



Northumberland

County Council

AUDIT COMMITTEE

28 September 2022

Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2022

Report of Jan Willis, Interim Executive Director of Finance & Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

1. Purpose of the Report

Northumberland County Council is required to assess whether it should be considered as a ‘going concern’ organisation, and whether the Council’s annual Statement of Accounts should be prepared on that basis. This report considers the Council’s status as a going concern and recommends that Members approve this.

2. Recommendations

It is recommended that Members of the Audit Committee approve that the Council is considered to be a going concern and that the Statement of Accounts 2021-22 is prepared on that basis.

3. Key Issues

When preparing the annual Statement of Accounts, the Council complies with the Code of Practice on Local Authority Accounting 2021-22 (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the Statement of Accounts to be prepared on a going concern basis.

This means that the Statement of Accounts should be prepared on the assumption that the authority will continue in operational existence for the foreseeable future.

The assumption that a local authority’s services will continue to operate for the foreseeable future is made because local authorities carry out functions essential to the local community and are themselves revenue raising bodies (with limits on their revenue raising powers arising only at the discretion of central government).

This report details the management consideration of Going Concern as at 31 March 2022, and beyond. The reasons for recommending that the Council be considered as a going concern and that it is appropriate for the statement of accounts to be prepared on that basis are summarised below:

- a) The Code confirms that on the basis that local authorities 'cannot be created or dissolved without statutory prescription, it would not be appropriate for their financial statements to be provided on anything other than a going concern basis'.
- b) The financial position of the Council remains strong. The Council was able to set a balanced budget for 2022-23 and has a strong record of delivering within budget and achieving savings.
- c) As at 31 March 2022, the Council held general reserves of £70.081 million and reserves earmarked for specific future purposes, including those held for schools, of £185.325 million.
- d) Net assets at 31 March 2022 amounted to £399.469 million.
- e) The Council has a history of stable finance and ready access to financial resources in the future.
- f) There are no significant financial, operating, or other risks that would jeopardise the Council's continuing operation. However, inflationary pressures are deemed to be significant and rising and the following was included in the first quarter monitoring report which was reported to Cabinet on 13 September 2022:
 - A forecast overspend identified by the services of £4.813 million.
 - Local Government NJC Pay Award, 2022-23: Based on the latest proposed increase of £1,925 plus on-costs on all NJC points above 1, it is forecast that this will increase the pay bill recurrently by approximately £12.526 million. £3.863 million had already been provided for within the 2022-23 budget in this respect, leaving an unfunded recurrent inflationary pressure of approximately £8.663 million.
 - School Transport budgets are currently experiencing severe budget pressures due to the increase in the price of fuel creating a forecast overspend of £2.287 million across all areas of school transport provision (included within the forecast overspend mentioned above). As the price of fuel remains high, Cabinet agreed to offer transport providers an inflationary uplift to current contracted prices (backdated to 1 April 2022) to ensure the continuity of service provision. The cost to the Council is an additional £1.182 million.

- Utility costs have continued to increase and are expected to rise further. It is currently forecast that this could equate to approximately £3.556 million in the current financial year. An allowance of £1.079 million was provided for within the 2022-23 budget for this, leaving an additional inflationary pressure of £2.477 million.

It is anticipated that all of these inflationary pressures will come to fruition, resulting in a forecast position for the Council for the current year as follows:

	£m
Forecast overspend as per services	4.813
Additional cost of pay award	8.663
Home to School Transport fuel	1.182
Utility Costs	2.477
Total Forecast Overspend	17.135
Exceptional Inflation Reserve	(5.208)
Forecast Overspend	11.927

On the advice of the Council's Section 151 Officer, the Council has taken urgent action in order to contain and minimise the overspend and the steps being taken are as follows:

- The Council will be inviting applications from staff for voluntary redundancy in the near future and the post will be permanently removed from the establishment for anyone made redundant. The Executive Team is mindful that the Council is currently experiencing difficulty in recruiting to posts but will ensure that any redundancies agreed do not impact on service delivery.
- The normal budget approval process is now suspended, and all expenditure is authorised by Executive Directors. There are some exceptions:
 - Special Guardianship Orders
 - Residential Orders
 - Payments to foster carers
 - Utility bills
 - Benefits Payments (from Revenues & Benefits)
 - Precept payments to Town & Parish Councils
 - Repayment of grants to government departments

