reserve was that the remaining balance is £11.9 million. This equates to 4% of 2023/24 net revenue budget (£281.885 million) and assessed as appropriate in the current climate.

19. The draft statement of accounts includes the Annual Governance Statement which was approved by the Audit and Standards Committee on 20 June 2023 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- 2023/24 Approach to Budget**

20. Council agreed the revenue budget for 2023/24 on 23 February 2023. This was set at £289.9m after £13m savings. The position includes £10.0m of Council financing from the Budget Sustainability Reserve to allow time for a planned schedule of efficiencies.
21. Council also agreed a £112.0m capital programme and an HRA balanced budget of £86.8m adding £1.5m to reserve in 2023/24.
22. Both the revenue and capital budgets first Quarter Review were reported to Cabinet on 18 July 2023. At that time the projected revenue outturn, following management interventions, was an overall projected overspend of £1.1m and it was proposed that the capital programme be increased by £1.4m to the projected outturn of £113.5m.
23. Second quarter reviews will be reported to Cabinet on 21 November 2023.
24. Strong financial management remains critical moving into 2023/24, as many of the drivers for cost pressures and lost income continue from 2022/23, these have arisen from:
  - Unachieved agreed budget savings in 2020/21, 2021/22 and 2022/23 that have become an added pressure into 2023/24.
  - 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.
  - 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.
25. Cash has been managed to ensure a positive cash flow and this continues to be the position projected forward.
26. 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) and Budget Approach**

27. The Council's Medium Term Financial Strategy 2024/25 to 2028/29, and the Budget Approach were reported to Cabinet on 24 October 2023.
28. The MTFS has been fundamentally refreshed and sets the framework for the Budget Approach. Notwithstanding the challenging economic and financial context, the MTFS and Budget Approach is built on a solid foundation of:
  - The Council has a strong track record of delivering within Revenue Outturn budget. The 2022/23 Revenue Outturn was positive but there were a number of

one-off issues that masked overspending in some areas. The positive outturn remains a significant achievement and enables the Council's sound financial position to be maintained;

- The 2023/24 Finance Settlement was considered to be more positive than anticipated, although the impact of inflation has eroded the spending power;
- Despite the funding challenge, the Council agreed budget cuts of £13m for 2023/24 to achieve a legally balanced budget, recognising active management of the funding position and that use of reserves cannot be the solution to the funding gap;
- The active management of reserves has enabled some flexibility on the period over which reserves can be used, from 3 to 5 years;
- The funding assumptions in the MTFS are considered to be more realistic estimates. Nonetheless, the caveat of uncertainty remains;
- The 2023/24 base budget includes capacity to deliver on the transformation challenge, further strengthened by an additional £2m in 2024/25; and
- An approach to replenish reserves from year 3 of the MTFS.

29. It remains critical that the Council has a robust approach to budget setting and a plan for uncertainty including delivery of demand management interventions in social care, alongside a pipeline of additional savings to achieve financial sustainability without reliance on reserves by the final year of the MTFS.
30. The Budget Approach is set within the context of the 5-year rolling MTFS and outlines a high-level framework over the period of the MTFS, alongside a broad timeline to achieve the immediacy of a legally balanced budget for 2024/25 and a balanced position without reliance on reserves by 2028/29.
31. 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 are being used to smooth and assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet.
32. The Council aims to ensure that resources are used to maximum effect which allows the Council to continue to deliver new and better ways of working and invest to improve the efficiency of services provided. One of the biggest pressures facing the Council is the demand for services therefore services will focus on ways to reduce demand pressures through different processes and interventions.
33. 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.
34. 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 £23.1m will not fall below its minimum recommended balance of £3m over the period.
35. Future risks for the Council include 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 high interest rates and inflation, and the impact of the cost of living crisis. These risks will continue to be monitored by Senior Officers and Cabinet.

36. A balanced budget will be agreed by Cabinet and Council in February 2024 and any savings identified in the approach throughout the year will be subject to further formal consultation.

### **Conclusion**

37. 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**

38. 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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