FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

29 November 2022

Report of the Director of Finance & ICT

Assessment of Going Concern Status

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To inform Audit Committee of the Director of Finance & ICT's assessment, as Section 151 Officer, of the Council's status as a 'going concern' for the purpose of producing its Statement of Accounts for 2021-22.

4. Information and Analysis

4.1 The concept of 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice and 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). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government, either for the continuation of the services it provides, or for assistance with the recovery of a deficit over more than one financial year. The Government has actually offered support to a number of local authorities over the last two years.

4.2 The Code also confirms that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements are prepared on a going concern basis.

4.3 Where it is assessed that an entity is not a going concern, particular care would be needed in respect of the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements.

4.4 Given the threat to the ongoing viability of one or more councils in recent years due to multiple factors, which include significant reductions in funding for local government, impacts of the Covid-19 pandemic and a highly inflationary economic environment, external auditors are placing greater emphasis on local authorities undertaking and formalising an assessment of the going concern basis on which they prepare their financial statements.

4.5 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2021-22 (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council's Statement of Accounts are prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

4.6 The main factors which underpin a going concern assessment are the:

- Council's current financial position.
- Council's projected financial position.
- Council's governance arrangements.
- Regulatory and control environment applicable to the Council as a local authority.

4.7 Each of these factors is considered in more detail below.

Year-End Financial Position

4.8 The following review is based on the Council's pre-audit Statement of Accounts published in June 2022.

Revenue

4.9 The 2021-22 revenue outturn position was a net underspend of £26.851m (4.39% of net budget). Though this was a favourable result, it is important to note that there was a total portfolio overspend of £1.202m in respect of the services the Council delivers. There were cost pressures from rising demand for placements for children who are in care, home to school transport and savings targets which have not been achieved. The underspend arose primarily due to the receipt of several additional non-ringfenced grants which were announced after the 2021-22 Revenue Budget was approved by Council on 3 February 2021, most notably £7m Business Rates Reconciliation 2020-21 grant and £6m Covid-19 Local Council Tax Support grant, and due to £9m of unutilised contingency funding. These were one-off amounts and cannot be relied upon to support future years' spending. As at 31 March 2022, the Council's General Reserve balance was £60.505m (£77.665m at 31 March 2021) and its earmarked reserves balance was £283.333m (£260.503m at 31 March 2021).

4.10 At its meeting of 28 July 2022, Cabinet agreed to make the following allocations from both the release of a £14.000m earmarked reserve held as a contingency against potential funding losses during the Covid-19 recovery period and the £26.851m 2021-22 underspend:

- £10.000m to an Inflation Risks earmarked reserve to support the Council in the short-term to meet the cost of temporary inflationary increases.
- £10.000m to the Budget Management earmarked reserve to support the Council in setting a balanced budget in future years, through the use of one-off funding to support services.
- £5.251m to a Business Rates Risks earmarked reserve to mitigate future volatility the Council may experience in respect of business rates receipts
- £4.000m to a Cyber Security earmarked reserve to aid the Council's recovery in the event of a cyber-attack.
- £5.666m to provide for specific commitments and to provide portfolios with flexibility in meeting budget pressures and reduction targets.

4.11 After the allocations above, this leaves the balance on the General Reserve at £39.588m. This balance is 6.8% of the Council's net expenditure (£584.773m) in 2021-22. In the Audit Commission's 'Striking a Balance' report published in 2012, the majority of chief finance officers at the national level regarded an amount of between 3% and 5% of a council's net spending as a prudent level for risk based reserves.

4.12 The adequacy of reserves is reviewed on a regular basis and the ongoing requirement for specified earmarked reserves is reviewed on an annual basis.

Capital

4.13 Capital expenditure in 2021-22 was £113.599m (£91.062m in 2020-21). The Council has not entered into any long-term debt since September 2010. Where grants or capital receipts were not available, the Council's strategy has been to fund capital investment by using available cash balances, thereby reducing the cost of interest charges. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). As at 31 March 2022, the Council's Loans Capital Financing Requirement was £511.317m (£461.134m at 31 March 2021), of which £413.399m was funded from external sources (£360.899m at 31 March 2021) and £97.918m utilised available cash balances (£100.235m at 31 March 2021), therefore the Council's actual borrowing level remains well below its underlying need to borrow.

