



# Northumberland

## County Council

### **AUDIT COMMITTEE**

26 July 2023

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#### **Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2023**

Report of Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

Executive Director: Jan Willis, Executive Director of Transformation and Resources

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#### **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 2022-23 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 2022-23 (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 2023, 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 2023-24 and has a strong record of delivering within budget and achieving savings.
- c) As at 31 March 2023, the Council held general reserves of £50.955 million and reserves earmarked for specific future purposes, including those held for schools, of £179.915 million.
- d) Net assets at 31 March 2023 amounted to £921.445 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.

Based on the assessment undertaken, the Executive Director of Transformation & Resources 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 as published by 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 2022-23**

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

In February 2022 the Council set its 2022-23 budget and identified savings of £9.704 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. The final revenue outturn position (subject to audit) including all technical adjustments required to finalise the Statement of Accounts was a net underspend of £5.916 million, after accounting for transfers to earmarked reserves and provisions agreed as part of the provisional outturn report at the Cabinet meeting on 9 May 2023, which has been transferred to the General Fund. This has reduced the general fund reserve from £70.079 million to £50.955 million as at 31 March 2023.

All references to the prior year's figures (year ended 31 March 2022) are subject to audit.

Capital monitoring has been reported quarterly to the Cabinet and the final capital outturn position was an underspend of £37.290 million when compared to the revised budget of £188.840 million.

The Housing Revenue Account (HRA) outturn is an overspend of £0.739 million, which has been transferred from the HRA reserve, resulting in a reduction in the reserve balance to £29.147 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is £1.740 million at 31 March 2023.

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 2023 amounted to £921.445 million (£974.026 million on a Group basis). This is an increase of £528.249 million during 2022-23, which is due mainly to a reduction in the estimated pension liability for employees of £494.348 million, a reduction in

short-term investments totalling £55.056 million and a reduction in short-term creditors totalling £53.799 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 £39.152 million in Property, Plant and Equipment following in-year valuation, an extensive review of the Council's Infrastructure assets and historic accumulated depreciation, as well as an uplift of those assets not valued during the year based on Building Cost Information Service (BCIS) indices which rose substantially during the year.

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

The Council approved its budget for 2023-24 and Medium-Term Financial Plan (MTFP) 2023-27, on 22 February 2023.

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.

The financial landscape for the Council is likely to remain challenging for the foreseeable future. The one year settlement announced by the Government in December 2022 for 2023-24 does not help with longer term financial planning, however the settlement did provide some degree of comfort by announcing some indicative figures for 2024-25. In addition, the Fair Funding Review and review of the Business Rates Retention system has been delayed, with the earliest implementation date being 2025-26. 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 still continues. This is compounded by the current economic outlook, which continues to place increasing pressure on household and business finances.

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 from 2022-23 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 2023-24 is £401.483 million.

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

### **Financing of the 2023-24 Budget**

<b>Funding Stream</b>	<b>Amount £m</b>
Council Tax	231.950
Retained Business Rates	92.861
Revenue Support Grant	12.430
Other Corporate Grants	46.360
Strategic Management Reserve	12.739
General Fund Reserve	0.000
Collection Fund Smoothing Reserve	1.944
Council Transformation Fund	3.000
Public Health	0.199
<b>Total</b>	<b>401.483</b>

The Council has been able to set a balanced budget for 2023-24 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 22 February 2023 full Council approved the capital budget for 2023-24 and the medium-term Capital Programme for the period 2023-24 to 2026-27.

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 2023-24 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 2023, the Council held general reserves of £50.955 million and reserves earmarked for specific future purposes, including those held for schools, of £179.915 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 2023-24, although indicative allocations have been given for 2024-25. Given the pressures faced, particularly from social care, it is imperative that the quantum is increased and that a long-term settlement is agreed;

- d) the outcome of the Government's Fair Funding Review and review of Business Rates has been postponed by at least a further two years; resulting in implementation in 2025-26 at the earliest. These reviews 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 legacy of the coronavirus pandemic and economic outlook is again expected to have an impact in the medium term on business rates income;
- g) the impact of future increases in inflationary factors such as the National Living Wage and pay awards as well as utilities and fuel will need to be closely monitored;
- h) the Council continues 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;
- k) the potential ongoing 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 Executive Director of Transformation and Resources 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

<b>Policy:</b>	None.
<b>Finance and value for money:</b>	The Statement of Accounts summarises the financial performance of the Council for the 2022-23 financial year.
<b>Human Resources:</b>	None.
<b>Legal:</b>	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.
<b>Procurement:</b>	None.
<b>Property:</b>	None.
<b>Equalities:</b>	None.
<b>Risk Assessment:</b>	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
<b>Crime &amp; Disorder:</b>	None.
<b>Customer Considerations:</b>	None.
<b>Carbon Reduction:</b>	None.
<b>Consultation:</b>	Portfolio Holder for Corporate Services.
<b>Wards:</b>	All.

