

# Taunton Deane Council

## Corporate Governance Committee – 19 June 2018

### Assessment of Going Concern Status

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

Report Author: Andy Stark, Interim Finance 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 2017/18.

#### 2 Recommendations

- 2.1 Members note the assessment made of the Council's status as a "going concern" as a basis for preparing the 2017/18 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
			<b>Impact</b>				

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
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 Council has continued to manage its finances effectively in this climate of reducing grant funding from central Government. The Council has continued to deliver efficiencies from the One Team of officers across Taunton Deane and West Somerset Councils, and set its 2018/19 budget without making cuts to frontline services. The joint transformation programme remains pivotal in reducing operating costs whilst improving services to customers and communities.
- 5.2 Phase 1 of the Council's partnership with West Somerset District Council has contributed to the delivery of savings through efficiency in the management and staff structures since 2014. Following the mandate from Councillors in January 2016, a business case was developed and the Council agreed in partnership with West Somerset to jointly transform the way services are delivered and to submit an application to the Secretary of State seeking approval to form a new single Council to replace both Taunton Deane and West Somerset councils. This application has been submitted and has been formally approved by the Secretary of State. Final Parliamentary approval was received at the end of May 2018 and the newly formed Council will begin in April 2019. The transition will be managed through shadow governance arrangements in line with the Somerset West and Taunton (Local Government Changes) Order 2018. This approach has already enabled both Councils to progress with transforming services and savings being incorporated within their Medium Term Financial Plans.

## **6 The Council's Year End Position (Revenue)**

### **General Fund**

- 6.1 The financial performance in 2017/18 resulted in a net underspend of £21k (0.1% of Net Budget) for the year (reported to Corporate Scrutiny June 2018; Executive July 2018). As at 31 March 2018 the Council held a General Reserves Balance of £2.299m (minimum level is set at £1.7m) and held Earmarked Reserves totalling £21.615m. The Earmarked Reserves balance has increased by £4.271m during the year mainly due to the New Homes Bonus Grant set aside for growth and infrastructure investment. The adequacy of reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

## **Housing Revenue Account**

- 6.2 The financial performance in 2017/18 resulted in a net overspend of £446k (reported to Corporate Scrutiny June 2018; Executive July 2018). As at 31 March 2018 the Council held an HRA Reserve Balance of £2.778m (minimum level is set at £1.8m). In addition there are HRA Earmarked Reserves totalling £6.990m to support specific issues. The level of adequate reserves, and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis.

## **7 The Council's Projected Financial Position (Revenue)**

### **General Fund**

- 7.1 For 2018/19, the Council initially had to address a budget gap in the region of £0.4m. This has resulted primarily from the reduction in Revenue Support Grant; inflation rate increases and other cost pressures. The Council was able to set a balanced budget whilst at the same time able to put extra funding in its Business Smoothing Reserve to protect it from any future volatility arising from changes to business rates.
- 7.2 The latest Medium Term Financial Plan (MTFP) position predicts a budget gap of £236k by 2022/23. However this includes projected savings of £1.493m arising through the implementation of the Transformation Business Case and therefore work on the delivery of transformation remains pivotal.

### **Housing Revenue Account**

- 7.3 Whilst the HRA MTFP is balanced over the medium term it is evident, from experience since 'self-financing' was implemented, that the position can change significantly and will need to be kept under review on a regular basis. The Business Plan includes savings of approximately £832k over a five year period, which is higher than the savings included in the Corporate Transformation Business Case. It is expected that these savings will primarily come from the ongoing transformation of Repairs and Maintenance, although the whole service will be affected by the transformation programme. The first annual saving of £166k has been found within maintenance budgets through the reorganisation of the service and the expectation that more work will be done in-house.

## **8 Creation of a New Council**

- 8.1 As indicated above, Parliamentary approval has been obtained for the creation of a new single council to replace both Taunton Deane and West Somerset from 1 April 2019. This major reorganisational change however does not in itself have any impact upon the "going concern" basis upon which the financial statements for 2017/18 have been produced as the current operational activities performed by West Somerset will be transferred to the new council.

## **9 The Council's Current & Projected Financial Position (Capital)**

- 9.1 The capital outturn for 2017/18 reports a gross General Fund capital spend of £4.869mm, with £34.259m to be spent in 2018/19 and future years with clear funding plans in place. A net underspend of £293k is reported against the overall capital programme budget.
- 9.2 Gross spend on HRA capital schemes in 2017/18 was £10.126m, with £8.713m to be carried forward in 2018/19 and future years. A minor overspend of £32k has been reported on completed schemes at the end of the year.

## **10 The Council's Current Financial Position (Balance Sheet)**

- 10.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. For 2017/18, the Balance Sheet shows that the Council has net assets of £249.791m and are significantly reduced by the inclusion of the pension scheme liability of £93.7m. Contributions to the pension scheme have been increasing to meet this liability over the longer term. The current usable reserves balance stands at £53.369m (Usable Capital Receipts £13.110m, Capital Grants Unapplied £3.305m, Earmarked Reserves £31.947m (GF and HRA), General Reserve £2.229m and HRA Reserves £2.778m).

## **11 The Council's Treasury Arrangements**

- 11.1 The Council maintains cash-flow projections, which are regularly updated to reflect changes to expenditure and income forecasts. As at 31 March 2018 the Council has external debt totalling £85.606m, and has investments totalling £36.240m. Of the total investments 94% was held in highly liquid investments with £2.228m invested for longer than 1 year and no investments for longer than 3 years.

## **12 Governance Arrangements**

- 12.1 The Council has a well-established and robust corporate governance framework.
- 12.2 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.

## **13 The External Regulatory and Control Environment**

- 13.1 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.

## **14 Key Risks**

### **NHS claims for Business Rates Discount**

- 14.1 A number of NHS trusts have 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 through the Somerset Business Rates Pooling arrangement.

### **Transformation and New Council Creation**

- 14.2 During the year both Taunton Deane and West Somerset Councils agreed to progress the establishment of a new single district authority and this subsequently received Parliamentary approval with a start date of 1 April 2019. We believe this will bring greater efficiency savings and provide greater resilience for services to our communities. The business case indicates this will have a positive impact on net costs of 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**

- 14.3 The Council has taken up the Government's offer of a multi-year Finance Settlement up to 2019/20. This removes some uncertainty in respect of general grant funding. However, we have experienced a redistribution of New Homes Bonus funding nationally 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 Spending Review in 2019, the potential move to 75% then 100% Retention, a "reset" of the Baseline, and the outcome of a Fair Funding Review. These provide a significant funding estimation risk for April 2020 and beyond.

### **Commercial Approach and Income Generation**

- 14.4 As the Council explores and implements new commercial opportunities this will bring with it 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. This will include robust due diligence in considering opportunities, and reflecting new risks in our budgets and minimum reserve requirements.

## **15 S151 Officer Opinion**

15.1 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 and until at least to July 2019 i.e. one year from expected audit opinion on the Council's 2017/18 financial statements.

## **16 Links to Corporate Aims / Priorities**

16.1 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.

## **17 Finance / Resource Implications**

17.1 The financial implications are given in this report.

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

18.1 There are no implications in respect of this report.

## **Contact Officers**

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