

AUDIT AND GOVERNANCE COMMITTEE

22 July 2022

COUNCIL'S GOING CONCERN STATUS REPORT

Report of the Executive Director of Corporate Services

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 2021/2022 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 Annual Audit Report from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The Audit Report issued in January 2022 in relation to 2020/2021 noted; "In our audit report issued [in September 2021] we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not identified any significant weaknesses in those arrangements at the time of reporting". That work was subsequently completed, with no significant weaknesses identified.

4. 2021/2022 Year End Position

- 4.1 Council agreed the original revenue budget for 2021/2022 on the 3 March 2021, this was set at £204.880m. The overall service revenue outturn for 2021/2022, including transfers to and from reserves and financing, results in an underspend of £0.037m.
- 4.2 The final capital outturn position is an underspend of £65.201m when compared to the revised budget for the year of £189.414m. The underspend in 2021/2022 has been transferred in to the 2022/2023 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 2021/2022 have 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 5.86% of the 2021/2022 revenue budget;
 - School reserves have reduced by £0.960m to £9.782m;
 - Useable revenue reserves have increased by £7.768m to £144.200m as at 31 March 2022. It should be noted that £8.202m of this increase relates to the holding of Section 31 Covid NNDR Relief grant funding which will be applied to the Collection Fund in 2022/2023;
 - Long Term Assets have increased from £1,133m to £1,209m due to an increase in the value of Property, Plant and Equipment;
 - Current Assets have increased, from £238m to £326m mainly linked to increased short term investments;
 - Current Liabilities have increased slightly from £137m to £157m mainly due to an increase in receipts in advance and short-term creditors;
 - Long Term Liabilities have increased from slightly £1,043m to £1,061m; and
 - Overall Net Assets have increased from £191m to £317m.
- 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 Holding Ltd and IAMP LLP. The net assets of the group as a whole have increased from £149m to £300m.
- 4.5 A breakdown of the £144.200m revenue reserves as at 31 March 2022 is shown in the table below:

	Balance at 31 March 2022 £m
Earmarked General Fund Reserves - Revenue:	
NNDR Covid Retail, Hospitality & Leisure Relief Reserve	8.202
Medium Term Planning Smoothing Reserve	34.601
Strategic Regeneration Reserve	10.747
Strategic Investment Reserve	5.641
Insurance Reserve	5.470
Street Lighting PFI Smoothing Reserve	4.280
Strategic Initiatives Budget Reserve	4.498
Smart Cities	4.000
Streetscene and open Space	4.198
HCA Stadium Transfer	3.109
Transformation Reserve	2.941
Public Health Grant	4.032
Sandhill Centre PFI Smoothing Reserve	2.151
Education Redundancies Reserve	2.079
Low Level Family Support	4.386
Collection Fund Surplus Reserve	1.533
Housing Benefit Smoothing Reserve	1.459
Airport Smoothing Reserve	1.253
Triathlon	1.200
Riverside Transfer	1.092
Health and Social Care Reserve	9.336
Energy and General Inflation	5.750
Members Recovery Fund	1.000
Carbon Reduction Project Reserve	1.524
Other Earmarked Revenue Reserves	19.718
	144.200

- 4.6 The draft Statement of Accounts includes the Annual Governance Statement which was approved by the Audit and Governance Committee on 29 April 2022. 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 - 2022/2023 Budget

- 5.1 Council agreed the revenue budget for 2022/2023 on 2 March 2022. This was set at £216.914m. The budget was balanced by increasing council tax by 2.99% (1.99% core council and 1% ASC precept), budget savings of £5.821m and a planned use of the Medium Term Planning smoothing reserve of £5.430m.
- 5.2 The Council's expenditure budget continues to be impacted by social care pressures, the effects of the Covid-19 pandemic, inflationary pressure and general global economic conditions. Additional grant support was received from government to mitigate some of the cost pressures, this was supplemented with additional Council resource as part of the 2022/2023 budget setting process.

- 5.3 The budget for the capital programme for 2022/23, as agreed by Council on 2 March 2022, totalled £295.541m.
- 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 5.53% of the original 2022/2023 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 2022/2023 to 2025/2026, this estimates a funding gap of £59.237m over the four-year period. Current council tax and business rate growth and inflationary forecasts total £25.506m over the same period. Therefore, the net MTFP shortfall over the four-period indicates savings requirements of £33.731 before use of smoothing reserve.
- 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 2022 and approved by Council in March 2022.
- 6.3 The Council's approach to delivering the savings requirement is encapsulated in the Efficiency Strategy 2022/2023 to 2025/2026 approved by Council in March 2022.
- 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 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.

A transformational review process for a proportion of the Corporate Services directorate commenced during 2021/2022 with the aim of delivering, improved services, efficiencies, and financial savings during 2022/2023. Further reviews will continue during 2022/2023.

- 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 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 Executive Director of Corporate Services' (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.