Table 1: Capital Financing, Borrowing and Investments Summary

	31 Mar 21 £m	**31 Mar 22 £m**
General Fund CFR	525.679	571.297
Less: Other debt liabilities*	(64.545)	(59.980)
Loans CFR	**461.134**	**511.317**
Less: External borrowing**	(360.899)	(413.399)
Internal borrowing	**100.235**	**97.918**
Less: Usable reserves***	(395.100)	(388.004)
Less: Working capital	(43.421)	(90.672)
New borrowing (or Treasury investments)	**(338.286)**	**(380.758)**

*Leases, PFI liabilities and transferred debt that form part of the Council's total debt
**Shows only loans to which the Council is committed and excludes optional refinancing
***Excludes the earmarked reserve created from loan modification gains

Balance Sheet

4.14 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Council's net assets (assets less liabilities) are matched by the reserves held.

Table 2: Summary Balance Sheet

	31 Mar 21 £m	31 Mar 22 £m
Non-Current Assets	1,794.658	1,859.451
Net Current Assets (e.g. debtors, inventories and cash, short term creditors and liabilities)	69.372	51.610
Pensions Liabilities	(1,024.523)	(740.869)
Other Non-Current Liabilities and Provisions	(312.667)	(314.052)
Net Assets	**526.840**	**856.140**
Usable Reserves	420.353	412.237
Unusable Reserves	106.487	443.903
Total Reserves	**526.840**	**856.140**

4.15 The following trends are reflected in the Balance Sheet from the position as at 31 March 2021 to the position as at 31 March 2022:
- net assets have increased from £526.840m to £856.140m (a year-on-year increase of £329.300m);
- non-currents assets have increased from £1,794.658m to £1,859.451m (a year-on-year increase of £64.793m);
- non-current liabilities have decreased from £1,337.190m to £1,054.921m (a year-on-year decrease of £282.269m); and
- the debt ratio has decreased from 0.75 to 0.62.

4.16 The debt ratio is the proportion of liabilities to assets. It is a measure of an entity's ability to service its debts by selling its assets if it had to. A larger ratio indicates that more assets are being paid for by borrowed money, which can suggest less stability. At 0.62, the Council's debt ratio remains below 1 and is therefore not a cause for concern.

4.17 The large decrease in non-current liabilities and corresponding increase in net assets on 2021-22 is due to a change in the net pension liability. There were gains arising from changes to the demographic and financial assumptions used to measure Local Government Pension Scheme liabilities in the actuarial valuation as at 31 March 2019, in addition to the return on scheme assets in 2021-22.

4.18 The net pension liability reported from one financial year to the next can be volatile and is extremely sensitive to changes in the underlying assumptions. The implications of changes in this amount can only be properly considered in the medium to long-term. As a participating employer in the Derbyshire Pension Fund, the Council reviews and adjusts its employer contributions every three years under advice from the actuary. This provides confidence that the Council's obligations remain sustainable by ensuring that rates are adequate to meet the cost of future service of active Fund members and that additional cash amounts address the past service deficit.

4.19 The Council's balance sheet at 31 March 2022 remains robust. Factors contributing to this assessment include:

- a review of debts owed to the Council;
- the adequacy of risk-assessed allowances for doubtful debts;
- the range of earmarked reserves set aside to help manage expenditure;
- an adequate general reserve which includes a risk-assessed working balance to meet unforeseen expenditure.

4.20 A financial overview that includes reference to the Council's balance sheet is included as part of the Narrative Report in the Statement of Accounts.

Cash Flow

4.21 The Council maintains short- and long-term cash flow projections, and manages its cash, investments and borrowing in line with the Council's approved Treasury Management Strategy. As at 31 March 2022, the Council had external borrowing commitments of £413.399m (£360.899m at 31 March 2021) and held £380.758m in treasury investments and cash (£338.286m at 31 March 2021).