### Background Papers:

Northumberland County Council Draft Statement of Accounts 2022-23 (subject to audit)

### 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 2022 £m	Increase/ (Decrease) £m	Balance at 31 March 2023 £m
<b>General Reserves / Balances</b>			
General Fund Reserve	70.079	(19.124)	50.955
<b>Total General Reserve</b>	<b>70.079</b>	<b>(19.124)</b>	<b>50.955</b>
<b>Ring Fenced Reserves / Balances</b>			
HRA	29.873	(0.726)	29.147
Major Repairs Reserve – HRA	10.213	(0.358)	9.855
HRA Capital Investment	2.177	(0.437)	1.740
<b>Total Ring-Fenced Reserve / Balances</b>	<b>42.263</b>	<b>(1.521)</b>	<b>40.742</b>
<b>Specific Reserves / Balances</b>			
Capital Receipts - GF	0.183	(0.090)	0.093
Capital Receipts – HRA	4.768	3.469	8.237
Capital Grants Unapplied	61.306	2.172	63.478
<b>Total Specific Reserves / Balances</b>	<b>66.257</b>	<b>5.551</b>	<b>71.808</b>
<b>Earmarked Reserves</b>			
ADC Parks & Open Spaces	0.009	(0.009)	-
ADC Section 106	0.046	(0.044)	0.002
Balances held by Schools	9.192	(0.251)	8.941
Borderlands Energy Masterplan	0.816	(0.008)	0.808
Business Recovery	2.322	-	2.322
Cessation of the NHS Partnership Agreement	0.262	(0.262)	-
Collection Fund Smoothing	15.155	(13.211)	1.944
Community Led Housing	0.687	(0.082)	0.605
Contain Outbreak Management	2.130	(1.870)	0.260
Council Commissioned Services	8.981	(1.461)	7.520
Council Tax Hardship & Discount Scheme	-	6.588	6.588
Council Transformation Fund	17.902	(0.758)	17.144
Dedicated Schools Grant	4.032	0.469	4.501
Economy & Regeneration Investments	0.358	(0.308)	0.050
Empty Dwelling Management Order	0.047	0.030	0.077
Estates Rationalisation	7.242	(0.985)	6.257
Exceptional Inflationary Pressures	5.208	(4.191)	1.017
Fire and Rescue Service HMICFRS Improvement Fund	0.050	(0.024)	0.026
Firefighters' Immediate Detriment	0.250	(0.050)	0.200
Firefighters' Pension Fund Admin Grant	0.033	-	0.033
Food Waste	-	0.058	0.058
Haltwhistle Repairs	0.039	(0.003)	0.036
Highways Commuted Maintenance Funds	-	1.127	1.127
Highways Maintenance Investments	0.225	-	0.225
Homes for Ukraine	-	4.586	4.586
Insurance	8.479	(0.657)	7.822
Legal Challenges	1.800	(0.729)	1.071
NCC Economic Regeneration	0.139	(0.001)	0.138

Description	Balance at	Increase/	Balance at
	1 April 2022	(Decrease)	31 March 2023
	£m	£m	£m
Open Spaces Maintenance Agreements	0.087	0.007	0.094
Parks and Green Spaces	-	0.250	0.250
Planning Delivery Grant	0.654	0.424	1.078
Problematic Empty Properties	0.050	(0.003)	0.047
Recruitment & Retention	0.500	(0.061)	0.439
Regeneration Additional Capacity	0.190	0.215	0.405
Regeneration Development	2.473	0.479	2.952
Repairs & Maintenance	0.250	-	0.250
Replacement of Defective Street Lanterns	-	2.930	2.930
Restructuring	2.000	(1.162)	0.838
Revenue Grants	17.331	3.022	20.353
School Libraries	0.007	-	0.007
Sealodge	0.023	(0.013)	0.010
Section 106	10.830	3.867	14.697
Severe Weather	7.500	-	7.500
Social Fund	2.936	(2.443)	0.493
Sports Development	0.253	0.044	0.297
Storm Arwen	2.178	(1.985)	0.193
Strategic Management	48.237	1.471	49.708
Transformation of the Revenue & Benefits Service	0.215	-	0.215
Violence Reduction	0.030	0.009	0.039
Winter Services	2.000	-	2.000
Women's Safety in Public Places	-	0.022	0.022
<b>Total Earmarked Reserves</b>	<b>183.148</b>	<b>(4.973)</b>	<b>178.175</b>
<b>Total Usable Reserves</b>	<b>361.747</b>	<b>(20.068)</b>	<b>341.680</b>