

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

GOING CONCERN ASSESSMENT AS AT 31ST MARCH 2020

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. This report summarises the management assessment of the Council continuing to operate as a going concern for the purposes of producing the Statement of Accounts for 2019/20.
- 1.2. This report is provided as a working paper to the external auditor confirming the going concern assessment has been completed and the conclusion maintains the assertion the Council is a going concern as at the balance sheet date of 31st March 2020.

2. BACKGROUND INFORMATION

- 2.1 The Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting 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. As part of this process the Council's appointed External Auditor require the Section 151 Officer to undertake a going concern assessment and assert if the Council can operate in the foreseeable future as a going concern.
- 2.2 As requested by the Council's appointed External Auditor Mazars, and as part of the closure of the 2019/20 financial statements, a going concern assessment as at the Balance Sheet date of 31st March 2020 has been completed. Considering the Covid-19 outbreak and the significant additional expenditure, and lost income, for the Council as well as the financial support provided by Government, this is increasingly important.
- 2.3 The CIPFA Code (para 2.1.2.9) states "an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern".

- 2.4 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.
- 2.5 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.

3 OPTIONS FOR CONSIDERATION

- 3.1 To endorse the going concern assessment set out in Appendix 2.
- 3.1 To not endorse the going concern assessment set out in Appendix 2.

4 ANALYSIS OF OPTIONS

- 4.1 The need to confirm the Council remains a going concern is set out in detail in appendix 2 and is particularly important given the impact of the Covid-19 pandemic. Endorsing the going concern assessment as set out in this report will provide confidence in the Council's current financial position and enable external audit to obtain sufficient assurance on why the Council deems itself to be a going concern.
- 4.2 Not endorsing the going concern assessment set out in this report would impact upon the extent to which external audit can obtain sufficient assurance necessary to enable them to give an opinion on the Council's ability to continue as a going concern. This would have an impact on External Audit's opinion on the council's financial statements.

5 FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

- 5.1 Financial – based on the review undertaken, there is no imminent risk to the going concern assertion.
- 5.2 HR – no applicable.
- 5.3 Legal – the Council is required to compile its Statement of Accounts in accordance with the Code of Practice for 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 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.

6 OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1 Not applicable.

7 OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable.

8 OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Not applicable.

9 RECOMMENDATIONS

9.1 It is recommended that the committee endorses the going concern assessment set out in this report.

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Background Papers used in the preparation of this report

2020/21 Q1 Financial Monitoring and Medium-Term Financial Plan Update

International Standard of Audit (UK) 570

NLC Annual Governance Statement 2019/20

REVENUE MONITORING POSITION 2020/21

REVENUE	Budget £000's	Potential Spend £000's	Risk £000's
EXPENDITURE			
Investment in Priority Areas	125,278	138,140	12,862
Running the Business (Technical)	26,780	26,699	(81)
NET OPERATING EXPENDITURE	152,058	164,839	12,781
FUNDING			
Council Tax, Business Rates and Government Grants	(150,133)	(150,133)	-
Use of Reserves	(1,925)	(1,925)	-
Covid-19 Funding (attributed to Covid-19 pressures)	-	(11,181)	(11,181)
TOTAL FUNDING	(152,058)	(163,239)	(11,181)
POTENTIAL VARIANCE	-	1,600	1,600

GOING CONCERN ASSESSMENT

1. Current financial position

- 1.1. The Council is required to assess and determine that it is appropriate to prepare the financial statements on a going concern basis. The review should take account of all available information about the future, which is at least, but not limited to the next twelve months from the end of the reporting period.
- 1.2. Normally, councils publish their budgets for 2020/21 in February/March, which was before Covid-19 struck, therefore external audit expect local authorities to be updating their medium-term financial plans and 2020/21 budgets in response to Covid-19.
- 1.3. Where there is a 'material uncertainty' in the period, to at least 12 months from the date of authorisation of the financial statements for publication e.g. up to November 2021, external audit expect the Council to produce a summary report to the Audit Committee (or equivalent) to validate the going concern assertion.
- 1.4. Before the latest forecasts for 2020/21 are considered, it is important to note that the Council has a strong base from which to navigate the future from. It was able to contain costs better than it had forecast being able to during the financial year and increased the balance of available reserves. The Council has a strong track record of managing risks and costs and will need to continue to do so over the coming years.
- 1.5. It is also important to note that going concern can be impacted by sector wide issues that do not just impact on this Council. For instance, the impact of Covid-19 is considered at length in this report and has an impact on income and expenditure. But crucially, it impacts all local authorities to a large extent, and in recognition of this the Government have provided significant sums of additional funding, thereby attempting to neutralise its impact at a national level. North Lincolnshire has received £13.3m in grant funding to mitigate pressures due to additional covid-19 related spending, in addition to millions more in grants have been provided for specific purposes. It has also distributed £33.4m in grants to small businesses.
- 1.6. The Council amended its monitoring protocols during the current year in order to further improve its line of sight and timeliness in respect of financial information. At the end of the first quarter of 2020/21, an overspend of £1.6m was forecast which reflected an amalgamation of expenditure and income risks predominantly because of the Covid-19 pandemic. Crucially, this position was and is expected to remain volatile throughout the remainder of the financial year and was characterised as such. The quarter one forecast position can be seen in Appendix 1. The quarter two position is due to be taken to Cabinet this month.

