

## Appendix 1 – Draft Going Concern Disclosure Note for 2020/21 Statement of Accounts

### Going Concern

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.

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.

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.

The restrictions that have been in place within the United Kingdom in response to Covid-19 have created significant issues for many businesses and residents and as a result from April 2020, the Council has experienced financial pressures in terms of lost income lost and additional expenditure incurred. The government has provided some financial support for Local Authorities to help mitigate some of the pressures being experienced due to the crisis. The Council received a total of £13.269m to 31 March 2021, and a further £4.523m to 30 June 2021, in general support funding from Central Government in this regard.

In recent years the Council's reserves have increased to ensure financial robustness and sustainability. Our most recent reported balances, which are currently unaudited post 1 April 2021, are as follows:

<b>Date</b>	<b>General Fund Balance</b>	<b>Earmarked Reserves</b>	<b>Housing Revenue Account Balance</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
31 March 2020	(7.500)	(45.699)	(45.732)
31 March 2021	(7.500)	(96.206)	(50.718)
31 March 2022 (per Aug 2023)	(7.500)	(82.119)	(50.412)
31 March 2023 (per Aug 2023)	(8.221)	(69.775)	(47.023)

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31 March 2024 (forecast per Aug 2023)	(8.382)	(62.527)	(44.132)
31 March 2025 (forecast per Aug 2023)	(8.382)	(58.525)	(40.747)
31 March 2026 (forecast per Aug 2023)	(8.382)	(48.656)	(36.995)

The Council carried out a detailed assessment of the likely impact of Covid-19 on its financial position and performance during 2019/20, 2020/21 and beyond. This included consideration of the following:

- ◆ Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- ◆ Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to temporary accommodation for the homeless), and additional costs associated with changes to working practices (such as remote working).
- ◆ Changes to government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- ◆ The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.
- ◆ The impact on the Council's subsidiaries and joint ventures.
- ◆ The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash (as at September 2023 the Council has around £30m short term investments, including overnight money market funds), impact on investment returns, and availability of external borrowing if required.
- ◆ The estimated overall impact on the Council's General Fund and Housing Revenue Account reserves.

The Council manages its cashflow to ensure that it has a reasonable amount of liquid cash that can be accessed readily. 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 31 August 2023. 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. 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.

COVID-19 posed a significant financial challenge for the Council during 2020/21 in particular, as it did for all local authorities. Any forecast ongoing financial implications were reflected in the Council's 2021/22, 2022/23 and 2023/24 Budgets and the respective 2021/22-2023/24,

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2022/23-2024/25 and 2023/24-2025/26 Medium-Term Financial Strategies which were approved by Full Council in February 2021, February 2022 and February 2023 respectively.

There remains some uncertainty with regards to the recovery period of income streams in particular such as car parking. This will clearly have an impact on the assumptions that sit behind the financial modelling and will therefore be monitored on an ongoing basis and revised as appropriate.

In terms of the Council's Group Accounts, Covid-19 has had a significant short-term impact on the turnover and income of Reading Transport Limited (RTL), a wholly owned company of Reading Borough Council. We continue to monitor what the medium and longer-term impact will be. However, the Company has accessed all the government support mechanisms available to it and is working with the Council to review options to ensure that they can continue to deliver public transport sustainably for the foreseeable future. Monthly meetings between the Director of Finance for the Council and the Finance Director for RTL are scheduled to provide support and governance. RTL's most recently published Consolidated Financial Statements cover the period from 5 April 2021 to 3 April 2022 and were prepared on a going concern basis. The external audit opinion on the financial statements concluded that based on the work performed, no material uncertainties were identified relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements were authorised for issue. The result for the period was a net profit after taxation of £0.931m (2021: £0.298m). With the support of the Covid Bus Service Support Grant and Bus Recovery Grant schemes, the underlying trading position was breakeven. Pension valuation changes have result in the reported profit. The Directors continue to focus on developing the business following the Covid-19 pandemic, in order to generate and maintain sustainable profits to enable greater investment and support the company's vision of a carbon-neutral future.

Based on the Council's outturn report for 2020/21, the gross total impact of Covid-19 on the General Fund in 2020/21 was estimated to be a reduction of £16.448m. This is offset by £20.416m of funding from Central Government, which comprises £13.269m general support funding received, £5.842m income compensation for lost sales, fees and charges, and of £1.305m furlough grant. Additionally, the Council's outturn report for 2021/22 reported a net underspend of £3.177m and for 2022/23 reported a net underspend of £4.191m. By way of context, the General Fund balance as at 31 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, as set out in the table above, from 31 March 2023 as further planned releases from Covid related grant reserves are realised. The balanced 2023/24 Budget was approved by Council in February 2023 without the need to drawdown from reserves. A balanced budget position is forecast for 2024/25 with detailed planning scheduled to occur during September and October 2023.

It is therefore noted that there is significant headroom within the General Fund to absorb the estimated ongoing financial impacts of Covid-19 and potential increases in demand for services in the short to medium-term. Furthermore, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.