



## **Governance Scrutiny Group**

**Thursday, 23 September 2021**

### **Going Concern Assessment Linked to Covid-19**

## **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 Covid 19 these are exceptional times hence the 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:

- a) 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 2020/21.

### **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 2020/21 (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 2020/21 can be viewed on the Council's website. The financial outturn position for 2020/21 showed efficiency savings of £0.093m against a net revenue service revised budget of £13.142m. As at the 31st March 2021 the Council held a General Fund Balance £2.6m. In addition, the Council held earmarked reserves of £22.4m which are held to meet specific identified pressures, but which ultimately can be diverted to support general expenditure should the need arise. £6m of this balance relates specifically to the collection fund to be released in 2021/22 (estimated £4m) and 2022/23 (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. 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 2021 general reserves were at £2.6m.
- 4.5 At 31 March 2021 the Council held £34m 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 £16.13m. Actual expenditure in relation to this provision totalled £9.3m (71% of spend) giving rise to a variance of £6.8m. Budgets to the value of £6.7m have been carried forward into 2021/22. 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 2021*

- 4.7 The balance sheet shows a net worth of £29.9m and this is significantly reduced by the inclusion of a pension liability of £63.2m. 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 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 In March 2021, the Council approved a balanced budget for 2021/22. This allows for net spending of £13.3m (which includes adjustments to compensate for continuing impact of Covid) and required a council tax increase of 3.24%, a Transformation Programme of £0.253m and the use of £1.1m from the New Homes Bonus reserve to offset the impact of Minimum Revenue Provision in relation to the Arena; and £4m to be released from the Collection Fund Reserve to offset the estimated collection fund deficit in 2021/22 (see paragraph 4.3).

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. The Council continues to monitor and report on the impact of Covid on the Council's finances (Cabinet 14 September 2021) and will take any action necessary.

4.10 The salient points arising from the report are as follows:

- The 2021/22 position shows a projected net efficiency of £0.880m including loss of income and additional costs as a result of Covid (£0.071m) offset by grant income and net efficiencies (£0.394m). This position includes an estimate of Government grant in relation to lost income.
- There is an estimated £2.8m variance on the Capital programme reducing from an estimated £36m down to £33m in the year. The reduction in capital outlay due to the slippage in the programme should avoid the need to externally borrow in 2021/22.
- Multi-asset investment values had taken a significant hit due to Covid with a reduction in value of £1.238m. As of March 2021 this has recovered by £1.143m.
- Council Tax and Business Rates collection rates are improved compared to last year. This will continue to be monitored as Government changes to Retail Relief are applied.
- In the current year a surplus of £2.338m is projected on NNDR however £1.765m of this will be required to cover the additional reliefs applied this financial year.
- The Council needs to have sufficient reserve levels to insulate against financial shocks and to take advantage of opportunities (such as the Freeport)

- The situation remains fluid and a number of risks and Covid legacy issues remain which will need to be monitored. For example continued delay and uncertainty surrounding Fairer Funding and Business Rates reviews make planning for the medium term challenging.

### *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 24 June 2021 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*

- 4.15 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. Alternative options considered**

- 5.1. Not Applicable

## **6. Risks and Uncertainties**

- 6.1. Covid 19 continues to present some financial risks to the Council however such risks have been incorporated into the balanced budget for 2021/22 and continue to be monitored regularly.

## **7. Implications**

### **7.1. Financial Implications**

There are no direct financial implications arising from this report.

### **7.2. Legal Implications**

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 2021.

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.

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.

### **7.3. Equalities Implications**

There are no direct implications

### **7.4 Section 17 of the Crime and Disorder Act 1998 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:

- a) 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 2020/21.

<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 2020/21 – Council website
<b>List of appendices:</b>	None