

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 19
JANUARY 2022



Title of Report	ASSESSMENT OF GOING CONCERN STATUS	
Presented by	Dan Bates, Interim Head of Finance and Section 151 Officer dan.bates@nwleicestershire.gov.uk	
Background Papers	2020/21 Draft (unaudited) Statement of Accounts (public) Draft Budget and Council Tax report to Cabinet – 11 January 2022	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 Given the significant reduction in funding for local government in recent years and the impact COVID-19 poses to the ongoing financial viability, 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 for North West Leicestershire District Council.
- 1.4 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.
- 1.5 The main factors which underpin this assessment considered within this report, are:
 - The Council's current financial position for the year 2021/22 including the latest reported revenue budget forecasts

- The Council's projected financial position beyond March 2022 as set out in the latest Medium-Term Financial Plan update covering the financial years up to 2026/27
- The Council's governance arrangements
- The regulatory and control environment applicable to the Council as a local authority.

1.6 The next section looks at the Going Concern review focussing on the current year as well as the medium term and also looks at usable reserve levels, cashflow, borrowing and the council's capital and debt position.

2.0 GOING CONCERN REVIEW

2.1 Current financial position and projection to 31 March 2022

Potential Going Concern Risks

- **Significant overspends resulting in unsustainable use of reserves**
- **Unrealistic and unachievable budget set resulting uncontrollable overspends**
- **Poor budgetary control and performance management**

2.2 The COVID-19 pandemic has continued to adversely impact on the Council's financial position in 2021/22. Direct implications include the additional costs of providing services such as waste management in a Covid-safe environment as well as loss of income due to closure of facilities such as the leisure centres. Indirect implications include lower collection rates for council tax and business rates and the additional costs in officer and member time working on the implications of the pandemic.

2.3 The general fund half year revenue forecast position is a surplus of £142k compared to a budgeted surplus of £1,102m, an unfavourable variance of £960k. On the HRA, the position is a forecast deficit of £84k compared to a budgeted surplus of £35k, an unfavourable variance of £119k.

2.4 The unfavourable revenue position has been explained as being largely due to variances consistent with the ongoing cost of the pandemic and not to other unanticipated overspends which give some assurance in respect of the budget estimates. The large budgeted net surplus in the General Fund shows that the 2021/22 has resilience to withstand the additional, largely COVID, pressures. Budget monitoring is reported to Corporate Scrutiny and Cabinet on a quarterly basis.

2.5 Although the variance in both budgets are unfavourable, they are largely attributable to exceptional circumstances associated with the pandemic and the authority's reserves position, considered in the next section, is reasonably strong. For these reasons, the S151 Officer assesses that there are no going concern issues arising from the 2021/22 revenue budget positions.

2.6 Level of revenue usable reserves

Potential Going Concern Risks

- **Low level of usable revenue reserves**
- **Usable revenue reserves depleting at an unsustainable level**

2.7 The level of usable reserves is considered to be one of the most significant measures of a Council's financial health. A low level of usable revenue reserves would provide insufficient resilience to manage inevitable budget pressures and ultimately result in the Council not being considered a 'going concern'.

- 2.8 Table 1 (below) shows the level of usable revenue reserves at North West Leicestershire.
- 2.9 General Fund usable reserves have reduced slightly but remain at a level which is equivalent to over a year's net revenue expenditure. Housing Revenue Account reserves increased in 2021/22 and are at healthy levels.

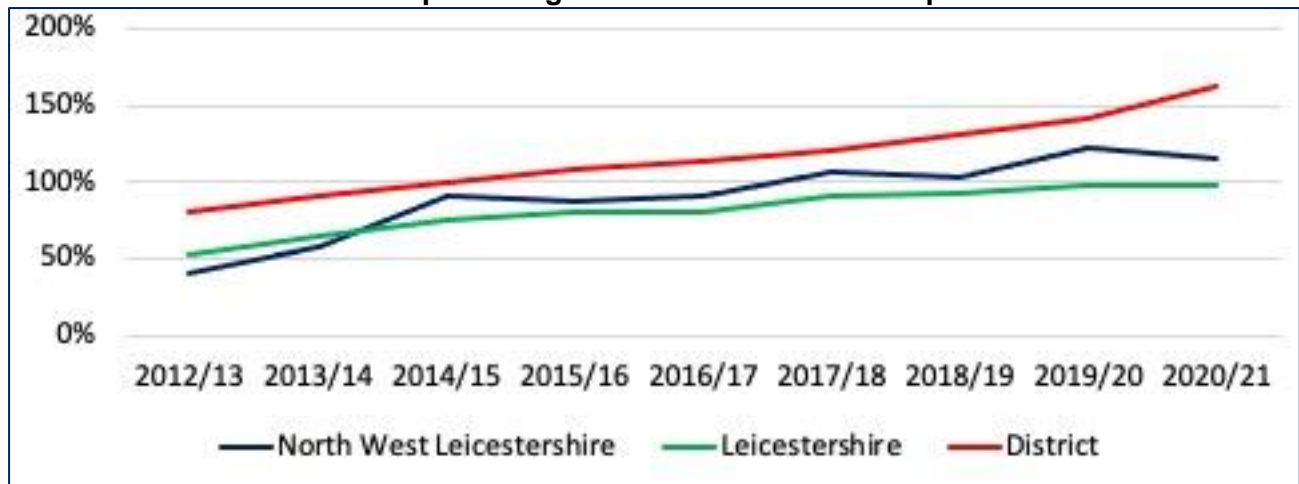
Table 1 – Council Reserves as at 31/03/2021 compared with 31/03/2020

