

Audit and Governance Committee

27 September 2023



Reading
Borough Council
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Title	Going Concern Assessment 2020/21
Purpose of the report	To note the report for information
Report status	Public report
Report author	Darren Carter, Director of Finance
Lead Councillor	Councillor Terry, Deputy Leader of the Council and Lead Councillor for Corporate Services & Resources
Corporate priority	Not applicable, but still requires a decision
Recommendations	1. That Audit & Governance Committee note the outcome of the Director of Finance's assessment of the Council's "Going Concern" status, which is that Reading Borough Council can continue to operate as a going concern for at least a period of 12 months from the date of signing the audit opinion, and accordingly remains a going concern for the purpose of the 2020/21 Statement of Accounts.

1. Executive Summary

- 1.1. The purpose of this report is to inform Audit & Governance Committee of the Director of Finance's assessment of the Council's "Going Concern" status for the purpose of the Statement of Accounts 2020/21, which is that Reading Borough Council can continue to operate as a going concern for at least a period of 12 months from the date of signing the audit opinion, and accordingly remains a going concern for the purpose of the 2020/21 Statement of Accounts.
- 1.2. As set out in the main body of the report, a number of considerations and detailed documents have been reviewed in order to confirm the consideration of Going Concern. The conclusions made are set out in the following paragraphs.
- 1.3. The Council has delivered within its approved budget and has made contributions to reserves, as approved in the corresponding Outturn Reports, in each of the last three years: 2020/21; 2021/22 and 2022/23, despite the impact on ongoing impacts of the Covid-19 pandemic.
- 1.4. The Council's reserve levels have increased to ensure financial robustness and sustainability and these levels are comparable with other unitary councils on average.
- 1.5. The projected cash flow position is continually reviewed and is pro-actively managed. The Council is significantly under borrowed against its Capital Financing Requirement and therefore has sufficient headroom to borrow, if and when required, in line with the Council's Borrowing Strategy contained within the Treasury Management Strategy.
- 1.6. A balanced budget position is forecast for 2024/25 with detailed planning scheduled to occur during September and October 2023. The main areas of risk identified relate to pay and inflation. The Council has continued to set a corporate contingency budget as well as a specific contingency for energy inflation. The Council has also created specific earmarked reserves for Energy Inflation and Pay & Inflation.

- 1.7. In addition, previous reductions in local government funding and the Covid-19 pandemic continue to have an impact on the Council's finances, presenting major financial challenges in continuing to maintain a balanced budget, and a sustainable Medium Term Financial Strategy (MTFS) with reserve balances at adequate levels. The Council does not have substantial reserves upon which to rely, and therefore cannot be complacent in seeking efficiencies to deliver any savings required. Timely action will remain imperative to address risk and in a worst case scenario, emergency savings plans may need to be implemented.
- 1.8. The Council recognises the requirement for, and demonstrates, good financial management, which will continue to ensure that financial resilience and sustainability is secured.
- 1.9. It is considered that having regard to the Council's arrangements, and to specific factors highlighted in this report, the Council can continue to operate as a going concern for a period of twelve months from the date of signing the audit opinion, and accordingly remains a going concern for the purpose of the 2020/21 Statement of Accounts.

