



## **Governance Scrutiny Group**

**Thursday, 28 September 2023**

**Going Concern Assessment 2022/23**

### **Report of the Director - 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. The report also contextualises the Council's the position compared with other authorities.

#### **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 2022/23.

#### **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 2022/23 (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 2022/23 can be viewed on the Council's website. The financial outturn position for 2022/23 showed efficiency savings of £0.570m in relation to its direct service costs. This compares against a net revenue service revised budget of £14.768m (i.e., a 3.8% variation). As at 31 March 2023, the Council held a General Fund Balance of £2.6m. In addition, the Council held earmarked reserves of £19.6m (£23.6m in 2021/22) which are held to meet specific identified pressures, but which ultimately can be diverted to support general expenditure should the need arise. The reduction due to the release of the Collection Fund reserve to offset the deficit position arising from Covid related business rates reliefs from previous years as a result of 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 2023, the Council held £46.4m (£52.8m 2021/22) in the form of either cash or short term investments maturing within the next financial year. The reduction is mainly due to the fact that in 2021/22 additional grants and funding of reliefs in relation to Covid advanced to the Council by central government were received.

4.6 The year-end Capital Programme provision totalled £21m. Actual expenditure in relation to this provision totalled £15.4m (73% of the budget) giving rise to a variance of £5.6m. Budgets to the value of £5.4m have been carried forward into 2023/24. The Council funds its capital programme from internal borrowing, capital receipts, earmarked reserves, direct financing from revenue, government grants and partnership funding (such as developer contributions).

*The Council's Balance Sheet as at 31 March 2023*

4.7 The balance sheet shows a net worth of £106.3m (£46.8m in 2022/23) 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. As well as an improving pension fund position, investment in Council property assets has increased with long term assets rising from £105m to £125m from 2021/22 to 2022/23. 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 2023, including a balanced budget for 2023/24. This allows for net spending of around £14.68m (which includes adjustments to compensate for the continuing impact of Covid, transfers from reserves etc) and required a council tax increase of 2.00%, a Transformation Programme requirement of an additional £0.622m in 2023/24, rising to £1.539m by 2027/28; 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 £0.4m to be released from the Collection Fund Reserve to offset the estimated collection fund deficit chargeable in 2023/24 (see paragraph 4.3). Reserves are expected to be utilised for example the Vehicle Replacement Reserve of £1m and the Climate Change Reserve at £0.8m to enable the Council to meet its environmental objectives.
- 4.10 Since the MTFS was approved, risks continue with regards to pay and a pressure of £0.394m reported in the 2023/24 Quarter 1 Finance Report to both Cabinet and Corporate Overview Group. The Council has sufficient reserves to meet such pressures. Ongoing budget reports and the MTFS will continue to evaluate this and other risks.

#### *Comparative Data*

- 4.11 Appendix A details OFLOG (the newly formed Department the Office for Local Government) comparative data for 2021/22. Some key points to highlight:
- the data compares Rushcliffe to what are deemed similar authorities (in terms of socio-demographic and economic characteristics). All data is also subject to the accuracy of the information on various Government returns or financial statements;

- there is no right or wrong answer on levels of reserves. Every Council has a different risk profile and attitude to risk. What we can say is comparatively we have a better reserves position than many districts which gives the Council more insulation against both known risks and unexpected events; and
- one of the issues many councils are facing are dealing with the cost of debt. Rushcliffe has no external debt hence, as one would expect, shows a favourable position in terms of debt servicing against its Core Spending Power (CSP). CSP being a measure of the core revenue funding available for local authority services, includes Council Tax and locally retained business rates.

4.12 One other source of comparative data is CIPFA's resilience index (Appendix B), which is intended as an early warning system to help identify those authorities that are facing greater financial stress. Comments as follows:

- it is based on 2021/22 data but overall demonstrates low risk of financial stress;
- 2022/23 data is not currently available and this reflects the position of local authorities and delays in audits in completing relevant returns which is the source for the data;
- the information again compares against nearest neighbours; and
- the nature of the data is that it is backward looking but it does identify trends and a direction of travel.

4.13 The Council also has analysed other benchmarking information analysing Rushcliffe's balance sheet both over time and compared to other district councils, to its 2022/23 financial statements. This is more current than the above data and is summarised at Appendix C. The overall conclusion is that the Council, relative to others, has a 'healthy balance sheet'. This can quickly change with future capital demands and we cannot be complacent when approving the Council's Medium Term Financial Strategy. In all of the above, RBC has a positive 'direction of travel' in what can be stated as a hostile financial environment.

#### *The Council's governance arrangements*

4.14 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.

4.15 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 29 June 2023. This includes a detailed review of the effectiveness of the Council's governance arrangements.

### *The external regulatory and control environment*

- 4.16 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.
- 4.17 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. Increasingly, councils across the country have had their finances adversely impacted due to a combination of factors, notably, poor commercial decisions, rising demand and increasing inflation. A number of s114 Notices have been issued by s151 Officers. Good financial management by the Borough Council, ensures that we are currently not in such a position, but we cannot be complacent given the risks that prevail in the wider economy.

