

Agenda Item

REPORT OF Strategic Manager Resources
To: Audit & Governance
Subject: Assessment of Going Concern Status
Date: 02 May 2017

Reference:

PURPOSE OF REPORT:

To consider the report of the Strategic Manager – Resources: Torridge s151 Officers' assessment of the Council as a "going concern" for the purpose of preparing the Statement of Accounts for 2016/17.

1. INTRODUCTION

This is the first such assessment made by way of a formal report to the Audit & Governance Committee prior to the submission of a draft set of accounts for presentation for External Audit.

2. REPORT

Following a pro-longed period of austerity, which has led to continued funding reductions and budgetary constraint it has become increasingly relevant to consider the concept of going concern through an assessment of the Council's financial position and stability.

The concept of 'going concern' itself assumes that an organisation: Torridge District Council, its functions and services will continue in operational existence for the foreseeable future.

The sustained reduction in funding for Local government over the last 6-7 years poses a significant threat to the ongoing viability of councils and as a consequence our External Auditors are now placing a greater emphasis on our ability to operate under the banner 'going concern'. They are no longer simply checking that our Statement of Accounts are in good order and that we are delivering VFM there is now a wider concern about our ability to continue to deliver our community obligations and services.

All principal local authorities are required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2016/17 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code the Council's Statement of Accounts are 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.

The main factors which underpin this assessment are:

- The Council's current financial position;
- The Council's projected financial position;
- The Council's Balance Sheet;
- The Council's cash flow;
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.



Each of the above is considered in more detail below.

The Council's Current Financial Position (Revenue)

The latest forecast position reported for 2016/17 as at 31 January 2017 projected a surplus of £0.15m This position was after setting aside resources for specific purposes such as the Waste Review, Business Rates deficit and additional Planning costs.

As at 31 March 2016 the Council held revenue reserves of £9.7m for specific purposes including capital investment projects and a £1.1m uncommitted General Fund balance. A review of financial risks and balances held in reserves is carried out during the budget process and when the Statement of Accounts are being prepared.

The Council set a 2017/18 Budget balanced at £10.250m, which included £0.4m being allocated from the Transition in Government Funding Reserve (resources set aside to help alleviate the impact of reductions in Government funding). However, it should be noted that the Budget 2017/18 does include an overall net movement of £1.2m to reserves with £0.6m expected to be released during 2017/18.

It is worth noting that Torridge only utilises 25% (£0.44m) of its annual New Homes Bonus funding as an allocation to fund general service revenue expenditure. Therefore in terms of financial resilience this does provide a robust mitigation in terms of the Council's overall funding envelope.

The Council's Projected Financial Position (Revenue)

The Council's Medium Term Financial Strategy (MTFS) was refreshed and reported to Full Council alongside the Budget 2017/18. The projected net revenue spend of the Council reduces from £10.250m in 2017/18 to £9.147m in 2021/22.

Prepared using the best forecasts available at the time of reporting the overall forecast position through to 2021/22 is balanced with a strategic use of the Transition in Government Funding Reserve. However, more importantly the achievement of a balanced position relies on the delivery of £0.6m per annum savings from the waste and recycling service review scheduled to commence in spring 2018. The savings forecast from this major service review are projected to appear across the 2018/19 and 2019/20 financial years.

Clearly there are major changes afoot in the world of Local Government funding most notably the move to 100% Business Rates retention and continued funding reductions. However, measures to mitigate the financial impacts facing Torridge have been implemented successfully time and time again, which have developed a robust financial base Torridge is proud of.

The Council's Investment (Capital) Programme

Torridge has built up resource capacity to allow the Council to develop an ambitious and sizable capital investment programme, which can be balanced around community benefits and seeking to generate revenue income from projects implemented. This has been done predominantly following a period of setting aside New Homes Bonus allocations for investment purposes rather than simply underpinning the revenue budget.

In 2016/17 the final approved programme consisted of projects and investment amounting to almost £5.4m and with £1.3m expended during the year the majority of this underspend had already previously been forecast to be rolled forward into 2017/18.

In the 2017/18 round of project submissions 10 projects amounting to investment of £7.9m were approved for inclusion in the medium term programme. In January approval was also given for the implementation of a revised waste and recycling service, which included the



relocation of depot facilities with a total budget of £6.7m. With existing approved schemes and those expected to be carried forward into 2017/18 this generates a current medium term programme of some £21m.

