

Bolsover District Council

Meeting of the Audit Committee
on 26th September 2024

Assessment of Going Concern Status

Report of the Director of Finance and Section 151 Officer

Classification	This report is public
Contact Officer	Theresa Fletcher Director of Finance and Section 151 Officer

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 2023/24.

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 Our current medium-term financial plan (MTFP) was revised in December 2023. It was based on assumptions that reflected what we knew about the economy at the time. We have since seen the continued increases to general cost of living and the much-publicised issuing of, or potential issuing of, Section 114 notices by some Local Authorities. We need to be confident that we understand and have taken into account any threats to our financial sustainability.
- 1.7 This report sets out the position for Bolsover District Council and provides justification for the 2023/24 financial statements being prepared on a going concern basis.

The Assessment

- 1.8 The provisions in the 2023/24 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 2023/24 by £1.281m. As at 31 March 2024, the Council held a General Fund Balance of £2.001m and held Earmarked Reserves totalling £23.013m. The Earmarked Reserves balance has increased by £1.333m during the year which is £2.911m higher than originally forecast. Earmarked Reserves are used to fund both revenue and capital expenditure. The increase in balances reflects the favourable outturn on the general fund as well as £1.435m under spent on the capital programme which will now move into 2024/25. 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 2023/24 resulted in a net under spend of £0.007m after interest on the HRA revenue budget. As at 31 March 2024 the Council held an HRA Balance of £1.644m which was in line with the revised budget. The MTFP for 2024/25, has a contribution from the HRA to the HRA balance of £0.363m to restore the balance back above £2m. Earmarked Reserves totalling £3.958m were held and the net reserve movement during 2023/24 was a decrease of £2.870m, which was predominantly used to fund the capital programme. The level of adequate reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis.
- 1.13 The HRA has a 30-year Business Plan which is showing as affordable with the required estimated resources available to meet the plan. Following a Government consultation in response to the cost of living, the Government capped rents for social housing for 2023/24 at 7%. Some planned transfers to reserves had to be removed to accommodate this reduction in assumed income, the transfers will be increased in future years to make up for this.
- 1.14 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.

The Council's Projected Financial Position – Revenue Resources

- 1.15 The financial projection for 2024/25 to 2027/28 was approved by Members in February 2024 in the MTFP. The Council set a balanced budget for 2024/25 with a 2.99% increase in Council Tax.
- 1.16 To help mitigate losses caused by expected future 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 anticipated government funding losses over the last three years of the current MTFP.

- 1.17 A transfer from general fund to the reserve will be made in 2024/25 of £0.188m. Latest estimates for transfers back to general fund are £0.620m 2025/26; £3.803m in 2026/27 and £4.122m for 2027/28.
- 1.18 The Council's Section 151 Officer made a formal statement in February 2024 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 2024/25 budget and ensure our MTFP is updated as part of our 2024/25 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 2024

- 1.19 The Council's net assets amounted to £240.637m and Usable Reserves totalled £49.692m. 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

- 1.20 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 2024, the Council had long-term borrowing commitments of £78.8m, held £20m in short-term investments and had £2m 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

- 1.21 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.
- 1.22 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

- 1.23 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.
- 1.24 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

- 1.25 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.
- 1.26 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.

The Dragonfly Companies

- 1.27 Dragonfly Development Limited (DDL) and Dragonfly Management (Bolsover) Limited (DMBL), are wholly owned by the Council and governance arrangements are set out in the Group Shareholder Agreement. This agreement regulates the activities of both companies and ensures that the Council retains influence over strategic objectives and significant decisions of DDL. In addition, there is a separate service level agreement between the Council and DMBL which sets out the specific services that DMBL will provide back to the Council together with performance targets.
- 1.28 Decisions of DDL and DMBL are made by the respective board of directors. The membership of both boards consists of 5 district Councillors and the Chief Executive of the Dragonfly companies. The District Council has established a Shareholder Board consisting of Members and officers whose role is to consider proposals from DDL and DMBL, to review performance and to make recommendations to the Executive or to Full Council. In addition, the work of DDL and DMBL is subject to scrutiny and updates are regularly reported to the Council's Local Growth Scrutiny Committee.

1.29 Whilst the legal, governance and financial arrangements are still being fully embedded between the Council and Dragonfly, we are satisfied that there are no significant issues regarding the Council's wholly owned company which present any material uncertainties 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 2023/24 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 Forvis 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.

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 2023/24.

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

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

Environment:

Please identify (if applicable) how this proposal/report will help the Authority meet its carbon neutral target or enhance the environment.

Details:

Not applicable to this report.

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>Is the decision a Key Decision? 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>Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p>Is the decision subject to Call-In? <i>(Only Key Decisions are subject to Call-In)</i></p>	No

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

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

DOCUMENT INFORMATION	
Appendix No	Title

<p>Background Papers <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