

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 2023/24.

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 reductions in funding for local government over many years and the potential risks that the cost of living crisis continues to pose to the ongoing viability of a number of local authorities 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 Monitoring Officer / Head of Legal Services were as follows:

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

6. Human Resources Implications

Not applicable

7. Union Comments

Not applicable

8. Climate Change Implications

There were no climate change implications as a result of this report.

9. Data Protection Compliance Implications

This report does not contain any OFFICIAL(SENSITIVE) information and there are no Data Protection issues in relation to this report.

10. Equality Impact Assessment

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

11. 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 2023/24 (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;
- projected financial position;
- governance arrangements; and
- regulatory and control environment applicable to it as a local authority.

These are considered in more detail below.

Current Financial Position

The financial outturn position 2023/24 showed an underspend against revised budget of £1.826m. As at 31 March 2024, the Council held General Fund revenue reserves of £6.060m. In addition, the Council held earmarked reserves of £1.405m to meet specific identified pressures, but which ultimately may be diverted to support general expenditure by the Section 151 Officer should the need arise.

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 Fund reserves were at £6.060m as at 31 March 2024.

At 31 March 2024, the Council held £8.298m in the form of either cash or short term investments maturing within the next financial year.

On capital, there was £17.877m of expenditure in the approved capital programme for the year. This represents an underspend of £40.017m against the approved capital programme, with the main reason being general underspending and slippage on major capital schemes (predominantly the new housing build programme and grant funded economic regeneration projects). Budgets to the value of £39.883m have been carried forward into 2024/25. 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 2024 shows a net worth of £167.5m, with a significantly reduced net pension liability of -£0.260m ('pension asset'). 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/March 2024, the Council approved a balanced budget for 2024/25. This allowed for net spending of £14.603m and required a Council Tax increase of 2.94%, pressures/growth of £1.279m, savings/additional income of £1.401m and the use of £0.821m from General Fund reserves.

The Medium Term Financial Strategy (MTFS) is updated twice-yearly 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 to 2028/29 will be reported to Cabinet in early November 2024.

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 £5.898m over the period to 2024/25 to 2028/29. The Council has developed a Business Strategy to identify efficiency 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 Cabinet every year, which ensures the Council maintains a capital programme which is prudent, sustainable and affordable. The three-year capital budget for 2024/25 to 2026/27 is £72.1m, including the Housing Revenue Account (HRA), Housing Delivery Programme, Economic Regeneration Projects (Stapleford Towns Fund, Kimberley Levelling-Up Fund and UK Shared Prosperity Fund) and Environment.

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 20 May 2024 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. That said, given the severity of the pandemic on the country's finances and the current cost of living crisis and inflationary pressures, it would be complacent to sit back and wait for Government intervention.

Conclusion

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.