

Report of the Deputy Chief Executive

GOING CONCERN STATUS1. Purpose of report

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

2. 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 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.

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 Covid-19 poses 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 at Broxtowe Borough Council is set out in the appendix to this report.

Recommendation

The Committee is asked to NOTE the outcome of the assessment made of Broxtowe Borough Council's status as a going concern for the purposes of the statement of accounts 2019/20.

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 2019/20 (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 main factors which underpin the going concern assessment are:

- The Council's current financial position
- The Council's projected financial position
- The Council's governance arrangements
- The regulatory and control environment applicable to the Council as a local authority

These are considered in more detail below.

The Council's current financial position

The financial outturn position 2019/20 shows an over spend against revised budget of £0.45m. As at the 31st March 2020 the Council held general revenue reserves of £5.452m. In addition the Council held earmarked reserves of £0.313k which are held to meet specific identified pressures, but which ultimately be diverted to support general expenditure by the Chief Finance 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 Chief Finance Officer has assessed that the optimum level of general reserves to be held by the Council to be at or above £1.5m least equal to 5% of the Council's net operating expenditure. At 31 March 2020 general reserves were at £5.452m.

At 31 March 2020 the Council held £11.031m in the form of either cash or short term investments maturing within the next financial year.

On capital there was £10.821m of expenditure in the approved capital programme for the year. This represents an underspend against the approved capital programme of £4.285m the main reason being general underspending on capital schemes. Budgets to the value of £4.238m have been carried forward into 2020/21. The Council funds its capital programme from borrowing, capital receipts, direct financing from revenue, government grants and partnership funding eg developer contributions.

The Council's balance sheet as at 31 March 2020

The balance sheet shows a net worth of £86.028m and this is significantly reduced by the inclusion of a pension liability of £53.931m. 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. Therefore, the financial position of the Council remains healthy. Other factors giving rise to this assessment include:

- The adequacy of risk assesses provisions for doubtful debts
- The range of reserves set aside to help manage expenditure
- An adequate risk assessed working balance to meet unforeseen expenditure

The Council's projected financial position

In February 2020, the Council approved a balanced budget for 2020/21. This allows for net spending of £10.539m and required a council tax increase of 3%, pressures/growth of £0.748m. savings of £0.493m and the use of £1.137m from reserves.

The Council's 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 council's capital programme, as well as the management of debt and investments. An update on the Council's medium-term financial position covering the four year period 2020/21 to 2023/24 was reported to the Finance and Resources Committee in February 2020 but due to the recent events an updated version will be taken to committee in October 2020.

With the Council already having overcome significant reductions in central government grant funding a budget gap of £4.346m over the period 2020/21 to 2023/24 has been identified in the MTFS. The Council has developed a Business Strategy to identify savings and additional income to manage the reduction in resources. The refreshed version of the Business Strategy will be presented to the Finance and Resources Committee in October 2020. The budget will be monitored over the Medium Term Financial period by the Finance and Resources Committee.

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 2020/21 to 2022/23 is £45.354m.

The Council's 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 within the Annual Governance Statement which is included within the Statement of Accounts and was presented to the Governance, Audit and Standards Committee on 18th May 2020. This includes a detailed review of the effectiveness of the Council's governance arrangements.

The 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 External Audit 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, 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.

However, given the severity of this pandemic on the Country's finances, it would be complacent to sit back and wait for Government intervention. MHCLG have conceded that councils 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.

Impact of Covid-19

The estimated cost of Covid-19 is £2.639m including loss of income and additional expense incurred. The total amount received to date from Central Government is £2.3m which highlights the future financial implications if no further Government support is received in respect of expenditure incurred.

The estimated non-collection fund losses from income are £2.402m, with the largest contributors to that figure being lost income from leisure centres and reduced interest on investments

On 2 July 2020, the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) announced a new package of financial support. The latest package includes £500m to be distributed across the sector and will allow council and business rates tax deficits to be repaid over three years instead of the usual one.

In addition, where losses are more than 5% of a council's planned income from sales, fees and charges, MHCLG said it would cover 75p for every pound lost.

MHCLG said the 5% figure accounted for an 'acceptable level of volatility while shielding authorities from the worst losses' while covering three-quarters of every pound lost would encourage councils to 'manage and minimise loss where they can'.

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.