

SUBJECT:	ASSESSMENT OF GOING CONCERN STATUS
REPORT BY:	CHIEF EXECUTIVE & TOWN CLERK
LEAD OFFICER:	COLLEEN WARREN, FINANCIAL SERVICES MANAGER

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 2021/22.

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 continued impact of Covid-19 pandemic together with a decade of austerity measures and now with spiralling inflation, soaring energy prices and nationally agreed pay proposals and increases in service demand, all set to add significant cost pressures to Council's budgets, the external auditors now place greater emphasis on the going concern issue. Accordingly, they require each authority to prepare an assessment of its going concern status in conjunction with the 2021/22 Statement of Accounts.

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 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 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 2021/22 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 2021/22 by £0.009m. As at 31 March 2022 the Council held a General Fund Balance of £2.203m and held Earmarked Reserves totalling £12.668m. The Earmarked Reserves balance has decreased by £6.896m during the year, primarily as a result of the 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 £0.019m on the HRA revenue budget. As at 31 March 2022 the Council held an HRA Balance of £1.025m 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 Section 151 Officer is satisfied that the Council's 2021/22 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 **The Council's Projected Financial Position – Revenue Resources**

In March 2022, the Council agreed the budget for 2022/23 and MTFS 2022-2027. This included revised forecasts for the Council's expenditure and income streams based on a number of assumptions on the speed and scale of the ongoing national and local recovery from Covid19, as well as assumptions on key economic factors. At that point the Council was in a robust financial position with a balanced MTFS, based on delivering a remaining budget gap of £0.750m, in the General Fund, by 2024/25.

Although a savings target was included in the MTFS there was also, in the short term, a planned use of earmarked reserves. This use of earmarked reserves would allow the Council time to deliver the longer term, ongoing, reductions in the net cost base.

Despite this short-term use of reserves the MTFS 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 investment in the Council's priorities.

The MTFS provided for a transfer of £0.061m to general balances from the General Fund in 2022/23 with contributions from balances of £0.073m in 2023/24 and £0.670m in 2024/25, reverting to contributions to balances of £0.072m in 2025/26 and £0.840m in 2026/27. These transfers would result in an estimated balance of £2.422m by 2026/27 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 and having made a number of significant budget revisions to ensure the robustness of estimates, the Section 151 Officer made a formal statement in March 2022 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the MTFS.

2.11 However, much has changed since the current MTFS was approved, with

spiralling inflation, soaring energy prices and nationally agreed pay agreements set to add significant cost pressures to the Council's budgets. These are in the main part caused by national issues, beyond the Council's control, and are impacting all Councils. In addition, the current cost of living crisis has the potential to increase demand for the Council's services by those who rely on the safety net provided by local government. These unforeseen and unavoidable pressures have seriously impacted the assumptions that underpin the MTFS.

As a result of these cost pressures the Council is currently forecasting a budget shortfall of £0.913m on the General Fund and £0.173m on the HRA, for 2022/23. Whilst a number of measures are being implemented in order to mitigate these budget shortfalls, it is likely that in order to maintain a balanced budget for the year that there will need to be an additional draw on earmarked reserves and general balances.

Beyond 2022/23, based on current financial planning assumptions it is estimated that the Council will need to make reductions in the annual net cost base of the General Fund of £2.75m. This is a significant target for the Council to achieve, particularly in light of the annual revenue reductions of £10m that have been delivered over the past decade. The Council will ultimately have to make some difficult decisions over the next 12 months as it prioritises which services it can afford to continue to deliver, doing so in the midst of a cost of living crisis.

In terms of the HRA, it too is facing significant financial pressures of c£1.5m p.a. Key to the financial sustainability of the HRA is the level of annual rent increases. Although rent increases are, under Government Rent Policy, increased in line with CPI+1%, this year the Government are consulting on a potential cap to the maximum level of increases. The outcome of this consultation is still pending and will determine whether the HRA can remain a sustainable budget position or whether reductions in the cost base will also be required.

The Council has therefore commenced work on a financial recovery programme that includes reviews of fees and charges, reserves, recruitment and retention, procurement and contracts, capital financing, grants, buildings/estates and service reductions/withdrawal. Alongside the development of these options, the Council will continue to lobby the Government and call upon them to increase local government funding in recognition of the unprecedented and unavoidable pressures that local government are facing.

Performance against the 2022/23 budget is regularly reported to Members, an update on the medium term financial forecast has been reported to Members, and the MTFS will be further updated as part of the 2023/24 budget preparations. At this stage, based on the development of the financial recovery programme, 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 2022

The Council's net assets amounted to £274.160m and Usable Reserves totalled £50.094m. 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 2022 the Council has long-term borrowing commitments of £111.962m and held £49.878m in short term investments. 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 Council's 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 2021/22 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.

3. **Organisational Impacts**

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

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

4. **Risk Implications**

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

5. **Recommendation**

5.1 The Audit Committee accepts the outcome of the assessment of the Council's going concern status for the purpose of preparing the Statement of Accounts 2021/22.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories	No

Apply

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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