

AUDIT AND GOVERNANCE COMMITTEE

21 July 2023

COUNCIL'S GOING CONCERN STATUS REPORT

Report of the Director of Finance

1. Purpose of the Report

- 1.1 The purpose of this report is to consider the Council's status as a going concern and request Committee to agree this.

2. Introduction

- 2.1 As Local Authorities are created and abolished only by statutory changes there is an underlying assumption in the 2021/2022 CIPFA/ LASAAC Code of Practice on Local Authority Accounting (Accounting Code) that their accounts will be prepared on a going concern basis.
- 2.2 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 means 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.
- 2.3 This report outlines the assessment of the Council's status as a going concern in line with best practice.

3. Context

- 3.1 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.
- 3.2 Although the financial context continues to be challenging and uncertain, the Council has a track record of meeting its financial obligations and maintaining financial sustainability. In 2022/2023 the Council delivered an outturn within its original 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.

3.3 The 2021/2022 Audit carried out by Mazars includes a value for money assessment, which considers the identification, monitoring and achievement of savings. Although the final Auditor's Annual Report is still to be issued for 2021/22, an update to the Audit and Governance Committee by Mazars noted; "We reported our interim findings in our November 2022 report to the Committee i.e. that there were no significant issues arising at that time and have continued to keep our risk assessment up to date. There have been no significant changes to our assessment of the Council's arrangements. We will update our assessment on this and the other criteria covered by the value for money commentary and set out our findings and conclusions in the Auditor's Annual Report."

4. 2022/2023 Year End Position

4.1 Council agreed the original revenue budget for 2022/2023 on 2 March 2022, this was set at £216.914m. The overall service revenue outturn for 2022/2023, including transfers to and from reserves and financing, results in a balanced position.

4.2 The final capital outturn position is an underspend of £69.896m when compared to the revised budget for the year of £222.181m. The underspend in 2022/2023 has been transferred in to the 2023/2024 and future year budgets, to align with the latest expenditure profile. The Council's Revenue and Capital budget monitoring position is reported on quarterly basis to Cabinet in accordance with the budget framework.

4.3 The Statement of Accounts for 2022/2023 has been prepared and the health of the Council's balance sheet has been assessed; the key points are as follows:

- The general fund reserve has remained constant at £12.000m, and this represents 5.5% of the 2022/2023 revenue budget;
- School reserves have reduced by £2.594m to £7.188m;
- Useable revenue reserves have increased by £0.235m to £144.435m as at 31 March 2023;
- Long Term Assets have increased from £1,209m to £1,306m due to an increase in the value of Property, Plant and Equipment;
- Current Assets have reduced from £326m to £304m mainly linked to movements in short term investments;
- Current Liabilities have decreased slightly from £157m to £155m;
- Long Term Liabilities have reduced from £987m to £657m, mainly due to re-measurement of the defined benefit pension asset / liability; and
- Overall Net Assets have increased from £392m to £798m, again due to the pension re-measurement.

4.4 The accounts have also been prepared on a Group basis incorporating Sunderland Care and Support Ltd, Together for Children Sunderland Ltd, Sunderland Lifestyle Partnership Ltd, Siglion LLP, Siglion Holdings Ltd and IAMP LLP. The net assets of the group as a whole have increased from £379m to £859m.

	Balance at 31 March 2023 £m
Earmarked General Fund Reserves - Revenue:	
Medium Term Planning Smoothing Reserve	34.601
Strategic Regeneration Reserve	10.557
Health and Social Care Reserve	10.520
Energy and General Inflation	9.371
Streetscene and open Space	6.762
Insurance Reserve	6.236
Strategic Investment Reserve	5.558
Public Health Grant	5.321
Strategic Initiatives Budget Reserve	4.499
Street Lighting PFI Smoothing Reserve	4.120
Smart Cities	3.894
Low Level Family Support	3.496
HCA Stadium Transfer	3.109
Education Redundancies Reserve	2.353
Sandhill Centre PFI Smoothing Reserve	2.151
Transformation Reserve	1.715
Collection Fund Surplus Reserve	1.533
House Sales Income Reserve	1.390
Carbon Reduction Reserve	1.384
Housing Benefit Smoothing Reserve	1.296
Airport Smoothing Reserve	1.253
Events Reserve	1.200
Members Recovery Fund	1.000
Other Earmarked Revenue Reserves	21.116
	144.435

4.5 A breakdown of the £144.435m usable revenue reserves as at 31 March 2023 is shown in the table below:

4.6 The draft Statement of Accounts includes the Annual Governance Statement which was approved by the Audit and Governance Committee on 28 April 2023. This provided the Committee with evidence of assurance 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.

