



# Northumberland

## County Council

### **AUDIT COMMITTEE**

22 September 2021

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#### **Northumberland County Council – Consideration of ‘Going Concern Status’ for the Statement of Accounts for the year ended 31 March 2021**

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

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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 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 accounts are 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 2020-21 (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code requires the accounts be prepared on a going concern basis.

This means that the 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 2021, 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 2021-22 and has a strong record of delivering within budget and achieving savings.
- c) As at 31 March 2021, the Council held general reserves of £70.469 million and reserves earmarked for specific future purposes, including those held for schools, of £174.430 million.
- d) Net assets at 31 March 2021 amounted to £133.258 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.
- g) 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 2020-21 (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 2020-21**

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

In February 2020 the Council set its 2020-21 budget and identified savings of £9.800 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 an underspend of £5.438 million after accounting for transfers to earmarked reserves and provisions; and the planned contribution to the general fund reserve of £6.536 million. The final position, including all technical adjustments required to finalise the statement of accounts is an underspend of £7.007 million, subject to audit, which has increased the general fund reserve from £56.926 million to £70.469 million as at 31 March 2021.

Capital monitoring has been reported quarterly to the Cabinet and the final capital outturn position was an overspend of £0.742 million when compared to the revised budget of £164.563 million.

The Housing Revenue Account (HRA) outturn is an underspend of £1.485 million, which has been transferred to the HRA reserve, resulting in an increase in the reserve balance to £28.890 million. The earmarked HRA reserve for supporting the delivery of the housing development plan is £3.108 million at 31 March 2021.

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 2021 amounted to £133.258 million (£152.730 million on a Group basis). This is a decrease of £160.131 million during 2020-21, which is mainly due to an increase in the estimated pension liability for employees of £147.919 million. This 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 a decrease in short-term borrowing of £39.569 million, as external borrowing was replaced with internal borrowing in order to support the capital programme. In addition short-term investments increased by £27.043 million largely due to the increases in the Council's balances and reserves but also due to a stronger 'working capital' position.

#### **b) Medium-Term Financial Plan 2021-22 to 2023-24**

The Council approved its budget for 2021-22 and Medium-Term Financial Plan (MTFP) 2022-24, in February 2021.

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 and move to 75% Business Rate Retention (BRR) have been delayed again with the earliest implementation date being 2022-23. 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 move to 75% BRR 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. The Council began to experience the impact of the outbreak in March 2020, following the national lockdown announced by the Government on 17 March 2020. A number of front-line services and facilities were impacted by the restrictions and the Council needed to mobilise to support residents, suppliers, and businesses during the pandemic. 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.

Consequently, the Council suffered reductions in income during 2020-21 and this is likely to continue in future years. The Council's spending also significantly increased to cope with the outbreak.

The Government provided local authorities with Covid-19 financial support, additional funding for cost pressures and compensation for lost income; however, future funding is uncertain. 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. To support transformation work, the Council has invested in resources for Innovation and Improvement, to work across a number of workstreams, including Digital, Service Reviews, Place Based Shaping, Workforce, and Business Development and income generation.

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 requirement for 2021-22 is £330.399 million.

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

### **Financing of the 2021-22 Budget**

<b>Funding Stream</b>	<b>Amount £m</b>
Council Tax	198.276
Retained Business Rates	82.669
Revenue Support Grant	10.508
Other Corporate Grants	41.937
Strategic Management Reserve	4.862
Invest to Save Reserve	1.196
Contribution to Reserves	(9.049)
<b>Total</b>	<b>330.399</b>

The Council has been able to set a balanced budget for 2021-22 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 24 February 2021 full Council approved the capital budget for the period 2021-22 to 2023-24.