Reserves (all figures in £'m)	20/21	21/22
<u>General Fund</u>		
General Fund Earmarked Reserves *	8,836	8,062
General Fund Balance	7,906	7,832
	16,742	15,894
<u>Housing Revenue Account</u>	17,327	20,826

*An adjustment has been made to this balance to reflect timing difference between COVID grants received that will be accounted for in the 2022/23 Collection fund.

- 2.10 The graph below shows the level of General Fund Usable Revenue Reserves over time and compared with other benchmarks. Reserves have increased from a reasonably low base and are reasonably healthy when compared with other benchmarks.

Usable Revenue Reserves as percentage of 19/20 Net Revenue Expenditure: 12/13 to 20/21



2.11 Whilst reserves are reasonably healthy, it should be noted that unlike other benchmarks (all districts and Leicestershire districts) that the actual level of reserves reduced at North West Leicestershire during 2021/22. Though the reduction is small and average reserve levels remain higher than the Leicestershire district average, this is nonetheless a notable indicator and one that will be monitored closely over the coming years.

2.12 As the level of usable reserves remain at reasonably healthy levels for both the General Fund and Housing Revenue Account, the Section 151 Officer assesses that there are no 'going concern' issues arising from the level of reserves.

2.13 Financial Position and Projections 2021 to 2025

Potential Going Concern Risks

- **No Medium-Term Financial Plan/Strategy or insufficient analysis of future funding scenarios and expenditure plans**
- **Significant reductions in recent Government funding**
- **No robust plans to bridge observed budget gaps**

2.14 An updated Medium Term Financial Plan was considered by Cabinet in September 2021 and Corporate Scrutiny in November 2021. Subsequently, the Government has issued a Spending Review and the Local Government Finance Settlement for 2022/23.

2.15 The updated medium-term financial position, reported to Cabinet on 11 January 2022, is summarised below:

- The proposed general fund revenue budget for 2022/23 includes a budgeted £1.133m contribution to reserves. The surplus of funding is due to the Council receiving significantly higher than average levels of funding from business rates growth and New Homes Bonus
- Business Rates growth is expected to be reset in 2023/24 and New Homes Bonus is expected to be reformed and reduced in value
- As a consequence, although proposals have been developed for a general fund balanced budget in 2022/23 and 2023/24, significant budget gaps of £1.150m, £6.502m and £6.454m need to be addressed from 2024/25, 2025/26 and 2026/27 respectively.
- The Journey to Self-Sufficiency programme will deliver long term savings to address the above budget gaps and a proportion of the healthy level of reserves, noted in the previous section will be used to assist the transition to a more sustainable general fund budget

- 2.16 The medium-term financial position remains significantly difficult for North West Leicestershire District Council. Although this is the case for all district councils, NWLDC has received significantly higher gains from New Homes Bonus and business rates growth and therefore has more to lose from changes to these funding streams.
- 2.17 The Housing Revenue Account is in a more secure position in the medium term due to the relative stability of housing incomes. However, with a large capital programme to meet decent homes and climate emergency targets, careful financial management will be required to secure the medium term health of the account.
- 2.18 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.
- 2.19 The Section 151 Officer assesses that the Council remains a 'going concern' in the medium term but committee's attention is drawn to the budget gaps from 2024/25 onwards. It will be important to ensure that the Council maintains a focus on housing and business rates growth which will continue to contribute to funding. It is also essential that significant progress is made in respect of the Journey to Self Sufficiency Programme in order to identify cost savings and additional income and secure medium term financial sustainability.

