

Taunton Deane Council

Corporate Governance Committee – 31 July 2017

Assessment of Going Concern Status

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

Report Author: Jo Nacey, Financial Services Manager and Deputy S151 Officer

1 Purpose of the Report

- 1.1 To inform the Corporate Governance Committee of the Assistant Director Strategic Finance and S151 Officer’s assessment of the Council as a “going concern” for the purposes of producing the Statement of Accounts for 2016/17.

2 Recommendations

- 2.1 Members note the assessment made of the Council’s status as a “going concern” as a basis for preparing the 2016/17 Statement of Accounts.

3 Risk Assessment (if appropriate)

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
<i>Mitigation: Through effective governance and financial control environment, management and Members continue to address the financial sustainability challenge.</i>	1	4	4

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 If the assessment determined that the Council is not a “going concern”, 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 nationally 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. 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 current Code of Practice on Local Authority Accounting (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.

5 The Council's Current Position

- 5.1 The challenges the Council faces in setting a balanced budget are still considerable 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 The financial performance in 2016/17 resulted in a net underspend for 2016/17 of £0.101m (0.07%) for the year (reported to Corporate Scrutiny July 2017; Executive August 2017). As at 31 March 2017 the Council held a General Reserves Balance of £2.186m (minimum level is set at £1.6m) and held Earmarked Revenue Reserves totalling £17.3m. The level of adequate reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.
- 6.2 The Council has set a balanced budget for 2017/18. This has been achieved despite continued reduction in mainstream grant funding and an unexpected spike in pension costs. The budget includes £0.322m of identified savings through transformation, reduced travel costs through use of pool cars, and a modest range of service savings options. The budget does not require the use of reserves to support ongoing spending. Less than 10% of New Homes Bonus is used to support revenue spending on services, reflecting the Council's priority of using New Homes Bonus funds for growth, regeneration and infrastructure investment.

Housing Revenue Account

- 6.3 The financial performance in 2016/17 resulted in a net underspend for 2016/17 of £0.882m (reported to Corporate Scrutiny July 2017; Executive August 2017). As at 31 March 2017 the Council held an HRA Reserve Balance of £3.224m (minimum level is set at £1.8m). In addition there are HRA Earmarked Reserves totalling £11.438m to support specific issues. The level of adequate reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis.
- 6.4 A number of largely external changes meant that a full refresh was needed for the HRA 30 year Business Plan, with a revised plan approved in July 2016. The

2017/18 Budget for the HRA is based on the priorities set out in the Plan. The Budget has a planned use of £1.094m from HRA Reserves.

7 The Council's Projected Financial Position (Revenue)

General Fund

- 7.1 The Council is forecasting a budget gap for 2018/19 of £388k, which is projected to grow to £771k by 2021/22. This position incorporates the projected cumulative annual savings of £1.493m through transformation, and it is fundamental that these are delivered. It is clear that further savings will be required over the medium term. Jointly with West Somerset the Council has submitted an application to create a new single council covering both areas, and this is projected to deliver a further combined £551k. Notionally a proportion of this would reduce the budget gap identified above. The council is also exploring opportunities for further income generation.
- 7.2 Other suggested areas to be considered for review include: savings plans for services, review of fees and charges, updated asset management strategy, procurement savings options, and 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 to secure a long term sustainable financial position.

Housing Revenue Account

- 7.3 The updated 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. Whilst the HRA MTFP is balanced over the medium term it is evident, from experience of the last five years since 'self-financing' was implemented, that the position can change significantly and will need to be kept under review on a regular basis.

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

- 8.1 The capital outturn for 2016/17 reports a gross General Fund capital spend of £10.256m, with £15.527m of the 2016/17 Programme to be spent in future years. A net underspend of just £49k (0.2%) is reported on completed schemes at the end of the year. Gross spend on HRA capital schemes in 2016/17 was £10.762m, with £9.399m of the 2016/17 Programme to be spent in future years. A minor overspend of £32k has been reported on completed schemes at the end of the year.
- 8.2 The Council has also approved additional expenditure as part of the 2017/18 Budget, with £13.750m and £9.360m added to the Programmes respectively for the General Fund and HRA.

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

9.1 The financial overview included in the draft Statement of Accounts for 2016/17 includes reference to the Council's Balance Sheet as at 31 March 2017 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 £201m and are significantly reduced by the inclusion of the pension scheme liability of £99m. Contributions to the pension scheme have been increasing to meet this liability over the longer term. The current usable reserves balance stands at £46.147m (Usable Capital Receipts £9.339m, Capital Grants Unapplied £2.867m, Earmarked Reserves £28.531m (GF and HRA), General Reserve £2.186m and HRA Reserves £3.224m).

10 The Council's Treasury Arrangements

10.1 The Council maintains cash-flow projections, which are regularly updated to reflect changes to expenditure and income forecasts. As at 30 June the Council has external debt totalling £85.606m, and has investments totalling £31.027m. Of the total investments 65% was held in highly liquid investments with £10.838m 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 Key Risks

NHS claims for Business Rates Discount

- 13.1 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. Taunton Deane has received a claim, which could be material if upheld. We are therefore keeping a watching brief on developments and are utilising counsel support commissioned via the LGA; the legal opinions are currently divided. We are maintaining a contingency via our Business Rates Retention Smoothing, and a successful claim would likely trigger a Safety Net payment from Government.

Transformation and New Council Creation

- 13.2 Both Taunton Deane and West Somerset Councils have agreed to progress the establishment of a new single district authority. We believe this will bring savings and resilience for both communities. The business case indicates this will have a positive impact on the net costs of for a new authority and our ability to close the budget gap, and at the same time provide the opportunity to continue our ambition to champion development and growth.

Multi Year Finance Settlement and Business Rates Retention

- 13.3 The Council has taken up the Government's offer of a multi-year Finance Settlement up to 2019/20. This removes some uncertain in respect of general grant funding. However, we have experienced a redistribution of New Homes Bonus funding towards social care which has reduced the grant available to Taunton Deane. In addition there is the prospect of changes to business rates funding, with the potential move to 100% Retention, a "reset" of the Baseline, and the outcome of a Fair Funding Review. The implementation of these may be affected by Brexit and the priorities of the new Government following the 2017 Election.

Commercial Approach and Income Generation

- 13.4 As the Council explores and implements new commercial opportunities and increases its income as we need to be more self-sufficient, this will bring a different set of risks with greater reliance on investments and other income streams to support spending on services. We need to ensure our risk management approach, covering financial and other risks, reflect the environment within which we will operate in future.

14 S151 Officer 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” for the foreseeable future. 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 Securing an ongoing sustainable financial position is essential to underpin the delivery of council priorities and services to our communities – and links to Theme 4: An Efficient and Modern Council.

16 Finance / Resource Implications

16.1 The financial implications are given in this report.

17 Legal, Environmental Impact, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, and Consultation Implications

17.1 There are no implications in respect of this report.

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