



TO: Audit & Governance Committee

FROM: Director of Finance

DATE: 29th March 2022

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: Assessment of Going Concern Status

1. PURPOSE

- 1.1 This report informs the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts 2021/22.

2. RECOMMENDATIONS

- 2.1 The Committee is recommended to accept the outcome of the assessment made of the Council's status as a 'going concern' for the purposes of preparing the Statement of Accounts for 2021/22.

3. BACKGROUND

- 3.1 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 Statement of 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).
- 3.2 If an Authority were in financial difficulty, the prospects are that alternative arrangements would 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.
- 3.3 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.

- 3.4 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) as 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.
- 3.5 The Code guidance for 2021/22 remains largely unchanged from previous years and contains the following provisions in respect of the concept of a going concern:

Going concern – local authorities

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. The Code confirms that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

*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. **As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.** Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.*

Practitioners have in the past been concerned that the abolition of an authority or the transfer of some of its services could bring the going concern assumption into question. However, paragraph 3.4.2.23 of the Code makes clear that combinations of public sector bodies are not to be taken as negating the presumption of going concern. Even though assets are to be taken from the authority, with perhaps no compensation, the continued use of the property for the public benefit means that the authority does not need to consider the restriction on its own ability to make use of the property from the going concern perspective.

The substantial resource issues that some authorities may be experiencing do not negate the presumption of going concern, even though there might be a tension between the going concern assumption and those resource issues. Authorities should ensure that, where required, appropriate reference to financial resilience and sustainability is included in the relevant reports. The authority's relevant officers (eg the Responsible Finance Officer and Monitoring Officer) must also ensure that they comply with their statutory and professional duties in respect of reporting such resourcing issues.

On a smaller scale, there may be occasions where part of an authority's operations ceases to be viable or affordable. For example, a trading unit might curtail its activities, requiring stocks to be written down and provisions set up for redundancy payments and other costs of closure. However, this will not give rise to a going concern issue for the authority, the impact being restricted to the results of the trading unit.

3.6 The requirement to use the going concern basis of accounting means that authorities do not have to apply paragraph 25 of International Accounting Standard 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. That said, in view of the concerns generally regarding the financial pressures facing local government and the impact of Covid-19, the report author has undertaken such an assessment for the purposes of the 2021/22 Statement of Accounts only. The main factors which underpin this assessment are outlined below and include the following:-

- The Council's current financial position;
- The Council's projected financial position – Medium Term Financial Plan (MTFP);
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

4. KEY ISSUES

The Council's current financial position (revenue)

Financial Year 2021/22

4.1 At the meeting of the Executive Board on 10th February 2022, Councillors were provided with an update on the Council's General Fund Revenue Budget for 2021/22. It was estimated that the outturn position on the Revenue Budget would be an overspend of £3.9m. At the time of reporting, it was anticipated that, should this overspend materialise at the year end, it would be funded by way of a contribution from the Council's reserves. In the meantime, monitoring of the Council's Revenue Budget will continue with any variations to the estimated outturn position being reported to the Executive Board as part of the reports on the Council's outturn position for the years.

4.2 On the basis of this outturn position, the Council revenue reserves as at the 31st March 2022 are forecast to be £73.185m although this is artificially higher than would normally be the case given, for example, the way in which the Council has had to account for s31 Grants associated with Business Rate Reliefs awarded to Retail businesses in 2021/22 due to the impact of Covid-19. For that reason, also provided below is the estimated balance of the Council's Reserves at 31st March 2023:-

	Forecast at 31st March 2022 £m	Forecast at 31st March 2023 £m
Working Balance	8.977	8.977
Budget Strategy (Support) Reserve	5.000	3.880
Invest to Save Reserve	4.950	4.336
School Related Reserves	12.660	12.660
Earmarked Reserves	41.598	30.186
Total Estimated Reserves	73.185	60.039

Financial Year 2022/23

- 4.3 In February 2022, the Council approved a balanced budget for 2022/23. This allows for net spending of £150.003m and required a Council Tax increase of 1.99%, an increase in the Social Care Precept of 2.0%, savings of £2.065m and the use of £13.146m from reserves (of which £5.471m of this relates to the s31 Grant referred to above which is being used to offset an estimated deficit on the Council's Business Rates Collection Fund in 2021/22 which is to be funded in 2022/23).
- 4.4 Whilst the budget for the financial year 2022/23 is balanced, the likely continuing impact of Covid-19 combined with the underlying pressures on the Council's funding means that the Council's financial sustainability remains under pressure. As required by statute, the Council has in place good arrangements for monitoring its budget with reports considered by the Executive on a quarterly basis.