2. Policy Context

2.1. Background

- 2.1.1. The concept of "going concern" is that a local authority, its functions and its services will all continue in operation for the foreseeable future.
- 2.1.2. The CIPFA Code of Accounting Practice states that an authority's financial statements must be prepared on a "going concern" basis, because local authorities carry out functions essential to the local community and are themselves revenue raising bodies with limits on revenue-raising powers arising only at the discretion of central government. If the authority was in financial difficulty, it is likely that alternative arrangements would be made by central government either for the continuation of service delivery or for assistance with the recovery of any deficit over a period exceeding one financial year.
- 2.1.3. An inability to apply the going concern concept would potentially have a fundamental impact on the Council's financial statements. Property, plant and equipment in particular may not be realisable at book values, and provisions may be required for potential closure costs or redundancies.
- 2.1.4. The Financial Reporting Council's Statement of Recommended Practice – Practice Note 10 – Audit of financial statements of public sector bodies in the United Kingdom still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting in the auditor's report. In particular where there is insufficient assurance from the entity's representations, stress testing, modelling and forecasting or the lack of third-party confirmations and guarantees. The external auditor's report in respect of going concern covers a 12-month period from the date of the report.
- 2.1.5. Given the ongoing impact of Covid-19 pandemic together with the significant reductions in local government funding in recent years, which continue to threaten the ongoing viability of councils, the external auditors now place greater emphasis on the going concern issue. Accordingly, they require each authority to prepare an assessment of its going concern status in conjunction with the 2020/21 Statement of Accounts.
- 2.1.6. In addition, the Council is asked to provide a documented and detailed consideration of its financial viability to support the assertion that the Statement of Accounts have been prepared on a going concern basis.

3. The Proposal

3.1. Assessment of Going Concern

3.1.1. 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 on Local Authority Accounting for 2020/21 (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. It is assumed that the Council will realise its assets and settle its obligations in the normal course of business.

3.1.2. The main factors which underpin the going concern 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.

3.2. The Council's Current Financial Position

Outturn Position

3.2.1. The Council reported a total net positive variance of £12.762m in 2020/21 comprised of:

- £3.968m of unallocated general Covid-19 support funding;
- £6.453m of corporate contingencies originally held to deal with pressures not foreseen in the original budget that were ultimately not required;
- £2.341m of other net positive variances.

3.2.2. This General Fund position assumed the use of £9.906m of the Direct Revenue Financing of Capital Earmarked Reserve in 2020/21 to reduce the ongoing Minimum Revenue Provision (MRP) charge to the revenue budget in future years. This reserve was set aside to mitigate against capital receipts not being realised and available for use as previously expected. The impact of Covid-19 has meant that receipts have not been realised as previously anticipated and hence this reserve has had to be released. It is hoped that as the economy picks up and receipts are realised the reserve will be able to be replenished.

3.2.3. Per the 2020/21 Outturn Report approved at Policy Committee on 12th July 2021, the 2020/21 outturn position allowed for £8.371m of the reserve drawdown outlined above to be replenished. The unallocated £3.968m of general Covid funding was ringfenced to mitigate the ongoing impact of the pandemic. The remaining £0.423m of the overall underspend was rolled into specific earmarked reserves per requests outlined in the report.

3.2.4. A review of earmarked reserves had previously been carried out and up to £4.640m had been identified as available to be re-directed from their original purpose if required. These expectation reserve balances were not required in 2020/21. The 2021/22 budget was balanced by assuming a draw of £2.776m from these reserves if other mitigations could not be realised in-year.

3.2.5. Per the 2021/22 Outturn Report approved at Policy Committee on 17th July 2022, the Council reported a net positive variance of £3.177m. There was no requirement to draw on the £2.776m of earmarked reserves that had been budgeted for.

- 3.2.6. Per the 2022/23 Outturn Report approved at Policy Committee on 10th July 2023, the Council reported a net positive variance of £4.191m, which was transferred to Earmarked Reserves.

Reserve Levels

- 3.2.7. In recent years the Council's reserves have increased to ensure financial robustness and sustainability.
- 3.2.8. As set out in Appendix 1, the Council's General Fund balance as at 31st March 2023 is £77.996m (subject to year-end adjustments and audit), which consists of a General Fund balance of £8.221m and Earmarked Reserves of £69.775m. These reserve levels are forecast to return closer to pre-pandemic levels from 31st March 2023 as further planned releases from Covid related grant reserves are realised.