- Social care urgent out of hours - expenditure required to address immediate needs
- Housing/Property out of hours - expenditure required to address immediate needs
- 100% grant funded expenditure
- There is now a freeze on in-year contingency requests and the balance on the contingency will be utilised to offset the inflationary increases and potential overspend
- Whilst there will not be a moratorium imposed in relation to recruitment to vacant posts, a Vacancy Panel has been established where all requests to recruit to posts are considered. The Vacancy Panel makes recommendations to the Executive Team who make the ultimate decision. There are some exemptions:
 - qualified social workers posts
 - short term support service workers (not management/team leader/admin posts)
 - LD Day services or residential workers (not management/team leader/admin posts)
- The Executive Team will look selectively to increase fees and charges in year. Any proposals deemed necessary will be referred to Cabinet for a formal decision.
- The Executive Team has been reminded and will instruct all managers to be proactive and ensure “good housekeeping”; e.g. ensure that all of their suppliers are on the supplier incentive scheme, review contracts and request better value from their suppliers.
- The Capital Programme is being reviewed particularly in relation to contract price inflation. Once this exercise is complete then the cost of capital and debt charges (borrowing) will be examined to establish any potential for an in-year revenue budget underspend to offset the impending Council overspend.
- All capital projects going ahead will be contained within their existing approvals even if it means revisiting the scope of the project. Value engineering will be considered as well as a reduction to or a deferral of each project.

Undoubtedly, there will be a number of other issues that the Council will need to consider which may impact on the overall position. The Section 151 Officer will keep members advised.

- g) The Council at its meeting on 23 February 2022 agreed to invest £3.000 per annum for three years in a Strategic Transformation Programme which would not only transform the Council and the way it operates but also deliver significant savings. The Council's appointed partners Peopletoo and Human Engine are currently undertaking work within the Council and will produce a Strategic Business Case by the end of September to identify areas where the Council can transform and make savings. A detailed business case will then be developed to align with the Budget 2023-24 and Medium-Term Financial Plan 2023-27 exercise and should be available by January 2023 at the latest.
- h) The Covid-19 pandemic and subsequent national restrictions has had a significant impact on the operation of the Council and given rise to significant and exceptional costs, as well as loss of income. However, the Government has provided significant and ongoing financial support to local authorities and the Council has continued to provide services to its residents throughout the pandemic.

Based on the assessment undertaken, the Interim Executive Director of Finance and Section 151 Officer's 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 known risks, and therefore the Council is a going concern, and the Statement of Accounts should be and have been prepared on that basis.

4. Background

The general principles adopted in compiling the Statement of Accounts are in accordance with the Code of Practice on Local Authority Accounting 2021-22 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code defines proper accounting practices for local authorities in England, Wales, Scotland, and Northern Ireland.

The Code requires that a local authority's Statement of Accounts is prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the authority will continue to be in operational existence for the foreseeable future. This means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to significantly curtail the scale of the operation.

An inability to apply the going concern concept can have a fundamental impact on the financial statements. In reality, it would be highly unusual for a local authority to have a going concern problem. There may be cases where part of an authority's operation ceases to be viable or affordable. However, this will not give rise to a going concern issue for the authority given that the impact would be restricted to only that part of the operation. Transfers of services under combinations of public sector bodies similarly do not negate the presumption of going concern.

An organisation must consider its financial performance to assess its ability to continue as a going concern. This assessment should cover historical, current, and future performance.

a) Financial Position 2021-22

The Council has a strong record of delivering within budget and achieving savings.

In February 2020 the Council set its 2021-22 budget and identified savings of £8.172 million to be delivered to support the budget.

