



Report to Audit Committee

Subject: Going Concern

Date: 24 November 2020

Author: Chief Financial Officer

1 Purpose of Report

To inform Members of the Chief Financial Officer's assessment of the Council's "Going Concern" status for the purpose of the Statement of Accounts 2019/20.

Recommendation:

THAT:

Members note the outcome of the assessment made by the Chief Financial Officer that Gedling Borough Council can continue to operate as a going concern for a period of twelve months from the date of signing the audit opinion, and accordingly remains a going concern for the purpose of the 2019/20 Statement of Accounts.

2 Background

The concept of "going concern" is that a local authority, its functions and its services will all continue in operation for the foreseeable future. The CIPFA Code of Accounting Practice states that an authority's financial statements must be prepared on a "going concern" basis, because local authorities carry out functions essential to the local community, and are themselves revenue raising bodies with limits on revenue-raising powers arising only at the discretion of central government. If the authority was in financial difficulty it is likely that alternative arrangements would be made by central government either for the continuation of service delivery or for assistance with the recovery of any deficit over a period exceeding one year.

An inability to apply the going concern concept would potentially have a fundamental impact on the Council's financial statements. Property, plant and equipment in particular may not be realisable at book values, and provisions may be required for potential closure costs or redundancies.

Given the significant reductions in local government funding in recent years, and now the potentially significant threat that Covid-19 poses to the ongoing viability of councils, the external auditors are placing a greater than usual emphasis on the going concern issue. Accordingly, they require each authority to prepare an assessment of its going concern status in conjunction with the 2019/20 Statement of Accounts.

3 Proposal

3.1 Assessment of Going Concern for Gedling Borough Council

The Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2019/20 (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. It is assumed that the Council will realise its assets and settle its obligations in the normal course of business.

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.

3.2 The Council's current financial position

An outturn report for 2019/20 was presented to Cabinet on 2 July 2020 highlighting the continued good management of revenue and capital budgets.

The revenue outturn position for 2019/20 showed a minor overspend of £57,000 (0.49%) against the current approved net Council budget, due primarily to additional contributions to bad debt provisions.

The balance on the general fund at 31 March 2020 was £3,909,000. In addition, earmarked revenue reserves totalled £5,982,000, and whilst these sums have been set aside to finance specific future plans, they may still be diverted by the Chief Financial Officer to support general expenditure should the need arise. General reserves reflect the Council's ability to meet unexpected financial pressures, and are a key indicator of resilience. As part of the Medium Term Financial Plan (MTFP) the Chief Financial Officer has assessed that the minimum level of general reserves to be held should be equivalent to at least 7.5% of the Council's net operating expenditure. The general fund balance of £3,909,000 at 31 March 2020 was well in excess of this minimum.

The Council held £12,873,000 at 31 March 2020 in the form of cash, cash equivalents and short term investments maturing within one year.

Capital expenditure for 2019/20 totalled £3,107,000, representing an underspend of £1,505,000 against the approved capital programme due largely to the slippage of schemes to 2020/21. The capital programme was funded from capital receipts, government grants, contributions from developers and other partners, direct financing from revenue, and borrowing.

The balance sheet at 31 March 2020 shows a negative net worth of £13,780,000 however this is due only to the impact of the pension deficit of £49,177,000. Statutory arrangements ensure that the deficit will be made good by increased contributions over the remaining working life of employees as assessed by the actuary, and the Council's true position remains healthy.

3.3 The Council's projected financial position

At its meeting on 5 March 2020, Council approved a balanced budget for 2020/21, allowing for net expenditure of £11,603,000 and requiring a council tax increase of 3.07%. The net budget included pressures and growth totalling £771,000, and required a contribution from reserves of £1,156,000.

The Medium Term Financial Plan (MTFP) is updated annually and approved by the Council along with the budget. It reflects a five year assessment of the Council's spending plans and associated funding, and includes the ongoing implications of approved budgets and service levels, along with the revenue costs arising from the capital programme. Consideration is given by the Chief Financial Officer to the robustness of the estimates, and the adequacy of reserves in light of the strategic financial risk issues being faced by the Council.

Due to the unprecedented conditions presented by the Covid-19 pandemic, and the associated financial challenges and increased risks, a mid-year

review of the MTFP has been undertaken. The purpose of this is to ensure not only the maintenance of a balanced budget during the current financial year, 2020/21, but to inform the 2021/22 budget process and to ensure that a sustainable financial position is secured in the medium term, and that the Gedling Plan is supported. Further details with regard to the Covid-19 impact can be found at 3.6 below.

