Governance Scrutiny Group

Thursday, 19 September 2024

Going Concern Assessment 2023/24

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. 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 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 2023/24.

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 2023/24 (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 2023/24 can be viewed on the Council's website. The financial outturn position for 2023/24 showed efficiency savings of £0.259m in relation to its direct service costs. This compares against a net revenue service revised budget of £14.695m (i.e. a 2% variation). As at 31 March 2024, the Council held a General Fund Balance of £2.6m. In addition, the Council held earmarked reserves of £20.947m (£19.673m in 2022/23) which are held to meet specific identified pressures, but which ultimately can be diverted to support general expenditure should the need arise. The increase is due mainly to an increase in the Regeneration and Community Projects Reserve. This was approved by Council as part of the 2023/24 budget report to address pressures in funding future capital commitments and the reduced likelihood of leveraging in external funding.

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 2024, the Council held £57.5m (£46.4m 2022/23) in the form of either cash or short term investments maturing within the next financial year. The increase is mainly due to disposal of an asset and efficiencies/underspends in revenue and capital budgets resulting in increased cash balances.

4.6 The year-end Capital Programme provision totalled £12.462m. Actual expenditure in relation to this provision totalled £6.752m (54% of the budget) giving rise to a variance of £5.710m. Budgets to the value of £4.168m have been carried forward into 2024/25. 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).

4.7 The Council is not aware of any post balance sheet event that would significantly affect the Council's financial position at the end of 2023/24.

The Council's Balance Sheet as at 31 March 2024

4.8 The balance sheet shows a net worth of £112.135m (£106.3m in 2023/24) 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. Long term assets have reduced from £125m to £117m mostly due to the disposal of Hollygate Lane agricultural land (although this improves the Council's cash and investment position with short term investments increasing from £14m to £26m). The improving pension fund position has also had a positive impact. Despite the ongoing cost pressures relating to inflation and the impact on the cost of living for Council residents, the financial position of the Council remains relatively healthy. 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

4.9 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.

4.10 Full Council approved the MTFS in March 2024, including a balanced budget for 2024/25. This allows for net spending of around £15.14m (which includes the inflationary impact on costs, and transfers from reserves etc) and required a council tax increase of 2.55%. There is a total deficit position of £1.585m over the 5-year period and this will be managed using a combination of the Organisation Stabilisation Reserve to smooth the effect in net budget requirement and identifying other budget efficiencies. The Transformation and Efficiency Plan continues to identify savings to reduce this deficit with a requirement of an additional £0.733m in 2024/25, rising to £1.738m by 2028/29. Reserves are expected to be utilised going forward to deliver the Council's Corporate Priorities with the balance reducing from £21m to £15m over the period of the MTFS. Opportunities will be taken wherever possible to replenish the reserves. It is anticipated that the reform to Business Rates will be delayed until 2026/27 at the earliest due to the change in Government and this will result in unbudgeted additional income to be appropriated to reserves.

4.11 Despite reduced external funding, the Council continues its ambition to invest and develop the Borough with a capital programme of £25m over the next five years. The Council continues to maximise opportunities such as the Freeport and the East Midlands Combined County Mayoral Authority, ensuring they deliver the best possible outcome for the residents and businesses of the Borough.

4.12 The Government recently announced that all councils must publish a Productivity Plan to demonstrate where it will reduce inefficiencies and generate savings. This has been incorporated into the Council's Transformation and Efficiency plan (paragraph 4.9) and will continue to build on the £4.8m delivered so far through the Transformation and Efficiency Programme.

4.13 Since the MTFS was approved, risks continue with regards to pay and inflationary pressures however due to elevated interest rates, additional grants and growth in Business Rates, the projected position at Q1 is £1.106m efficiency to be reported to both Cabinet and Corporate Overview Group. The Council will replenish reserves and utilise this efficiency to support current objectives such as Economic Growth and Climate Change and provide for risks going forward.

Comparative Data

4.14 The Council has reviewed benchmarking information analysing Rushcliffe's balance sheet both over time and compared to district councils who have published their draft financial statements in 2023/24 and this is summarised at Appendix A. This analysis can be used to identify early warning signs that a council may be showing signs of financial stress, indicated by red markers on the analysis table.

4.15 The Council's balance sheet is showing a relatively healthy position although Capital Reserves, Internal Borrowing and Pensions Reserves are identified as red compared to other authorities. Where there is both a red and green marker for the Usable Capital Reserves (UCR) as a proportion of CSP, this reflects that the movement from 22/23 is low i.e. stable (green) but that level of the UCR is comparatively lower (red). The Pension Reserve fluctuates in response to the changing economic environment and thus the value of the liabilities can also fluctuate.