Cash Balances

- 3.2.9. The Council manages its cashflow to ensure that it has a reasonable amount of liquid cash that can be accessed readily. As set out in the Treasury Management Strategy, approved annually by Council in February, the Council aims to have at least £10m invested in overnight money market funds and short-term deposit accounts in this respect, and the average daily balance was £39m in the 12 months to 31st August 2023. Currently, as at 31st August 2023, the Council had £30m held across the main bank account and overnight money market funds, in line with the current strategy is to keep any investments short term to maximise liquidity.
- 3.2.10. The Council was allocated a total of £59.579m of additional section 31 grants in respect of additional business rate reliefs applied as a result of Covid-19 in 2020/21. These grant payments along the announcement by Government that Central share payments of Business Rates would be deferred significantly reduced any liquidity risk that the Council may otherwise have faced.
- 3.2.11. The Council is able to borrow short term from other Local authorities if required and has access to longer term borrowing from the PWLB within five working days if required. The Council is significantly under-borrowed compared to its Capital Financing Requirement and would therefore be able to borrow should any cashflow issues arise.
- 3.2.12. The Council maintains a cashflow forecast and did not need to borrow long term) during 2020/21 and did not borrow at all (short or long term in 2021/22). One short term loan of one-month duration for £10m was taken in May 2020 to ensure liquidity in the early stages of lockdown restrictions. No further liquidity issues were experienced in 2020/21.
- 3.2.13. Small amounts of temporary borrowing may be required at particular pinch points in the year but usually this is for a minimal duration. The Council took out £32m of temporary borrowing in February 2023, with a further £5m arranged for March 2023 to aid with cashflow requirements. A further £10m of temporary borrowing was taken out in May 2023. As of 31st August 2023, £32m of this temporary borrowing has been re-paid, with the remaining £15m due to be re-paid between September and November 2023. Further temporary borrowing is likely to be taken out during the remainder of the year as needed. This is in line with the borrowing strategy set out in the Treasury Management Strategy Statement and is preferable to taking out long term borrowing whilst interest rates are high and forecast to reduce in future.
- 3.2.14. The Council's Operational Boundary for 2023/24 is £699.283m per the 2023/24 Treasury Management Strategy, and external borrowing is currently £404.840m per the 2022/23 Treasury Management Outturn Report so there is significant headroom to further borrow if needed.

3.3. The Council's Projected Financial Position

Budget & Medium Term Financial Strategy

- 3.3.1. The 2023/24 Budget was approved by Council on 28th February 2023 which includes a £6.128m contribution to reserves in 2023/24.
- 3.3.2. The main areas of risk identified relate to pay and inflation. The Council has continued to set a corporate contingency budget as well as a specific contingency for energy inflation. The Council has also created specific earmarked reserves for Energy Inflation and Pay & Inflation.
- 3.3.3. The Medium Term Financial Strategy (MTFS) is updated annually and approved by the Council along with the budget. It reflects a three year assessment of the Council's spending plans and associated funding and includes the ongoing implications of approved budgets and service levels, along with the revenue costs arising from the capital programme. Consideration is given by the Chief Financial Officer to the robustness of the estimates, and the adequacy of reserves in light of the strategic financial risk issues being faced by the Council.
- 3.3.4. A balanced budget position is forecast for 2024/25 with detailed planning scheduled to occur during September and October 2023.

Reserve Levels

- 3.3.5. The level of reserves a council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In the event of a serious problem or a series of events, the Council could run the risk of a deficit or be forced to cut expenditure in a damaging or arbitrary way should reserves not be available.
- 3.3.6. As part of the Budget Setting and Medium Term Financial Strategy (MTFS) process, the Chief Financial Officer assesses the adequacy of the level of the Council's reserves. For the 2023/24 Budget and 2023/24-2025/26 MTFS, the proposed working balance for the General Fund reserve was set at 5% of the net budget requirement. This equates to £8.2m on 31st March 2023.
- 3.3.7. The Council also maintains a range of earmarked reserves for example to mitigate against identified risk areas, provide protection against the impact of unforeseen events or liabilities and to fund specific projects.
- 3.3.8. The Council has a healthy level of reserves and as outlined in the reports on the robustness of the 2021/22, 2022/23 and 2023/24 budgets, is comparable with other unitary councils on average.
- 3.3.9. An updated forecast of reserve balances over the next three years is included as part of the Going Concern Disclosure Note within the Statement of Accounts (Appendix 1).

