



Northumberland County Council

Audit Committee

Thursday, 27 March 2025

Consideration of Going Concern Status for the Statement of Accounts for the year ended 31 March 2025

Report of Councillor(s) Wojciech Ploszaj, Cabinet Member for Corporate Services

Responsible Officer(s): Jan Willis, Executive Director of Transformation & Resources

1. **Link to Key Priorities of the Corporate Plan**

The Council's budget is aligned to the priorities in the Corporate Plan 2023-26 with significant investment in each of the priorities; achieving value for money, tackling inequalities and driving economic growth as well as specific funding set aside to deliver Best Value through the BEST work.

2. **Purpose of 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 note this.

3. **Recommendations**

- 3.1 It is recommended that Members of the Audit Committee note that the Council is considered to be a going concern and that the Statement of Accounts 2024-25 will be prepared on that basis.

4. **Forward plan date and reason for urgency if applicable**

Not applicable.

5. **Key Issues**

- 5.1 When preparing the annual Statement of Accounts, the Council complies with the Code of Practice on Local Authority Accounting 2024-25 (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the Statement of Accounts shall be prepared on a going concern basis.

- 5.2 This means that the Statement of Accounts shall be prepared on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.
- 5.3 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).
- 5.4 This report details the management consideration of Going Concern as at 31 March 2025, and beyond.
- 5.5 The forecast figures as at 31 March 2025 are based on the Financial Performance 2024-25 Position at the end of December 2024, which was reported to Cabinet on 11 March 2025.
- 5.6 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 2025-26 and has a strong record of delivering within budget and achieving savings.
 - c) As at 31 March 2025, the Council is forecast to hold general reserves of £51.310 million and reserves earmarked for specific future purposes, including those held for schools, of £121.148 million.
 - d) Net assets at 31 March 2024 amounted to £1,021.447 million. Net assets at 31 March 2025 is not yet available.
 - 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.
- 5.7 Based on the assessment undertaken, the Executive Director of Transformation and Resource'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 will be prepared on that basis.

6. Background

- 6.1 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.

- 6.2 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.
- 6.3 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.
- 6.4 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.

6.5 Financial Position

The Council has a strong record of delivering within budget and achieving savings. In February 2024 the Council set its 2024-25 budget and identified savings of £10.846 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 Cabinet. The forecast revenue outturn position at the end of December 2024 was a net overspend of £2.997 million. It is anticipated that further mitigations will occur in order to bring the position in line with the budget by the end of the financial year, which will maintain the general fund reserve at £51.310 million as at 31 March 2025.

Capital monitoring has been reported quarterly to Cabinet and the forecast capital outturn position at the end of December 2024 was an underspend of £40.231 million when compared to the revised budget of £305.477 million.

The Housing Revenue Account (HRA) forecast outturn at the end of December 2024 is an overspend of £3.556 million, which will be transferred from the HRA reserve, resulting in a forecast reduction in the reserve balance to £24.379 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is forecast to be £0.596 million at 31 March 2025.

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 2024 amounted to £1,021.447 million (£1,073.256 million on a Group basis). Net assets at 31 March 2025 is not yet available.

6.6 Medium-Term Financial Plan 2025-26 to 2028-29

The Council approved its budget for 2025-26 and Medium-Term Financial Plan (MTFP) 2025-29, on 19 February 2025.

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 2024 for 2025-26 does not help with longer term financial planning, and in addition the outcome of the Government's Funding Review and review of the Business Rates Retention system will not be known until 2026-27. 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 funding distribution and how any redistribution of business rates income is implemented. However, beyond 2025-26 the Government have committed to providing a three year settlement which will aid financial planning over the medium term.

The Council continues to face a range of significant budget pressures including general 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, including the Real Living Wage.

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 a focus on protecting front line services the Council has invested in its BEST initiative to help deliver efficiency savings to balance the Council's budget.

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 2025-26 is £471.836 million.

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

Financing of the 2025-26 Budget

| Funding Stream | Amount £m |
|-----------------------------------|----------------|
| Council Tax | 267.752 |
| Retained Business Rates | 110.873 |
| Other Corporate Grants | 70.275 |
| Strategic Management Reserve | 0.466 |
| Revenue Support Grant | 14.829 |
| Council Transformation Fund | 7.103 |
| Recruitment and Retention Reserve | 0.108 |
| Public Health | 0.180 |
| Leisure Reserve | 0.250 |
| Total | 471.836 |

The Council has been able to set a balanced budget for 2025-26 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.

6.7 Capital Funding

On 19 February 2025 County Council approved the capital budget for 2025-26 and the medium-term Capital Programme for the period 2025-26 to 2028-29.

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 2025-26 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.

6.8 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 2025, the Council is forecast to hold general reserves of £51.310 million and reserves earmarked for specific future purposes, including those held for schools, of £121.148 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.

7. Risk

- 7.1 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 2025-26. This will be determined by the Government's Funding Review and Review of Business Rates Retention which will be implemented in 2026-27. These reviews could result in significant changes to the distribution of government funding, however they will provide a three year settlement to aid financial planning.
 - d) the localisation of council tax support which passed the risk for any increase in council tax benefit claimants to 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.
 - e) the economic outlook and increase in employers National Insurance contribution rate is expected to have an impact in the medium term on business rates income.
 - f) the impact of future increases in inflationary factors such as the Real Living Wage and pay awards will need to be closely monitored.
 - g) 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.
 - h) the continued rise in demand in Education, Health and Care Plans is exceeding the growth in funding for the High Needs Block of the Dedicated Schools Grant leading to an overall deficit. The service is consulting on some options that can partially reduce the deficit, but it is hoped that the government fully recognises this pressure as part of the Comprehensive Spending Review. Current

regulations require the deficit balance on the High Needs DSG Reserve to be held in an unusable reserve. The Government will set out plans for reforming the SEND system during 2025-26. This will also include plans to help Local Authorities “deal with their historic and accruing deficits” as well as considering any transitional period between the current and reformed system. This work will inform any decision about the continuation of the statutory override. If the balance on the DSG Unusable Reserve is transferred back to the Council’s total Earmarked Reserves, it would materially impact on the overall level of reserves. This would not be of sufficient magnitude to put the Council’s financial standing at immediate risk. At this stage it is assumed that this scenario will not materialise, and as such this report assumes that the Government will find a solution towards dealing with and accounting for the accumulated deficit by March 2026 when the current statutory override is due to end.

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

8. Conclusion

- 8.1 Based on the assessment undertaken, the Executive Director of Transformation and Resource’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 will be prepared on that basis.

9. Options open to the Council and reasons for the recommendations

- 9.1 Audit Committee are asked to note the contents of the report and are not required to make a decision.

10. Implications

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|------------------------------------|--|
| Policy | None |
| Finance and value for money | The Statement of Accounts summarises the financial performance of the Council for the 2024-25 financial year |
| 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 |
| Human resources | None |
| Property | None |

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|---|--|
| The Equalities Act: is a full impact assessment required and attached? | No - no equalities issues identified N/A |
| Risk assessment | The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place |
| Crime and disorder | None |
| Customer considerations | None |
| Carbon reduction | None |
| Health and wellbeing | None |
| Wards | (All Wards); |

11. Appendices

Appendix A – Forecast Reserves Position as at 31 March 2025

12. Background papers

None

13. Links to other key reports already published

None

14. Author and Contact Details

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