

Report to: **Audit and Governance Committee**

Date of Meeting: 25 July 2019

Public Document: Yes

Exemption: None

Review date for release None



Subject: **2018/19 Statement of Accounts - Assessment of Going Concern status**

Purpose of report: A key underlying assumption in preparing the Council's financial statements (reported in the Statement of Accounts) is that of "going concern". An authority's financial statements should be prepared on a going concern basis i.e. the accounts should be prepared on the assumption the functions of the authority will continue in operational existence for the foreseeable future.

This report sets out the Council's Strategic Lead Finance assessment as the Council's Section 151 officer of the Council's Going Concern status.

Recommendation: **To note the Strategic Lead Finance (Section 151 Officer) assessment of the Council's Going Concern status.**

Reason for recommendation: A key underlying assumption in preparing the Council's financial statements is that of "going concern". This report gives that assessment by the Council's Section 151 Officer in support of presenting the Accounts for approval.

Officer: Strategic Lead Finance
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Financial implications: No direct financial implications

Legal implications: There are no direct legal implications

Equalities impact: Low Impact

Risk: Low Risk

Links to background information:
Link to Council Plan:

1. Background

- 1.1 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 Code of Practice for Local Authority Accounting 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 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.

- 1.2 Where the assessment determines the “going concern” status is not proven, 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.
- 1.3 Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, external auditors continue to place a greater emphasis 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 for EDDC.

2. Assessment

- 2.1 The main factors which underpin this assessment, considered in more detail below, are:
 - The Council's current financial position;
 - The Council's projected financial position;
 - The Council's balance sheet;
 - The Council's cash flow;
 - The Council's governance arrangements;
 - The regulatory and control environment applicable to the Council as a local authority.
- 2.2 The provisions in the 2018/19 Code of Practice section 3.4 (Presentation of Financial Statements) on the going concern accounting 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, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.
- 2.3 The requirements to use the going concern basis of accounting mean that authorities do not apply paragraph 25 of IAS 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. However, this reporting requirement is separate from the need for local authorities to report on the impact of financial pressures in the Narrative Report and the relevant liquidity reporting requirements under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.

2.4 The Council's Current Financial Position – Revenue Resources

A net underspend for 2018/19 of £0.416m was reported to Cabinet on 5th June 2019, full details of variations can be found in that report. The areas of overspend contained within the variations have been assessed as having no material impact on the Council finances going forward.

As at the 31 March 2019 the Council held revenue reserves of £8.7m earmarked for specific purposes. As at the 31 March 2019 the Council also held a General Fund Balance of £3.9m. A review of the risks to balances is carried out on a regular basis to determine the adequate level of reserves, the latest position was reviewed in June 2019 when the General Fund Balance was agreed to be between £3m to £3.8m. The balance currently being held is slightly above this limit to mitigate a minor use of the General Fund Balance agreed for 2019/20.

For 2019/20 the Council set a budget which requires £0.261m to be met from the General Fund Balance, of which £0.080m was for a one off item for District Elections. Transformation savings were included within the budget of £0.409m, delivery of which will be monitored through the normal budget monitoring processes.

The Council's Housing Revenue Account set to achieve a budgeted surplus of £1.413m in 2018/19, the actual position was a surplus of £1.187m. The variations of overspend have been considered and do not give material concern going forward. The position was reported to Cabinet in June 2019. The HRA Balance remains healthy and within the adopted range at £3.1m (range being £2.1m to £3.1m), earmarked reserves are in place and capital funds to deliver priority plans (set out in Cabinet report). The HRA has a 30 year approved Business Plan which is showing as affordable with the required estimated resources available to meet the Plan.

2.5 The Council's Projected Financial Position – Revenue Resources

The Council Financial Strategy and Medium Term Financial Plan model shows funding gaps going forward with a significant gap of £2.1m for 2020/21 rising to £2.7m over the term of the new Council (2023/24) and continuing to rise if no action is taken to £4.163m in 2028/29.

The Council's Transformation Strategy identify savings/increased income to bridge this funding gap. The latest position was presented to the Council's Budget Working Party (BWP) on 26th June 2019 which identified actions to bridge the gap for the period of the new Council, being subject to members' endorsement of those proposals. The BWP recommended to Cabinet to adopt this actions and to request the Chief Executive to progress the necessary actions. Cabinet meet 10th July 2019 to consider this recommendation.

2.6 The Council's Current and Projected Financial Position – Capital Resources

Details of the capital investment for 2018/19 was reported to Cabinet on 5th June 2019. The net spend was £16.932m compared to a revised budget of £21.511m, an underspend of £4.579m. The Council has kept within the prudential indicator adopted and borrowing limits, the future capital projections have been factored into the revenue projections within the MTFP.

2.7 The Council's Balance Sheet as at 31 March 2019

The authority's net assets amounted to £231m and Usable Reserves sit at £30.8m.

2.8 The Council's Cash Flow

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 2019 the Council has long term borrowing commitments of £85m and held £29m in investments and £7.8m in Cash and Cash Equivalents.

2.9 The Council's Governance Arrangements

The Annual Governance Statement has been reviewed taking into account external and internal audit reviews, completion of assurance statements by the Strategic Management Team. This Statement includes a detailed review of the effectiveness of the Council's governance arrangements. 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 previous Chair and Vice Chair of Audit & Governance before the final version was produced.

2.10 The External Regulatory and Control Environment

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. 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.

2.11 Material Uncertainties

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 is no material uncertainties to respond to.

2.12 Conclusion of the S151 Officer

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", and the Council's accounts for 2018/19 have appropriately been prepared on this basis.

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