Cashflow Forecasts

- 3.3.10. The Council maintains high level strategic and detailed forward looking operational cashflow forecasts as part of its treasury management functions.

3.4. The Council's Governance Arrangements

- 3.4.1. The Council has a well-established and robust corporate governance framework. This includes statutory elements, for example the post of Head of Paid Service, Monitoring Officer, and Section 151 Officer, in addition to the current political arrangements.

- 3.4.2. An overview of the governance framework is provided within the Annual Governance Statement (AGS), which is included within the Statement of Accounts, and includes a detailed review of the effectiveness of the Council's governance arrangements.
- 3.4.3. The Council's financial position is reported regularly to the Council's Corporate Management Team and to Policy Committee via the Performance and Monitoring Report.

3.5. The Regulatory and Control Environment Applicable to the Council as a Local Authority

- 3.5.1. As a local authority the Council operates within a highly legislated and controlled environment, for example the requirement for a balanced budget each year, combined with the legal requirement to consider such matters as the robustness of estimates and the adequacy of reserves. As well as the legal framework and central government control, councils are also subject to scrutiny by internal and external auditors, and to numerous statutory requirements for compliance with best practice, and with guidance published by CIPFA and other relevant bodies.
- 3.5.2. The Council's Statement of Accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.
- 3.5.3. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.
- 3.5.4. 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. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the CIPFA Code of Practice on Local Authority Accounting therefore assume that a local authority's services will continue to operate for the foreseeable future.

4. Contribution to Strategic Aims

- 4.1. The Council's new Corporate Plan has established three themes for the years 2022/25. These themes are:
- Healthy Environment
 - Thriving Communities
 - Inclusive Economy
- 4.2. These themes are underpinned by "Our Foundations" explaining the ways we work at the Council:
- People first
 - Digital transformation
 - Building self-reliance
 - Getting the best value
 - Collaborating with others
- 4.3. The setting and delivery of the Council's budget is essential to ensuring that the Council meets its strategic aims and remains financially sustainable going forward.

- 4.4. Full details of the Council's Corporate Plan and the projects which will deliver these priorities are published on the [Council's website](#). These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective and economical.

5. Environmental and Climate Implications

- 5.1. There are no environment or climate implications arising directly from this report.

6. Community Engagement

- 6.1. No consultation or community engagement has been required nor carried out in preparing this report.

7. Equality Implications

- 7.1. There are no equality implications arising directly from this report.

8. Other Relevant Considerations

- 8.1. There are none.

9. Legal Implications

- 9.1. Section 25 of the Local Government Act 2003 requires an authority's Section 151 Officer to comment on the robustness of the estimates and the adequacy of reserves. The following reports were considered by Council as part of the budget setting procedures:

- Chief Finance Officer's Report on the Robustness of the Council's 2021/22 Budget (February 2021);
- Chief Finance Officer's Report on the Robustness of the Council's 2022/23 Budget (February 2022);
- Chief Finance Officer's Report on the Robustness of the Council's 2023/24 Budget (February 2023).

- 9.2. Section 114(1) of the Local Government Finance Act 1988 places a duty on the Section 151 officer to report certain matters to the authority. The duty of the Section 151 officer to report is triggered if they believe that a decision involves (or would involve) unlawful expenditure, a course of action is unlawful and is likely to cause a loss or deficiency, or an entry of account is unlawful.

- 9.3. Likewise, the Section 151 officer must inform the authority where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering in to any agreements incurring expenditure until the Council has considered the report unless authorised by the Section 151 officer to prevent the situation that led to the preparation of the report from getting worse or recurring or to improve the situation.

10. Financial Implications

- 10.1. There are no financial implications arising directly from this report.

11. Timetable for Implementation

11.1. Not applicable.

12. Background Papers

12.1. There are none.

Appendices

1. Draft Going Concern Disclosure Note for 2020/21 Statement of Accounts