

REPORT OF: FINANCIAL SERVICES MANAGER

TO: ACCOUNTS & AUDIT COMMITTEE

DATES: 31st July 2017

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ASSESSMENT OF GOING CONCERN STATUS

PURPOSE OF REPORT

1. This report informs the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the Statement of Accounts for 2016/17.

RECOMMENDATIONS

2. The Committee is recommended to accept the outcome of the assessment made of the Council's status as a 'going concern' for the purposes of the Statement of Accounts for 2016/17.

REASONS FOR RECOMMENDATION

3. To provide assurance to the Committee on the Council's status as a 'going concern'.

ISSUE

4. 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.
5. 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.

6. Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of councils as a consequence, greater emphasis is now placed on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. In response this report sets out the position at Pendle.
7. 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 2016/17 (hereafter referred to as 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 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.
8. The main factors which underpin this assessment are outlined below and include:
 - 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.

The Council's current financial position (revenue)

9. As reported to the Executive in June, the outturn on the revenue budget was in line with the revised budget approved in December 2016. The closing position for the year resulted in a net contribution to the Budget Support Reserve of £324k. As at the 31st March 2017 the Council held revenue reserves of c£9m comprised of:

	£m
• Budget Strategy (Support) reserve	3.91
• Working Balance	1.00
• Earmarked Reserves	<u>4.06</u>
	<u>8.97</u>

10. For 2016/17 the Council set a balanced budget which included net efficiency savings of £1.07m. As part of the medium-term financial planning framework and annual budget strategy, the Council has plans in place for the use of reserves and is seeking to identify further budget savings in response to ongoing reductions in core government funding whilst also trying to reduce the reliance on reserves each year in order to balance the budget.
11. In the current year, for example, the budget approved by Council requires the use of £1.9m from reserves. Whilst this is not a sustainable position over the medium to longer term the Council's corporate and financial planning framework is intended to support the transition to a more sustainable cost base.

The Council's current financial position (capital)

12. Details of the capital outturn for 2016/17 were also reported to the Executive in June. The report highlighted significant slippage of expenditure on the approved capital programme for the year albeit that this was matched by slippage on resources. The net result being an underspend of £61k. The bulk of resources carried forward (£9.17m out of a total of £9.57m) represent an underlying borrowing requirement, the costs of which have been factored in to the Council's medium-term financial plan.

13. The Council has a well-established process for the development of the Capital Strategy and associated Asset Management Plan adopting a three year planning cycle albeit that years two and three are viewed as 'indicative' only. This approach ensures that the Council maintains a capital programme which is prudent, sustainable and affordable whilst acknowledging that the underlying need for capital spending continues to exceed the level of resources available.

The Council's balance sheet as at 31st March 2017

14. The financial overview included in the draft Statement of Accounts for 2016/17 includes reference to the Council's balance sheet as at 31st March 2017. It is considered robust with the following factors giving rise to this assessment:
- Review of debts owed to the Council;
 - 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.

The Council's medium-term financial plan

15. The medium-term financial plan is updated annually and reflects a three-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 three year period 2018/19 to 2020/21 was reported to the Executive in May 2017 – a copy of the report is available on-line at: <http://www.pendle.gov.uk/meetings/meeting/2326/executive> (item 10 refers).
16. The report outlined a savings requirement over the plan period of £3.9m with an initial requirement of £1.4m in relation to 2018/19. The Plan is underpinned by various assumptions, details of which were reported to the Executive together with an assessment of the main risks to the plan.
17. In this context, Councillors will be aware of the progress made on the implementation of savings in previous budget rounds. It is considered that most of the savings which can readily be achieved have been made. The projected scale of savings required over the next three years is such that it requires strategic decisions to be made on the provision of services. To facilitate this work, the Executive agreed in May to retain the cross-party Budget Working Group to explore the options for savings over the medium-term plan period. Work is underway on the main areas of council spending to assess the scope for further reductions in net spending.
18. To assist with the transition to a lower cost base a review of reserves will be undertaken once again, as happened in 2016, with the outcome reported to the Executive and Council in August.

The Council's governance arrangements

19. The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the posts of Head of Paid Service, Monitoring Officer and Section 151 Officer in addition to the current political arrangements.

20. An overview of this governance framework is provided within the Annual Governance Statement which is included in the Statement of Accounts provided elsewhere on this agenda. This includes, in Section 4 of the annual statement, a detailed review of the effectiveness of the Council's governance arrangements.
21. 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 purpose and help provide reasonable assurance of their effectiveness.

The external regulatory and control environment

22. 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 Council 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.
23. 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.

Conclusions

24. 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*. This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.

IMPLICATIONS

Policy

25. There are no policy implications arising directly from this report.

Financial

26. The financial implications are as given in the report.

Legal

27. There are no legal implications arising directly from this report.

Risk Management

28. There are no direct risk management implications arising from the contents of this report.

Health and Safety

29. There are no Health and Safety implications arising directly from this report.

Climate Change

30. There are no sustainability implications arising directly from this report.

Community Safety

31. There are no community safety issues arising directly from this report.

Equality and Diversity

32. There are no equality and diversity issues arising from the contents of this report.

APPENDICES / LIST OF BACKGROUND PAPERS - None