5. Current Position - 2023/2024 Budget

5.1 Council agreed the revenue budget for 2023/2024 on 22 February 2023. This was set at £247.169m. The budget was balanced by increasing council tax by 2.99% (1.99% core council and 1% ASC precept), budget savings of £13.378m and a planned use of the Medium Term Planning smoothing reserve of £9.000m.

5.2 The Council's expenditure budget continues to be impacted by social care pressures, wide ranging inflationary pressure and general global economic conditions. Additional grant support was received from the Government to

mitigate some of the cost pressures, this was supplemented with additional Council resource as part of the 2023/2024 budget setting process.

- 5.3 The budget for the capital programme for 2023/2024, as agreed by Council on 22 February 2023, totalled £268.401m.
- 5.4 The revenue and capital budgets will be monitored monthly by Senior Officers and quarterly by Cabinet with any changes to budgets agreed by Council.
- 5.5 The Council's General Fund Reserve stands at £12.000m. This is 4.9% of the original 2023/2024 revenue budget, this is in accordance with the existing policy and is considered prudent and robust given the overall level of reserves.

6. Future Position - Medium Term Financial Plan (MTFP)

- 6.1 The current MTFP covers the period 2023/2024 to 2026/2027, this estimates a funding gap of £107.648m over the four-year period. Current council tax and business rate growth and grant inflationary forecasts total £66.783m over the same period. Therefore, the net MTFP shortfall over the four-period indicates savings requirements and / or additional funding of £40.865m.
- 6.2 The MTFP is reviewed at least annually to ensure Members are aware of the latest estimated future financial position of the Council. The last review was considered by Cabinet in February 2023 and approved by Council on 22 February 2023.
- 6.3 The Council's approach to delivering the savings requirement is encapsulated in the Efficiency Strategy 2023/2024 to 2026/2027 approved by Council in February 2023.
- 6.4 In addition to maximising Council Tax and Business Rates growth, there will be a continued and iterative development of a programme of activity to address the MTFP gap, taking into account the strategic vision of the Council's role in the future and reflecting the following key principles. For all service areas this includes consideration of:
 - Ensuring resources are targeted on statutory and front-line services and protecting key priority services with a focus on need rather than want;
 - Managing demand - implementing strategies and policies that enable the Council to manage demand and facilitate those services which make a difference in the most effective way;
 - Being customer focussed - using robust data and information to understand our resident's needs and maximising opportunities through use of technology for both our customers and internal users, so that people self-serve wherever possible and eliminate waste and duplication;
 - Redesigning and reshaping services to deliver required outcomes in a value for money way which maximises productivity;
 - Strategic commissioning based on outcomes and using an intelligence based approach to ensure a sound evidence base for commissioning decisions and effective commissioning arrangements;

- Pressing forward with new models of service delivery that improve our commercialisation, to maximise income opportunities where there is a market and business case;
- Ensuring opportunities for collaboration with partners to deliver key outcomes that matter to the city;
- Ensuring that our internal, support services respond appropriately to the changing shape and size of the Council;
- Involving the Community – residents, businesses, partners and voluntary sector to ensure best outcomes for the city; and
- Continued focus on regeneration and inward investment in order to grow business rate and council tax income, leveraging funding to maximise additional income sources and commercial opportunities.

6.5 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 have been maintained to assist transition and mitigate future risk. Reserve levels and use will be kept under review and reported to Cabinet.

6.6 Future risks for the Council include inflation and global uncertainties, legacy impact of the COVID-19 pandemic, reductions in central government funding, increasing demand and costs of Adult and Children’s Social Care and the uncertainty concerning the timing and impact of any Local Government Fair Funding Review and the changes to business rate retention. These risks will continue to be monitored by Senior Officers and Cabinet and applied to the MTFP as the areas develop.

7. Conclusion

7.1 Based on the assessment undertaken, the Council’s Director of Finance (Section 151 officer) 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 the known risks. Any transition required to deliver savings can be supported by transitional reserves, therefore the Council is a going concern and the Statement of Accounts should be prepared on that basis.

8. Recommendation

8.1 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 that basis.

