



Report to: Audit & Governance Committee Meeting  
31 July 2024

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

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Report Summary	
<b>Report Title</b>	Going Concern Status of the Council
<b>Purpose of Report</b>	This report sets out the assessment by the Section 151 officer of the Council's Going Concern status.
<b>Recommendations</b>	That Members review the conclusion of the assessment of the Council's status as a going concern and approve that the Statement of Accounts 2023/24 be accounted for on that basis.
<b>Reason for Recommendation</b>	An assessment of the Council's Going Concern is required for the preparation and approval of the Statement of Accounts for the financial year ended 31 March 2024.

## 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 consequently, 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 the relevant financial year (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 2023/24 shows a favourable variance against revised budget of £0.989m for transfers to usable reserves. This variance relates to a favourable variance on service provision £0.252m, £0.627m additional business rates and grant income and £0.110m reduction in MRP chargeable in the year. Further details of this are detailed in the Financial Outturn report to 31<sup>st</sup> March 2024 presented to Cabinet on 23<sup>rd</sup> July 2024.
- 3.2 As at the 31<sup>st</sup> March 2024, the Council held general fund revenue reserves of £32.649m. Of this, £1.977m relates to funds that are ring-fenced to specific activity (for instance Building Control/Homelessness), £7.348m is earmarked for future known pressures (for instance Repairs and Renewals, Management carry forwards, Business Rates Volatility), £9.838m relates to budget funding reserves (Medium Term Financial Plan reserve, Capital Financing Provision reserve and the Collection Fund budget reserve) and £13.486m 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 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 £2.453m 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 On 31st March 2024, the Council held £23.196m in the form of either cash or short term investments maturing within the next financial year. The Council also held £15.024m in long term financial assets. These relate to an equity investment in Arkwood Developments Ltd (the Council's wholly owned subsidiary) (£4.040m) together with investments in the CCLA's Property and Diversified Income funds (£10.984m). The Council's cash flow forecast for the future 12 months considers 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 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) to meet the funding requirement.
- 3.6 Regarding capital spending; £66.354m of expenditure was approved within the General Fund capital programme for the 2023/24 financial year (including Revenue Expenditure funded from Capital under Statute), with a further £21.772m slipped from the 2022/23 financial year. The budget was further adjusted during the year to allocate budgets into future years where appropriate, this reduced the budget to £52.523m. The outturn performance was £41.350m which represents an under-spend, due to delays in capital projects, of £11.173m. Major variances relate to:
- Glass Recycling bin purchase £1.097m
  - Installation of solar PV at Council sites £0.423m
  - Contribution to Southern Link Road £1.661m
  - Loan facility to Arkwood Developments £4.000m
  - 32 Stodman Street Regeneration £0.620m

These, including the remaining reasons, for this shortfall in planned expenditure were outlined within the Council's financial outturn report approved at Cabinet on 23<sup>rd</sup> July 2024.

#### **4.0 The Council's Balance Sheet as at 31<sup>st</sup> March 2024**

- 4.1 The balance sheet shows a net worth of £378.905m which includes a liability of £11.898m 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 2024, the Council approved a balanced budget for 2024/25. This allows for net spending of £19.879m and a council tax increase of 2.99% (at a Band D level) compared with the 2023/24 financial year. A net transfer to reserves of £0.794m was approved which related to:

Reserve	Amount
Additions to:	
Contribution to Feasibility reserve	£0.160m
Contribution to Capital Financing provision	£0.580m
Contribution to Homelessness reserve	£0.254m
<b>Total additions</b>	<b>£0.994m</b>
Use of:	
Use of MTFP reserve	(£0.200m)
<b>Total use of reserves</b>	<b>(£0.200m)</b>
<b>Overall contribution to reserves</b>	<b>£0.794m</b>

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 2024 showed that over the four-year period to 2027/28 the Council needs to find £1.627m. However, this is after several initiatives have been applied to the MTFP to bridge the inherent funding gap.

5.3 Since that point, the Council has further reviewed the MTFP in the context of the outturn position for the 2023/24 financial year. Due to this, the target of £1.627m has been revised down to £0.235m over the four year period, due to:

- The assumption of an inherent annual favourable variance of £0.250m
- A reduction in Minimum Revenue Provision charges of £0.392m

5.4 The Council is well underway with meeting the targets set out within the MTFP. A Commercialisation Strategy has been approved on 27<sup>th</sup> January 2022 at the Policy and Finance Committee. Updates have been reported to Cabinet since that point and assumptions built into budgets where appropriate. The Council continues to review

service delivery to ensure the efficiency and effectiveness of services to demonstrate value for money and where alternative processes can reduce financial resources needed.

- 5.5 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.

## **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 Since May 2022 the Council has adopted a Cabinet and Leader executive style of arrangement, whereby all services responsibilities are split into various Portfolio which are managed by Members of the controlling political party.

6.3 Financial performance against the approved budget and Medium-Term Financial Plan is scrutinised by the Policy and Performance Improvement Committee and by Cabinet.

## **7.0 The external regulatory and control environment**

7.1 As a local authority the Council must 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 several councils, 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 2024, Medium Term Financial Plan to 2027/28, 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 2023/24

Annual Governance Statement 2023/24

General Fund and HRA Revenue and Capital Outturn report to 31<sup>st</sup> March 2024