The Council carries out frequent management accounts reporting to enable effective budget monitoring, to ensure that budget holders regularly assess delivery against budget and allow time for considered actions. Revenue monitoring has been reported on a quarterly basis to the Cabinet and the provisional final revenue outturn position was breakeven after accounting for transfers to earmarked reserves and provisions; and the contribution to the general fund reserve of £0.580 million which includes a planned contribution of £0.540 million. The final position, after accounting for transfers to earmarked reserves and provisions; and including all technical adjustments required to finalise the Statement of Accounts is an overspend of £0.968 million, subject to audit, which has reduced the general fund reserve from £70.469 million to £70.081 million as at 31 March 2022.

Capital monitoring has been reported quarterly to the Cabinet and the final capital outturn position was an underspend of £28.064 million when compared to the revised budget of £189.081 million.

The Housing Revenue Account (HRA) outturn is an underspend of £0.983 million, which has been transferred to the HRA reserve, resulting in an increase in the reserve balance to £29.873 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is £2.177 million at 31 March 2022.

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 the budget setting and final accounts processes. It is currently estimated that the HRA business plan is sustainable.

The financial position of the Council remains healthy. Net assets at 31 March 2022 amounted to £399.469 million (£441.896 million on a Group basis). This is an increase of £222.688 million during 2021-22, which is due mainly to a reduction in the estimated pension liability for employees of £122.962 million, and a reduction in long and short-term borrowing totalling £55.627 million. The pension liability is calculated by the Pension Fund Actuary, and statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. In addition, there was an increase of £108.389 million in Property, Plant and Equipment following valuation.

b) Medium-Term Financial Plan 2022-23 to 2025-26

The Council approved its budget for 2022-23 and Medium-Term Financial Plan (MTFP) 2022-26, on 23 February 2022.

The Council has continued to effectively manage its resources during a period of increasing cost pressures and funding uncertainty. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid-19 and the recovery from it will undoubtedly impact on the Council and its communities for a number of years.

The financial landscape for the Council is likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review means that there will be little certainty over the Council's longer-term funding outlook, and this will need to be carefully managed as the Council considers the recovery actions it needs to take and commit to. In addition, the Fair Funding Review has been delayed, with the earliest implementation date being 2023-24, and plans to move to 75% Business Rate Retention (BRR) have been scrapped, with the Government instead exploring a new mechanism to redistribute business rates income. The outcome of these reviews will determine the quantum of funding available to local government and the share available to the Council. It is clear that there are significant risks to the Council's funding depending on the principles that are ultimately agreed for fair funding distribution and how any redistribution of business rates income is implemented.

The Covid-19 outbreak had a significant financial impact on the Council during 2020-21 and the recovery will take place over a number of years. There was an increase in claims for Local Council Tax Support and a reduction in business rate income due to rate reliefs and business closures, some of which will continue. The Council suffered reductions in income during 2020-21 and this is likely to continue for some time. The wider and long-term economic impact of the pandemic on the Council's tax base is also unknown at the present time. This represents a financial risk to the Council that will form part of future medium-term financial planning.

The Council continues to face a range of significant budget pressures including general inflation, utilities inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as wage increases, the national living wage and pension contributions.

The MTFP sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities. The MTFP describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

The Council's MTFP has focussed on protecting front line services as far as possible, prioritising efficiencies from back-office functions and maximising income. As well

as investing in an Innovation and Improvement Team the Council has committed an additional £3.000 million per annum for three years of the MTFP to support transformation work and invest in resources to work across the Council.

The Council has a strong track record of savings delivery.

In general, the Council has been relatively accurate in forecasting the level of savings required, which has allowed the development of strong plans and enabled the Council to robustly manage the implementation and delivery on time, including meeting extensive consultation and communication requirements. This has put the Council in a strong position to meet the ongoing financial challenges across this MTFP and beyond. However, savings proposals are becoming more complex and difficult to deliver and this may require increased utilisation of reserves to offset any delays and smoothing of reductions.

After taking into account base budget pressures, additional investment and savings, the Council's net budget for 2022-23 is £382.583 million.

The financing of the net budget requirement is detailed in the following table.