Projected Financial Position

Social Care Costs

4.22 The cost of both Children's and Adult Social Care continue to increase significantly.

4.23 Demographic growth and children transitioning to adulthood are affecting Adult Social Care costs. These are predicted to cost an additional £5-6m each year for at least five years. Furthermore, increases to the National Living Wage (NLW) directly impact on the fees the Council pays the independent care sector. If recent actual and announced increases to the NLW, of between 2% and 10%, continue this could cost at least an additional £19m each year for at least the next five years.

4.24 Nationwide pressures on the cost of Childrens Social Care are reflected in Derbyshire. The number of children in the care of the Council rose by 31% in the four years to October 2022. Average placement costs for a child in care have increased by 40% over the last four financial years and inflation, combined with the national shortage of foster care placements, make further increased likely.

4.25 For 2022-23, the Better Care Fund, Improved Better Care Fund and Winter Pressures Grant have been uplifted by changes in CPI between September 2020 and September 2021. In addition, the Social Care Grant awarded to Derbyshire increased by £10m. The Council has also implemented a 1% increase to the Adult Social Care Precept to provide Council Tax income to fund associated services. Without this continued level of support over the medium term the financial sustainability of these services is at significant risk.

4.26 Forecasts as at Quarter 1 (June 2022) suggest there may be overspends across the two social care portfolios of around £22m in 2022-23. These are offset by around £5m set-aside in the Council’s Contingency and Risk Management budgets.

Unachieved Savings

4.27 Several years of real terms funding reductions and cost pressures have required a significant cumulative value of savings to be identified and achieved for the Council to achieve a balanced budget. Significant consultation and planning timeframes are required to achieve many savings. Delays in agreeing proposals can result in overspends by departments, which deplete the level of General Reserve held by the Council, decreasing its ability to meet short term, unforeseeable expenditure. It is becoming increasingly difficult to identify, agree and implement savings initiatives within an adequate timeframe. Consequently, overspends on some portfolio budgets are now forecast.

4.28 Forecasts as at Quarter 1 (June 2022) suggest there may be overspends across the Corporate Services and Budget and the Highways Assets and Transport portfolios totalling around £9m in 2022-23. Unachieved savings are a significant component of these overspends, either due to delays in planned initiatives or where sufficient initiatives haven't been identified or approved.

Pay Inflation

4.29 Negotiations in respect of the 2022-23 pay award for Local Government Service Employees concluded on 1 November 2022. The National Employers' final one-year offer was agreed with the unions representing the main local government workforce as follows:

- With effect from 1 April 2022, an increase of £1,925 on all pay points covered by the Council's Pay Grades up to and including Grade 16, which is equivalent to a 10.5% increase for employees on pay point 1 and 4.0% for employees on the highest pay point, and an increase of 4.0 per cent on all allowances, except for travel rates.
- With effect from 1 April 2023, an increase of one day to all employees' annual leave entitlement and the deletion of pay point 1.

The final 2022-23 basic salary pay offer is equivalent to an average pay increase of 7.3% across the Council's workforce. Initial modelling suggests that the cost to the Council of the basic pay offer is around £19.866m in 2022-23.

4.30 The forecast additional 2022-23 budget pressure arising from the agreed 2021-22 pay award (which was agreed late in 2021-22) and the agreed 2022-23 pay award for basic pay is £21.762m. This will be an ongoing budget pressure in each subsequent year. In the 2022-23 Revenue Budget, the Council set aside contingency funding of £6.789m for the 2022-23 pay award and £0.446m for the associated additional on-cost from a 1.25% increase in employer's contributions. This leaves the Council with a forecast ongoing budget shortfall of £14.527m, in addition to the impact of the proposed 2022-23 increase in allowances and the proposed one day additional annual leave from 2023-24, which will put severe pressure on those services already deeply impacted by staffing availability and cost of provision, such as social care. Not all of this ongoing pressure will fall to the Council. Some employees work in areas wholly funded by grants and it is expected that these grants take up their fair share of additional costs in line with their workforce cost.

