

Somerset West and Taunton Council

Audit, Governance and Standards Committee – 31 July 2019

Assessment of Going Concern Status – Taunton Deane Borough Council and West Somerset Council

This matter is the responsibility of Councillor Henley, Corporate Resources

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Purpose of the Report

- 1.1 To inform the Audit, Governance and Standards Committee of the Strategic Finance Advisor and S151 Officer’s assessment of Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC) as a “going concern” for the purposes of producing their Statement of Accounts for 2018/19.

2 Recommendations

- 2.1 Members note the assessment made of the Councils’ status as a “going concern” as a basis for preparing their 2018/19 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, and asset and liability valuations, at risk.	4	5	20
Mitigation: Through effective governance and financial control environment, management and Members continue to address the financial sustainability challenge.	2	5	10

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 (the Code) 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 The Code also confirms that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements are prepared on a going concern basis. This would therefore apply to both Taunton Deane and West Somerset Councils which although cease from 1 April 2019, will instead provide their services by the newly created Somerset West and Taunton Council.
- 4.3 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.
- 4.4 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 for both councils.
- 4.5 As with all principal local authorities, both councils are required to compile the 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 Statement of Accounts have been prepared assuming that both councils will continue to operate in the foreseeable future (albeit in the newly formed Somerset West and Taunton Council), and that they are able to do so within the current and anticipated resources available. By this, it is meant that the councils will realise its assets and settle its obligations in the normal course of business.

4.6 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 Current Position – Taunton Deane and West Somerset

5.1 The challenges both councils have faced in recent years of setting a balanced budget whilst still providing an appropriate level of services to the public, have been well documented. West Somerset Council in particular has in recent years been extremely susceptible to volatility in its business rates funding position in particular with Hinkley B power station valuations – which is the dominant business rates account in the area – seeing significant changes in its rateable value which has caused large variations to the Council's annual funding.

5.2 Both councils have continued to manage their finances effectively in the climate of reducing grant funding from central Government. They have continued to deliver efficiencies from the One Team of officers across Taunton Deane and West Somerset Councils, and were both able to set their 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.

5.3 Phase 1 of the Council's partnership with West Somerset Council has contributed to the delivery of savings through efficiency in the management and staff structures. 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. This culminated in the creation of a single new council, Somerset West and Taunton to deliver services for both councils from 1 April 2019.

6 The Council's Year End Position – Taunton Deane Borough Council

General Fund

6.1 The financial performance in 2018/19 resulted in a net underspend of £240k (1.7% of Net Budget) for the year. As at 31 March 2019 the Council held a General Reserves Balance of £2.223m (minimum level is set at £1.7m) and held Earmarked Reserves totalling £14.194m. The Earmarked Reserves balance has decreased by £7.420m during the year due to utilisation of the New Homes Bonus Grant set

aside for growth and infrastructure investment and reserves in respect of transformation and the new council. 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 2018/19 resulted in a net underspend of £296k (1.1% of Gross Income Budget). As at 31 March 2019 the Council held an HRA Reserve Balance of £2.718m (minimum level is set at £1.8m). In addition there are HRA Earmarked Reserves totalling £2.718m 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 Year End Position – West Somerset Council

- 7.1 The financial performance in 2018/19 resulted in a net surplus of £82k for the year and an overall underspend of £256k. The General Reserves position for 2018/19 shows a closing balance of £981k, including the net surplus for the year. This is £281k above the minimum recommended balance of £700k.
- 7.2 Earmarked Reserves are amounts that have been set aside for specific purposes from existing resources, where the expenditure is expected to be incurred in future years. During 2018/19 Earmarked Reserve balances have reduced by £201k to a total of £4.048m at 31 March 2019. During the year, the Business Rates Smoothing Reserve has been increased by £610k in line with the budget strategy to protect the Council against the risk of future business rates volatility. Going forward, it remains prudent to commit funds to the Smoothing Reserve. During the year the Transformation Reserve has been reduced by £682k and this together with other withdrawals from other Earmarked Reserves has led to the overall reduction.

8 Combined General Fund Revenue Position

- 8.1 The combined revenue reserves position for both councils is shown below:-

Table 1 – Revenue Reserves

	Taunton Deane £m	West Somerset £m	Total £m
General Fund			
Opening Balance	2.299	0.899	3.198
Movement in Year	-0.076	0.082	0.006
Closing Balance	2.223	0.981	3.204
Earmarked Reserves			
Opening Balance	21.614	4.259	25.873
Movement in Year	-7.420	-0.211	-7.631
Closing Balance	14.194	4.048	18.242

- 8.2 The closing balances from both Taunton Deane and West Somerset will be transferred and combined as part of the overall opening financial balances of Somerset West and Taunton. The new council will therefore commence with an opening General Fund Reserve balance of £3.204m and Earmarked Reserves of £18.242m. The recommended minimum balance of the General Fund Reserve has been set at £2.4m for the new council.

