

Assessment of Going Concern Status

Director: Ian Clarke, Support Services
Service Manager: Catherine Hood, Finance Manager
Lead Officer: Paul Fitzgerald, S151 Officer
Contact Details: Paul.fitzgerald@southsomerset.gov.uk or 01935 462226

Purpose of the Report

This report informs the Committee of the S151 Officer's assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2016/17.

Public Interest

A key underlying assumption in preparing the Council's financial statements (reported in the Statement of Accounts) is that of "going concern". An authority's financial statements should be prepared on a going concern basis i.e. the accounts should be prepared on the assumption the functions of the authority will continue in operational existence for the foreseeable future.

The assessment is undertaken by the Council's S151 Officer as a key pre-requisite for preparing and presenting the annual accounts for approval. 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".

Recommendations

(1) The Audit Committee is recommended to note the assessment made of the Council's status as a "going concern" for the purposes of approving the Statement of Accounts for 2016/17.

Background

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 Code of Practice for Local Authority Accounting, 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 assessment determines the "going concern" status is not proven, 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 continue to place 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 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Local Authority Accounting (hereafter referred to as the Code). 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, considered in more detail below, 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.

The Council's Current Financial Position – Revenue Resources

A net underspend for 2016/17 of £391k will be reported to District Executive in July 2017. This is due mainly to:-

- Finance & Corporate Service's received additional investment income of £134k;
- Economy had an overspend due to compensation for planning appeals of £156k and reduced planning fee income of £89k;
- Health & Wellbeing, reported savings within Housing Services from additional funding for family & individual support of £137k and a reduction in its bad provision for £91k.

As at the 31 March 2017 the Council held revenue reserves of £14.778 million earmarked for specific purposes. This is likely to remain generally constant during 2017/18.

As at the 31 March 2017 the Council also held general revenue balances of £5.078 million. The table below shows various allocations and commitments of this balance.

General Fund Balances	£'000
Balance at 31 st March 2017	5,078
Area Balances	(122)
Economic Development	(2)
Commitments	(147)
Unallocated General Fund Balance at 31st March 2017	4,807
Carry forwards agreed at July 2017 DX	(246)
Net Revenue Budget to Transformation Reserve agreed at July 2017 DX	(145)
Support for 2017/18 budget per MTFP	(789)
Utilisation of general fund for transformation	(231)
Final Unallocated General Fund Balance	3,396

A review of the risks to balances has been carried out on a regular basis to determine an adequate level of reserves. At the year end the estimated requirement was to retain between £2.8 million and £3.1 million to mitigate SSDC's key financial risks. This balance will be reviewed again by the S151 Officer in the near future.

For 2017/18 the Council set a balanced budget which included £0.950 million of planned savings. As part of the medium term financial strategy and plan, the Council has mainstreamed the use of New Homes Bonus (NHB) as general revenue funding, capped at £3 million. However, following Government changes to the calculation of NHB through the 2017/18 Finance Settlement, the dependency on NHB reduces by £250,000 each year from 2019/20 onwards with the cap reduced to £2 million per year by 2022/23. 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 Council's Projected Financial Position – Revenue Resources

Plans for the 2018/19 budget and beyond are ongoing, and will be supplemented by a review of the Financial Strategy currently underway, due to be reported to Members in the summer. The MTFP forecasts when the budget was approved in February 2017 indicated that ongoing savings of £4.7m per year by 2021/22. Annual savings rising to £2.5m are budgeted to be achieved through implementing the new operating model and transforming the way services are delivered, reduce the projected annual savings requirement by 2021/22 to £2.2m. The Council is also committed to progressing schemes to generate increased income and has agreed in principle to invest £15m for this purpose (see below). The key risk is that some of the key projects within Transformation and Income Generation may take a longer lead in time and cannot be realised at the same level and/or timing however the adequacy of reserves assessment reflects these risks.

The Council's Current and Projected Financial Position – Capital Resources

Details of the capital investment for 2016/17 will be reported to the District Executive in July. The net spend was £6.187m compared to a revised budget of £6.211m. As at 31 March 2017 the authority held £29.851m in capital receipts reserves, of which approximately £13.481m is committed to support the approved capital programme. Uncommitted capital reserves therefore currently totals £16.370m.

The Council has approved an Income Generation investment fund of £15m (Full Council 20 April 2017). The funding of schemes coming forward for this fund may propose the use of capital reserves or borrowing, however this will be considered on a case by case basis.

The Council's Balance Sheet as at 31 March 2017

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 and other potential costs;
- 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 £19.265m and are significantly reduced by the inclusion of the pension scheme liability of £86.471m. Contributions to the pension scheme have been increasing to meet this liability over the long term. However in reality the current net worth is £50.790m (Usable Capital Receipts £29.857m, Capital Grants Unapplied £0.469m, Authority's share of joint operation £0.608m, Earmarked Reserves £14.778m and General Fund Balances £5.078m).

The Council's Cash Flow

The Council maintains short and long term cash flow projections, and manages its cash, investments and borrowing in line with the Council-approved Treasury Management Strategy. As at the 31 March 2017 the Council has no long term borrowing commitments and held £52.175m in investments. Of this sum around 56% was held in highly liquid investments. Only £9.5m 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 prepared by 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 the 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.

Conclusion of the S151 Officer

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", and the Council's accounts for 2016/17 have appropriately been prepared on this basis.

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, due to the conclusion that going concern status continues to apply for the foreseeable future.

Council Plan Implications

The Council's Statement of Accounts are required by law, and are delivered together with the supporting assessment of going concern in line with the Code and accepted practices. There is no direct link however the financial position and future projections of available resources underpins the delivery of the Council's aims and priorities.

Carbon Emissions and Climate Change Implications

Not applicable for this report.

Equality and Diversity Implications

Not applicable for this report.

Background Papers

Please bear in mind for executive decisions that all background papers listed here have to be available for public inspection and posted onto the SSDC. Do not list working files.

- Outturn Report to District Executive
 - Budget Report to District Executive and Full Council
-