Price Inflation

4.31 The annual UK Consumer Price Index (CPI) reached 4.2% in October 2021 largely due to surging demand and supply chain problems during the Covid-19 pandemic. Since then, the invasion of Ukraine by Russia has compounded the impact on fuel, food costs and general inflation. By November 2022 CPI had risen to 11.1%.

4.32 The effects of general inflation are being experienced across all Council services. However, there is especial pressure where costs include utilities, fuel, transport, catering and food supplies, payments to independent care providers and construction and maintenance of building and road infrastructure.

4.33 In the Council's 2022-23 Revenue Budget Report, in a reasonably pessimistic forecast, the General Reserve was predicted to decrease to 1.4% (£9.522m) of the Council's Net Budget Requirement by 2026-27. However, this forecast did not anticipate that inflation would be at current levels. It is now recognised that whilst the Council should be able to use one-off funding to balance its budget in the short term, the General Reserve is likely to be under too great a pressure in the medium term if additional funding is not received to support the Council through this period of high inflation. If additional funding is received, the Council would aim to use restorative measures over the Five Year Financial Plan to build back up the balance of the General Reserve to a reasonable, risk assessed level.

Cost of Borrowing

4.34 The Bank of England raised the key base rate to 3.00% on 2 November 2022 – its highest level since 2008 – with the intention of mitigating the risk that inflationary pressures becoming entrenched. The move in base rate alongside the Government's exposure to gilts linked to the Retail Prices Index (RPI) and concerns about the scale of Government borrowing following the September 2022 mini budget have pushed up the interest rate on Government borrowing and lending. In the year to November 2022 the interest rate on a new 40-year fixed rate maturity loan from the Public Works Loans Board (PWLB) had risen from around 2% to around 4%.

4.35 The Council's Treasury Management Strategy over the last decade has been to use internal borrowing, i.e. use its reserve balances to fund capital expenditure, rather than take on new long-term external borrowing. With short-term interest rates having been much lower than long-term rates, it has been considered more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council has reduced its net borrowing costs and reduced overall treasury risk.

4.36 Due to the Council's Treasury Management Strategy the Council has headroom, within the scope of its powers under the Prudential Framework, to take on additional external borrowing to preserve the liquidity of its cash flow, should it need to do so. However, in the event that the Council now enters new long-term external borrowing arrangements it will be exposed to higher interest rates and additional costs of borrowing which it may be locked into for many years to come.

Council Tax and Business Rates Income

4.37 Local tax income is collected by billing authorities and paid into local Council Tax and Business Rates 'collection funds'. Where there is a shortfall in tax receipts (compared to expected levels), this leads to a deficit on the collection fund.

4.38 The total Council Tax taxbase figure for 2022-23 is 257,097.90, based on the number of equivalent Band D properties, a 1.86% increase on the previous year. The additional Council Tax due as a result of the increase in taxbase is £6.488m. Previous years have seen increases in the taxbase of 0.41%, 1.71% and 1.17%. The taxbase increase for 2021-22 was less than in recent years because of the impact of the Covid-19 pandemic, namely an increase in the number of residents claiming Council Tax benefits. However, support was received from the Council Tax Support Scheme grant in respect of that year. Based on strong expected housing growth, the Five Year Financial Plan (FYFP) assumes prudent annual taxbase increases of 1.50% from 2023-24.

4.39 Covid-19 severely impacted on the Council Tax collection fund position in the Council's Revenue Budget 2021-22. The Council Tax collection fund deficit for 2021-22 was estimated at £2.306m in the Council's Revenue Budget 2021-22 Report, although this figure was not final. A verbal update was provided at the full Council Meeting, with a final collection fund deficit of £2.357m. In comparison, the collection fund position reported in the Revenue Budget 2020-21 Report, before the pandemic, was a surplus of £3.310m.

4.40 A total Council Tax collection fund surplus of £3.437m for 2022-23 is estimated, based on provisional information received from billing authorities, including £1.041m of deficit carried forward from 2021-22 budget setting. This provisional collection fund position is in line with the position before the pandemic.