2.20 Cash flow, borrowing, debt gearing and capital expenditure

Potential Going Concern Risks

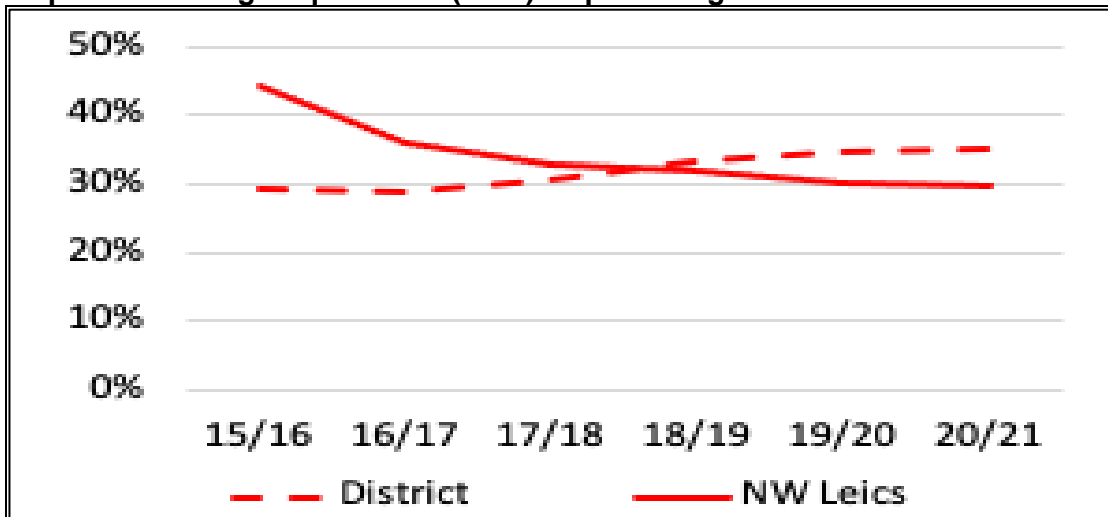
- **Cash balances are reduced resulting in a loss of interest and a need to borrow**
- **Borrowing for capital purposes increases to unsustainable levels**
- **The Capital Programme is therefore unaffordable**

- 2.21 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 2021 the Council had long-term borrowing commitments of £79.0m and held £29.0m in investments and £20.9m in Cash and Cash Equivalents.
- 2.22 At 31 December 2021, the authority held long term borrowing commitments of £78.5m and £60.5m of treasury investments. There are currently no projected negative balances on the Council's cash flow to March 2021.
- 2.23 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.
- 2.24 The latest Capital Strategy document forecasts that the need to borrow as shown by the CFR is set to increase in 2022/23. This is due to significant planned investment in both leisure and housing.
- 2.25 The need to borrow is not necessarily a bad thing so long as adequate provision is made to fund the costs associated with borrowing which include interest payments and loan repayment. North West Leicestershire will continue to follow a prudent policy in respect of minimum revenue provision which ensures that it sets aside sufficient resources from the revenue budget in order to service interest and repay borrowing when due. It is this policy, which has enabled the council to invest in its priorities whilst

maintaining good capital health.

- 2.26 Good capital health is demonstrated in the analysis below which shows that the Council's need to borrow as a percentage of asset values, effectively debt gearing, is lower than the district average and has decreased steadily over the last few years. This shows that over time NWLDC is becoming less reliant on debt and has a higher equity stake in its capital assets.

Capital Financing Requirement (Debt) as percentage of asset values



- 2.27 The management of cash flow, investment and borrowing and capital expenditure including minimum revenue provision are covered in the Council's Capital and Treasury Management Strategies which were considered by Corporate Scrutiny Committee on 5 January 2022 ahead of being considered by Cabinet on 1 February 2022.
- 2.28 The Section 151 Officer assesses that the Council remains a 'going concern' in respect of cash flow, borrowing and capital expenditure. This assessment is based upon the measures highlighted in the above section and the robustness of the capital and treasury management strategies and processes.

THE COUNCIL'S GOVERNANCE ARRANGEMENTS

- 3.0 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.
- 3.1 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.

THE EXTERNAL REGULATORY AND CONTROL ENVIRONMENT

- 4.0 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.
- 4.1 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.

MATERIAL UNCERTAINTIES

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

6.0 CONCLUSION

- 6.1 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.
- 6.2 This assessment will be undertaken annually in the course of preparing the Council's financial statements 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.
Officer Contact	Dan Bates Interim Head of Finance and Section 151 Officer dan.bates@nwleicestershire.gov.uk