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 2021-22 and has a clear plan in place to continue to deliver local services up to 2024. 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 2021, the Council held general reserves of £70.469 million and reserves earmarked for specific future purposes, including those held for schools, of £174.430 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 2021-22. 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 2021 Comprehensive Spending Review;
- (d) the outcome of the Government's Fair Funding Review which is expected to be implemented in 2022-23. 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 49% 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 move to 75% business rates retention from 50%. 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 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

<b>Policy:</b>	None.
<b>Finance and value for money:</b>	The Statement of Accounts summarises the financial performance of the Council for the 2020-21 financial year.
<b>Human Resources:</b>	None.
<b>Legal:</b>	None.
<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 2020-21

### Report sign off.

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

	Name
Deputy Monitoring Officer/Legal	Helen Lancaster
Interim Executive Director of Finance & S151 Officer	Jan Willis
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Chief Executive	Daljit Lally
Portfolio Holder	Richard Wearmouth

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Description	Balance at 1 April 2020 £m	Increase/ (decrease) £m	Balance at 31 March 2021 £m
<b>General Reserves / Balances</b>			
General Fund Reserve	56.926	13.543	70.469
<b>Total General Reserve</b>	<b>56.926</b>	<b>13.543</b>	<b>70.469</b>
<b>Ring Fenced Reserves / Balances</b>			
HRA	27.405	1.485	28.890
Earmarked Reserves – HRA	4.304	4.303	8.607
HRA Capital Investment	4.000	(0.892)	3.108
<b>Total Ring-Fenced Reserve / Balances</b>	<b>35.709</b>	<b>4.896</b>	<b>40.605</b>
<b>Specific Reserves / Balances</b>			
Capital Receipts - GF	0.053	(0.051)	0.002
Capital Receipts – HRA	3.049	0.974	4.023
Capital Grants Unapplied	32.364	11.467	43.831
<b>Total Specific Reserves / Balances</b>	<b>35.466</b>	<b>12.390</b>	<b>47.856</b>
<b>Earmarked Reserves</b>			
ADC Parks & Open Spaces	0.031	(0.011)	0.020
ADC Section 106	0.054	(0.004)	0.050
Balances held by Schools	2.411	3.087	5.498
Borderlands Energy Masterplan	-	1.067	1.067
Business Recovery	-	2.322	2.322
Cessation of the NHS Partnership Agreement	-	1.500	1.500
Collection Fund Smoothing	-	26.291	26.291
Community Led Housing	0.971	(0.142)	0.829
Council Commissioned Services	-	11.100	11.100
Council Transformation Fund	7.487	(0.021)	7.466
Covid-19 Grant	10.025	(10.025)	-
Dedicated Schools Grant	(0.607)	1.505	0.898
Economy & Regeneration Investment	0.435	(0.015)	0.420
Estates Rationalisation	10.166	(1.489)	8.677
EU Exit Funding	0.315	-	0.315
EU Exit Funding - Exports	-	0.020	0.020
Fire and Rescue Service HMICFRS Improvement Fund	-	0.060	0.060
Firefighters' Immediate Detriment	-	0.250	0.250
Firefighters' Pension Fund Admin Grant	-	0.033	0.033
Haltwhistle Repairs	0.013	0.002	0.015
Insurance	8.969	0.692	9.661
Invest to Save	10.507	-	10.507
Legal Challenges	0.737	(0.100)	0.637
Local Authority Mortgage Scheme	0.424	-	0.424
NCC Economic Regeneration	0.083	-	0.083
Northumberland Enterprise Holdings Ltd	-	0.300	0.300
Northumberland Line	10.202	(10.202)	-
Open Spaces Maintenance Agreements	-	0.065	0.065

Description	Balance at	Increase/	Balance at
	1 April 2020	(decrease)	31 March 2021
	£m	£m	£m
Planning Delivery Grant	0.445	(0.239)	0.206
Problematic Empty Properties	0.050	-	0.050
Regeneration Additional Capacity	0.522	(0.218)	0.304
Regeneration Development	2.366	(0.788)	1.578
Repairs & Maintenance	-	0.250	0.250
Restructuring	-	1.000	1.000
Revenue Grants	8.448	10.783	19.231
Rural Growth Network	0.075	0.020	0.095
School Libraries	0.047	(0.038)	0.009
Sealodge	-	0.017	0.017
Section 106	7.946	(0.247)	7.699
Severe Weather	2.500	-	2.500
Social Fund	0.802	0.893	1.695
Sports Development	0.280	(0.024)	0.256
Strategic Management	35.099	13.903	49.002
Violence Reduction	0.030	-	0.030
Winter Services	2.000	-	2.000
<b>Total Earmarked Reserves</b>	<b>122.833</b>	<b>51.597</b>	<b>174.430</b>
<b>Total Usable Reserves</b>	<b>250.934</b>	<b>82.426</b>	<b>333.360</b>