AUDIT & ACCOUNTS COMMITTEE
25 NOVEMBER 2020

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 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.

2.2 Where the 'going concern' concept is not the case, 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 that COVID-19 poses 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 2019/20 (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 <u>The Council's current financial position</u>

4.1 The financial outturn position for the General Fund for 2019/20 shows a favourable variance against revised budget of £1.133m. There was a revision of -£0.126m compared with the outturn report presented to Policy and Finance Committee on 25th June 2020 based on the amendment to the Statement of Accounts relating to the Business Rates provision for appeals as reported to the Audit and Accounts Committee 30th September 2020. As at the 31st March 2020 the Council held general fund revenue reserves of £24.022m. Of this, £1.357m relates to funds that are ringfenced to specific activity (for instance Building Control/Homelessness), £7.831m is earmarked for future known pressures (for instance Repairs and Renewals, Medium Term Financial Plan Reserve) and £14.834m was un-ringfenced. This balance includes the statutory general reserve which has been assessed as a prudent level of £1.500m. The rest 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 delivery of infrastructure projects meaning that actually only £5.035m remains uncommitted within this fund.

4.2 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.

4.3 At 31st March 2020 the Council held £30.459m in the form of either cash or short term investments maturing within the next financial year. During 2019/20 the Council also invested £7.500m in longer term investments which would mature at a date post 31st March 2021. 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 this 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.

4.4 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 PWLB (or other market instruments when appropriate) to funds in order to meet the requirement.

4.5 Regarding capital; £15.120m of expenditure was approved within the General Fund capital programme for the 2019/20 financial year (including Revenue Expenditure funded from Capital under Statute). The outturn performance was £9.179m which represents an underspend of £5.941m. The main reasons for this shortfall in planned expenditure were £2.833m in relation to a planned contribution to the Southern Link Road, £0.941m planned contribution to the Robin Hood Hotel, £0.530m slippage in the delivery of the new swimming pool at the Dukeries Leisure Centre and a £0.240m loan to the Magnus Academy to refurbish the hockey pitch at the school. £7.698m of capital spending was re-profiled into 2020/21 based on the capital outturn position, for which the projects above were included. The Council funds its capital programme from borrowing, capital receipts, direct financing from revenue, government grants and partnership funding eg contributions from developers through S106 agreement.

5.0 The Council's Balance Sheet as at 31st March 2020

5.1 The balance sheet shows a net worth of £234.988m which includes a liability worth £71.489m 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 Waddington 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 2020, the Council approved a balanced budget for 2020/21. This allows for net spending of £13.504m and required a council tax increase of £5 (at a Band D level) compared with the 2019/20 financial year, this included a transfer to reserves of £3.082m which included £1.741m of New Homes Bonus, which is split 50% contributing towards short life fixed assets (such as refuse freighters and ICT hardware) and 50% to the Change Management reserve. Of the remaining £1.341m, £1.684m was to contribute towards the MTFP reserve with a draw-down of £0.343m from other reserves.

6.2 The Council's Medium Term Financial Strategy (MTFS) 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. An update on the Council's medium-term financial position covering the four year period 2020/21 to 2023/24 was reported to Council during October 2020 and reported a shortfall of £1.268m on the MTFP reserve balance by the end of the MTFP window.

6.3 The projected outturn position for the 2020/21 financial year was included within the update to the MTFP that was presented to Council in October 2020. This is forecast to be an unfavourable variance of circa £0.600m. The Council continues to monitor this position and will report to the Policy and Finance Committee throughout the year with forecast performance against budget.

6.4 The Council continues to monitor its forecast cash flow going forward in order to ensure that the inflows and outflows of cash is managed by prudent invest and borrowing decisions placed in accordance with the approved Treasury Management Strategy. The forecast for the next 12 months does not indicate that there will be a position where the Council does not have access to funds to meet its obligations.

6.5 In addition to this, the Council has access to funds through the PWLB (or alternative lenders) in order to support borrowing requirements arising as a consequence of capital decision making.

7.0 <u>The Council's governance arrangements</u>

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 30th September 2020. This includes a detailed review of the effectiveness of the Council's governance arrangements.

8.0 <u>The external regulatory and control environment</u>

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 <u>Impact of Covid-19</u>

9.1 The Council has received £1.483m in support from Central Government to mitigate against additional costs and income pressures as a result of Covid-19. This funding has been allocated to priority spend, which in the main is one-off, in order to maintain service delivery, safeguard staff and support vulnerable residents. A breakdown of the current budgets was presented to the Policy and Finance Committee on 24th September 2020.

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.

10.0 Conclusion

10.1 It is considered that having regard to the Council’s arrangements and such factors as highlighted in this report, 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 (FIN20-21/2683)

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 2019/20.

Reason for Recommendation

In order to support the approval of the Statement of Accounts for the 2019/20 financial year where this has been produced on a going concern basis.

Background Papers

Statement of Accounts 2019/20
Annual Governance Statement 2019/20
General Fund and HRA Revenue and Capital Outturn report to 31st March 2021 as at 31st July 2020

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