

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

**AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21
OCTOBER 2020**



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| Title of Report | ASSESSMENT OF GOING CONCERN STATUS | |
| Presented by | Tracy Bingham, Head of Finance and Section 151 Officer tracy.bingham@nwleicestershire.gov.uk | |
| Background Papers | 2019/20 Draft (unaudited) Statement of Accounts (public) Review of Medium Term Financial Plan (attached as Appendix A). | Public Report: Yes |
| Purpose of Report | To share with the Committee the basis for the representation made by the management of the Council to the external auditors that the Council is a going concern. | |
| Recommendations | THAT THE COMMITTEE NOTE THE CONCLUSION THAT NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL IS A GOING CONCERN AND THE BASIS FOR THAT ASSUMPTION | |

1.0 BACKGROUND

- 1.1 The 'going concern' concept assumes that an organisation's functions and services will continue to operate for the foreseeable future. The 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).
- 1.2 If an authority were in financial difficulty, 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.
- 1.3 An inability to apply the going concern concept would potentially have a fundamental impact on the financial statements. Where this is 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.
- 1.4 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 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. This report sets out the position at for North West Leicestershire District Council.
- 1.5 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. By this, it is meant that the Council will realise its assets and settle its obligations in the normal course of business.

1.6 The main factors which underpin this assessment considered within this report, are, the:

- The Council's current financial position to March 2021, including Cash Flow; and
- The Council's projected financial position beyond March 2021 to the end of the current Medium Term Financial Plan period (March 2025), including Cash Flow;
- The Council's governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority

1.7 Since the Council has only recently undertaken its Review of Medium Term Financial Plan, this report makes reference in most areas to the report presented to Cabinet on 29 September 2020 which is included at Appendix A.

2.0 CURRENT FINANCIAL POSITION AND PROJECTIONS TO 31 MARCH 2021

Summary Position

2.1 The COVID-19 pandemic has impacted the Council's financial position in 2020/21. The Q1 forecast position is a deficit of £0.978m for the General Fund compared to a budgeted surplus of £630k. On the HRA, the position is a forecast surplus of £2.4m compared to a budgeted surplus of £2.77m.

2.2 The net impact of the pandemic stands at a forecast £1.7m across all Council services, with £1.3m in the General Fund and £380k in the HRA. At this stage, this forecast includes all known costs and confirmed and anticipated funding from central government but only in respect of funding announced – there is no speculative assumptions around other funding.

2.3 This estimated 2020/21 impact currently excludes the potential deficit arising on the Collection Fund as a result of lower levels of business rates and Council tax. This will be estimated later in the year alongside the development of next years' budget.

2.4 The Council achieved surpluses on both of its revenue accounts last year which is favourable given the issues documented above. The table below was reported to Cabinet in September 2020 as part of the 2019/20 Provisional Outturn report which summarises the Council's reserves as at 31 March 2020:

Table 1 – Council Reserves as at 31 March 2020

| Reserves | £'m |
|--|--------------|
| <u>General Fund</u> | |
| General Fund Earmarked Reserves | 8.46 |
| General Fund General Reserves (agreed minimum balance) | 1.54 |
| Self-Sufficiency Reserve | 6.27 |
| Asset Protection Fund | 0.13 |
| Other | 0.18 |
| | 16.58 |

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|--|--------------|
| <u>Housing Revenue Account</u> | |
| Housing Revenue Account Earmarked Reserves | 0.09 |
| HRA working Balance | 3.70 |
| HRA Loan Redemption Reserve | 13.00 |
| | 16.79 |
| <u>Special Expenses</u> | |
| Special Expenses Earmarked Reserves | 0.02 |
| Asset Protection Fund | 0.05 |
| Special Expenses General Reserves | 0.09 |
| | 0.16 |
| <u>Other</u> | |
| S106 | 1.62 |
| | 35.17 |

- 2.5 Both revenue accounts are forecast to be able to deliver a 'balanced budget' for the year – this is because the HRA continues to forecast a surplus and the General Fund has a substantial level of reserves available with £6.27m specifically set aside in a Self-Sufficiency reserve to support financial sustainability.
- 2.6 Full details of the significant forecast movements along with a summary of financial position was reported to Cabinet on 29 September. A copy of the report is included in Appendix A.

Cash Flow to March 2021

- 2.7 The Council maintains short and long term cash flow projections, and manages its cash, investments and borrowing in line with the Council approved Treasury Management Strategy. As at the 31 March 2020 the Council had long term borrowing commitments of £80.2m and held £50.7m in investments and £10.9m in Cash and Cash Equivalents.
- 2.8 At 27 September 2020, the current value of long term borrowing commitments is £79.64m and £64.74 is held in investments.
- 2.9 There are currently no projected negative balances on the Council's cash flow to March 2021.