Delivery of the current approved £1.7m efficiency programme is an essential part of the Council's strategy for securing a sustainable medium term financial plan and progress is closely monitored on an ongoing basis. The remaining programme will be reviewed as part of the forthcoming budget process to identify any risk issues and ensure new efficiency proposals are developed to replace any projects that are considered high risk of non-delivery. Further efficiencies may be required to address any ongoing financial impacts of Covid-19 if this is not addressed by Government as part of the Local Government Finance Settlement.

3.4 The Council's governance arrangements

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

An overview of the governance framework is provided within the Annual Governance Statement (AGS) which is included within the Statement of Accounts and was presented to the Audit Committee on 7 July 2020. The AGS includes a detailed review of the effectiveness of the Council's governance arrangements.

3.5 External regulatory and control environment

As a local authority the Council operates within a highly legislated and controlled environment, for example the requirement for a balanced budget each year, combined with the legal requirement to consider such matters as the robustness of estimates and the adequacy of reserves. As well as the legal framework and central government control, councils are also subject to scrutiny by internal and external auditors, and to numerous statutory requirements for compliance with best practice, and with guidance published by CIPFA and other relevant bodies.

Against this backdrop it is unlikely that a local authority would be "allowed to fail", with an expectation that if faced with such a scenario, central government, supported by such organisations as the Local Government Association, would intervene to bring about the required improvements, or to assist with maintaining service delivery. However, given the severity of the Covid-19 pandemic's impact on the UK's finances in general, it would

clearly be complacent to simply wait for Government intervention. MHCLG have conceded that councils may be left with unmanageable pressures, and may continue to be concerned about their future financial position. It has urged any authority finding itself in such a position to contact the department without delay.

3.6 Impact of Covid-19

The financial implications of the Covid-19 pandemic on the Council's finances are expected to be wide-ranging, but there remains much uncertainty. Some key risks are:

- A resurgence of the virus (this is already taking place);
- Increased local government funding uncertainty, eg. delays in the comprehensive spending review leading to a one-year only settlement;
- New budget pressures, both new reset service requirements and fees and charges income reductions;
- the impact of the economic downturn on the tax collection and demand for our services for those most directly affected e.g. by predicted job losses.

At its meeting on 12 November, Cabinet considered the quarter two budget monitoring report which assessed the full financial impact of the Covid-19 pandemic at £0.6m which was an improvement from the £0.7m reported at quarter one due to the receipt of additional emergency government grant funding. Cabinet approved the use of earmarked reserves to maintain a balanced budget in 2020/21.

Key risk issues associated with the pandemic include the impact on income levels and government grant funding to compensate for income losses, and these will be closely monitored. The full impact of Covid-19 is now anticipated to be between £0.6m and £1.0m. Should the 2020/21 impact indeed prove to be higher than the quarter two projection, the likelihood of which is now increased due to the resurgence of Covid-19 and a second national lockdown, further mitigation options will be recommended, eg. the identification of additional in-year savings, the further use of earmarked reserves, or ultimately a request to Council to increase the 2020/21 budget funded by an increase in the use of General Fund Balances. If however the position improves, then it may be possible to reverse the approved use of earmarked reserves.

3.7 Conclusion

While the full impact of the Covid-19 pandemic on the Council's finances remains uncertain, it is expected to have an ongoing impact. In the absence of any additional government funding or recognition of additional resource

requirements in the upcoming one-year settlement, this presents major financial challenges in continuing to maintain a balanced budget, a sustainable MTFP, reserve balances at adequate levels - so ensuring continued delivery of the Gedling Plan and excellent Council services. The Council does not have substantial reserves upon which to rely, and therefore cannot be complacent in seeking efficiencies to deliver any savings required. Timely action will be imperative to address risk and in a worst case scenario, emergency savings plans may need to be implemented, eg. a vacancy freeze or interim service reductions.

The Council has a strong track record of good financial management, which will continue to ensure that financial resilience and sustainability is secured.

It is considered that having regard to the Council's arrangements, and to specific factors highlighted in this report, the Council can continue to operate as a going concern for a period of twelve months from the date of signing the audit opinion, and accordingly remains a going concern for the purpose of the 2019/20 Statement of Accounts.

4 Financial Implications

There are no financial implications directly arising from this report.

5 Legal Implications

Section 25 of the Local Government Act 2003 requires an authority's S151 officer to comment on the robustness of the estimates and the adequacy of reserves. A report was considered as part of the budget determination by Council on 5 March 2020.

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, or an entry of account is unlawful.

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 unless authorised by the S151 officer to prevent the situation that led to the preparation of the report from getting worse or recurring or to improve the situation.

6 Equalities Implications

There are no equalities implications directly arising from this report.

7 Carbon Reduction/Environmental Sustainability Implications

There are no carbon reduction/environmental sustainability implications arising from this report.

8 Appendices

None

Statutory officer Approval:

Approved by: Chief Financial Officer

Date: 11 November 2020

Approved by: Monitoring Officer

Date: 11 November 2020