### *Conclusions*

- 4.18 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. Inflationary pressures continue to present some financial risks to the Council, however such risks have been incorporated into the balanced budget for 2023/24 and use of budget efficiencies from 2022/23. 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 S 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 2023.

6.2.2 Section 114 (1) of the Local Government Finance Act 1988 places a duty on the S151 Officer to report certain matters to the authority. The duty of the S151 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 and an entry of account is therefore unlawful.

6.2.3 Likewise, the S151 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.

### 6.5. Biodiversity Net Gain

There are no Biodiversity Net Gain implications.

## 7. Link to Corporate Priorities

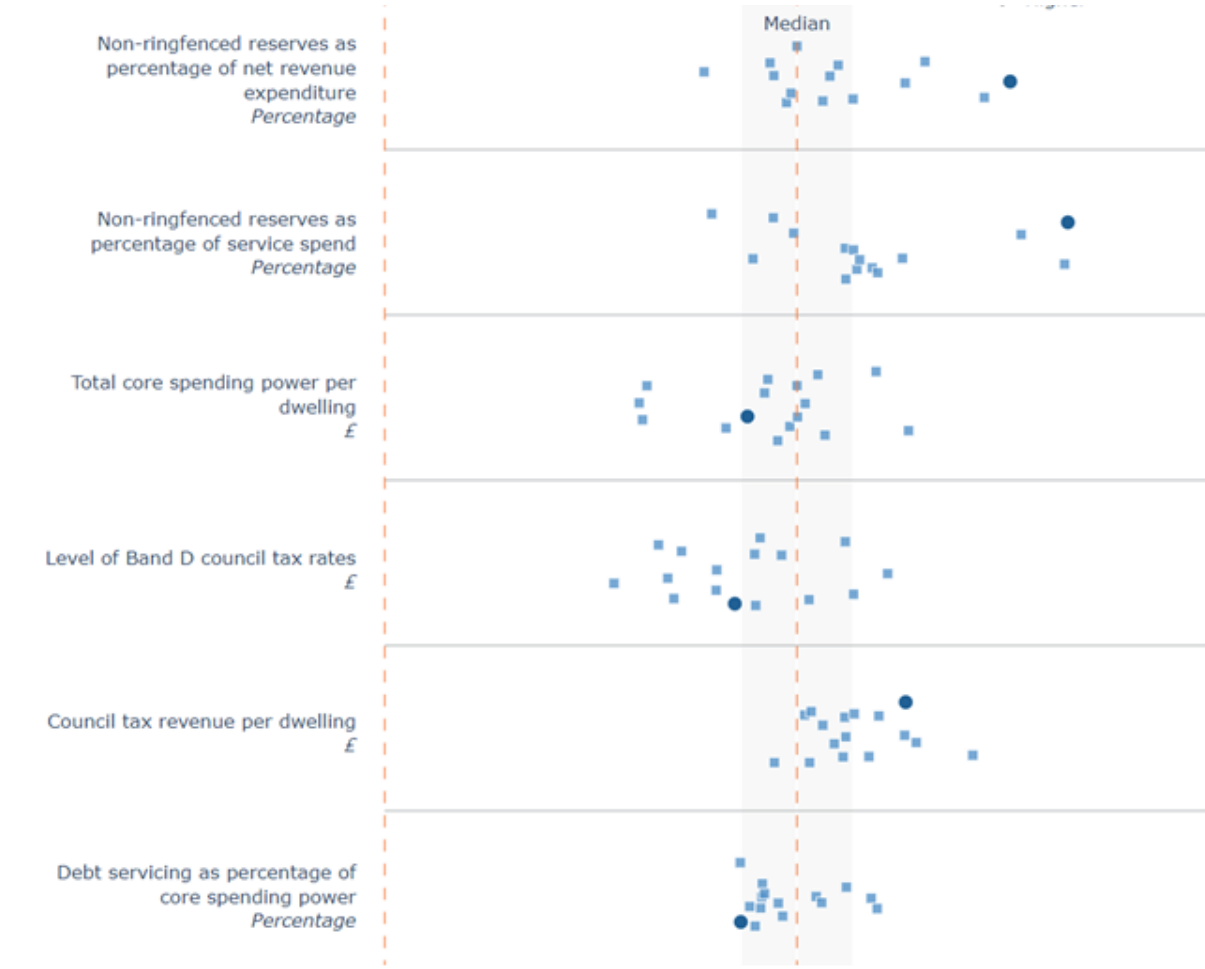
The Environment	The Budget resources the Corporate Strategy and therefore resources all corporate objectives.
Quality of Life	
Efficient Services	
Sustainable Growth	
	The Environment