4.41 Derbyshire's locally retained Business Rates income for 2022-23 is estimated to be £14.722m (2021-22: £12.257m) after a deficit on the collection fund, as a result of the Covid-19 pandemic, of £3.282m (2021-22: £6.927m).

4.42 Billing and major precepting authorities are usually required to meet their share of any deficit during the following financial year. However, the Government is allowing repayments to meet collection fund deficits accrued in 2020-21 to be phased over a three-year period to ease immediate pressures on budgets. The phasing of the Business Rates collection fund deficit was £6.9m in 2021-22 and will be £0.1m in each of 2022-23 and 2023-24 (most billing authority Business Rates deficits were not spread). The phasing of the Council Tax collection fund deficit was £0.2m in 2021-22 (net of two billing authorities' collection fund surpluses) and will be £1.1m in each of 2022-23 and 2023-24.

4.43 It is clear that Government has a definite expectation that part of the additional pressures in adult care will be funded by levying additional Adult Social Care (ASC) Precept. Therefore, the Council has accepted the need to levy the ASC Precept at 1% for 2021-22 and also to increase basic Council Tax by 2%, in recognition of ASC pressures and the significant increase in general budget pressures the Council is experiencing. This means that the Council's option of levying the remaining 2% ASC Precept from 2021-22, in addition to the increases permitted by the 2022-23 Referendum Principles, has not been exercised. The total increase of 3% will raise an additional £10.667m in Council Tax income in 2022-23 and future years to support the Council's vital services.

4.44 The Council will always attempt to keep Council Tax rises as low as possible. However, pressures are continuing to emerge over the medium term, in particular additional costs around pay, and inflationary pressures that have been largely absent over the last ten years or so. The need to manage these, and other pressures, will be challenging and as a result future Council Tax increases cannot be easily forecast with a high degree of certainty and it is possible that predictions expressed in the latest Five Year Financial Plan will prove inadequate and will need to be revised upwards.

Services Grant

4.45 The Council is receiving a £7.8m Services Grant to support the delivery of all local authorities' services in 2022-23. Government stated at the time that this is a one-off un-ringfenced grant, although it is hoped that this decision will be reversed, or that there will be equivalent grant funding provided for 2023-24. However, currently there is no commitment from Government to roll it into the baseline, so a significant funding gap could arise in 2023-24 in respect of the Services Grant withdrawal.

Five Year Financial Plan

4.46 The Council's Five Year Financial Plan (FYFP) is updated annually and reflects an assessment of the Council's spending plans in the current and next four financial years. It includes the ongoing implications of approved budgets, service levels, costs of the capital programme and costs of servicing its debts and returns from its investments.

4.47 The Council's Plan for the period 2021-22 to 2025-26 was last updated in and reported to Council as part of the Revenue Budget Report in February 2022.

4.48 The latest forecast assumes that around £21.003m of one-off funding from reserves will be required to support the 2022-23 revenue budget. Of this, around £4m is supporting budgeted ongoing spending. Moreover, this is reliant on £8.057m of budget savings being achieved. As the response to Covid-19 has impacted on the ability to implement savings plans, the delivery of some savings is subject to significant slippage. Around £7m of savings are expected to be achieved in the year. All savings which are delayed or not delivered increases the pressure on the Council's reserves, or require alternate savings to be found by services. Furthermore, an additional £59m of savings are expected to be required between 2023-24 and 2026-27 in that forecast.

Governance Arrangements

4.49 The Council has a well-established and robust corporate governance framework. This includes the statutory elements like the post of Monitoring Officer and the Section 151 Officer in addition to the current political arrangements.

4.50 An overview of this governance framework is provided within the Annual Governance Statement (AGS) which is included in the Statement of Accounts. This includes a detailed review of the effectiveness of the Council's governance arrangements. Whilst it is not possible to provide absolute assurance, the review process as outlined in the AGS does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness.

