

REPORT OF: CHIEF EXECUTIVE
TO: ACCOUNTS & AUDIT COMMITTEE
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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 2019/20.

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 2019/20.

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. In previous assessments of the 'Going Concern' status of the Council, reference has been made to 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. With the impact of the Covid-19 Pandemic on local authorities including Pendle, particular the need to incur additional expenditure in response to the impact of the virus along with anticipated shortfalls in income, 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 2019/20 (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 2019/20 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.

On a smaller scale, there may be occasions where part of an authority's operations ceases to be viable or affordable. For example, a trading unit might curtail its activities, requiring stocks to be written down and provisions set up for redundancy payments and other costs of closure. However, this will not give rise to a going concern issue for the authority, the impact being restricted to the results of the trading unit.

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 and the impact of Covid-19, the report author has undertaken such an assessment for the purposes of the 2019/20 Statement of Accounts only. The main factors which underpin this assessment are outlined below and include the following:-

- The Council's current financial position
- The anticipated impact of Covid-19
- The Council's projected financial position – Medium Term Financial Plan (MTFP)
- 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 Policy and Resources Committee in July 2020, the Council's outturn on the revenue budget for 2019/20 is an underspend against the approved budget of £520k. This position is subject to the external audit of the Council's Statement of Accounts which is due to start imminently. This means that the amount contributed from the Budget Support Reserve to balance the Council's budget for 2019/20 is £424k. This compares favourably to the amount agreed when setting the Revised Budget for the year.

12. On the basis of this outturn position, and subject to audit, the Council revenue reserves as at the 31st March 2020 were £7.253m (and before allocation of £1.5m for Covid-19 Support Reserve as reported to the Policy and Resources Committee in June 2020) and comprised:-

	£m
• Budget Strategy (Support) reserve	2.564
• Working Balance	1.000
• Earmarked Reserves	<u>3.689</u>
	<u>7.253</u>

13. In the current year, the budget approved by Council requires the net use of £261k from reserves (excluding the impact of Covid-19). This is much reduced when compared to previous years and reflects the Council's plan to achieve a balanced budget without a reliance on finite reserves and balances. Maintaining a sustainable budget over the medium to longer term is a fundamental part of the Council's corporate and financial planning framework and, in the context of the Medium Term Financial Plan referred to below, will necessitate a transition to a more sustainable cost base.

The Council's current financial position (capital)

14. Details of the capital outturn for 2019/20 were reported to the Policy and Resources Committee and Council in July 2020. Again, this is subject to external audit. The report highlighted significant slippage of expenditure on the approved Capital Programme for the year albeit that this was matched by slippage on Capital Resources. The bulk of resources carried forward (£12.103m out of a total of £13.728m) reflects a borrowing requirement, the impact of which has been factored in to the Council's MTFP.

15. The Council has a well-established process for the development of the Capital Strategy and associated Land and 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 Capital Resources available. No 'new' borrowing is anticipated in the medium term Capital Programme to 2023/24 (other than that amount which is equivalent to the amount of the previous years' Minimum Revenue Provision) with increased reliance placed on the use of capital receipts instead.

The Council's balance sheet as at 31st March 2020

16. A financial overview will form part of the Narrative Report to be included within the draft Statement of Accounts for 2019/20. This will include reference to the Council's balance sheet as at 31st March 2020.
17. 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:-
- An assessment of asset valuations based on the latest information;
 - 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 Financial Impact of Covid-19

18. At the time of writing this report, it is too early to determine the full financial impact of Covid-19 on the Council. Like all Councils, the Council has been required to provide estimates of additional expenditure and income shortfalls to Government and these have been the basis of additional grant funding provided by the Government. On the basis of the latest information available, the net financial impact of Covid-19 for 2020/21 is estimated to be c£3.0m as follows:
- estimated additional expenditure of £1.4m; and
 - estimated shortfall in income of £1.6m.
19. To date, the Council has received a grant of £981k from the Government to cover both the costs committed in the response to Covid-19 (which are c£160k to date) and the net financial impact above. In early July 2020, the Government announced a further package of support for Local Government. This package of support comprises three parts:-
- an additional £500m will be distributed to Councils in England to meet Covid-related expenditure – the Government has yet to tell Councils what their allocations will be so I am unable to say what amount of additional funding we will receive;
 - Funding to meet irrecoverable income from Sales, Fees and Charges (but not commercial income). Councils will have to meet the first 5% of any irrecoverable income after which the Government will provide 75p for every £1 of additional irrecoverable income. Taken together, this means that the Council will have to meet 28.75% of irrecoverable income and the Government will meet 71.25%.

- And recognising the potential for irrecoverable Business Rates and Council Tax, the Government will also allow any deficits on the respective Collection Funds to be repaid over a 3 year period.
20. This was the headline announcement and the Council is awaiting the detailed guidance on this matter before determining what the overall package means for the Council in the context of the funding deficit referred to above.
 21. In the meantime, an amount of £1.5m has been set aside from the Council's Reserves to provide resource cover in the event the grant funding from the Government is not adequate to cover the Council's net cost of Covid-19.

The Council's Medium Term Financial Plan

22. The MTFP 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 2020/21 to 2022/23 was reported to the Policy and Resources Committee and Council in June 2020.
23. The report outlined a residual savings requirement over the plan period of c£3m. The Plan is underpinned by various assumptions, details of which were reported to the Policy and Resources Committee together with an assessment of the main risks to the plan.
24. 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. Due to the delay with the Comprehensive Spending Review, planned for 2019/20 but now expected in Autumn 2020, local authorities received a one-year funding settlement for 2020/21. Therefore beyond 2020/21, pending the outcome of the Spending Review, the Fair Funding Review and possible changes to the Business Rates Retention Scheme (both of which have also been delayed, probably until 2022), there is no accurate information available on which to base budget forecasts on and so present any certainty on the levels of budget shortfalls in future years.
25. Therefore, at the present time, for the next three year period of the MTFP to 2023/24 there is no certainty about future funding levels and with that, the extent to what level of savings may be required if the funding trajectory remains unchanged. More information on this matter will be reported to the Policy and Resources Committee as when it becomes available.
26. Despite this uncertainty, 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 will be formulated by officers in advance of reporting to Members in due course early in 2020/21.
27. To assist with the transition to a lower cost base a review of reserves will again be undertaken once the accounts for 2019/20 have been prepared with the outcome reported to the Policy and Resources Committee and Council in due course.

The Council's governance arrangements

28. The Council has a well-established and robust corporate governance framework. This includes the statutory elements such as the posts of Chief Executive (as Head of Paid Service) and Monitoring Officer.

29. The Council presently has an Interim Chief Finance Officer. However, this position is under review with a view to making a permanent appointment to this position.
30. 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 2019/20 in August. This will include a detailed review of the effectiveness of the Council's governance arrangements.
31. 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

32. As a principal local authority the Council has to operate within a highly legislated and controlled environment.
33. 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.
34. 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.
35. 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

36. 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 2019/20, the Council remains a *going concern* in 2019/20. This assessment is based on information available at the time of writing this report (13th July 2020). An updated assessment will be carried out each financial year with the outcome reported to the Committee.

IMPLICATIONS

Policy

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

Financial

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

Legal

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

Risk Management

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

Health and Safety

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES / LIST OF BACKGROUND PAPER – None.