

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 2020/21.

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 2020/21.

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, particularly the need to incur additional expenditure in response to the impact of the virus along with 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 2020/21 (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 2020/21 remains unchanged from previous years and 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. The Code confirms 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 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 (eg 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 requirement to use the going concern basis of accounting means 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 2020/21 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 impact of Covid-19 on the Council;
- 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)

Financial Year 2020/21

11. At the meeting of the Policy and Resources Committee on 21st January 2021, Councillors approved the Revised Budget for 2020/21. At that time, it was estimated that the outturn position on the General Fund Revenue Budget would be £194k less than the approved budget for the year reducing the call on the Budget Support Reserves from £1.899m to £1.705m. Monitoring of the Council's Revised Budget will continue with any variations to the estimated year-end position being reported to the Policy and Resources Committee in March as part of the Strategic Monitoring reports.

12. On the basis of this outturn position, the Council revenue reserves as at the 31st March 2021 are forecast to be £10.183m although this is artificially higher than would normally be the case given way in which the Council has had to account for s31 Grants associated with Business Rate Reliefs awarded to Retail businesses in 2020/21 due to the impact of Covid-19. For that reason, also provided below is the estimated balance of the Council's Reserves at 31st March 2022:-

	Forecast at 31st March 2021 £m	Forecast at 31st March 2022 £m
Budget Strategy (Support) Reserve	0.858	0.179
Working Balance	1.000	1.000
Earmarked Reserves	8.325	4.566
Total Estimated Reserves	10.183	5.744

Financial Year 2021/22

13. In February 2021, the Council approved a balanced budget for 2021/22. This allows for net spending of £8.4m and required a council tax increase of 1.99%, savings of £0.606m and the use of £4.449m from reserves (of which £3.446m of this relates to the s31 Grant referred to above which is being used to offset an estimated deficit on the Council's Business Rates Collection Fund in 2020/21 which is to be funded in 2021/22).
14. Whilst the budget for the financial year 2021/22 is balanced, the impact of Covid-19 combined with the underlying pressures on the Council's funding and the diminishing balance of reserves means that the Council's financial sustainability remains under pressure.

The Council's current financial position (capital)

15. Details of the forecast capital outturn for 2020/21 were reported to the Policy and Resources Committee and Council in February 2020. 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 (£7.2m out of a total of £10.6m) reflects a borrowing requirement, the impact of which has been factored in to the Council's MTFP.
16. The Council has a well-established process for the development and delivery of the Capital Strategy (the latest version of which was approved by the Council at its meeting on 25th February) 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.
17. In this respect, over the life of the Medium Term Capital Programme to 2024/25, 'new' borrowing is limited to an amount equivalent to the in-year Minimum Revenue Provision so that the Council's Capital Financing Requirement (which represents the underlying need to borrow for capital investment) does not increase.

The Council's Balance Sheet as at 31st March 2021

18. A financial overview will form part of the Narrative Report to be included within the draft Statement of Accounts for 2020/21. This will include reference to the Council's balance sheet as at 31st March 2021.
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:-
 - 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

Covid-19 Funding 2020/21

20. The Council's budget for 2020/21 has been significantly impacted by Covid-19. As a contribution towards the financial impact of Covid-19 on the Council and to provide business grant support, the Government has paid the following grant funding to the Council:-
- a) £30.756m for the payment of various business support grants. To support businesses in the first lockdown, the Council received £26.432m for the payment of grants. Of this amount, the Council paid £23.128m to eligible businesses with the balance of £3.304m repaid to Government. Further sums totaling £16.001m have been paid to the Council for business support following subsequent national lockdowns and the continuing impact of restrictions on business;
 - b) £1.587m being a range of grants to meet the specific costs of various matters (testing, tracing, isolation, communications, support of clinically extremely vulnerable etc.) to deal with the Pandemic. Whilst not all of this funding has been used at this stage, it is anticipated it will be defrayed in support of the Council's actions to contain the spread of the disease, both in the current and next financial year; and
 - c) £1.990m of general support for expenditure pressures and income losses. Of this amount, a budget of £400k has been set aside to meet Covid-19 related expenditure with the balance used to meet general expenditure and income pressures (including the additional funding for the Pendle Leisure Trust referred to above).