4.51 The AGS highlights the significant ongoing impact that Covid-19 has had throughout 2021-22 but notes that the economic shocks created by the invasion of Ukraine by Russia and rising fuel and food costs, general inflation and fragile supply chains are now the most significant challenges to the Council's Financial Resilience, and therefore its going concern status, in the short to medium term.

External Regulatory and Control Environment

4.52 As a principal local authority, the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement to set a balanced budget each year, combined with the legal requirement for the Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In addition to the legal framework and central government control, there are other factors, such as the role undertaken by the external auditor, as well as the statutory requirement, in some cases, for compliance with best practice and guidance published by CIPFA and other relevant bodies. For example, the Council has measured itself against the principles set out in CIPFA's Financial Management Code and is confident that it is achieving these in all substantive areas.

4.53 Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail', with the likelihood being that when faced with such a scenario, that central government would intervene, supported by organisations such as the Local Government Association, to bring about the required improvements or maintain service delivery.

4.54 In Local Government, the Chief Finance Officer, also known as the Section 151 Officer (S151 Officer), has the power to issue a Section 114 notice (S114 notice) if there is a significant risk that the Council will not be in a position to deliver a balanced budget by the end of the current financial year. This is an emergency situation whereby a response is required by legislation. Councillors have 21 days from the issue of a S114 notice to discuss the implications at a Full Council meeting. The notice means that no new expenditure is permitted, with the exception of safeguarding vulnerable people and statutory services and continuing to meet existing contract obligations. Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, whilst being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend is monitored. The only allowable expenditure permitted under an emergency protocol includes the following categories:

- Existing staff payroll and pension costs.
- Expenditure on goods and services which have already been received.
- Expenditure required to deliver the council's provision of statutory services at a minimum possible level.
- Urgent expenditure required to safeguard vulnerable residents.
- Expenditure required through existing legal agreements and contracts.
- Expenditure funded through ring-fenced grants.
- Expenditure necessary to achieve value for money and/or mitigate additional in year costs.

4.55 Three councils have issued S114 notices in the last three years due to their inability to balance their budget: Northamptonshire in 2018, Croydon in late 2020, and Slough in July 2021. In October 2021 the Department for Levelling Up Housing and Communities (DLUHC) published its response to the Select Committee's report on Financial Sustainability and the S114 Regime. The value of local government and the vital role the sector plays in delivering key public services is recognised, as well as the challenges the sector is currently facing. DLUHC states that it will work to provide a sustainable financial footing, enabling delivery of vital frontline services and supporting other government priorities. In taking stock to determine any future reforms it will consider the impact of the pandemic on local authority resources and service pressures. The report includes responses to thirteen recommendations on social care, funding, Covid-19, local authority commercial investment and audit and control. These matters, along with information on an assessment of the Council's position, were reported to the Council's Audit Committee in December 2021.

4.56 Kent and Hampshire County Council have written a joint letter dated 14 November 2022 to the Government, highlighting that they are ‘facing budget deficits over the next few years of a scale that has never been seen before’ and ‘without some immediate help and a clear plan for long term financial sustainability we are likely to be considering Section 114 notices within the next year or so’.

4.57 Experience and investigations into those councils experiencing financial failure demonstrates that periods of lower than allowed Council Tax rises can contribute significantly to exacerbate other financial issues, such as reducing Government support, increasing budget pressures, an overly-optimistic savings programme or lack of strength on the Balance Sheet.

4.58 Under Section 15 of the Local Government Act 1999 the Secretary of State for Levelling Up, Communities and Housing has the power direct an intervention package where an authority is considered to be in breach of its Best Value duty. Recent examples of such interventions have included capitalisation directives, access to the Public Works Loan Board to refinance borrowing and the appointing of commissioners to oversee the management of certain local authority functions. The ‘trigger event’ for such interventions can be the issuing of a Section 114 notice.

4.59 There is no intention at this time for the Council’s S151 Officer to issue a S114 notice. However, if the current financial pressures are sustained without additional funding and if sufficient and timely budget savings cannot be realised there is an increased likelihood that a notice will need to be issued.

