

REPORT TO:	AUDIT COMMITTEE	Date:	26 JULY 2021
Heading:	ASHFIELD DISTRICT COUNCIL – GOING CONCERN ASSESSMENT		
Portfolio Holder:	CLLR DAVID MARTIN – PORTFOLIO HOLDER FOR FINANCE AND REVENUES & BENEFITS		
Ward/s:	ALL		
Key Decision:	No		
Subject to Call-In:	No		

Purpose of Report

This report sets out the assessment by the Council’s Section 151 Officer of the Council’s Going Concern status in respect of the draft 2020/21 Statement of Accounts.

Recommendation(s)

That the Audit Committee notes and supports the Section 151 Officer’s Going Concern assessment and the basis on which the assessment has been derived.

Reasons for Recommendation(s)

In accordance with good practice governance arrangements and to meet external audit requirements.

Alternative Options Considered

(with reasons why not adopted)

Not applicable

Detailed Information

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 and 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 arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might

be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

Where the 'going concern' concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the 'going concern' concept would potentially have a fundamental impact on the financial statements.

Given the significant reduction in central government funding for local government since 2010 and the potential threat that COVID-19 continues to pose to the ongoing viability of one or more councils as a consequence, Councils' External Auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. In response, the position at Ashfield District Council is set out below.

Assessment of Going Concern

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 (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.

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.

1. The Council's current financial position

The financial outturn position (subject to external audit verification) for 2020/21 shows a net General Fund surplus after transfers to earmarked reserves of £1.164m. As at the 31 March 2021 the Council held general revenue reserves of £7.877m (a 17.3% increase on 2019/20). In addition, the Council held earmarked reserves at 31 March 2021 of £14.265m which are held to meet specific identified pressures into the future.

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. The Council's Constitution requires that the minimum level of general reserves to be held by the Council to be £1.35m. At 31 March 2021 general reserves were at £7.877m, over £6.5m in excess of this minimum value.

At 31st March 2021 the Housing Revenue Account (HRA) had a surplus balance of £41.622m (an increase of £4.805m since 31 March 2020) and the most recent 30 Year HRA Business Plan shows it to be viable to 2034/35. The latest version of the Business Plan does not yet reflect the £4.805m surplus in 2020/21 so the position is expected to further improve.

At 31 March 2021 the Council held £17.593m in the form of either cash or short-term investments maturing within the next financial year.

At 31 March 2021 the Council held £97.036m in external long-term loans. The next loans due for repayment on maturity amount to £6.5m at the end March 2023. Due to increases in reserves and cash balances as at 31 March 2021 it is anticipated that any borrowing requirement in 2021/22 will be able to be managed through internally borrowing in year.

In respect of the 2020/21 Capital Programme the annual approved revised budget was £17.279m and the Programme out-turned with an underspend against the approved Capital Programme of £5.455m. These underspends are to be requested for approval to carry-forward to 2021/22 by Council on 29 July 2021. The Council funds its Capital Programme from borrowing, capital receipts, direct financing from revenue, government grants and partnership funding eg developer contributions. The Capital Programme is both affordable and sustainable.

2. The Council's balance sheet as at 31 March 2021

The balance sheet shows a net worth of £144.198m and this is significantly reduced by the inclusion of a pension liability of £124.085m. 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

3. The Council's projected financial position

In March 2021, the Council approved a balanced budget for 2021/22. This allows for net spending of £13.136m and required no increase in council tax, pressures/growth of £327k, savings of £309k and the net use of £431k earmarked reserves. Setting this budget included a transfer of £116k to the General reserve.

The Council's Medium Term Financial Strategy (MTFS) is reviewed and 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. An update on the Council's medium-term financial position covering the five year period 2021/22 to 2025/26 was reported to Cabinet on 23 February 2021 and Council on 4 March 2021. An updated version will be presented to Cabinet following the Autumn 2021 Spending Round.

With the Council already having overcome significant reductions in central government grant funding an estimated budget gap of £3.018m over the period 2021/22 to 2025/26 has been identified in the MTFS (which now shows a reduction in the cumulative funding gap of £0.5m since last year). The Council has developed a strategy to identify savings and additional income to manage the reduction in resources which includes: service reviews, procurement savings, asset rationalisation, consideration of alternate service delivery models, etc. and potential savings through Invest to Save – in particular via the Council's Digital Transformation Programme. The Council's Corporate Leadership Team and Cabinet meet regularly to consider business cases and proposals

to help mitigate the forecast MTFS funding gap. The budget will continue to be monitored over the Medium Term Financial period by Cabinet.

The Council has a well established process for the development of the Capital Strategy, reported to Cabinet through financial monitoring reports throughout the year, which ensures the Council maintains a Capital Programme which is prudent, sustainable and affordable. The General Fund capital budget for the years to 2024/25 is £41.301m.

The 2021/22 General Fund is currently forecasting to spend within budget.

4. The Council's governance arrangements

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.

An overview of this governance framework is provided within the Annual Governance Statement. This includes a detailed review of the effectiveness of the Council's governance arrangements.

5. The external regulatory and control environment

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.

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.

However, given the severity of this pandemic on the Country's finances, it would be complacent to sit back and wait for Government intervention in such a situation. MHCLG have conceded that councils could still be left with unmanageable pressures and may continue to be concerned about their future financial position, urging any authority that found itself in that position to contact the department with immediate effect. Ashfield District Council is in a healthy financial position such that intervention is not required nor is it currently anticipated to be required.

6. Impact of Covid-19

To date the Council has received £2.647m of Covid 19 funding to cover additional costs and pressures arising due to the pandemic and for compensation as a contribution to the loss of sales fees and charges income. As at 31 March 2021 £886k of this funding had not been utilised and has been transferred to a 'Covid reserve' to help mitigate any further Covid-related cost pressures in 2021/22. The Government has also currently committed to extend the lost sales, fees and charges compensation scheme until 30 June 2021 and has provided £817k of additional Covid funding for 2021/22.

As a consequence of the pandemic, as would be expected, Council Tax and Business Rates collection has reduced although the final collection rates were better than was being forecast during the year. In-year collection rates are shown in the table below:

	2020/21	2019/20	Change
Council Tax	95.85%	97.03%	-1.18%
Business Rates	95.40%	97.95%	-2.55%
Council Dwelling Rents	99.82%	99.27%	+0.55%

It is too early to say how much of the collection fund reductions will not be recovered into the future. As the Council collects this income for other Preceptors (County Council, Fire and Rescue, Police and Parishes) for any unrecoverable loss the impact on the Council is approximately 10% (Council Tax) and 40% (Business Rates).

7. Conclusion

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'.

Implications

Corporate Plan: No direct consequences from this report.

Legal: No direct consequences from this report.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	No direct implications from this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The assessment of ADC as a Going Concern is incorrect.	As set out in the body of this report.

Human Resources: Not applicable

Environmental/Sustainability: Not applicable

Equalities: Not applicable

Other Implications: Not applicable

Reason(s) for Urgency

Not applicable

Reason(s) for Exemption

Not applicable

Background Papers

Draft Statement of Accounts 2020/21 and Annual Governance Statement
Annual Budget Setting Report – Council 4 March 2021

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