

## Report of the Deputy Chief Executive

**GOING CONCERN STATEMENT**1. Purpose of report

This report sets out the assessment by the designated Section 151 Officer of the Council's Going Concern status.

2. Recommendation

**The Committee is asked to NOTE the outcome of the assessment made of the Council's status as a going concern for the purposes of the Statement of Accounts 2021/22.**

3. Detail

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 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.

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.

Given the significant reduction in funding for local government in recent years and the potential threat that the pandemic and cost of living crisis continues to pose 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 of this Council is set out in the appendix to this report.

4. Financial Implications

The comments from the Head of Finance Services were as follows:

The financial implications are included in the report narrative and appendices.

5. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

There are no direct legal implications that arise from this report.

6. Human Resources Implications

There were no comments from the Human Resources Manager.

7. Union Comments

There were no Union comments in relation to this report.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

10. Background Papers

Nil

**APPENDIX****Assessment of Going Concern**

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 (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the 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;
- Council's projected financial position;
- Council's governance arrangements; and
- regulatory and control environment applicable to the Council as a local authority.

These are considered in more detail below.

**Current Financial Position**

The financial outturn position 2021/22 shows an underspend against revised budget of £1.900m. As at 31 March 2022 the Council held general revenue reserves of £7.425m. In addition, the Council held earmarked reserves of £3.583m to meet specific identified pressures, but which ultimately may be diverted to support general expenditure by the Section 151 Officer should the need arise. Of these reserves £3.042m are held for the purpose offsetting the Collection Fund deficit for future years which has occurred as the result of the Covid-19 pandemic.

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 Section 151 Officer has assessed that the optimum level of general reserves to be held by the Council to be at or above £1.5m and at least equal to 5% of the Council's net operating expenditure. General reserves were at £7.425m as at 31 March 2022.

At 31 March 2022 the Council held £14.431m in the form of either cash or short term investments maturing within the next financial year.

On capital there was £14.178m of expenditure in the approved capital programme for the year. This represents an underspend against the approved capital programme of £8.552m, the main reason being general underspending on capital schemes. Budgets to the value of £8.054m have been carried forward into 2022/23. The Council funds its capital programme from borrowing, capital receipts, direct financing from revenue, government grants and partnership funding such as developer contributions.

The Council's balance sheet as at 31 March 2022 shows a net worth of £100.1m. This is significantly reduced by the inclusion of a pension liability of £62.9m. 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. 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; and
- An adequate risk assessed working balance to meet unforeseen expenditure.

### Projected Financial Position

In February 2022, the Council approved a balanced budget for 2022/23. This allowed for net spending of £12.372m and required a Council Tax increase at £5 (Band D) equivalent to around 3%, pressures/growth of £1.824m, savings/additional income of £1.639m and the use of £0.351m from general reserves.

The 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 capital programme, as well as the management of debt and investments. An update on the MTFS, covering the four-year period 2023/24 to 2026/27 will be reported to Cabinet in October 2022.

With the Council already having overcome significant reductions in central government grant funding, it is anticipated that the MTFS will identify a significant budget gap of £5.986m over the period 2023/24 to 2026/27. The Council has developed a Business Strategy to identify savings and additional income to manage the reduction in resources. The budget will be monitored over the medium-term period by Cabinet.

The Council has a well-established process for the development of the Capital Strategy, reported to Finance and Resources Committee every year, which ensures the Council maintains a capital programme which is prudent, sustainable and affordable. The capital budget for 2022/23 to 2024/25, including the Housing Revenue Account and Stapleford Towns Fund, is £56.1m.

### Governance Arrangements

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.

An overview of this governance framework is provided in the Annual Governance Statement which is included within the Statement of Accounts. This was presented to this Committee on 16 May 2022 and included a detailed review of the effectiveness of the Council's governance arrangements.

### External Regulatory and Control Environment

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

Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being that, when faced with such a scenario, central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or help maintain service delivery.

Given the severity of the Covid-19 pandemic on the country's finances, it would have been complacent to sit back and wait for Government intervention. Ministers have conceded that local authorities 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.

### Conclusions

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.