

Bolsover District Council

Audit Committee

15th September 2020

Assessment of Going Concern Status

Report of the Head of Finance and Resources

This report is public

Purpose of the Report

- This report informs the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts for 2019/20.

1 Report Details

The Background

- 1.1 The concept of '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 Code of Practice for Local Authority Accounting 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).
- 1.2 If an authority were in financial difficulty, the prospects are that alternative arrangements would 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 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. Similarly our current medium term financial plan and the 2019/20 financial statements largely reflect a pre-Covid set of circumstances and we need to be confident that we understand and have taken into account any threats to financial sustainability. This report sets out the position for Bolsover District Council and provides justification for the 2019/20 financial statements being prepared on a 'going concern' basis.
- 1.5 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 Assessment

- 1.6 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.

- 1.7 The provisions in the 2019/20 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.
- 1.8 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.

The Council's Current Financial Position – Revenue Resources

General Fund

- 1.9 As reported to Executive in June, the Council under spent on the General Fund revenue budget in 2019/20 by £1.493m. As at 31 March 2020 the Council held a General Fund Balance of £2.261m and held Earmarked Reserves totalling £14.177m. The Earmarked Reserves balance has increased by £2.675m during the year which is £1.595m 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)

- 1.10 The financial performance in 2019/20 resulted in a net under spend of £0.256m on the HRA revenue budget. As at 31 March 2020 the Council held an HRA Balance of

£2.155m which was in line with the revised budget. Earmarked Reserves totalling £15.350m were held and the net reserve movement during 2019/20 was an increase of £1.257m. The level of adequate reserves and balances and the ongoing requirement for 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 has had to apply over recent years 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.

- 1.11 The Section 151 Officer is satisfied that the Council's 2019/20 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

- 1.12 The pandemic has meant an increase in cost to the Council which is currently covered by the £1.010m grant received from Central Government. However, the loss of income to the Council is a greater concern and the Government announced a package of financial support in July 2020. This scheme will allow council tax and business rates collection fund deficits to be repaid over three years instead of one. In addition, where losses from fees and charges are more than 5% of a Council's planned income, the Government will cover 75p for every pound lost. These provisions, together with the Government's stated commitment to support public services through the pandemic, give management confidence that the Council will be able to manage the financial challenge in the medium term.

The Council's Projected Financial Position – Revenue Resources

- 1.13 The financial projection for 2020/21 to 2023/24 was approved by Members in February 2020 in the Medium Term Financial Plan (MTFP). The Council set a balanced budget for 2020/21 with a small deficit of £0.290m to be met by a 2.83% increase in Council Tax and one-off vacancy savings of £0.100m. The requirement to achieve financial savings over the medium term was 2021/22 £0.441m; 2022/23 £0.594m and 2023/24 £0.682m.
- 1.14 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 life of the current MTFP.
- 1.15 A transfer from general fund to the reserve will be made in 2020/21 of £0.336m. Latest estimates for transfers back to general fund are £1.027m 2021/22, £1.033m 2022/23 and £1.246m in 2023/24. A balance of £0.481m remains in the reserve for use in 2024/25. When savings are found that mean the use of the reserve is not required the transfers from the reserve will be reduced.
- 1.16 The Council's Section 151 Officer made a formal statement in February 2020 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the Medium Term Financial Plan. We have revisited the underlying assumptions and plan in the light of the challenges presented by Covid-19 and are satisfied at this

stage that the financial plan remains intact. We will continue to review the performance against our 2020/21 budget and ensure our medium term plan is updated as part of our 2020/21 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 2020

- 1.17 The Council's net assets amounted to £131.6m and Usable Reserves totalled £44.3m. 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

- 1.18 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 2020 the Council has long term borrowing commitments of £97.1m, held £28m in short term investments and had £8.8m 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

- 1.19 The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the 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.
- 1.20 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

- 1.21 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.
- 1.22 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

- 1.23 The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Councils ability to continue as a going concern.
- 1.24 Economic uncertainty and difficulties in attaching weight to previous market evidence for comparison has impacted on valuers being able to inform opinions of value at 31 March 2020. In accordance with RICS guidance and in common with other local authorities the property valuations on our land and buildings have been reported by our internal valuer on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. These valuations therefore have less certainty and should be viewed with a higher degree of caution than what would normally be the case. This has been disclosed in our 2019/20 accounts for completeness, as under the Code of Practice on Local Authority Accounting these assets are required to be disclosed at valuation. There is a statutory override in place though which means that any valuation movements do not affect the cost to tax payers or our useable reserves. There are no indications from our understanding of the local property market or the properties we hold that this is a significant medium term issue for the Council.
- 1.25 We are satisfied that there are no material uncertainties which, under the Code of Practice on Local Authority Accounting framework, represent significant issues regarding the Council's ability to continue as a going concern.

2 Conclusions and 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 2019/20 have appropriately been prepared on this basis. This report gives that 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 Consultation and Equality Impact

- 3.1 There are no consultation and equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 There are no alternative options, the going concern status has been determined.

5 Implications

5.1 Finance and Risk Implications

There are no additional financial implications arising from this report.

5.2 Legal Implications including Data Protection

There are no specific legal implications arising from this report.

5.3 Human Resources Implications

There are no Human Resource implications arising from this report.

6 Recommendations

- 6.1 That the Audit Committee accepts the outcome of the assessment of the Council's 'going concern' status for the purpose of preparing the Statement of Accounts for 2019/20.

7 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: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
<p>Has relevant Portfolio Member been informed?</p>	Yes
<p>District Wards Affected</p>	All
<p>Links to Corporate Plan priorities or Policy Framework</p>	All

8 Document Information

Appendix No	Title
<p>Background Papers (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 Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
Report Author	Contact Number
Theresa Fletcher – Head of Finance + Resources	01246 242458