The Council's current financial position (capital)

- 4.5 Details of the forecast capital outturn for 2021/22 were reported to the Executive Board on 10th February 2022 and Finance Council in February 2022. The report highlighted significant slippage of expenditure on the approved Capital Programme for the year albeit that this was matched by slippage on Capital Resources. Of the resources carried forward, c £7m reflects a borrowing requirement, the impact of which has been factored in to the Council's MTFP.
- 4.6 The Council has a well-established process for the development and delivery of the Capital Strategy (the latest version of which was approved by Finance Council at its meeting on 28th February). This approach ensures that the Council maintains a Capital Programme which is prudent, sustainable and affordable whilst acknowledging that the underlying need for capital spending continues to exceed the level of Capital Resources available.
- 4.7 In this respect, over the life of the Medium Term Capital Programme to 2024/25, 'new' borrowing is limited to an amount equivalent to the in-year Minimum Revenue Provision so that the Council's Capital Financing Requirement (which represents the underlying need to borrow for capital investment) does not increase.

The Council's Balance Sheet as at 31st March 2022

- 4.8 A financial overview will form part of the Narrative Report to be included within the draft Statement of Accounts for 2021/22. This will include reference to the Council's balance sheet as at 31st March 2022.
- 4.9 In finalising the Council's balance sheet, detailed consideration will be given to a wide range of matters to ensure it is robust and soundly based including the following:-
- an assessment of asset valuations based on the latest information;
 - review of debts owed to the Council;
 - the adequacy of risk-assessed provisions for doubtful debts and, in relation to business rates, of provisions for appeals;
 - the range of reserves set aside to help manage expenditure;
 - An adequate risk-assessed working balance to meet unforeseen expenditure.

The Council's Financial Strategy and Medium Term Financial Plan (MTFP)

- 4.10 The Council's Financial Strategy was approved at Finance Council on 28th February 2022. It provides a framework for the delivery of a sustainable budget over the medium term. The Strategy includes, for context, a review of the environment the Council is operating within, an assessment of the Council's current financial positions, details of the Council's Medium Term Financial Plan (MTFP) and the assumptions upon which it is based, those matters that are likely to affect the Council's finances and an outline strategy – Grow, Charge, Save, Stop – which, if implemented, should lead to the Council having a sustainable budget over the medium term.
- 4.11 The MTFP is updated at least annually and reflects a three 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 MTFP covering the three year period 2022/23 to 2024/25 was reported to Finance Council in February 2022. The report outlined a residual savings requirement over the plan period of c£6m. The Plan is underpinned by various assumptions, details of which were included in the Financial Strategy together with an assessment of the main risks to the plan and some scenario planning.
- 4.12 In this context, Councillors will be aware of the progress made on the implementation of savings in previous budget rounds. It is considered that most of the savings which can readily be achieved have been made and that any subsequent proposals will be challenging. As set out by the Local Government Association in their report following a Peer Review of the Council, the Council should '*take a whole Council approach to the budget process across different service and portfolio areas to ensure resources align to key priorities and desired outcomes*'.
- 4.13 Work on the development of options will start early in the new municipal year to providing sufficient opportunity for these to be considered in detail. The Council has a good track record of delivering savings

The Council's governance arrangements

- 4.14 The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the posts of Chief Executive (as Head of Paid Service), Corporate Director (Monitoring Officer) and Chief Finance Officer (as s151 Officer).
- 4.15 An overview of this governance framework forms part of the Annual Governance Statement which will be published as part of the Statement of Accounts for 2021/22 later in the year. This will include a detailed review of the effectiveness of the Council's governance arrangements. These matters are overseen by the Council's (Officer) Statutory Governance Officers Group and reported to this Committee in due course.
- 4.16 Whilst it is not possible to provide absolute assurance the review process has in previous years concluded that our existing arrangements remain fit for purpose and help provide reasonable assurance of their effectiveness.

The external regulatory and control environment

- 4.17 As a principal 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 Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves. In relation to the latter, a report on this matter was considered by Finance Council at its meeting on 28th February 2022.
- 4.18 In addition to the legal framework and central government control there are other factors such as the role undertaken by External Audit, inspection regimes led by Ofsted and the Care Quality Commission as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.
- 4.19 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. Indeed, over recent years, this has been case with a number of Councils (for example, Croydon, Slough and Luton, each of which have received support from the Government).

Conclusions

- 4.20 It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that, for the purposes of producing the Statement of Accounts for 2021/22, the Council remains a going concern in 2021/22 and the for the following 12 months. This assessment is based on information available at the time of writing this report. An updated assessment will be carried out each financial year with the outcome reported to the Committee.

5. POLICY IMPLICATIONS

- 5.1 There are no policy implications arising directly from this report.

6. FINANCIAL IMPLICATIONS

- 6.1 There are no financial implications arising directly from this report.

7. LEGAL IMPLICATIONS

- 7.1 There are no legal implications arising directly from the contents of this report.

8. RESOURCE IMPLICATIONS

- 8.1 There are no other resources implications arising from the contents of this report.

9. EQUALITY AND HEALTH IMPLICATIONS

- 9.1 There are no equality and health implications arising from the contents of this report.

10. CONSULTATIONS

10.1 None arising from the contents of this report.

11. STATEMENT OF COMPLIANCE

11.1 The recommendation in this report is made further to advice from the Monitoring Officer.

VERSION:	1
CONTACT OFFICER:	Dean Langton – Director of Finance
DATE:	March 2022
BACKGROUND PAPERS:	