Financing of the 2022-23 Budget

Funding Stream	Amount £m
Council Tax	219.676
Retained Business Rates	74.254
Revenue Support Grant	10.838
Other Corporate Grants	38.460
Strategic Management Reserve	5.363
General Fund Reserve	25.000
Collection Fund Smoothing Reserve	10.129
Council Transformation Fund	3.000
Other Reserves	0.322
Severe Weather Reserve	2.500
Contribution to Reserves	(6.959)
Total	382.583

The Council has been able to set a balanced budget for 2022-23 and has a clear plan in place to invest in capital infrastructure and to deliver local services over the life of the MTFP, and beyond. Based upon this, it is evident that the Council is a going concern.

c) Capital Funding

On 23 February 2022 full Council approved the capital budget for 2022-23 and the medium-term Capital Programme for the period 2022-23 to 2025-26.

The need to continue to invest in capital infrastructure is seen as an essential means of maintaining and regenerating the local economy whilst supporting job creation.

The Council also recognises the need for caution in committing the Council to high levels of prudential borrowing at this stage for future years.

The Council has been able to set a balanced budget for 2022-23 and has a clear plan in place to continue to deliver local services. Based upon this, it is evident that the Council is a going concern.

d) Reserves

Reserves are held as a:

- i. Working balance to help cushion the impact of any uneven cash flows and avoid unnecessary temporary borrowing
- ii. Contingency to cushion the impact of any unexpected events or emergencies
- iii. Means of building up funds, earmarked reserves to meet known or predicted future liabilities.

As at 31 March 2022, the Council held general reserves of £70.081 million and reserves earmarked for specific future purposes, including those held for schools, of £185.325 million.

Details of individual reserves are contained within Appendix A.

Based on the level of reserves held, the Council has demonstrated robust financial management that underpins its status as going concern.

5. Risk

The Council has previously recognised that a wide range of financial risks need to be managed and mitigated across the medium term. The risks faced are exacerbated by the Council's responsibility for business rates and council tax support. All risks will be assessed continually throughout the MTFP period. Some of the key risks identified include:

- a) ensuring the achievement of a balanced budget and financial position across the MTFP period;
- b) ensuring savings plans are risk assessed across a range of factors e.g. impact upon customers, stakeholders, partners and employees;
- c) there is no certainty over the quantum of government funding available for local government beyond 2022-23. Given the pressures faced, particularly from social care, it is imperative that the quantum is increased and that a long-term settlement is agreed as part of the expected 2022 Comprehensive Spending Review;
- d) the outcome of the Government's Fair Funding Review which will possibly be implemented in 2023-24. This review could result in significant changes to the distribution of government funding;

- e) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants onto the Council. Activity in this area will need to be monitored carefully with medium term projections developed in relation to estimated volume of claimant numbers;
- f) the Council retaining 50% of all business rates collected locally but also being responsible for settling all rating appeals including any liability prior to 31 March 2013. Increasing business rate reliefs and the revised 'check and challenge' appeals process continue to make this income stream highly volatile and will require close monitoring to fully understand the implications for the MTFP. The Council will also be impacted by any change in the mechanism used to redistribute business rates income which is currently being explored by Government. The coronavirus pandemic is again expected to have an impact in the medium term on business rates income, especially now that furlough has been withdrawn;
- g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards as well as utilities and fuel which will need to be closely monitored;
- h) the Council continuing to experience increases in demand for social care services. Although some allowance is made for demand increases across the MTFP period this issue will need to be closely monitored;
- i) the funding position for the High Needs Dedicated Schools Grant. It is hoped that the government fully recognises this pressure as part of the Comprehensive Spending Review;
- j) it is not possible to be clear at this point regarding any long-term impact from the coronavirus on Council costs but especially Council income. This will be closely monitored in the coming months with any ongoing impact needing to be built into future MTFP plans;
- k) the impact of Brexit, which could affect future government finance settlements, business rates income, price inflation and European funding.

Based upon the above there are no risks which would indicate that the Council is not a going concern.