Conclusions

4.60 The degree of uncertainty over the adequacy of medium-term funding can be related to the following issues in particular:

- The increasing likelihood of councils issuing Section 114 notices.
- The continuing increase in pressures.
- The need to maintain a significant and risk assessed level of reserves over the medium term.
- The increasing difficulty in making significant and sustainable budget savings.

4.61 The Council does have deployable resources and assets at its disposal in the short to medium term. The greatest risk to its financial sustainability in the longer term is from not achieving substantial budget savings, demand pressures on looked after children, the effect of demographic growth on Adult Social Care costs and inflationary pressures.

4.62 The Council has sufficient further reserves it can deploy in 2022-23 to meet a funding shortfall should it be required to do so. Any use of reserves for this purpose does, however, impact on the funding of the Council's planned improvements, delay some savings plans and require additional general reserves to be set aside in order to ensure that the balance of general reserves remains at a prudent risk-assessed level. Also, because the Council's Treasury Management Strategy over the last decade has been to use internal borrowing, rather than take on new long-term external borrowing, the Council has headroom (within the scope of its powers under the Prudential Framework) to take on additional external borrowing to preserve the liquidity of its cash flow should it need to do so.

4.63 The Council set a balanced budget for 2022-23 and over the FYFP period in February 2022, although it will continue to require difficult decisions to be made and strong, robust financial management. It is clear that it is vital that budget savings are delivered according to realistic plans and that tough decisions are taken to balance the budget.

Section 151 Officer Opinion

4.64 Having regard to the Council's arrangements and such factors as highlighted in this report, the Director of Finance & ICT as Section 151 Officer concludes that Derbyshire County Council remains a going concern and that it is appropriate that the Council's Statement of Accounts for 2021-22 have been prepared on this basis.

5 Consultation

5.1 No consultation is required.

6 Alternative Options Considered

6.1 N/A – this report notes this formal assessment of the Council's status as a 'going concern' and the conclusion that it is an appropriate basis for preparing the Council's Statement of Accounts 2021-22.

7 Implications

7.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

8 Background Papers

8.1 The following previously published documents:

- Pre-Audit Statement of Accounts 2021-22 – Audit Committee 5 August 2022
- Revenue Budget Report 2022-23 – Council 2 February 2022
- Q1 2022-23 Budget Monitoring Report – Cabinet 13 October 2022

9 Appendices

9.1 Appendix 1 – Implications.

10 Recommendation

That Audit Committee:

10.1 Notes this formal assessment of the Council's status as a 'going concern' and the conclusion that it is an appropriate basis for preparing the Council's Statement of Accounts 2021-22.

11 Reason for Recommendation

11.1 A formal Assessment of the Council's Going Concern Status is required to allow the Statement of Accounts to be signed.

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Appendix 1

Implications

Financial

1.1 The Director of Finance & ICT's has formally assessed, as Section 151 Officer, the Council's status as a 'going concern' and has concluded that this is appropriate for the purpose of producing its Statement of Accounts for 2021-22 and this is set out at paragraph 4.64.

1.2 The main factors which underpin a going concern assessment are explained in paragraph 4.6. Of these main factors, year-end financial position is assessed at paragraphs 4.8 to 4.21, projected financial position is assessed at paragraphs 4.22 to 4.48, governance arrangements are assessed at paragraphs 4.49 to 4.51, and external regulatory and control environment is assessed at paragraphs 4.52 to 4.59.

1.3 The assessment is summarised at paragraphs 4.60 to 4.63, referring to the following issues, in particular, in paragraph 4.60:

- The increasing likelihood of councils issuing Section 114 notices.
- The continuing increase in pressures.
- The need to maintain a significant and risk assessed level of reserves over the medium term.
- The increasing difficulty in making significant and sustainable budget savings.

These issues are then considered and mitigated in paragraphs 4.61 to 4.63 before the conclusion is drawn.

Legal

2.1 The Going Concern concept is set out in the Local Authority Code of Accounting Practice (the Code). This Code is prepared under International Financial Reporting Standards (IFRS), which have been adopted as the basis for public sector accounting in the UK. The 2021-22 Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2021.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None