

Taunton Deane Council

Corporate Governance Committee – 28 September 2016

Assessment of Going Concern Status

This matter is the responsibility of Cllr John Williams, Leader of the Council

Report Author: Jo Nacey, Finance Manager and Deputy S151 Officer

1 Purpose of the Report

- 1.1 To inform the Audit Committee of the S151 Officer's (Director of Operations) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

2 Recommendations

- 2.1 Members are requested to note the outcome of the assessment made of the Council's status as a "going concern" for the purposes of the draft Statement of Accounts for 2015/16.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The Council is no longer assessed as being a 'going concern', placing ongoing operating at risk.	2	5	10
Mitigation: Through effective governance and financial control environment, management and Members continue to address the financial sustainability challenge.	1	4	4

- 3.1 The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background to the Report

- 4.1 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 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.
- 4.2 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.
- 4.3 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 are placing 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 at Taunton Deane.

4.4 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 2015/16 (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.

4.5 The main factors which underpin this assessment are:

- 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.

Each of the above is considered in more detail below.

5 The Council’s Current Position

5.1 The challenges the Council faces in setting a balanced budget are still substantial but Members and officers remain confident that with the implementation of transformational changes to service provision, a balanced and sustainable budget position is possible.

6 The Council’s Year End Position (Revenue)

General Fund

6.1 An underspend for 2015/16 of £0.280m (2.07%) was reported to the Executive in July 2016. As at 31 March 2016 the Council held a General Reserves Balance of £2.113m (minimum level is set at £1.6m) and held Earmarked Revenue Reserves totalling £16.9m. The level of earmarked reserves is reviewed annual basis.

6.2 For 2016/17 the Council set a balanced budget which included £0.135m of identified savings and did not require the use of reserves to support ongoing spending. Only 10% of New Homes Bonus is used to support revenue spending on services. This reflects the Council’s priority of using New Homes Bonus funds for Growth and Economic Development.

Housing Revenue Account

6.3 An underspend for 2015/16 of £0.476m was reported to the Executive in July 2016. As at 31 March 2016 the Council held an HRA Reserve Balance of £2.674m (minimum level is set at £1.8m). In addition there are HRA Earmarked Reserves totalling £4.895m to support specific issues.

6.4 A number of largely external changes meant that a full refresh was needed for the HRA 30 year Business Plan. The revised plan was approved in July 2016.

7 The Council's Projected Financial Position (Revenue)

General Fund

- 7.3 The Council is forecasting a budget gap for 2017/18 of £527k, which grows in future years to £2.3m by 2020/21. The approach to meeting the savings targets will be developed during the summer 2016. Fundamental to this will be decisions taken on JMASS Phase 2 business case options and the transformation programme targets agreed through this process. Members were presented with the business case options in July 2016. (See 13.2)
- 7.4 It is anticipated that transformation will need to address a significant proportion of the targets. Other suggested areas to be considered for review / to be assigned targets include: Savings Plans for services, income generation ideas including commercial activities, review of fees and charges, review of discretionary policies. This list will not be exhaustive, and Members will be asked to engage with and support the challenge of setting appropriate targets.

Housing Revenue Account

- 7.1 The new HRA Business Plan has highlighted the ongoing challenges of tighter margins and the reliance on the delivery of savings in order to maintain viability of the plan

8 The Council's Current & Projected Financial Position (Capital)

- 8.1 Details of the capital outturn for 2015/16 were reported to the Executive in July 2016. The report highlighted that the gross general fund capital spend was £7.244m and HRA capital spend totalled £11.391m. Due to the timing of spend, £9.976m was carried forward to 2016/17. A net underspend of £0.125m was reported on the overall General Fund Capital Programme.
- 8.2 The General Fund Capital programme has approved capital spending in future years of £12.465m and the HRA Capital Programme has committed approved capital spending of £15.004m.

9 The Council's Current Financial Position (Balance Sheet)

- 9.1 The financial overview included in the draft Statement of Accounts for 2015/16 includes reference to the Council's Balance Sheet as at 31 March 2016 and concludes that it is robust. Factors giving rise to this assessment include:
- Review of debts owed to the Council;
 - An assessment of the Council's net worth;
 - The adequacy of risk-assessed provisions for doubtful debts;
 - The range of reserves set aside to help manage expenditure
 - An adequate risk-assessed General Fund Reserve to meet unforeseen expenditure
- 9.2 The Council's net assets amounted to £198m and are significantly reduced by the inclusion of the pension scheme liability of £78m. Contributions to the pension scheme have been increasing to meet this liability over the longer term. The current usable reserves balance stands at £42.622m (Usable Capital Receipts £8.275m, Capital Grants

Unapplied £1.581m, Earmarked Reserves £21.803m (GF and HRA), General Reserve £2.113m and HRA Reserves £8.850m).

10 The Council's Treasury Arrangements

- 10.1 The Council maintains cash-flow projections, which are regularly updated to reflect changes to our capital spending programme. The Council has external debt totalling £89.500m, and has investments totalling £21.093m. Of the total investments 47% was held in highly liquid investments with £11.078m invested for longer than 1 year and no investments for longer than 3 years.

11 Governance Arrangements

- 11.1 The Council has a well-established and robust corporate governance framework.
- 11.2 The Annual Governance Statement (AGS) has been reviewed taking into account external and internal audit reviews, data from our risk assessments and knowledge of our control environment. The AGS has concluded our governance arrangements are effective, and our Internal Audit annual report has concluded our corporate control arrangements are satisfactory.

12 The External Regulatory and Control Environment

- 12.1 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.

13 Emerging Risks

13.1 NHS claims for Business Rates Discount

Earlier in the year a number of NHS trusts made applications to their local councils for charitable status regarding business rates relief. The trusts want the relief backdated for up to six years. Although Taunton Deane have not received a claim we are mindful that any such claim could be material if upheld. We are therefore keeping a watching brief on developments elsewhere and following the legal opinions which are currently divided.

13.2 Transformation and the Business Cases for change

Both Taunton Deane and West Somerset Councils have agreed to progress the establishment of a new merged authority. We believe this will bring savings and resilience for both communities. It is early in the process but offers a positive outlook to the future financial position and our ability to close the budget gap, at the same time as continuing our ambition to champion development and growth.

14. OPINION

- 14.1 It is considered that, having regard to the Council's arrangements and such factors as are highlighted in this report, the Council remains a "going concern until at least September 2017 ie. One year from expected opinion on the Council's 2015/16 financial statements". This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.

15 Links to Corporate Aims / Priorities

- 15.1 There is no direct contribution to the Corporate Priorities – this is a governance matter.

16 Finance / Resource Implications

- 16.1 The financial implications are given in this report.

17 Legal Implications

- 17.1 There are no implications in respect of this report.

18 Environmental Impact Implications

- 18.1 There are no implications in respect of this report.

19 Safeguarding and/or Community Safety Implications

- 19.1 There are no implications in respect of this report.

20 Equality and Diversity Implications

- 20.1 There are no implications in respect of this report.

21 Social Value Implications

- 21.1 There are no implications in respect of this report.

22 Partnership Implications

- 22.1 There are no implications in respect of this report.

23 Health and Wellbeing Implications

- 23.1 There are no implications in respect of this report.

24 Asset Management Implications

- 24.1 There are no implications in respect of this report.

25 Consultation Implications

- 25.1 There are no implications in respect of this report.

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