4.16 The Council has identified in the MTFS that capital resources are declining and is actively seeking to mitigate this by reviewing its assets on a regular basis and seeking external funding wherever possible. The Council has high levels of internal borrowing (spend on capital projects not yet funded) but this is reflective of the Council's debt free status and availability of cash funds meaning the Council does not currently need to externally borrow. The internal borrowing is projected to reduce over the medium term with annual repayments of Minimum Revenue Provision (MRP).

The Council's governance arrangements

4.17 The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the post of Head of Paid Service, the Monitoring Officer and the Section 151 Officer in addition to the current political arrangements.

4.18 An overview of this governance framework is provided within the Annual Governance Statement which is included within the Statement of Accounts which was published online on 31 May 2024 and is due to be presented to the Governance Scrutiny Group in September 2024. This includes a detailed review of the effectiveness of the Council's governance arrangements.

The external regulatory and control environment

4.19 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.

4.20 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. An increasing 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.

4.21 The Council has for the third year received a substantial overall opinion from internal audit – a high accolade and is rarely awarded – and the Council's year end accounts work is up to date with external audit who have given an unqualified opinion on said accounts.

4.22 The change in Government may impact on the funding that the Council receives and the direction the new Government may take on funding reform and devolution. Any delay in such reforms would have a positive impact on the Council's budget (i.e. assuming there is no business rates reset) but ultimately prevents longer-term certainty over budgets.

4.23 The audit sector has been under pressure for some time with a small minority of Council's up to date with their accounts signed off. The Council is fortunately in the minority, however even with proposed resolutions to the backlog recently announced, there remains pressure on the local government finance and audit sectors.

Conclusions

4.24 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 2024/25 and use of budget efficiencies from 2023/24. 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 s151 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 2024.

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

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 2023/24.

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Background papers available for Inspection:	Draft Statement of Accounts 2023/24 – Council website
List of appendices:	Appendix A –Comparative Balance Sheet Analysis 2022/23 to 2023/24

Appendix A

Comparative Balance Sheet Analysis 2022/23 to 2023/24

Measures		Expressed as	202324 Value			Change since 202223			
			Rushcliffe	District (GF only)	Rank	Rushcliffe	District (GF only)	Rank	Trend
Category 1: Net Assets and Reserves									
Balance Sheet net assets (excluding pensions)	1	percentage of CSP	963%	928%	26 / 67	-4%	-3%	51 / 67	
Usable Reserves	2	percentage of CSP	212%	294%	42 / 67	10%	0%	11 / 67	
Unusable Reserves	3	percentage of CSP	751%	634%	22 / 67	-7%	-5%	52 / 67	
Pensions Reserve	4	percentage of CSP	-85%	-13%	58 / 67	-35%	622%		
Category 2: Usable Reserves									
General Fund Usable Revenue Reserves	5	percentage of CSP	184%	202%	32 / 67	1%	1%	32 / 67	
Usable Capital Reserves	6	percentage of CSP	28%	92%	53 / 67	172%	-2%	2 / 67	
Category 3: Capital Health									
Capital Financing Requirement (CFR)	8	percentage of CSP	77%	470%	23 / 62	-29%	-1%	2 / 67	
Capital Equity	9	percentage of CSP	729%	623%	24 / 67	-8%	-4%	56 / 67	
Capital Adjustment Account	10	percentage of CSP	540%	365%	17 / 67	-8%	-7%	56 / 67	
Debt Gearing	11	8 as percentage of capital assets	10%	43%	20 / 62	-20%	2%	2 / 67	
CFR / Current Resources	12	8 as percentage of 13	38%	161%	24 / 62	-37%	-1%	3 / 67	
Category 4: Current Resources and Internal Borrowing									
Usable Reserves plus adjustment accounts	13	percentage of CSP	205%	291%	42 / 67	14%	-1%	5 / 67	
Internal borrowing percentage	14	Internal Borrowing as percentage of 8	100%	23%	61 / 67	0%	3%	41 / 67	
Internal borrowing divided by current	15	Internal Borrowing as percentage of 13	38%	37%	35 / 67	-37%	3%	9 / 67	
Current Ratio	16	Current Assets / Current Liabilities	711%	156%	2 / 67	41%	-1%	12 / 67	