- 1.7. The financial impact cuts across expenditure and income. Key expenditure changes include increased activity and PPE costs within social care, provider sustainability, supporting the shielding operation, and pressures created from delays to the implementation and delivery of cost base reductions.
- 1.8. The Council also generates income through other sources of fees, sales and charges through, leisure and culture sites, car parking, and commercial rents. All of these income streams have been impacted, quite significant in some cases, as a result of the current situation. The Government has introduced a grant scheme that will compensate councils for most of these losses in 2020/21.
- 1.9. The pandemic has changed the way of life for people across the country, and it is hoped that scientific developments will ultimately mean the current changes to delivery models are temporary. But in the short term they are expected to remain with continuing impacts to service delivery models.
- 1.10. Officers have been clear on the uncertainty inherent in current financial forecasts, specifically because of the volatile nature of the pandemic leading to changes in policy decisions. The reported position excludes any additional income that may be receivable through fees and charges scheme and any funding variance will crystallise as a deficit on the council's collection fund. The Government has introduced legislation to require councils to spread any estimated deficit relating to council tax over the next three financial years. Further to this an announcement is expected, as part of the Local Government Settlement in December, setting out how government will also fund a portion of any such deficit.
- 1.11. The Council set a funding base back in February which reflected economic conditions at that time. The pandemic is expected to have an impact on local taxation, which make up around 78% of the net funding base in 2020/21. However, the impact is highly uncertain, as they are linked to the size and scale of Government support schemes. Business grants, additional business rate relief, council tax hardship payments and the help provided by the furlough scheme mean that the amount owed is collectively lower, and that Government support should help people to meet their obligations. Collection rates are tracking broadly 0.5% down on council tax, business rates are holding up albeit with much less due to be paid because of the impact of additional reliefs. Any variance in business rates or council tax income will manifest in 2021/22 through the collection fund mechanism.
- 1.12. As the reported position in year is not material, any overspend (should it materialise) would be drawn from useable reserves.

Projected financial position

- 1.13. The Council approves a multi-year medium term financial plan in February/March, and then keeps this actively under review to ensure it remains right and deliverable, relative to the Council plan. As part of the Council's response, the Council is actively reviewing its plans and assessing which operating model changes are likely to remain.

It is also looking at maximising the opportunities brought about by the pandemic, specifically the success of working differently and what this could mean for improved operating models in the future.

- 1.14. Covid-19 continues to have a significant impact on the country, with a second lockdown currently in force. The situation is fast changing and means high levels of uncertainty in regards to the longer-term impact of the pandemic. This includes the economy, which impacts closely upon employment, council tax and business rates. It also includes the level of structural need in our area, with the potential for increases. The economy has a direct correlation with Council funding, the level of local need as a direct relationship with the Council's cost base.
- 1.15. The Government has made large interventions across both elements in 2020/21, with significant increases in grant funding for public bodies and large scale support for businesses via grants and additional reliefs and residents through the furlough scheme and council tax hardship. The progression of the virus in 2021/22 together with the actions taken by the Government will impact on the local economy and local need.
- 1.16. There are expected to be some clear signals from the Government on the approach it is likely to take in 2021/22 when the Chancellor presents the results of the 2020 Spending Review. The Local Government finance settlement will then establish more specific detail in December.
- 1.17. The Council has undertaken extensive modelling during 2020/21 encompassing all of the relevant information available. In its September update to Cabinet, it presented a revised funding position which showed a reduction of £3.6m (excluding reserve adjustments) in 2021/22 and £2.5m in 2022/23 (excluding reserve adjustments). Note that this position has been helped by a large renewable development being allocated to the area.
- 1.18. The funding base presented to Cabinet set out revised planning assumptions, which included impairment to the taxbase growth projection, and an increase in the amount not expected to be collected (for reasons including write-off, empty property relief, and council tax support). These assumptions are continually being refined as and when more data becomes available.
- 1.19. The financial planning process led by Senior Leadership is progressing the development of initiatives which would enable the Council to live within reduced means, if necessary. However, there is a possibility that the Government could increase grant funding in 2021/22 as it has during the current year.
- 1.20. These uncertainties will be reassessed on a regular basis throughout the budget setting process. The refreshed medium-term financial plan will cover a three-year period acknowledging uncertainties in relation to the comprehensive spending review, local government funding reform and potential local government reorganisation.

Balance sheet

- 1.21. The council's net assets, excluding the pension liability, has remained relatively stable for the past four financial years. In 2019/20 it increased by £30m to £399m. The council's net assets, including the pension liability, has remained positive but is far more volatile.
- 1.22. Whilst the council's net assets value is less important than a private sector organisation's a downward trend or sudden decline would still be a warning sign that the council may be having financial difficulties. The stability and most recent increase in this council's net assets does not indicate any such issues.
- 1.23. The Council has a reserves strategy which governs the deployment of reserve balances and the level necessary to be held. The reserves strategy bears a direct relationship with the level of known risk and is deemed to be an adequate level of reserves. The level of available reserves increased during the 2019/20 outturn to a level higher than anticipated when the budget was set.

Cash flow

- 1.24. The Council maintains short- and long-term cash flow projections. The Council maintains long term borrowing commitments to support the capital investment strategy and the asset management strategy. Borrowing is predominately undertaken from the Public Works Loan Board (PWLb).
- 1.25. As at the 31 March 2020 the Council held £25.2m of investments (£18.7m, March 2019). Also, as at the 31 March 2020 total debt was £193.7m (£180.1m, March 2019). Net borrowing has reduced during 2020/21 to date.
- 1.26. The current operational boundary for long term debt is set at £286.5million for 2020/21 with an authorised limit set at £324.5m to allow for any unforeseen borrowing needs. The limits have been increased marginally in later years of the plan to support delivery of the capital investment strategy and therefore the Council plan.

Governance arrangements

- 1.27. The most recent and comprehensive assessment of the council's Governance arrangements is the Annual Governance Statement. The statement does not identify any significant issues with the council's governance arrangements.

Regulatory and control environment applicable to the Council as a local authority

- 1.28. The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each year considering 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.