

AUDIT & ACCOUNTS COMMITTEE

28 JULY 2021

GOING CONCERN STATUS OF THE COUNCIL

1.0 Purpose of Report

1.1 This report sets out the Council's assessment by the Council's Section 151 officer of the Council's Going Concern status.

2.0 Background Information

2.1 The concept of a '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 experiences extreme financial difficulty, then 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.

2.2 There are a number of implications for the Statement of Accounts where an authority is not considered to be of 'going concern'. For instance, particular care would be needed in 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.

2.3 Given the significant reduction in funding for local government in recent years and the potential threat to the ongoing viability of one or more councils as a consequence, External Auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. In response the position at Newark and Sherwood District Council is set out within this report.

3.0 Assessment of Going Concern

3.1 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 2020/21 (hereafter referred to as the Code). The Code is published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council's Statement of Accounts is 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.

The main factors which underpin the going concern assessment are:

- The Council's current financial position
- The Council's projected financial position

- The Council's governance arrangements
- The regulatory and control environment applicable to the Council as a local authority

These are considered in more detail below.

4.0 The Council's current financial position

- 4.1 The financial outturn position for the General Fund for 2020/21 shows a favourable variance against revised budget of £10.413m. The vast majority of this outturn (£8.161m) related to additional s31 grants that the Council received in year due to policy decisions that Central Government made regarding business rates liabilities. £8.571m was transferred into a specific reserve (which includes £0.410m in relation to the Government's Tax Income Guarantee (TIG) Scheme) in order to fund the Council's share of the business rates collection fund deficit during 2021/22. The total collection fund deficit at 31st March 2021 stood at £17.418m. This deficit substantially arose due to the extended retail relief that was given to all businesses in the Retail/Hospitality/Leisure sector. As the receipt of the grant has to be made into the General Fund rather than the Collection Fund, this has created the large deficit, which will be funded during 2021/22. The General Fund outturn position, excluding the s31 and TIG grants of £8.571m is £1.842m.
- 4.2 As at the 31st March 2021, the Council held general fund revenue reserves of £35.841m. Of this, £1.452m relates to funds that are ring-fenced to specific activity (for instance Building Control/Homelessness), £21.276m is earmarked for future known pressures (for instance Repairs and Renewals, Medium Term Financial Plan Reserve and the Collection Fund budget reserve) and £14.613m was un-ringfenced. This balance includes the statutory general reserve which has been assessed as a prudent level of £1.500m. The remainder of the un-ringfenced reserves relate to the Change Management Fund which provides resource in order to support business transformation and large scale infrastructure projects. Commitments against the Change Management Fund have already been made to support the delivery of infrastructure projects, leaving £4.913m uncommitted within this fund.
- 4.3 General reserves reflect the ability of the Council to deal with unforeseen events and unexpected financial pressures in any particular year and are a key indicator of the financial resilience of the organisation. As part of the Medium Term Financial Strategy the Chief Finance Officer has assessed that the optimum level of the general reserve to be held by the Council to be at least £1.5m as per the above paragraph.
- 4.4 At 31st March 2021, the Council held £39.770m in the form of either cash or short term investments maturing within the next financial year. The Council also held £10.589m in long term financial assets. These relate to an equity investment in Arkwood Developments Ltd (the Council's wholly owned subsidiary) (£3.655m) together with investments in the CCLA's Property and Diversified Income funds (£6.934m). The Council's cash flow forecast for the future 12 months takes into account the anticipated inflows and outflows of cash. The forecast shows that over the next 12 month period, there will not be a point in which the Council does not have liquid funds available in order to service its liabilities.
- 4.5 Where the Council makes long term financing decisions (through the Capital programme) these can include decisions on forecast borrowing the Council may need to take. Where the Council does decide that borrowing is required, it has access through the Public Works Loan

Board (PWLB) (or other market instruments where appropriate) in order to meet the funding requirement.

4.6 Regarding capital spending; £14.382m of expenditure was approved within the General Fund capital programme for the 2020/21 financial year (including Revenue Expenditure funded from Capital under Statute). The outturn performance was £8.238m which represents an under-spend of £6.199m. The main reasons for this shortfall in planned expenditure were outlined within the Council's financial outturn report approved at Policy and Finance Committee 24th June 2021.

