



Governance Scrutiny Group

Thursday, 15 September 2022

Going Concern Assessment 2021/22

Report of the Director of Finance and Corporate Services

1. Purpose of report

- 1.1 This report sets out the Council's assessment by the Council's Section 151 officer of the Council's Going Concern status. The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Given potential legacy issues from Covid 19, combined with increasing inflation linked to Russia's war with Ukraine, there remains a requirement for a separate report confirming the Council's position with regards to its Going Concern status.

2. Recommendation

It is RECOMMENDED that the Governance Scrutiny Group note the positive outcome of the assessment made of Rushcliffe Borough Council's status as a going concern for the purposes of the Statement of Accounts 2021/22.

3. Reasons for Recommendation

- 3.1. To conform with professional standards with regards to the Local Authority Code of Accounting Practice.

4. Supporting Information

The Assessment of Going Concern

- 4.1. 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 2021/22 (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.
- 4.2 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

4.3 The Council's draft financial statements 2021/22 can be viewed on the Council's website. The financial outturn position for 2021/22 showed efficiency savings of £0.211m (taking into account movements to reserves and the need for carry forward amounts to meet various service pressures and risks). This compares against a net revenue service revised budget of £14.09m (ie a 1.5% variation). As at 31 March 2022, the Council held a General Fund Balance of £2.6m. In addition, the Council held earmarked reserves of £23.6m (£22.4m in 2020/21) which are held to meet specific identified pressures, but which ultimately can be diverted to support general expenditure should the need arise. £5.15m of this balance relates specifically to the Collection Fund to be released in 2022/23 and 2023/24 (the difference between the estimated and outturn positions) to meet the deficits arising from business rates reliefs issued in response to the pandemic.

4.4 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. In October 2011, the Cabinet approved as part of its MTFs, the following guiding principle:

“General Fund Balance should not fall below £1.25m and overall revenue reserves should not fall below 20% of net revenue expenditure.”

The current General Fund balance of £2.6m accords with this principle.

4.5 At 31 March 2022, the Council held £52.8m (£34m 2020/21) in the form of either cash or short term investments maturing within the next financial year. This was mainly due to additional grants and funding of reliefs in relation to Covid advanced to the Council by central government.

4.6 The year-end Capital Programme provision totalled £27.2m. Actual expenditure in relation to this provision totalled £16.3m (54% of the budget) giving rise to a variance of £10.9m. Budgets to the value of £10.7m have been carried forward into 2022/23. The Council funds its capital programme from internal borrowing, capital receipts, earmarked reserves, direct financing from revenue, government grants and partnership funding e.g. developer contributions.

The Council's Balance Sheet as at 31 March 2022

4.7 The balance sheet shows a net worth of £48.2m (£29.9m in 2020/21) this varies, in particular, due to pension fund volatility. There are statutory

arrangements for funding the Council's pension scheme and deficit, through increasing contributions over the remaining working life of the employees, as assessed by an independent actuary. The financial position of the Council remains healthy notwithstanding significant pressures in relation to both pay and energy inflation, and the 'domino effect' this creates across not only Council expenditure, but critically the ability of individuals to purchase goods and services. Other factors giving rise to the 'going concern' assessment include:

- the adequacy of risk assessed 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

- 4.8 The Council's Medium Term Financial Strategy (MTFS) is updated annually and reflects a five-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.
- 4.9 Full Council approved the MTFS in March 2022, including a balanced budget for 2022/23. This allows for net spending of around £9.97m (which includes adjustments to compensate for the continuing impact of Covid, transfers from reserves etc) and required a council tax increase of 2.42%, a Transformation Programme requirement of an additional £0.327m in 2022/23, rising to £1.196m by 2026/27; the use of £1.3m from the New Homes Bonus reserve to offset the impact of Minimum Revenue Provision largely in relation to the Arena; and £5.15m to be released from the Collection Fund Reserve to offset the estimated collection fund deficit in 2021/22 (see paragraph 4.3). A new reserve has been created for Vehicle Replacement of £1m (to be funded from 2021/22 in-year budget efficiencies). There is also a Climate Change Reserve created of £1m to enable the Council to meet its environmental objectives.
- 4.10 Since the MTFS was approved, significant risks have arisen with regards to pay and supplies and service inflation (largely driven by rising energy costs linked to the Russian-Ukraine conflict). The MTFS going forward will be amended to reflect these pressures and the Quarter 1 Finance Report to Cabinet in September 2022 also reflects these issues. The Council has sufficient reserves to meet such pressures. The 2021/22 year-end outturn reports to both Corporate Overview Group and Cabinet referenced the need to provide additional funding in relation to pay and rising energy costs. Prudently the Council has therefore earmarked £0.45m to be utilised from the Council's Organisation Stabilisation Reserve. Ongoing budget reports and the MTFS will continue to evaluate such risks.

The Council's governance arrangements

- 4.11 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.
- 4.12 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 Scrutiny Group on 30 June 2022. This includes a detailed review of the effectiveness of the Council's governance arrangements.

The external regulatory and control environment

- 4.13 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.
- 4.14 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. In the last two years, some councils have been adversely impacted because of the pandemic, with s114 Notices issued by the s151 Officer. Due to good financial management by the Borough Council, we are not in such a position but we cannot be complacent given the risks that prevail in the wider economy.

Conclusions

- 4.15 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.

5. Risks and Uncertainties

- 5.1. Covid 19 and inflationary pressures continue to present some financial risks to the Council, however such risks have been incorporated into the balanced budget for 2022/23 and use of budget efficiencies from 2021/22. Such risks continue to be monitored regularly.

6. Implications

6.1. Financial Implications

There are no direct financial implications arising from this report.

6.2. Legal Implications

6.2.1 Section 25 of the 2003 Local Government Act requires the authority's Section 151 Officer to comment on the robustness of the estimates and the adequacy of reserves. A report was considered as part of its budget determination by Full Council in March 2022.

6.2.2 Section 114 (1) of the Local Government Finance Act 1988 places a duty on the Section 151 Officer to report certain matters to the authority. The duty of the Section 151 Officer to report is triggered if they believe that a decision involves (or would involve) unlawful expenditure a course of action is unlawful and is likely to cause a loss or deficiency an entry of account is unlawful.

6.2.3 Likewise, the Section 151 Officer must inform the authority where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the Council has considered the report. As per this report this is not a significant risk at this time.

6.3. Equalities Implications

There are no direct equalities implications.

6.4. Section 17 Implications

There are no direct Section 17 implications.

7. Link to Corporate Priorities

Quality of Life	The Budget resources the Corporate Strategy and therefore resources all corporate objectives.
Efficient Services	
Sustainable Growth	
The Environment	

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group note the positive outcome of the assessment made of Rushcliffe Borough Council's status as a going concern for the purposes of the statement of accounts 2021/22.

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Background papers available for Inspection:	Draft Statement of Accounts 2021/22 – Council website
List of appendices:	None