

REPORT OF: FINANCIAL SERVICES MANAGER

TO: ACCOUNTS & AUDIT COMMITTEE

DATE: 20th MARCH 2018

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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 2017/18.

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 preparing the Statement of Accounts for 2017/18.

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).
5. If an authority were in financial difficulty, the prospects are that alternative arrangements would 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.
6. 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.

7. 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.
8. 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 2017/18 (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.
9. The Code guidance for 2017/18 contains the following provisions in respect of the concept of a going concern:

Going Concern – Local Authorities

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

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. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

Practitioners have in the past been concerned that the abolition of an authority or the transfer of some of its services could bring the going concern assumption into question. However, paragraph 2.1.2.6 of the Code makes clear that combinations of public sector bodies are not to be taken as negating the presumption of going concern. Even though assets are to be taken from the authority, with perhaps no compensation, the continued use of the property for the public benefit means that the authority does not need to consider the restriction on its own ability to make use of the property from the going concern perspective.

The substantial resource issues that some authorities may be experiencing do not negate the presumption of going concern, even though there might be a tension between the going concern assumption and those resource issues. Authorities should ensure that, where required, appropriate reference to financial resilience and sustainability is included in the relevant reports. The authority's relevant officers (e.g. the responsible finance officer and monitoring officer) must also ensure that they comply with their statutory and professional duties in respect of reporting such resourcing issues.

10. The requirements to use the going concern basis of accounting mean that authorities do not have to apply paragraph 25 of International Accounting Standard 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. That said, in view of the concerns generally regarding the financial pressures facing local government, the report author has undertaken such an assessment for the purposes only of the 2017/18 Statement of Accounts. 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)

11. As reported to the Executive in December, the projected outturn on the revenue budget for 2017/18 reflected an underspend of £0.5m. In response, a number of transfers to reserves were approved by the Executive to strengthen the Council's ability to deal with specific matters or manage areas of uncertainty. An example of the former is the sum of £300k set aside in the Change Management Reserve to support organisational change; an example of the latter is the additional £100k set aside to manage volatility in business rates income.

12. On current estimates the Council is projected to hold revenue reserves as at the 31st March 2018 of £7.55m comprised of:

	£m
• Budget Strategy (Support) reserve	3.23
• Working Balance	1.00
• Earmarked Reserves	<u>3.32</u>
	<u>7.55</u>

13. For 2017/18 the Council set a balanced budget which included net efficiency savings of £1.4m. 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.

14. In the current year, for example, the budget approved by Council requires the use of £1.4m 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.

15. In February 2018, the Council approved a balanced budget for 2018/19. This allows for net spending of £12.2m and required a council tax increase of 2.99%, savings of £0.85m and the use of £1.3m from reserves.

The Council's current financial position (capital)

16. Details of the projected capital outturn for 2017/18 were reported to the Executive and Council in February. 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 overspend of £6k. The bulk of resources carried forward (£4.4m out of a total of £5.7m) represent an underlying borrowing requirement, the costs of which have been factored in to the Council's medium-term financial plan.

17. 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. No 'new' borrowing is anticipated in the medium-term capital programme to 2020/21 with increased reliance placed on the use of capital receipts instead.

The Council's balance sheet as at 31st March 2018

18. A financial overview will form part of the Narrative Report to be included within the draft Statement of Accounts for 2017/18. This will include reference to the Council's balance sheet as at 31st March 2018.
19. In establishing the Council's balance sheet, detailed consideration will be given to a wide range of matters to ensure it is robust and soundly based including the following:
 - 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

20. 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 and Council in February 2018 – a copy of the report is available [here](#) (item 5 refers).
21. The report outlined a residual savings requirement over the plan period of £2.4m. 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.
22. 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 to retain the cross-party Budget Working Group to explore the options for savings over the medium-term plan period.
23. Work is ongoing on the main areas of council spending to assess the scope for further reductions in net spending. Draft plans to help identify the potential savings required over the medium –term are now being formulated by officers in advance of reporting to Members in due course early in 2018/19.
24. To assist with the transition to a lower cost base a review of reserves will be undertaken once the accounts for 2017/18 have been prepared with the outcome reported to the Executive and Council in due course.

The Council's governance arrangements

25. 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.
26. An overview of this governance framework forms part of the Annual Governance Statement which will be published as part of the Statement of Accounts for 2017/18 in May. This will include a detailed review of the effectiveness of the Council's governance arrangements.

27. Whilst it is not possible to provide absolute assurance the review process has in previous years concluded that our existing arrangements remain fit for purpose and help provide reasonable assurance of their effectiveness.

The external regulatory and control environment

28. As a principal local authority the Council has to operate within a highly legislated and controlled environment.
29. 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.
30. 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.
31. 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

32. It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that, for the purposes of producing the Statement of Accounts for 2017/18, the Council remains *a going concern*. This assessment is based on information available at the time of writing this report (11th March). An updated assessment will be carried out each financial year with the outcome reported to the Committee.

IMPLICATIONS

Policy

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

Financial

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

Legal

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

Risk Management

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

Health and Safety

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

Climate Change

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

Community Safety

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

Equality and Diversity

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

APPENDICES / LIST OF BACKGROUND PAPER – None.