

<b>SUBJECT:</b>	<b>ASSESSMENT OF GOING CONCERN STATUS</b>
<b>REPORT BY:</b>	<b>CHIEF EXECUTIVE &amp; TOWN CLERK</b>
<b>LEAD OFFICER:</b>	<b>COLLEEN WARREN, FINANCIAL SERVICES MANAGER</b>

## **1. Purpose of Report**

- 1.1 This report informs the Audit Committee of an assessment of the Council as a going concern for the purposes of producing the Statement of Accounts for 2020/21.

## **2. Background**

- 2.1 The concept of '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 Code of Practice for Local Authority Accounting 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).
- 2.2 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.
- 2.3 Where the assessment determines the 'going concern' status is not proven, 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.
- 2.4 Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of councils as a consequence, external auditors continue to place a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. Similarly, our current Medium Term Financial Strategy (MTFS) and the 2020/21 financial statements largely reflect a Covid set of circumstances and we need to be confident that we understand and have taken into account any threats to financial sustainability. This report sets out the position for City of Lincoln Council and provides justification for the 2020/21 financial statements being prepared on a 'going concern' basis.

2.5 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 Assessment**

2.6 The main factors which underpin this assessment are:

- The Council's current financial position;
- The Council's projected financial position;
- The Council's balance sheet;
- The Council's cash flow;
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

Each of the above is considered in more detail below.

2.7 The provisions in the 2020/21 Code section 3.4 (Presentation of Financial Statements) on the going concern accounting requirements, reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.

2.8 The requirements to use the going concern basis of accounting mean that authorities do not apply paragraph 25 of IAS 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. However, this reporting requirement is separate from the need for local authorities to report on the impact of financial pressures in the Narrative Report and, for example, other relevant liquidity reporting requirements such as those under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.

### **2.9 The Council's Current Financial Position – Revenue Resources**

#### General Fund

As reported to Executive in June, the Council under spent on the General Fund revenue budget in 2020/21 by £0.432m. As at 31 March 2021 the Council held a General Fund Balance of £2.668m and held Earmarked Reserves totalling £26.043m. The Earmarked Reserves balance has increased by £14.454m during the year, reflecting the favourable outturn and the nature of timing differences in the funding of Business Rate Reliefs from

Central Government and the declaration of deficits on the Collection Fund. The adequacy of reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

### Housing Revenue Account (HRA)

The financial performance in 2020/21 resulted in a net under spend of £0.154m on the HRA revenue budget. As at 31 March 2020 the Council held an HRA Balance of £1.070m which was broadly in line with the revised budget. The level of adequate reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis. The HRA has a 30-year Business Plan which is showing as affordable with the required estimated resources available to meet the plan. The Central Government imposed rent increase restrictions which the Council has had to apply over recent years were lifted for 2020/21 onwards and we are now able to increase our rents in line with the guidelines in place, which gives us further financial capacity to support our plan.

The Section 151 Officer is satisfied that the Council's 2020/21 financial outturn for both General Fund and HRA, does not present any material uncertainties regarding the Council's ability to continue as a going concern.

## **2.10 Covid-19**

The pandemic has resulted in increased cost to the Council, during 2020/21 these costs were covered by the £1.877m grant received from Central Government. In 2021/22 further Government support of £0.640m has been provide. However, it is the loss of income to the Council that is of a greater concern. In 2020/21 the Government announced a package of financial support for Council income losses, this included; allowing council tax and business rates collection fund deficits to be repaid over three years instead of one; a local tax income guarantee scheme to cover losses in business rates and council tax; and, where losses from fees and charges are more than 5% of a Council's planned income, the Government will cover 75p for every pound lost. This support package provided £2.989m through the fees and charges compensation scheme and a further £0.778m through the local tax guarantee scheme.

Despite this financial support from Central Government, the Council was still required to implement a range of measures to ensure that it maintained a balanced budget position for 2020/21. These included:

- Budget Review – A review of all of the Council's revenue budgets undertaken to identify one off budget reductions.
- Coronavirus Job Retention Scheme – a range of staff from primarily income generating areas were placed on furlough.
- Towards Financial Sustainability – in the year savings programme target was increased.
- Direct Revenue Finance (DRF) – a review of capital financing was undertaken.

- Covid19 Reserve – monies allocated as part of the 19/20 closedown process and held in an earmarked reserve.

These measures were one-off in their nature and allowed both the General Fund and HRA to make positive contributions to general balances to support future years budget challenges.

## 2.11 **The Council's Projected Financial Position – Revenue Resources**

Moving forward to 2021/22 and beyond the Council's MTFS 2021-26, approved by Members in February 2021, includes revised forecasts for the Council's expenditure and income streams based on a number of assumptions on the speed and scale of the national and local recovery from Covid19.

