



Governance Scrutiny Group

Tuesday, 29 September 2020

Going Concern Assessment Linked to Covid-19

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

- 1.1 This report sets out the 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 Covid 19 these are exceptional times, it is therefore appropriate to confirm 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 2019/20.

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 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.

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 2019/20 can be viewed on the Council's website. The financial outturn position for 2019/20 showed efficiency savings of £0.619m against a net revenue service revised budget of £11.609m. As at the 31st March 2020 the Council held a General Fund Balance £2.6m. In addition, the Council held earmarked reserves of £13.5m which are held to meet specific identified pressures, but which ultimately can be diverted to support general expenditure should the need arise.

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. As part of the Medium Term Financial Strategy the Section 151 Officer has assessed that the optimum level of general reserves to be held by the Council to be at or above £1.5m least equal to 5% of the Council's net operating expenditure. At 31 March 2020 general reserves were at £2.6m.

4.5 At 31 March 2020 the Council held £20m in the form of either cash or short term investments maturing within the next financial year.

4.6 The year-end Capital Programme provision totalled £25.3m. Actual expenditure in relation to this provision totalled £6.1m (24% of spend) giving rise to a variance of £19.2m. Budgets to the value of £19.2m have been carried forward into 2020/21. 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 2020

4.7 The balance sheet shows a net worth of £36.9m and this is significantly reduced by the inclusion of a pension liability of £50.7m. There are statutory arrangements for funding the pension deficit through increasing contributions over the remaining working life of the employees, as assessed by an independent actuary. Therefore, the financial position of the Council remains healthy. Other factors giving rise to this assessment include:

- The adequacy of risk assesses 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 In February 2020, the Council approved a balanced budget for 2020/21. This allows for net spending of £12.9m and required a council tax increase of 3.59%, a Transformation Programme of £0.192m and the use of £1.1m from reserves to offset the impact of Minimum Revenue Provision in relation to the Arena.
- 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. An update on the Council's medium-term financial position covering the five year period 2020/21 to 2024/25 due to the recent events of Covid 19 was reported to both Cabinet and Full Council in September 2020.
- 4.10 The salient points arising from the report are as follows:
- The 2020/21 position shows a budget gap of £2.7m (supporting Leisure and loss of income on car parks, facilities and planning) offset by Government Funding (£1.518m) and in-year savings (£0.624m) resulting in a net budget gap of £0.422m. This position may be further improved by Government grant in relation to lost income.
 - 2021/22 will likely be impacted by Covid legacy issues and as such there is a revised projected position of £1.9m budget gap to be temporarily funded from reserves and the use of the voluntary revenue provision (VRP).
 - Further lockdown measures or a second wave would increase the deficit projected for 2020/21 to £1.7m as a 'worst case scenario'.
 - There is an estimated £24.9m slippage on the Capital programme and a delay in Capital Receipts reducing from an estimated £20m down to £4.6m in the year. The reduction in capital outlay due to the slippage in the programme should avoid the need to externally borrow in 2020/21.
 - Multi-asset investment values had taken a significant hit due to Covid with a reduction in value of £1.238m. As of August 2020, this has recovered by £0.694m.
 - Council Tax and Business Rates collections were down with an expected deficit created at the end of the year that will need to be recovered in later years. This has been factored into the revised MTFS with Business Rates hitting a 'safety net' level (ie the minimum level they should reduce to) and an anticipated Collection Fund deficit for 2 years of £100k per annum.
 - Some Transformation Plan projections have been altered, for example leisure contract efficiencies are at least deferred, given the impact of Covid. Further transformation targets have been added to mitigate the budget gap in 2021/22.

- The situation remains fluid and a number of risks and Covid legacy issues remain which will need to be monitored. For example, uncertainty surrounding Fair Funding and Business Rates reviews make planning for the medium term difficult.
- The use of reserves as fiscal levers could potentially reduce the Organisation Stabilisation Reserve balance from £2m to £0.284m and the intention is this will be replenished during the remainder of the MTFS and beyond.

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 Group on 30 July 2020 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.

Conclusions

- 4.16 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. Alternative options considered

- 5.1. Not Applicable

6. Risks and Uncertainties

- 6.1. Covid 19 presents significant financial risks to the Council and these are reflected in the report.

7. Implications

7.1. Financial Implications

There are no direct financial implications arising from this report.

7.2. Legal Implications

Section 25 of the Local Government Act 2003 requires the authority's Section 151 Officer to comment on the robustness of budget estimates and the adequacy of reserves. A report was considered as part of budget determination by Full Council in March 2020.

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, has taken or is about to take a course of action which if pursued to its conclusion would be unlawful and is likely to cause a loss or deficiency, or is about to enter an item of account which is unlawful. 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 considered a significant risk at this time.

The Council must have regard to this report when making decisions in respect of the budget.

Whilst the 2003 Act does not explicitly require the Section 151 Officer to report on the estimates and proposed reserves, it is prudent to do so.

7.3. Equalities Implications

There are no direct implications

8. Link to Corporate Priorities

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

9. 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 2019/20.

For more information contact:	Pete Linfield Executive Manager – Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	Cabinet and Full Council Covid Budget Reports 8 and 24 September 2020 Draft Statement of Accounts 2019/20 – Council website
List of appendices:	None