



Report to: Audit & Governance Committee Meeting 27 July 2022

Director or Business Manager Lead: Nick Wilson, Business Manager – Financial Services

Lead Officer: Nick Wilson, Business Manager – Financial Services
01636 655317

Report Summary	
Report Title	Going Concern Status of the Council
Purpose of Report	This report sets out the Council's assessment by the Council's Section 151 officer of the Council's Going Concern status.
Recommendations	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 2021/22.
Reason for Recommendation	In order to support the approval of the Statement of Accounts for the 2021/22 financial year where this has been produced on a going concern basis.

1.0 Background

- 1.1 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.
- 1.2 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.

- 1.3 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.

2.0 Assessment of Going Concern

- 2.1 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 2021/22 (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.

3.0 The Council's current financial position

- 3.1 The financial outturn position for the General Fund for 2021/22 shows a favourable variance against revised budget of £2.044m. This variance largely relates to a favourable variance on service provision (£1.613m) further details of this are detailed in the Financial Outturn report to 31st March 2022 presented to Cabinet on 12th July 2022.
- 3.2 As at the 31st March 2022, the Council held general fund revenue reserves of £36.345m. Of this, £1.437m relates to funds that are ring-fenced to specific activity (for instance Building Control/Homelessness), £7.398m is earmarked for future known pressures (for instance Repairs and Renewals, Management carry forwards, NNDR Volatility), £12.913m relates to budget funding reserves (Medium Term Financial Plan reserve, Capital Financing Provision reserve and the Collection Fund budget reserve) and £14.597m was un-ringfenced. This balance includes the statutory general fund balance 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 £5.755m uncommitted within this fund.

- 3.3 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.
- 3.4 At 31st March 2022, the Council held £49.790m in the form of either cash or short term investments maturing within the next financial year. The Council also held £16.587m in long term financial assets. These relate to an equity investment in Arkwood Developments Ltd (the Council's wholly owned subsidiary) (£3.931m) together with investments in the CCLA's Property and Diversified Income funds (£12.656m). 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.
- 3.5 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.
- 3.6 Regarding capital spending; £19.066m of expenditure was approved within the General Fund capital programme for the 2021/22 financial year (including Revenue Expenditure funded from Capital under Statute). The outturn performance was £9.059m which represents an under-spend, due to delays in capital projects, of £10.008m. Major variances relate to:
- Contribution to the Southern Link Road £1.852m
 - Works to Buttermarket £0.663m
 - Purchase of land at London Road Municipal Buildings £0.468m
 - Southwell flood mitigation scheme £0.453m
 - Photovoltaic Units for LAD2 scheme £0.557m
 - Purchase of Land at Bowbridge Road £1.020m
 - Housing regeneration loan facility £0.538m
 - 32 Stodman Street regeneration (Towns Fund) £0.573m

These, including the remaining reasons, for this shortfall in planned expenditure were outlined within the Council's financial outturn report approved at Cabinet on 12th July 2022.

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

- 4.1 The balance sheet shows a net worth of £287.897m which includes a liability worth £84.899m 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 for 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

5.0 **The Council's projected financial position**

- 5.1 In March 2022, the Council approved a balanced budget for 2022/23. This allows for net spending of £15.536m and a council tax increase of 1.94% (at a Band D level) compared with the 2021/22 financial year. A transfer to reserves of £0.916m was approved which included £1.573m 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 transfer of £0.657m out of reserves related to:

Reserve	Amount
Additions to:	
Commercial Plan Invest to Save	£0.200m
Workforce Development reserve	£0.200m
Homelessness reserve	£0.232m
Total additions	£0.632m
Use of:	
Spreading Adjustment reserve (Business Rates and Council Tax)	(£0.388m)
Covid Pressures reserve	(£0.179m)
Covid Compliance reserve	(£0.161m)
MTFP reserve	(£0.561m)
Total use of	(£1.289m)
Overall usage of reserves	(£0.657m)

- 5.2 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 £0.896m which occurs in the 2025/26 financial year. This is after a number of initiatives that have been applied to the MTFP in order to bridge the inherent funding gap.

- 5.3 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.
- 5.4 The Council is aware of the recent pay claim received from the Trade Unions for the pay award for 2022/23. The budget setting process allowed for a 2% pay award for the current year, with a forecast of 3% throughout the MTFP period. Officers are working through the implications of the potential pay award and the ramifications of the known, and forecast increases, in the National Living Wage. These implications will be incorporated within the update of the MTFP in September 2022.

6.0 The Council's governance arrangements

- 6.1 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.
- 6.2 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.
- 6.3 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.

7.0 The external regulatory and control environment

- 7.1 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.

- 7.2 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 a number of councils, such as in the case of Northamptonshire County Council, and the interventions that have been introduced as a result of the situation that arose.

8.0 Conclusion

- 8.1 Having considered the outturn position to 31 March 2022, Medium Term Financial Plan to 2025/26, levels of earmarked and general reserves and the treasury cash flow position, together with the Council’s governance arrangements, the s151 Officer considers that the Council remains a going concern.

Background Papers and Published Documents

Statement of Accounts 2021/22

Annual Governance Statement 2021/22

General Fund and HRA Revenue and Capital Outturn report to 31st March 2022