

**Bolsover District Council**

**Meeting of the Audit and Corporate Overview Scrutiny Committee on 13<sup>th</sup>  
September 2022**

**Assessment of Going Concern Status**

**Report of the Assistant Director of Finance and Resources**

<b>Classification</b>	This report is public
<b>Report By</b>	Assistant Director of Finance and Resources
<b>Contact Officer</b>	Assistant Director of Finance and Resources Theresa Fletcher 01246 242548 theresa.fletcher@bolsover.gov.uk

**PURPOSE/SUMMARY OF REPORT**

To inform the Committee of an assessment of the Council as a going concern for the purposes of producing the Statement of Accounts for 2021/22.

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**REPORT DETAILS**

**1. Background**

- 1.1 The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting 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, they must prepare their financial statements on a going concern basis of accounting.
- 1.2 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 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.
- 1.3 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.

- 1.4 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code which is published by the Chartered Institute of Public Finance and Accountancy (CIPFA), accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.
- 1.5 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.
- 1.6 Similarly, our current medium term financial plan (MTFP) was revised in December 2021 based on assumptions that reflected what we knew about the economic effects of the Covid-19 pandemic at the time. We have since seen the economic effects of the war in Ukraine and significant increases to general cost of living that may increase our costs and/or reduce our income. We need to be confident that we understand and have taken into account any threats to financial sustainability.
- 1.7 This report sets out the position for Bolsover District Council and provides justification for the 2021/22 financial statements being prepared on a going concern basis.

### **The Assessment**

- 1.8 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.
- 1.9 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.
- 1.10 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.

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

### General Fund

- 1.11 As reported to Executive in July, the Council under spent on the General Fund revenue budget in 2021/22 by £1.146m. As at 31 March 2022, the Council held a General Fund Balance of £2.101m and held Earmarked Reserves totalling £18.510m. The Council also held a Covid-19 Section 31 grant specific, reserve of £2.298m for the repayment of the Council's share of the collection fund deficit. Excluding the Covid reserve, the Earmarked Reserves balance has increased by £1.396m during the year which is £1.146m higher than originally forecast, reflecting the favourable outturn and is in preparation for future expenditure. The adequacy of reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

### Housing Revenue Account (HRA)

- 1.12 The financial performance in 2021/22 resulted in a net under spend of £0.234m on the HRA revenue budget. As at 31 March 2022 the Council held an HRA Balance of £2.077m which was in line with the revised budget. Earmarked Reserves totalling £11.807m were held and the net reserve movement during 2021/22 was a decrease of £3.537m. The level of adequate reserves and balances and the ongoing requirement 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 had to apply 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.
- 1.13 The Section 151 Officer is satisfied that the Council's 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.

### Covid -19

- 1.14 During 2021/22 the Council received from the Government £0.497m in emergency funding to cover the Council's extra costs and pressures. A further £0.195m was received in compensation for the Council's losses of sales and charges income.
- 1.15 As discussed in paragraph 1.6, the assumptions around Covid-19 were updated and the MTFP revised in December 2021. Government funding to Local Authorities for Covid-19 ceased during 2021/22 and the assumptions in the Council's MTFP are that our income and expenditure should be back to pre-Covid levels.

- 1.16 The Section 151 Officer is confident that in the short term, any losses due to Covid-19 will be met by either the use of the balance of emergency funding carried over from 2021/22 or the Council's own reserves and balances. It is felt that this does not present any material uncertainties regarding the Council's ability to continue as a going concern.

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

- 1.17 The financial projection for 2022/23 to 2025/26 was approved by Members in February 2022 in the MTFP. The Council set a balanced budget for 2022/23 with a small deficit of £0.082m to be met by a 2.68% increase in Council Tax. The requirement to achieve financial savings over the medium term was 2023/24 £0.018m; 2024/25 zero and 2025/26 £1.212m.
- 1.18 To help mitigate losses caused by changes in Government funding the NNDR Growth Protection Reserve was created a number of years ago. Extra income received from all sources of Government funding was transferred into the reserve if the budget for that year had already been in surplus when the extra funding was realised. The balance accumulated means we are able to use the reserve to even out the government funding losses over the first three years of the current MTFP.
- 1.19 A transfer from general fund to the reserve will be made in 2022/23 of £0.004m. Latest estimates for transfers back to general fund are £3.262m 2023/24; £2.990m in 2024/25 and £1.802m for 2025/26.
- 1.20 The Council's Section 151 Officer made a formal statement in February 2022 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the MTFP. We have revisited the underlying assumptions and plan in the light of issues discussed in paragraph 1.6 and are satisfied at this stage that the financial plan remains intact. We will continue to review the performance against our 2022/23 budget and ensure our MTFP is updated as part of our 2022/23 budget preparations to reflect any significant changes. At this stage we are 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.

### **The Council's Balance Sheet as at 31 March 2022**

- 1.21 The Council's net assets amounted to £164.912m and Usable Reserves totalled £48.627m. 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.

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

- 1.22 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 £89.4m, held £30m in short term investments and had

£11.6m 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.

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

- 1.23 The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as 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.
- 1.24 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 remain fit for purpose and help 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.

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

- 1.25 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.
- 1.26 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.

### **Material Uncertainties**

- 1.27 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.
- 1.28 We are satisfied that there are no material uncertainties which, under the Code, represent significant issues regarding the Council's ability to continue as a going concern.

## 2. Reasons for Recommendation

- 2.1 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 the 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 Alternative Options and Reasons for Rejection

- 3.1 No alternative options are offered, the going concern status has been determined.

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### RECOMMENDATION(S)

1. That the Committee accepts the outcome of the assessment of the Council's going concern status for the purposes of preparing the Statement of Accounts for 2021/22.

Approved by the Portfolio Holder - Cllr Clive Moesby, Executive Member for Finance

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#### IMPLICATIONS:

**Finance and Risk:**            Yes             No

**Details:**

There are no additional financial implications arising from this report.

On behalf of the Section 151 Officer

**Legal (including Data Protection):**            Yes             No

**Details:**

There are no legal or data protection issues arising directly from this report.

On behalf of the Solicitor to the Council

**Staffing:**            Yes             No

**Details:**

There are no human resource issues arising directly out of this report.

On behalf of the Head of Paid Service

## DECISION INFORMATION

<p><b>Is the decision a Key Decision?</b>          A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><b>Revenue - £75,000</b> <input type="checkbox"/> <b>Capital - £150,000</b> <input type="checkbox"/>  <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p><b>Is the decision subject to Call-In?</b>  <i>(Only Key Decisions are subject to Call-In)</i></p>	No

<p><b>District Wards Significantly Affected</b></p>	None
<p><b>Consultation:</b>  <b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Executive</b> <input type="checkbox"/>  <b>SLT</b> <input type="checkbox"/> <b>Relevant Service Manager</b> <input type="checkbox"/>  <b>Members</b> <input type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/></p>	Details:

<p><b>Links to Council Ambition: Customers, Economy and Environment.</b></p>

DOCUMENT INFORMATION	
Appendix No	Title

<p><b>Background Papers</b>  <i>(These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Executive you must provide copies of the background papers).</i></p>
None