3.0 FINANCIAL POSITION AND PROJECTIONS 2021 – 2025

Summary Position

- 3.1 The Council's two Medium Term Financial Plans (MTFPs) flow from the 2018 Medium Term Financial Strategy (MTFS), which was approved by Cabinet in February 2018.
- 3.2 The MTFPs project expenditure, income and funding over the forthcoming five year period based on a set of core assumptions. The broad categories of items included and assessed within the forecast include:
- Revenue – income streams and funding
 - Pay costs – including anticipated movement in headcount if known, pay increases and pension costs
 - Non-pay costs – areas of non-pay costs such as supplies and services

- Financing – financing costs associated with capital expenditure, including Minimum Revenue Provision for internal borrowing on the General Fund and repayment of HRA self-financing debt on the HRA
- 3.3 For some areas, an assessment of whether there is inherent risk in the forecast of a particular revenue item is undertaken through sensitivity analysis where significant financial difficulties for the Council could arise if the projections are different to those assumed.
 - 3.4 On a bi-annual basis, the MTFPs are refreshed: once during the summer to provide the Council and Cabinet with information on the financial position of the Council prior to the development of the budget; and again during the autumn as the draft budget is developed for consultation in order to show the affordability of proposals.
 - 3.5 Attached at Appendix A is the full report presented to Cabinet on 29 September 2020 outlining the review of the MTFPs and the resultant impact to future projected surplus/deficit position.
 - 3.6 To summarise, the report at Appendix A details that the General Fund revised projected deficit arising between 2020/21 and 2024/25 could increase from £1m to £5.3m over the five year period. The Journey to Self-Sufficiency reserve stands at £6.3m which provides a healthy balance to be able to fund initiatives to reduce our ongoing spending, increase income and where necessary balance the budget. The HRA revised position could see the surplus reduce from £4.6m to £1.1m over the five year period.
 - 3.7 For both revenue accounts, the Section 151 Officer considers the Council to be in a stable financial position over the forthcoming five year period as a result of historical surpluses achieved and retained in the General Fund Self-Sufficiency reserve and the HRA balances.
 - 3.8 In recognition of anticipated future changes in funding from central government, the Council designed the Journey to Self-Sufficiency Programme in 2018. The ethos of the programme is to enhance the cost-effectiveness, and therefore financial resilience of the Council in spite of, rather than because of, a negative financial outlook (where one exists). The approach builds on the Council's 'One Team, One Council' value to make the most of resources and reinvestment opportunities and being the best it can possibly be.
 - 3.9 Since 2018 the Programme has delivered a range of outcomes associated with the Council becoming more self-sufficient including the implementation of the Commercial Strategy, the redesign and approval of a new Corporate Charging Policy and the drafting of a new Asset Management Strategy.
 - 3.10 During 2019, the Corporate Leadership Team designed a number of delivery themes and scoped associated savings to be delivered over the forthcoming 5 year period. £795k of savings were incorporated into the 2020/21 budget for both of the Council's revenue accounts. £6.955m of savings were incorporated into MTFPs for the period 2022 – 2025.
 - 3.11 As detailed in section 2 of Appendix A, the Corporate Leadership Team have reviewed the programme following its temporary suspension at the start of the pandemic and a new budget was approved by Cabinet in order to engage external support to drive the programme forward.

Reserves Analysis

- 3.12 The tables below set out the revised MTFPs (as detailed in the report at Appendix A) but also include an additional information to show the impact on reserves.
- 3.13 Table 2 illustrates that the Self-Sufficiency reserve remains in a positive balance at the end of the current MTFP period for the General Fund, with the General Working Balance and the potential to reallocate Earmarked Reserves remaining in place.
- 3.14 Table 3 demonstrates that over the MTFP period for the HRA, it is anticipated that reserves increase as a result of the surpluses achieved in 2020/21 and 2024/25, net of deficits arising in the remaining years.