6. Conclusion

Based on the assessment undertaken, the Interim Executive Director of Finance and Section 151 Officer's 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 known risks, and therefore the Council is a going concern, and the Statement of Accounts should be and have been prepared on that basis.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Statement of Accounts summarises the financial performance of the Council for the 2021-22 financial year.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background Papers:

Northumberland County Council Draft Statement of Accounts 2021-22

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

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Description	Balance at 1 April 2021 £m	Increase/ (Decrease) £m	Balance at 31 March 2022 £m
General Reserves / Balances			
General Fund Reserve	70.469	(0.388)	70.081
Total General Reserve	70.469	(0.388)	70.081
Ring Fenced Reserves / Balances			
HRA	28.890	0.983	29.873
Major Repairs Reserve – HRA	8.607	1.606	10.213
HRA Capital Investment	3.108	(0.931)	2.177
Total Ring-Fenced Reserve / Balances	40.605	1.658	42.263
Specific Reserves / Balances			
Capital Receipts - GF	0.002	0.181	0.183
Capital Receipts – HRA	4.023	0.745	4.768
Capital Grants Unapplied	56.534	4.772	61.306
Total Specific Reserves / Balances	60.559	5.698	66.257
Earmarked Reserves			
ADC Parks & Open Spaces	0.020	(0.011)	0.009
ADC Section 106	0.050	(0.004)	0.046
Balances held by Schools	5.498	3.694	9.192
Borderlands Energy Masterplan	1.067	(0.251)	0.816
Business Recovery	2.322	-	2.322
Cessation of the NHS Partnership Agreement	1.500	(1.238)	0.262
Collection Fund Smoothing	26.291	(11.136)	15.155
Community Led Housing	0.829	(0.142)	0.687
Contain Outbreak Management	-	2.130	2.130
Council Commissioned Services	11.100	(2.119)	8.981
Council Transformation Fund	7.466	10.436	17.902
Dedicated Schools Grant	0.898	3.134	4.032
Economy & Regeneration Investment	0.420	(0.062)	0.358
Empty Dwelling Management Order	-	0.047	0.047
Estates Rationalisation	8.677	(1.435)	7.242
EU Exit Funding	0.315	(0.315)	-
EU Exit Funding - Exports	0.020	(0.020)	-
Exceptional Inflationary Pressures	-	5.208	5.208
Fire and Rescue Service HMICFRS Improvement Fund	0.060	(0.010)	0.050
Firefighters' Immediate Detriment	0.250	-	0.250
Firefighters' Pension Fund Admin Grant	0.033	-	0.033
Haltwhistle Repairs	0.015	0.024	0.039
Highways Maintenance Investments	-	0.225	0.225
Insurance	9.661	(1.182)	8.479
Invest to Save	10.507	(10.507)	-
Legal Challenges	0.637	1.163	1.800
Local Authority Mortgage Scheme	0.424	(0.424)	-
NCC Economic Regeneration	0.083	0.056	0.139

Description	Balance at	Increase/	Balance at
	1 April 2021	(Decrease)	31 March 2022
	£m	£m	£m
Northumberland Enterprise Holdings Ltd	0.300	(0.300)	-
Open Spaces Maintenance Agreements	0.065	0.022	0.087
Planning Delivery Grant	0.206	0.448	0.654
Problematic Empty Properties	0.050	-	0.050
Recruitment & Retention	-	0.500	0.500
Regeneration Additional Capacity	0.304	(0.114)	0.190
Regeneration Development	1.578	0.895	2.473
Repairs & Maintenance	0.250	-	0.250
Restructuring	1.000	1.000	2.000
Revenue Grants	19.231	(1.900)	17.331
Rural Growth Network	0.095	(0.095)	-
School Libraries	0.009	(0.002)	0.007
Sealodge	0.017	0.006	0.023
Section 106	7.699	3.131	10.830
Severe Weather	2.500	5.000	7.500
Social Fund	1.695	1.241	2.936
Sports Development	0.256	(0.003)	0.253
Storm Arwen	-	2.178	2.178
Strategic Management	49.002	(0.765)	48.237
Transformation of the Revenue & Benefits Service	-	0.215	0.215
Violence Reduction	0.030	-	0.030
Winter Services	2.000	-	2.000
Total Earmarked Reserves	174.430	8.718	183.148
Total Usable Reserves	346.063	15.686	361.749