5.0 The Council's Balance Sheet as at 31st March 2021

5.1 The balance sheet shows a net worth of £227.065m which includes a liability worth £95.246m in relation to the future costs of Pensions liabilities. There are statutory arrangements for funding the pension deficit through increasing contribution over the remaining working life of the employees, as assessed by an independent actuary – Barnett Waddingham in the case of the Nottinghamshire Pension Fund. Therefore, the financial position of the Council remains healthy. Other factors giving rise to this assessment include:

- The adequacy of risk assessed provisions for doubtful debts
- The range of reserves set aside to help manage expenditure
- An adequate risk assessed general reserve to meet unforeseen expenditure

6.0 The Council's projected financial position

6.1 In March 2021, the Council approved a balanced budget for 2021/22. This allows for net spending of £15.881m and required a council tax increase of 1.94% (at a Band D level) compared with the 2020/21 financial year. A transfer to reserves of £1.646m was approved which included £1.187m of New Homes Bonus, which is split with 50% contributing towards short life fixed assets (such as refuse freighters and ICT hardware) and 50% to the Change Management reserve. The remaining £0.459m has been allocated towards mitigating future funding pressures.

6.2 The Council's Medium Term Financial Plan (MTFP) is updated annually and reflects a four year assessment of the Council's spending plans and associated funding. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the council's capital programme, as well as the management of debt and investments. The latest update, approved at Council in March 2021 showed a cumulative shortfall of £1.075m which occurs in the 2024/25 financial year. This includes a number of initiatives that have been applied to the MTFP in order to bridge the inherent funding gap.

6.3 The Council continues to monitor its forecast cash flow going forward in order to ensure that the inflows and outflows of cash are managed by prudent invest and borrowing decisions placed in accordance with the approved Treasury Management Strategy.

7.0 The Council's governance arrangements

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

7.2 An overview of this governance framework is provided within the Annual Governance Statement which is included within the Statement of Accounts and was presented to the Audit and Accounts Committee on 28th July 2021. This includes a detailed review of the effectiveness of the Council's governance arrangements.

7.3 In October 2019, the Council undertook a governance review facilitated by an external peer team led by the Local Government Association. The review focussed on three broad areas: what was working well; what could be improved; and what should the Council do next. The report from the peer review made recommendations for the Council to explore the opportunity to improve governance further by looking at a future governance system and structures that delivers:

- a greater focus on outcomes for the community;
- clearer political ownership and accountability for policy and decision making, including opportunities to challenge;
- consideration of where and how policy should be developed;
- greater political and managerial oversight of council performance;
- reducing duplication and inefficiencies;
- improving the speed and transparency of decision-making;
- further and ongoing community and stakeholder engagement, building on the success of the Corporate Plan process

The Councillors' Commission was tasked with taking the review forward in December 2019. This review has progressed and there are now proposals to move to a Leader and Cabinet system, shaped and designed to meet the Council's needs and reflect local circumstances – with the new system of working to be implemented with effect from May 2022.

8.0 The external regulatory and control environment

8.1 As a local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for councils 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 External Audit as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

8.2 Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being, 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 help maintain service delivery. This has been evidenced with the case of Northamptonshire County Council and the interventions that have been introduced as a result of the situation that arose.

8.3 However, given the severity of this pandemic on the Country's finances, it would be complacent to sit back and wait for Government intervention. MHCLG have conceded that councils could still be left with unmanageable pressures and may continue to be concerned about their future financial position, urging any authority that found itself in that position to contact the department with immediate effect.

9.0 Impact of Covid-19

- 9.1 The Council received £1.821m in support from Central Government to mitigate against additional costs and income pressures as a result of Covid-19 during 2020/21. Additionally to this, the Council received a further £0.620m during 2021/22. This support was to mitigate against additional costs the Council will incur as a result of the pandemic.
- 9.2 The Government announced a scheme whereby Councils that see a reduction in budgeted sales, fees and charges will be eligible for reimbursement of 75% after a 5% deductible amount. MHCLG said the 5% figure accounted for “an acceptable level of volatility while shielding authorities from the worst losses” while covering three-quarters of every pound lost would encourage councils to “manage and minimise loss where they can”. This therefore is equivalent to 71.25% reimbursement of the lost income. This scheme ran in place for the 2020/21 financial year, and will continue for losses incurred during the first quarter of 2021/22.

10.0 Conclusion

- 10.1 Having considered the outturn position to 31 March 2021, in year outturn position to 31 May 2021, Medium Term Financial Plan to 2023/24, levels of earmarked and general reserves and the treasury cash flow position, It is considered that the Council remains a going concern.

11.0 Equalities Implications

- 11.1 There are no equalities implications arising from this report.

12.0 Financial Implications (FIN21-22/9612)

- 12.1 The report contains all relevant financial implications.

13.0 RECOMMENDATION

That Members note the conclusion of the assessment made of the Council’s status as a going concern for the purposes of the Statement of Accounts 2020/21.

Reason for Recommendation

In order to support the approval of the Statement of Accounts for the 2020/21 financial year where this has been produced on a going concern basis.

Background Papers

Statement of Accounts 2020/21

Annual Governance Statement 2020/21

General Fund and HRA Revenue and Capital Outturn report to 31st March 2021

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