## 8. Recommendations

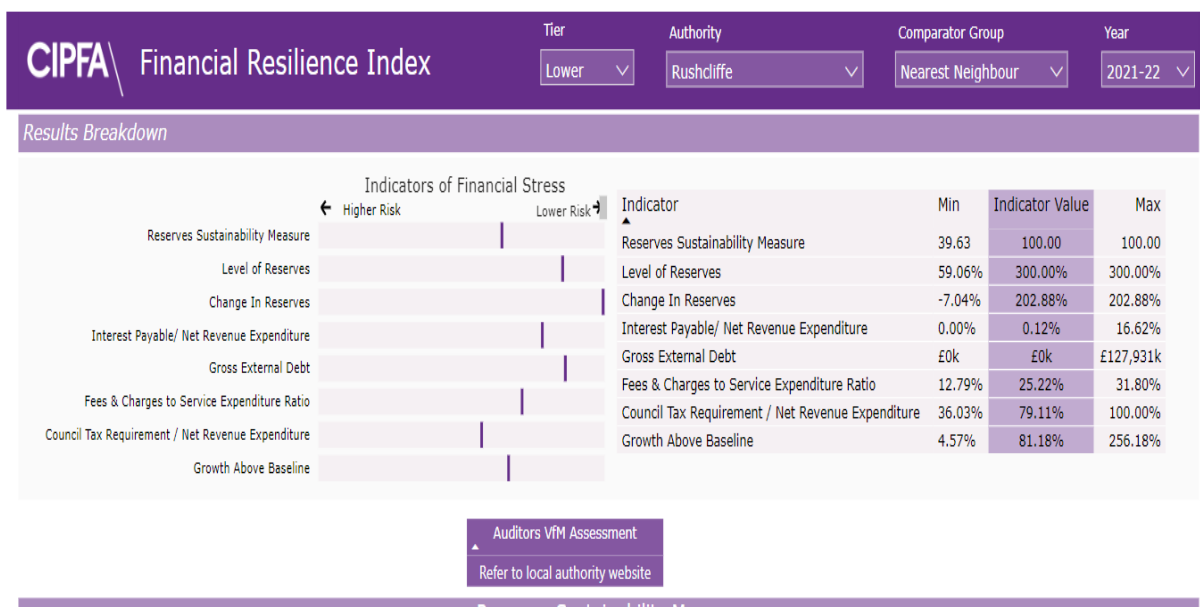
It is RECOMMENDED that the Governance Scrutiny Group note the positive outcome of the assessment made of Rushcliffe Borough Council's status as a going concern for the purposes of the statement of accounts 2022/23.

<b>For more information contact:</b>	Peter Linfield Director of Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
<b>Background papers available for Inspection:</b>	Draft Statement of Accounts 2022/23 – Council website
<b>List of appendices:</b>	Appendix A – OFLOG 2021/22 Data Appendix B – CIPFA Financial Resilience Information 2021/22 Appendix C – Comparative Balance Sheet Analysis 2021/22 to 2022/23

**OFLOG 2021/22 Data**



**CIPFA Financial Resilience Information**





**Comparative Balance Sheet Analysis 2021/22 to 2022/23**

	88 Districts £'000s			RBC £'000s		
	202122	202223		202122	202223	
GF Balance	717,205	670,805	-6%	2,604	2,604	0%
Earmarked Reserves	1,727,560	1,557,331	-10%	23,575	19,572	-17%
Capital Receipts Reserve	656,316	717,463	9%	825	1,085	32%
Capital Grants Unapplied	463,691	530,756	14%	160	154	-4%
HRA Reserves	707,863	670,155	-5%	0	0	-
Other Unusable Reserves	38,495	313,888	715%	-4,147	1,492	-136%
Current Resources	4,311,130	4,460,398	3%	23,017	24,907	8%
Capital Equity	17,716,700	18,655,897	5%	82,315	97,482	18%
Pensions Deficit (Surplus)	-3,886,090	97,165	-103%	-58,930	-16,219	-72%
Net Assets	18,141,740	23,213,460	28%	46,402	106,170	129%
Non Pensions Net Assets	22,027,830	23,116,295	5%	105,332	122,389	16%
Need to Borrow	8,945,299	9,238,991	3%	7,283	13,266	82%
External Borrowing	7,261,668	7,127,392	-2%	0	0	-
Internal Borrowing	1,683,631	2,111,599	25%	7,283	13,266	82%
Net Revenue Expenditure		7,813,512			13,165	
CFR /Current Reserves	2.07	2.07		0.32	0.53	
Debt Gearing	33.55%	33.12%		8.13%	11.98%	
Net Assets / NRE	2.32	2.97		3.52	8.06	
Non Pension Net Assets / NRE	2.82	2.96		8.00	9.30	
Current Resources / NRE	0.55	0.57		1.75	1.89	

**Commentary:**

- Despite reducing Useable Revenue Reserves (URR), current resources have increased by 8% (higher than 3% increase for all districts). It should be noted HRA authorities can distort the figures.
- Capital equity (Property, Plant and equipment etc) increased by more than average. This reflects the Council's investment in assets.
- Low Capital Financing Requirement (CFR) and debt gearing with all borrowing internal (ie no external borrowing costs).
- CFR has increased – reflects underlying need to borrow in the future
- Much higher net assets as proportion of net expenditure than the average district.
- All indicators show good level of balance sheet health.
- Rushcliffe appears to have weathered the COVID years better than the average district.