

## Agenda Item

**REPORT OF** Finance Manager and Section 151 Officer

**To:** Audit & Governance

**Subject:** Assessment of Going Concern Status

**Date:** 5th October 2021

**Reference:**

### **PURPOSE OF REPORT:**

To consider the report of the Finance Manager and S151 Officers' assessment of the Council as a "going concern" in light of the closure of the Statement of Accounts for 2020/21.

## **1. INTRODUCTION**

The concept of a 'going concern' assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Local Authority Code of Accounting Practice. It is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue raising powers set by central government)

Given the significant reduction in funding for local government in recent years and the potential threat that COVID-19 poses to the ongoing viability of one or more councils as a consequence, external auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis upon which they prepare their financial statements. In response, this report sets out the position at Torridge District Council.

## **2. REPORT**

All principal local authorities are required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting (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 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 2020/21 financial year resulted in a surplus of £771k, the allocation of the surplus to a leisure reserve was approved by Community & Resources on the 9<sup>th</sup> August 2021.

In addition to the transfer of £771k to the leisure reserve the Council was able to transfer the following monies to reserve.

- £642k - Contribution to Capital Reserves re funding deficit on the capital program
- £110k - Backlog Maintenance Reserve
- £51k - Support for Apprentices
- £36k - ICT servers

In total the financial performance for 2020/21 allowed the Council to set aside £1.6m to reserves over and above budgeted reserve transfers such as on-going contributions to the Vehicle Replacement Reserve, ICT replacement reserve etc.

As at 31 March 2021 the Council held £15.5m 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.

\*\*\*\* As a result of Business Rate Collection fund rules, a deficit was incurred in 2020/21 which could not be realised until the financial year 2021/22. Consequently £3.92m of reserves held relate to meeting the deficit on the business rate collection fund arising in the financial year 2020/21.

Additionally there is £0.76m in reserves which relates to Central Government Covid grants monies received in advance of usage. These monies will either be returned to Central Government or utilised during the financial year 2021/22.

The Council set a 2021/22 Budget balanced at £6.956m, after releasing £105k 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 2021/22 include the following contributions **to** reserves

Contribution to Capital Reserves	£0.460m
Transfer to fund replacement ICT Equipment	£0.080m
Transfer to Vehicle Replacement Reserve	£0.554m
Transfer to Apprentice Reserve	£0.125m
Transfer to Property maintenance backlog	£0.075m
General Contingency	£0.070m
Other transfers to reserve	£0.054m

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## 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 2021/22 in February 2021. The projected net revenue spend of the Council is projected to increase from £6.956m \*\*\* in 2021/22 to £10.306m in 2025/26.

Prepared using the best forecasts available at the time of reporting the overall forecast position through to 2025/26 shows a funding gap of £0.289m; see projected budget deficits for the period 2021/22 to 2025/6 below.

The net revenue budget for 2021/22 at £6.956m is unusually low because of the release of £2.98m from reserve pertaining to the deficit on the Business Rate Collection fund in 2020/21.

	£'m	
2021/22	0.000m	***
2022/23	0.278m	deficit
2023/24	0.144m	deficit
2024/25	(0.042)m	surplus
2025/26	(0.091)m	surplus
Cumulative Total	<b>0.289m</b>	

\*\*\* 2021/22 budgets balanced after the release of £105k from the Transition in Government Funding Reserve.

As at 1<sup>st</sup> April 2021 the Council holds **£1.208m** in its Transition in Government Funding Reserve which can be utilised to balance the Council's projected deficit whilst savings are identified to bridge the funding gap.

There are major changes anticipated from Central Government with regards to local authority funding; namely:

- **Spending Review 2021** The Chancellor has confirmed that the 2021 spending review will be finalised in autumn 2021.
- **Business Rates Review** Government has announced a fundamental review of business rates and is currently seeking evidence from local authorities regarding reliefs (and the abuse of reliefs) and the business rates multiplier. The review will also cover others aspects of business rates such as valuation transparency, appeals, and maintaining the accuracy of the rating [list](#).
- **Business Rates Revaluation** The next business rate revaluation was due on the 1<sup>st</sup> April 2021 however, this will now take effect from the 1<sup>st</sup> April 2023 so it better reflects the impact of Covid-19, it will however be based on property values as at 1<sup>st</sup> April 2021.
- **New Homes Bonus** The financial year 2020/21 was intended to be the last year of the current New Homes Bonus scheme; however due to the impact of Covid-19, it has been extended for the financial year 2021/22. At the time of this report there is no information available as to what form any replacement of New Homes Bonus will take or whether there will be a further one year extension.

The lack of information pertaining to impact of the aforementioned upon Torridge's finances represents a significant financial risk. 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.

## **Financial Impact of Covid-19**

The impact of Covid-19 has been felt throughout the local authority sector, both in increased expenditure pressures and more particularly for district councils in lost income. Central Government has recognised the financial impact of Covid-19 upon local authorities and provided additional funding in recognition of both the additional expenditure pressures and lost income from fees and charges.