9 The New Council's Projected Financial Position

- 9.1 Previously, both Taunton Deane and West Somerset Councils have maintained a medium-term financial plan (MTFP) that was updated annually to reflect a five-year assessment of the Council's spending plans and associated funding. It included 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.
- 9.2 During 2018/19, both councils continued to work towards the creation of the new council Somerset West and Taunton from 1 April 2019. A balanced budget for the new council was approved in February 2019 and this indicated a sustainable financial position – no significant budget gap identified within the medium term financial plan. Nevertheless, 2019/20 is a critical period for the new Council with a significant change in staffing levels, business processes and ways of delivering services to its customers. This carries a degree of financial risk especially with the dependence on delivery of full transformation savings.

10 Creation of a New Council

- 10.1 As indicated above, a new single council to replace both West Somerset and Taunton Deane from 1 April 2019 has occurred. This major organisational change however, does not in itself have any impact upon the "going concern" basis upon which the financial statements for 2018/19 have been produced as the current operational activities performed by Taunton Deane and West Somerset have been transferred to the new council.

11 The Current Financial Position (Balance Sheet)

- 11.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by each Council. The net assets of each Council (assets less liabilities) are matched by the reserves held by each Council. For 2018/19, the final Balance Sheet position as at 31 March 2019, shows that Taunton Deane Council had net assets of £258.5m whilst West Somerset had net assets of £777k. The impact of the HRA including the valuation of council dwellings makes a significant contribution to the net asset position of Taunton Deane. One of the main components within long term liabilities are the pension scheme liabilities which currently stand at £16.248m for West Somerset and £89.484m for Taunton Deane. The other main component relates to external borrowing – West Somerset has no external borrowing whilst Taunton Deane has external borrowing of £79.105m. The table below shows a summary balance sheet position for each authority.

Table 2 – Summary Balance Sheet as at 31 March 2019

	Taunton Deane	West Somerset
	£000	£000
Non-current assets	425,150	12,214
Net current assets – debtors, stock and cash less short term creditors and liabilities	1,894	5,381
Long term liabilities and provisions	(168,589)	(16,818)
Net Assets	258,455	777
Usable reserves	42,262	8,176
Unusable reserves	216,193	(7,399)
Total Reserves	258,455	777

- 11.2 Included within the net current assets of each council are the cash and investments. West Somerset also hold cash and investments in respect of ring-fenced Hinkley S106 funds held and not yet spent at the end of the financial year. These amount to £411k in cash and £5m held as short term investments. The table below shows the amounts of cash and investments held in the balance sheet as at 31 March 2019:

Table 3 – Cash and Investments

	Taunton Deane	West Somerset
	£000	£000
Cash and other cash equivalents	20,343	1,685
Short term investments	5,013	12,042
Net Assets	25,356	13,727

12 Governance Arrangements

- 12.1 Both councils have a well-established and robust corporate governance framework. The Annual Governance Statements (AGS) for 2018/19 have been reviewed for both councils taking into account external and internal audit reviews, data from our risk assessments and knowledge of our control environment. The review of our governance arrangements has concluded that they are effective.

13 The External Regulatory and Control Environment

- 13.1 As a principal local authority councils have 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 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.

14 Emerging 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. Although the Council has not yet received a claim, if received and upheld this could be significant if with the cost of a refund and ongoing reduction in business rates funding. We are therefore keeping a watching brief on developments and are utilising counsel support commissioned via the LGA; the legal opinions are currently divided.

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 the costs of a new authority and our ability to close any potential 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 It is also important to emphasise that there remains significant uncertainty in financial forecasts beyond 2019/20. The current four year settlement sets proposed government grant funding up to 2019/20. The outcome of the Fair Funding Review is expected to be implemented in April 2020. Business rates baseline and tariff are due to be reset in 2020, and the proposed move to 75% then 100% continues to be developed. Notwithstanding these factors which will influence future funding, a major proportion of our retained business rates funding relies on Hinkley. There is a significant risk of funding reduction if Hinkley B is decommissioned earlier than currently forecast or has unplanned outages. There is a high probability that there will be several years between Hinkley B being decommissioned and Hinkley C generating, which would lead to a significant 'trough' in our business rates income. This position may be altered by the reset of the baseline and tariff in April 2020, and will be reviewed in light of further information when it is available.

Commercial Approach and Income Generation

- 14.4 As the new 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 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

- 15.2 It is considered that, having regard to the Councils' (Taunton Deane and West Somerset) arrangements and such factors as are highlighted in this report, both councils (and therefore the new Council) remain a "going concern".
- 15.3 I am also comfortable that the budget estimates for 2019/20 are sufficiently robust. The creation of the new Council from April 2019 provides confidence that the delivery of the committed transformation savings across both Taunton Deane and West Somerset will be delivered, and in due course will enable further governance and process efficiency savings to be delivered by the new Council in line with the joint Transformation Business Case. However, the Councils and new Council have agreed to fund additional transitional during the implementation period, and it is crucial that momentum is maintained to drive the benefits so that service delivery remains sustainable when the temporary capacity ends.
- 15.4 As with all local authorities the funding position beyond 2019/20 cannot be predicted with certainty but the creation of the new Council brings increased resilience and opportunity to withstand further funding pressures. A new Financial Strategy for Somerset West and Taunton will be developed during 2019, which will need to reflect the level of uncertainty whilst seeking to avoid unnecessary disruption to services.

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 Partnership Implications

- 18.1 There are implications in respect of this report.

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

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

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