

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 2024/2025 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 of the 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 2024/2025 the Council delivered an outturn within its original budget and was able to make a positive contribution towards its General Fund Balances of £0.5m, bringing the total level of General Fund balances to £14.0m. This is considered by the Chief Finance Officer to be an

adequate level in relation to the overall level of risk and uncertainty that the Council is currently operating within. In addition, the level of General Fund balances is also taken into consideration when the Council considers the overall level of usable reserves available to cover financial risk. 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 2023/2024 external audit carried out by Mazars includes a value for money assessment which was presented to Audit and Governance Committee on 25 April 2025 as part of the Auditor's Annual Report. This considered the following three criteria, with no significant issues being identified:

- Financial sustainability;
- Governance; and
- Improving economy, efficiency and effectiveness.

4. 2024/2025 Year End Position

4.1 The Council's revenue and capital budget monitoring position is reported on a quarterly basis to Cabinet in accordance with the budget framework.

4.2 The Council agreed the original revenue budget for 2024/2025 on 28 February 2024, this was set at £258.706m. The overall service revenue outturn for 2024/2025, including transfers to and from reserves and financing, resulted in a balanced position.

4.3 The final capital outturn position is an underspend of £64.796m when compared to the revised budget for the year of £212.585m. The underspend includes £64.447m budget transferred into the 2025/2026 and future year budgets to align with the latest expenditure profile, and £0.349m cost variance.

4.4 The Statement of Accounts for 2024/2025 has been prepared and the health of the Council's balance sheet has been assessed; the key points are as follows:

- Long Term Assets have increased from £1,406m to £1,432m mainly due to an increase in the value of Property, Plant and Equipment and Right of Use Assets and a reduction to the value of the defined benefit pension asset;
- Current Assets have reduced from £258m to £174m mainly linked to movements in short term investments and cash held;
- Current Liabilities have reduced from £180m to £156m;
- Long Term Liabilities have increased from £680m to £687m;
- As a result of the items above, the overall Net Assets have reduced from £804m to £762m;
- The general fund reserve has been increased from £13.5m to £14.0m, representing 5.2% of the 2025/2026 revenue budget requirement;
- School reserves have increased by £1.572m to £9.330m;

- Usable capital reserves have increased by £6.030m to £31.133m at 31 March 2025; and
- Usable revenue reserves have reduced by £9.271m to £124.417m at 31 March 2025.

4.5 A breakdown of the £124.417m usable revenue reserves held at 31 March 2025 is shown in the table below:

	31 March 2025 £m
Earmarked General Fund Reserves - Revenue:	
Medium Term Planning Smoothing Reserve	24.122
General Inflation and Risk Reserve	11.012
Strategic Regeneration Reserve	10.774
Health and Social Care Reserve	7.122
Public Health Reserve	5.321
Insurance Reserve	5.007
Strategic Investment Reserve (Revenue)	4.955
Streetscene and Open Spaces Reserve	3.995
Strategic Initiatives Budget Reserve	3.811
Street Lighting PFI Smoothing Reserve	3.716
Smart Cities Reserve	3.390
HCA Stadium Park Reserve	3.263
Low Level Family Support Reserve	2.315
Education Redundancies Reserve	2.153
Sandhill Centre PFI Smoothing Reserve	2.151
House Sales Income Reserve	2.135
Carbon Reduction Reserve	2.070
Culture House Reserve	1.084
Housing Benefit Smoothing Reserve	1.060
Other Earmarked Revenue Reserves	24.961
	124.417

4.6 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 reduced from £869m to £832m.

4.7 The 2024/2025 draft Statement of Accounts includes the Annual Governance Statement which was approved by the Audit and Governance Committee on 25 April 2025. 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 - 2025/2026 Budget

5.1 The Council agreed the revenue budget for 2025/2026 on 19 February 2025. This was set at £269.375m. The budget was balanced by increasing Council

Tax by 4.49% (2.49% core council and 2% Adult Social Care precept), budget savings of £10.241m 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 within both Adults and Children's services, wide ranging inflationary pressure and general global economic conditions. Additional grant support received from the Government to mitigate some of the cost pressures in relation to Social Care, has been supplemented with additional Council resource as part of the 2025/2026 budget setting process.
- 5.3 The budget for the capital programme for 2025/2026, as agreed by Council on 19 February 2025, totalled £258.006m.
- 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 As described in section 3.2 the Council's General Fund Reserve stands at £14m. This is 5.2% of the original 2025/2026 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 2025/2026 to 2028/2029, this estimates a funding gap of £96.574m over the four-year period. Current Council Tax and business rate growth and grant inflationary forecasts total £57.570m over the same period. Therefore, the net MTFP shortfall over the four-year period indicates savings requirements and / or additional funding of £39.004m.
- 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 2025 and approved by Council on 19 February 2025.
- 6.3 The Council's approach to delivering the savings requirement is encapsulated in the Efficiency Strategy 2025/2026 to 2028/2029 approved by the Council in February 2025.
- 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;
- Improving 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 it delivers its 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 Significant demand and cost pressures remain within Adult and Children's Social Care as well as continued pressure on all areas of service delivery from increased levels of inflation. Economic factors and uncertainty regarding future funding arrangements pose a significant risk to the Council's financial position. 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.