During the financial year 2020/21 the value of Central Government Covid support grants exceed the additional costs and lost income from fees and charges, which was a significant factor in allowing Torridge to set aside £1.6m to reserves during the financial year 2020/21.

## **Financial uncertainty arising from Leisure**

The Council's contract with its current provider of leisure services is up for renewal on the 31<sup>st</sup> March 2022. Full Council has determined that the contract with the existing provider will not be extended, and that from the 1<sup>st</sup> April 2022 leisure services in Torridge will be provided by a Local Authority Trading Company (LATC).

The Council's leisure services have been closed for significant periods of time throughout the pandemic. Throughout the period of closure the Council has continued to provide discretionary support to its leisure provider 1610 recognising that income has fallen as a result of the pandemic.

The 2021/22 revenue budgets include an additional £150k towards support for leisure, however going forward it is uncertain as to what level income from the Council's leisure centres will bounce back. Consequently it is uncertain as to what level of support the Council will be required to provide to support the provision of leisure services going forward.

The Council's continued support for leisure services is currently the biggest financial uncertainty in its revenue budgets.

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

Torridge has an extensive capital program of £26.85m (excluding the recent levelling up submission to Central Government funding for the Isaac Yard Development).

A report to Full Council on the 22<sup>nd</sup> February 2021 detailed the funding gap on the Council's capital program and outlined measures to bridge the funding gap.

Essentially the options to bridge the funding gap were:

- Utilisation of future capital receipts
- Savings on current capital projects
- Increased revenue contributions to capital reserves from both 2020/21 and 2021/22 revenue budgets
- Increased Car Parking charges
- Increased Green Waste charges



Full Council on the 22<sup>nd</sup> February approved the increased Car Parking and Garden Waste charges, the result being that the Council approved Capital program was brought back into balance.

However during the financial year 2021/22 there has been a significant increase in construction inflation as the building sector has become over heated and supply chain issues within the sector have arisen.

With the exception of its vehicle and ICT replacement program the majority of the Council's capital program pertains to property construction/maintenance and thus is vulnerable to the impact of construction inflation. The impact of construction inflation will be assessed when setting the Council budget for 2022/23 and the when the MTFs is updated.

The "property" related elements within the Council's capital program are circa £18m and thus a 10% uplift for construction inflation will add £1.8m to the cost of the Council's capital program.

### **The Council's Balance Sheet as at 31 March 2021**

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 £2.225m, which is significantly reduced by the inclusion of the pension scheme liability of £51.7m. The Council makes annual contributions to meet this deficit and on-going contributions to the pension deficit 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 £16.9m. Usable reserves consist of Capital Grants Unapplied £0.127m, Earmarked Reserves £15.7m and General Reserve £1.1m.



## **Pension Deficit**

The Council's pension deficit reflects the difference between potential future liabilities against the scheme:

- Estimated payments to existing pensioners
- Projected pension payments to current employees
- Projected liabilities for deferred pensions (former employees not currently in receipt of pension)

and the assets of the scheme:

- Shares
- Government bonds
- Property
- Cash
- other equity investments

The pension deficit is updated annually for changes in longevity, inflation, returns on investments and interest rates.

The Council currently makes additional contributions into the pension fund towards clearing the underlying pension deficit over an agreed timeframe (circa 19 years)

On a triannual basis a full actuarial review is undertaken, this review determines the level of employer contributions needed to be made on behalf of the Council's employees (from the 1<sup>st</sup> April 2020 17.5%) and what additional contributions are required to contribute towards clearing the pension deficit.

The next triannual review of Torridge's Pension scheme is as at 31<sup>st</sup> March 2022 which will cover both employer pension contributions and payments towards the underlying pension deficit for the period 1<sup>st</sup> April 2023 – 31<sup>st</sup> March 2026.

## **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<sup>st</sup> March 2021 the Council held £7m in short term investments. The entire £7m was held in highly liquid investments and there were no investments held for longer than a period of 365 days.

The balance of borrowing commitments all held with the Public Works Loan Board at the close of the financial year 2020/21 is £0.674m.

As at the 31<sup>st</sup> March 2021 the Council had £10.5m held in its current bank account.

The Council is predicting to have cash balances of circa £15m (current bank account and short term treasury deposits) as at the 31<sup>st</sup> March 2022 and is therefore confident it can meet its obligations for the foreseeable future.



## **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.



Leader Member Views

Councillor Claire Hodson – 21st September 2021

I have read the Going Concern report and discussed its content with the Section 151 Officer. 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 Statement of Accounts 2020/21.

**SUPPORTING INFORMATION**

Consultations:                      Date of Consultation –21th September 2021  
   Officers Consulted –  
   Chief Executive  
   Head of Communities  
   Monitoring Officer

Contact Officer:                      David Heyes– Finance Manager & Section 151 Officer

Background Papers:                Budget 2020/21, MTFs and Capital programme 2020/21 –  
   2026/27  
   Draft Statement of Accounts 2020/21

