

Assessment of Going Concern Status

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Purpose of the report

This report informs the Committee of the S151 Officer's (Assistant Director – Finance and Corporate Services) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

Recommendations

The Audit Committee is asked to:

- (1) The Committee is recommended 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.

Introduction

The consideration of the assessment is included within the remit of the Audit Committee under its terms of reference as follows:

"To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised."

Assessment

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.

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.

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 South Somerset District Council.

As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice for 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.

The main factors which underpin this assessment 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.

Each of the above is considered in more detail below.

The Council's Current Financial Position (Revenue)

An underspend for 2015/16 of £0.8 million will be reported to District Executive in July 2016. This is due mainly to:-

- £283k from Revenues and Benefits due to increased recovery on housing benefit overpayments and additional legal fees recovered
- £119k from increased income at Yeovil Innovation Centre and savings on salary costs;
- £83k from reduced costs on bed and breakfast and homeless prevention and increased income from Careline.

As at the 31st March 2016 the Council held revenue reserves of £13.06 million for specific purposes. This is expected to reduce by between £3 and £4 million in 2016/17.

SSDC has £8.27 million of revenue balances with £3.7 million remaining uncommitted at the year end. It needs to be noted that £3.4 million will be utilised to fund a Collection Fund Deficit in terms of NDR. A review of the risks to balances is carried out on a quarterly basis. At the year end the estimated requirement was to retain between £3.3 and £3.7 million to meet SSDC's key financial risks.

For 2016/17 the Council set a balanced budget which included £1.2 million of savings. As part of the medium-term financial strategy and plan, the Council has mainstreamed the use of New Homes Bonus but has capped the support for the General Fund at £3m per annum. The authority will seek to retain a two year forward plan to support the General Fund with New Homes Bonus before releasing any surplus for other uses. The 2016/17 budget does not utilise balances and reserves for on-going expenditure.

The Council's Projected Financial Position (Revenue)

Plans for the 2017/18 budget and beyond are now well underway with an overall target of £4.1 million. The key risk is that some of the key projects within Transformation and Income Generation take a longer lead in time and cannot be realised as early as 2017/18 but the authority has sufficient reserves and balances currently to meet those risks.

The Council's Current and Projected Financial Position (Capital)

Details of the capital outturn for 2015/16 will be reported to the Executive in July. The report highlights that gross spend was £3.3 million compared to a revised budget of £3.6 million. The authority held £34.9 million in Capital receipts with approximately £18 million of that sum uncommitted.

The Council's Balance Sheet as at 31st March 2016

The financial overview included in the draft Statement of Accounts for 2015/16 includes reference to the Council's balance sheet as at 31st 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 (reported under current revenue position);
- An adequate risk-assessed working balance to meet unforeseen expenditure (reported under current revenue position).

The authority's net assets amounted to £38.2 million and are significantly reduced by the inclusion of the pension scheme liability of £68.6 million. Contributions to the pension scheme have been increasing to meet this liability over the longer term. However in reality the current net worth is £57.4 million (Usable Capital Receipts £34.9 million, Capital Grants Unapplied £0.5 million, Authority's share of joint operation £0.6, Earmarked Reserves £13.1 million and General Fund Balances £8.3 million).

The Council's Cash Flow

The Council maintains short and long term cash flow projections. The Council has no long term borrowing commitments. As at the 31st March 2016 the Council held £48.4 million in investments. Of this sum around 60% was held in highly liquid investments. Only £7 million was invested for longer than 364 days and no investments were made for longer than five years.

The Council's Governance Arrangements

The Annual Governance Statement has been reviewed taking into account external and internal audit reviews, Statements of Operational Internal Controls from each Manager and reviewed by the Council's S151 Officer. This includes, in Section 4 of the annual statement, 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.

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 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

Conclusions

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

Financial Implications

There are no direct financial implications arising from this report.

Background Papers

Outturn Report to District Executive.