Table 2 – General Fund MTFP and Impact on Reserves

| | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | TOTAL £'000 |
|---|------------------|------------------|------------------|------------------|------------------|----------------|
| Surplus/(Deficit) | -1,034 | -1,641 | -2,590 | -2,038 | -2,598 | -9,772 |
| Journey to Self-Sufficiency Savings | 56 | 895 | 1,120 | 1,245 | 1,270 | 4,586 |
| Surplus/(Deficit) | -978 | -746 | -1,470 | -793 | -1,328 | -5,315 |
| Self-Sufficiency Reserve Opening Balance * | 6,270 | 5,292 | 4,546 | 3,076 | 2,283 | |
| Self-Sufficiency Reserve Closing Balance * | 5,292 | 4,546 | 3,076 | 2,283 | 955 | |

* Only the Self-Sufficiency Reserve is assumed to be impacted over the life of MTFP. However, it is important to note that General Reserves could be utilised to ensure a balanced budget. Likewise, earmarked reserves could be reviewed and reallocated to General Reserves.

Table 3 – HRA MTFP and Impact on Reserves

| HRA | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | TOTAL £'000 |
|---|------------------|------------------|------------------|------------------|------------------|----------------|
| Total Income | 17,634 | 18,202 | 18,903 | 19,483 | 19,976 | 94,196 |
| Total Expenditure | -10,960 | -11,866 | -12,133 | -12,341 | -12,541 | -59,840 |
| Contribution to the Capital Programme (RCCO) | -934 | -4,005 | -5,530 | -4,923 | -4,495 | -19,888 |
| Financing Expenditure | -3,339 | -3,323 | -3,054 | -3,058 | -3,058 | -15,832 |
| Surplus | 2,401 | -993 | -1,815 | -839 | -118 | -1,364 |
| J2SS Adjustments | 0 | 325 | 575 | 625 | 900 | 2,425 |
| Surplus | 2,401 | -668 | -1,240 | -214 | 782 | 1,061 |
| HRA Working Balance Opening Balance ** | 3,700 | 6,101 | 5,433 | 4,193 | 3,979 | |

| | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--|
| HRA Working Balance Closing Balance ** | 6,101 | 5,433 | 4,193 | 3,979 | 4,761 | |
|---|--------------|--------------|--------------|--------------|--------------|--|

** Only the HRA Working Balance is assumed to be impacted over the life of MTFP. However, it is important to note that earmarked reserves could be reviewed and reallocated for the purposes of balancing the budget if required.*

Cash Flow 2021 - 2025

- 3.15 The Council's long-term cash flow projection is best illustrated with reference to the Council's underlying need to borrow for capital purposes. This is measured by the Capital Financing Requirement (CFR) and represents how much funding is required to complete capital budget commitments. The CFR is set against the usable reserves and working capital which represent the underlying resources available for investment.
- 3.16 The latest forecasts available show that the Council was likely to need to borrow in the region of £5.5m in 2022/23 based on current capital plans.

4.0 THE COUNCIL'S GOVERNANCE ARRANGEMENTS

- 4.1 The Annual Governance Statement has been reviewed taking into account external and internal audit reviews and completion of assurance statements by the Corporate Leadership Team. The Statement includes a detailed review of the effectiveness of the Council's governance arrangements.
- 4.2 Whilst it is not possible to provide absolute assurance the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness. This Statement was reviewed by the Chief Executive, Internal Audit manager, Monitoring Officer, S151 Officer and the Leader of the Council before the draft version produced. The statement will be reviewed by the Audit and Governance Committee prior to the final version being issued.

5.0 THE EXTERNAL REGULATORY AND CONTROL ENVIRONMENT

- 5.1 As a principal 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 the Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves.
- 5.2 In addition to the legal framework and central government control there are other factors such as the role undertaken by the external auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

6.0 MATERIAL UNCERTAINTIES

- 6.1 The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Councils ability to continue as a going concern. At the time of writing this assessment there is no material uncertainties to respond to.

7.0 CONCLUSION

- 7.1 The Section 151 Officer and the Council's Corporate Leadership Team consider, having regard to the Council's current and projected financial position, that the Council remains as a going concern and that there is no material uncertainty that exists that should be disclosed in the financial statements.
- 7.2 This assessment will be undertaken annually in the course of preparing the Council's financial statement and a similar report presented to the Audit and Governance Committee each year.

| Policies and other considerations, as appropriate | |
|--|---|
| Council Priorities: | The going concern assumption underpins the delivery of all of the council's priorities. |
| Policy Considerations: | The underlying assumption of a going concern basis forms a general principle of the council's accounting policies which are used to guide accounting treatment and the production of the annual accounts. |
| Safeguarding: | None. |
| Equalities/Diversity: | None. |
| Customer Impact: | None. |
| Economic and Social Impact: | None. |
| Environment and Climate Change: | None. |
| Consultation/Community Engagement: | None. |
| Risks: | None. |
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