In addition to the schemes already approved a further 11 schemes were identified for future investment totalling £10.2m. However, whilst the benefits of progressing the schemes were highlighted more work on preparing the business case, securing external funding and addressing feasibility and capacity issues needs to be developed further first.

The Council's Balance Sheet as at 31 March 2016

The Council's Statement of Accounts 2016/17 are currently being prepared therefore the latest audited Balance Sheet available for assessment is that published for the period as at 31 March 2016.

In order to determine and reach the conclusion that the Balance Sheet is robust specific areas of consideration were identified and reviewed, which were:

- Debts owed to the Council
- Net worth of the Council
- Adequacy of provisions held
- Reserves set aside – either earmarked or not and whether actually committed
- The adequacy of the General Fund Balance to meet unforeseen expenditure.

The Council's net assets amounted to £11.8m, which is significantly reduced by the inclusion of the pension scheme liability of £30.8m. Contributions to meet this have been increasing and increases in contributions have been factored into the MTFS based on recent experience. However, taking a more pragmatic approach the real current net worth could be considered the total of usable reserves, which amounted to £12.1m, with a reported increase of £2.5m from the period as at 31 March 2015. Usable reserves consist of Capital Receipts Reserve £1.0m, Capital Grants Unapplied £0.1m, Earmarked Reserves £9.9m and General Reserve £1.1m.

The Council's Cash Flow

The Council in accordance with recommended practice and in compliance with its Treasury Management Strategy maintains short, medium and longer term cash flow projections. As at 31 March 2017 the Council held £13.0m in investments. The entire £13.0m was held in highly liquid investments and there were no investments held for longer than a period of 364 days. As at 31 March 2017 the Council has £1.2m long term borrowing commitments all held with the Public Works Loan Board.

The Council's Governance Arrangements

The Annual Governance Statement is reviewed taking account of external and internal audit reviews. Statements of assurance in the performance of internal controls and risk are sought from the Senior and Operational Management Team. The effectiveness of the Council's governance arrangements are reviewed via a rolling programme of each of the sections of the statement together with the evidence to support it. This is reviewed by the Audit & Governance Committee. Whilst it is not possible to secure absolute assurance the annual review of the statement and the rolling programme of reviewing evidence leads me to conclude that the existing arrangements are fit for purpose and provide adequate assurance of their effectiveness.



The External Regulatory and Control Environment

The Council is required to operate within a highly legislated and controlled environment and particular emphasis of this can be exemplified and demonstrated with the financial controls in place. Examples of which include the requirement of Full Council to approve a balanced annual budget, but within that to consider and have regard via assurance from the s151 Officer to the robustness of that budget, its estimates and the adequacy of reserves held. The control environment extends thereafter to the prescriptive role that External Audit has in its auditing of the financial statements, the review of value for money and financial resilience and detailed work around subsidy claims.

3. IMPLICATIONS

Legal Implications

None specific to this report although there is a requirement to produce the Council's Statement of Accounts giving regard to the concept of going concern.

Financial Implications

Nothing specific to this report as the report evaluates and assesses the Council's overall financial position, robustness and resilience.

Human Resources Implications

Nothing specific from this report.

Sustainability Implications

The report assesses the sustainability of the Council to continue to operate for the foreseeable future.

Equality/Diversity

Nothing specific from this report.

Risk Management

The report highlights a number of areas where risks have been considered and actions adopted to mitigate financial risk.

Compliance with Policies and Strategies

This is associated with Torridge's Strategic Plan and Medium Term Financial Strategy.

Ward Member and Leader Member Views

Councillor Philip Hackett – 20 April 2017

I have read the Going Concern report and discussed its content with the Strategic Manager. I am satisfied with the information as presented and with the assurance given and endorse the report.

4. CONCLUSIONS

The conclusion reached is that Torridge retains a robust financial position with more than adequate arrangements in place to be classed as a "going concern"

5. RECOMMENDATIONS



That Members of the Committee note the outcome of the assessment made of the Council's status as a "going concern" for the purposes of compiling the draft Statement of Accounts 2016/17.

SUPPORTING INFORMATION

Consultations:	Date of Consultation – 20 April 2017 Officers Consulted – Head of Paid Service
Contact Officer:	Steve Hearse – Strategic Manager Resources
Background Papers:	Budget 2017/18, MTFs and Capital programme 2017/18 – 2021/22 Statement of Accounts 2015/16 Full Council report – Waste and Recycling Review

