

## Agenda Item

**REPORT OF**     **Strategic Manager Resources**  
**To:**             **Audit & Governance**  
**Subject:**       **Assessment of Going Concern Status**  
**Date:**           **24 July 2018**

**Reference:**

### **PURPOSE OF REPORT:**

To consider the report of the Strategic Manager – Resources: Torridge s151 Officers’ assessment of the Council as a “going concern” in light of the closure of the Statement of Accounts for 2017/18.

## **1. INTRODUCTION**

This is the second such assessment made by way of a formal report to the Audit & Governance Committee, updated to incorporate both the Medium Term Financial Strategy reported to Full Council on the 26<sup>th</sup> February 2018 and the draft 2017/18 statement of accounts.

## **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 7-8 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 2017/18 (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 2017/18 financial year resulted in a surplus of £604k, it should be noted however that the 2017/18 budgets only balanced after £760k was released from reserves. The financial position reported for 2017/18 as at 31 December 2017 projected a surplus of £354k. The projected surplus was allocated to the following

- Funding for Future Apprentices £50k
- Future Proofing – replacement of Parking Machines £66k
- Project Management Costs £50k
- Planned Maintenance £188k

The additional surplus of £250k (£604k - £354k) was recommended to be utilised as detailed below:

- Increased Project Management Costs - £90k in total £40k
- Provision for agency backfill of vacancies within Property Services and ICT £75k
- Transfer to Contingency Reserve £45k
- Additional Resources to facilitate compliance with GDPR £12k
- Transfer to the Transition in Government Funding Reserve £78k

As at 31 March 2018 the Council held revenue reserves of £11.3m 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 prepared.

The Council set a 2018/19 Budget balanced at £10.311m, which included £0.172m being set aside into the Transition in Government Funding Reserve (resources set aside to help alleviate the impact of future reductions in Government funding). This *excludes* the £0.078m recommended to be set aside to this reserve from the 2017/18 surplus.

However, it should be noted that the Budget 2018/19 does include an overall net movement of £1.946m to reserves, as detailed below:

Contribution to Capital Reserves	£0.686m 50% of New Home Bonus
Community Grants	£0.342m 25% of New Homes Bonus
Transfer to Economic Regeneration Reserve	£0.390m
Transfer to Vehicle Replacement Reserve	£0.198m
Transfer to Transition in Govt Funding Reserve	£0.172m
Transfer to Backlog Maintenance Reserve	£0.130m
Other transfers to reserve	£0.132m

It is worth noting that Torridge only utilises 25% (£0.342m in 2018/19) of its annual New Homes Bonus grant as an allocation to fund general service revenue expenditure. The balance of £1.028m being set aside to support the capital programme and community grants. 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 2018/19. The projected net revenue spend of the Council reduces from £10.311m in 2018/19 to £10.288m in 2022/23.

Prepared using the best forecasts available at the time of reporting the overall forecast position through to 2022/23 shows a funding gap of £0.432m; see projected budget deficit for the period 2018/19 to 2022/3 below.

	£'m	
2018/19	nil	
2019/20	0.115m	*
2020/21	0.513m	
2021/22	0.502m	
2022/23	0.432m	
Cumulative Total	<b>1.562m</b>	

\* Projected deficit for 2019/20 adjusted for the release of Business Rate Collection Fund Surplus from 2017/18 to be released in 2019/20.

It is projected that as at 1<sup>st</sup> April 2018 the Council will hold **£1.435m** in its Transitional in Government Funding and Business Rates Reserves which can be utilised to balance the Council's projected deficit whilst savings are identified to bridge the funding gap.

It is planned that a report will be presented to the Community and Resources Committee in September 2018 to provide members with options to balance the Council's budgets over the medium term.

However, it should be noted that the MTFS assumes £0.6m per annum savings from the waste and recycling service review which commenced in June 2018. The savings forecast from this major service review are projected to appear across the 2018/19 and 2019/20 financial years. Subscriptions received to-date for the chargeable green collection service indicates that the savings identified will be achieved.

Clearly there are major changes afoot in the world of Local Government funding most notably the move to 100% Business Rates retention, fair funding review and continued central government 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 of which Torridge can be proud.



## **The Council's Investment (Capital) Programme**

Torrige 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 (50%) rather than simply underpinning the revenue budget.

In 2017/18 the final approved programme consisted of projects and investment amounting to almost £8.64m (with £4m being aside for a new depot for the refuse and recycling service).

In the 2018/19 round of project submissions 9 projects amounting to investment of £2.1m were approved for inclusion in the medium term programme. With existing approved schemes and those expected to be carried forward into 2018/19 this generates a current medium term capital programme of some £23.672m.

Projected funding of £24.42m has been identified to fund the Capital programme consisting New Homes Bonus Funding, Capital Receipts, Grants and prudential borrowing (New Refuse Depot). The funding going forward assumes that 50% of any New Homes Bonus received will still be earmarked for capital purposes.

## **The Council's Balance Sheet as at 31 March 2018**

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 £9.218m, which is significantly reduced by the inclusion of the pension scheme liability of £41.9m. 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 £12.4m. Usable reserves consist of Capital Receipts Reserve £0.207m, Capital Grants Unapplied £0.128m, Earmarked Reserves £11.3m 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 31st March 2018 the Council held £12.0m in investments. The entire £12.0m was held in highly liquid investments and there were no investments held for longer than a period of 365 days. The balance of long term borrowing commitments all held with the Public Works Loan Board as the close of the financial year 2017/18 is £0.964m.

As at the 31<sup>st</sup> March 2018 the Council had £2.46m held in its current bank account



## **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 Nick Laws 3<sup>rd</sup> July 2018

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 2017/18.

#### **SUPPORTING INFORMATION**

Consultations:                      Date of Consultation –3rd July 2018  
   Officers Consulted –  
   Head of Paid Service  
   Senior Solicitor and Monitoring Officer

Contact Officer:                      Steve Hearse – Strategic Manager Resources

Background Papers:                Budget 2018/19, MTFS and Capital programme 2018/19 –  
   2022/23  
   Draft Statement of Accounts 2017/18