Covid-19 Funding 2021/22

21. Recognising the need to provide Council's with financial support for the continuing impact of Covid-19 in 2021/22, details of the funding support to be made available to the Council by the Government in 2021/22 were announced by the Government as part of the Local Government Finance Settlement. This package is set out below:-

- a) **Expenditure Pressures Grant** – the Council's share of an additional £1.55bn to be made available to Councils has been set at £633k. Whilst the grant is unringfenced, priority areas for this funding include household waste collections, shielding the clinically extremely vulnerable, homelessness and rough sleeping, domestic abuse, managing excess deaths, support for re-opening the country and the additional cost associated with the local elections in May 2021. ***The guidance from Government makes it clear that Councils should plan on the basis of not receiving any additional funding for these pressures.***

For the purposes of budgeting in 2021/22, this additional funding has provisionally been earmarked for shortfalls in income (£153k), additional costs of Elections (£80k) and additional funding for the Pendle Leisure Trust (£400k).

- b) **Local Council Tax Support Grant** – the Council's share of the £670m for the anticipated additional cost of Council Tax Support is £236k. This is reflected in the Council's Budget for 2021/22 and counters the reduction in the Council's Taxbase which has arisen due to the anticipated additional cost of the Council Tax Support in 2021/22;

- c) **Local Tax Income Guarantee for 2020/21** – technically, this relates to the irrecoverable Council Tax and Business Rates income from the current financial year. However, the grant for this will not be paid until the next financial year and will cover 75% of losses. It is expected this payment will be made to the appropriate Collection Fund Account and will be distributed to Preceptors. At this stage, it has not been possible to estimate the likely grant receivable and, for the purposes of the Council's Budget 2021/22, it is proposed to treat any grant as windfall income in the year;
- d) **Sales, Fees and Charges Scheme** – the Government has confirmed that the Sales, Fees and Charges Scheme, which reimburses Councils for 75% of irrecoverable income from sales, fees and charges, will operate for the first 3 months of the 2021/22 financial year. Again, it is not possible to calculate the impact of this and therefore any grant reimbursement will be treated as windfall income in 2021/22.
22. Further announcements on funding support for businesses were made as part of the Government's Budget 2021 which was set out by the Chancellor on 3rd March 2021. This includes both business grants for recovery and business rate relief, both of which will apply in 2021/22.
23. Fundamentally, it is not certain for how long the Council will need to continue responding to the impact of the Pandemic. This is largely dependent on the effectiveness of the measures to contain the spread of the disease and the pace at which the vaccination programme will be rolled out. Whilst the roll-out of the vaccination programme continues, measures to contain the spread of virus like the Test, Trace and Isolate Programme, restrictions on business openings and social distancing are likely to remain and impact on the Council's activities. It appears inevitable, therefore, that the Covid-19 Pandemic will remain a significant issue for the Council in the next financial year and may continue have a bearing on the financial sustainability of the Council.

The Council's Medium Term Financial Plan (MTFP)

24. 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 2023/24 was reported to the Policy and Resources Committee and Council in February 2021.
25. 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.
26. 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 due to Covid-19 now expected in Autumn 2021, local authorities received a one-year funding settlement for 2020/21 and 2021/22. Therefore beyond 2021/22, 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 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.

27. Therefore, at the present time, for the next three year period of the MTFP to 2024/25 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.
28. 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, likely to be May 2021.
29. To assist with the transition to a lower cost base a review of reserves will again be undertaken once the accounts for 2020/21 have been prepared with the outcome reported to the Policy and Resources Committee and Council in due course.

The Council's governance arrangements

30. 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), Corporate Director (Monitoring Officer) and Chief Finance Officer (as s151 Officer).
31. 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 2020/21 later in the year. This will include a detailed review of the effectiveness of the Council's governance arrangements. These matters are overseen by the Council's (Officer) Corporate Governance Working Group and reported to this Committee.
32. 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

33. 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.
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. Indeed, over the last year, this has been case with a number of Councils (for example, Croydon and Luton both of which have received support from the Government in recent months).

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 2020/21, the Council remains a *going concern* in 2020/21 and the for the following 12 months. This assessment is based on information available at the time of writing this report. 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.