Although the Council set a balanced budget for 2021/22, the savings target included within the MTFS significantly increased, with a savings target of £0.850m, increasing further to £1.350m in 2022/23 and to £1.750m p.a. thereafter.

In response to this a programme of savings reviews has been developed and is currently being implemented. Progress to date in 2021/22 demonstrates that the Council is on target to deliver the savings target in year, with significant progress made towards the future year's targets.

Although savings reviews are being accelerated, due to the size of the financial challenge the Council was facing the MTFS does include the use of earmarked reserves as short terms measures in 2022/23 and 2023/24 whilst the ongoing reductions in the net cost base are achieved.

Despite this short-term use of reserves the Council still maintains a number of specific earmarked reserves including a business rates volatility reserve, an invest to save reserve and a Vision 2025 reserve to support recovery.

The MTFS provides for a transfer of £0.477m from general balances to the General Fund in 2021/22 with further contributions of £0.110m in 2022/23, £0.373m in 2023/24, £0.041m in 2024/25 before a contribution to balances of £0.545m in 2025/26. These transfers would result in an estimated balance of £2.212m by 2025/26 which is in excess of the recommended prudent minimum level, giving management confidence that the Council will be able to manage the financial challenge in the medium term.

Having revisited the underlying assumptions and MTFS in the light of the challenges presented by Covid19 and having made a number of significant budget revisions to ensure the robustness of estimates the Section 151 Officer made a formal statement in February 2021 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the MTFS.

Performance against the 2021/22 budget will be regularly reported to

Members, and the MTFS will be further updated as part of the 2022/23 budget preparations. At this stage the Section 151 Officer is satisfied that the Council's forecast financial position does not present any material uncertainties regarding the Council's ability to continue as a going concern.

#### **2.12 The Council's Balance Sheet as at 31 March 2021**

The Council's net assets amounted to £224.083m and Usable Reserves totalled £52.461m. We are satisfied that there are no material liabilities or underlying issues regarding the strength of the Council's balance sheet which present any material uncertainties regarding the Council's ability to continue as a going concern.

#### **2.13 The Council's Cash Flow**

The Council maintains short and long term cash flow projections, and manages its cash, investments and borrowing in line with the Council approved Treasury Management Strategy. As at the 31 March 2021 the Council has long term borrowing commitments of £115.7m, held £33.9m in short term investments and had £0.563m in Cash and Cash Equivalents. The Council has adequate financial resources to meet its immediate financial obligations. We are satisfied that there are no significant issues regarding the strength of the Council's underlying cash flow which present any material uncertainties regarding the Council's ability to continue as a going concern.

#### **2.14 The Council's Governance Arrangements**

The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the Head of Paid Service, the Monitoring Officer and the Section 151 Officer in addition to the current political arrangements. An overview of this governance framework is provided within the Annual Governance Statement.

Whilst it is not possible to provide absolute assurance, the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements are fit for purpose and provide reasonable assurance of their effectiveness. There are no plans for the Council to be reorganised or dissolved and we expect to operate under the current framework in the near future. We are satisfied that there are no significant issues regarding the Council's governance framework which present any material uncertainties regarding the Council's ability to continue as a going concern.

#### **2.15 The External Regulatory and Control Environment**

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 the Council 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 the external auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

The provisions in the Code on the going concern requirements reflect the economic and statutory environment in which local authorities operate. We are satisfied that there are no significant issues regarding the external regulatory and control environment which present any material uncertainties regarding the Council's ability to continue as a going concern.

## 2.16 **Material Uncertainties**

The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Councils ability to continue as a going concern.

We are satisfied that there are no material uncertainties which, under the Code of Practice on Local Authority Accounting framework, represent significant issues regarding the Council's ability to continue as a going concern.

## 2.17 **Conclusions and Reasons for Recommendation**

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' and the Council's accounts for 2020/21 have appropriately been prepared on this basis. This report gives that assessment by the Council's Section 151 Officer in support of presenting the Accounts for approval and provides assurance to Mazars, the Council's external auditor.

## 4. **Organisational Impacts**

4.1 Finance – The financial implications are as set out in this report.

4.2 Legal – There are no specific legal implications arising from this report.

## 5. **Risk Implications**

5.1 There are no direct risk implications arising as a result of this report.

## 6. **Recommendation**

6.1 The Audit Committee accepts the outcome of the assessment of the Councils going concern status for the purpose of preparing the Statement of Accounts 2020/21.

**Key Decision** No

**Key Decision Reference** N/A

**No.**

**Do the Exempt Information Categories Apply**

No

**Call in and Urgency:** Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?

No

**Does the report contain Appendices?**

No

**List of Background Papers:**

N/A

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