

<b>REPORT REFERENCE NO.</b>	<b>APRC/18/17</b>
<b>MEETING</b>	<b>AUDIT &amp; PERFORMANCE REVIEW COMMITTEE</b>
<b>DATE OF MEETING</b>	<b>27 JULY 2018</b>
<b>SUBJECT OF REPORT</b>	<b>GOING CONCERN REVIEW</b>
<b>LEAD OFFICER</b>	<b>Director of Finance</b>
<b>RECOMMENDATIONS</b>	<i>That the report be noted.</i>
<b>EXECUTIVE SUMMARY</b>	<p>The Authority's External Auditors have requested a formal response from management over the ability of the Authority to continue as a going concern.</p> <p>This is the first such report which has been prepared and contains a review of the financial position as at 31 March 2018 alongside an assessment of the ability of the Authority to continue operating for the foreseeable future.</p>
<b>RESOURCE IMPLICATIONS</b>	None
<b>EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)</b>	N/A
<b>APPENDICES</b>	None
<b>LIST OF BACKGROUND PAPERS</b>	None

## **1. INTRODUCTION AND BACKGROUND**

- 1.1. Under International Audit Standards auditors are required to “obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements”, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.
- 1.2. This is the first such report made to the Audit and Performance Review Committee and will consider the Authority’s ability to continue as a “Going Concern” i.e. to deliver its functions and services for the foreseeable future, particularly focussing on the 12 month period following the Statement of Accounts balance sheet date of 31 March 2018.
- 1.3. The sustained period of Austerity since 2010 and resulting reductions to funding across Local Government now pose a significant threat to public sector organisations. As a consequence, the External Auditors, Grant Thornton LLP, are placing greater emphasis on the Authority’s ability to continue as a Going Concern. There have also been several high profile cases of Local Authorities struggling to meet their financial and service delivery obligations which makes the ability to continue as a Going Concern of greater relevance.

## **2. GOING CONCERN REVIEW**

- 2.1 This report will consider the following factors which underpin the Authority’s ability to operate as a going concern:
  - (a) The current financial position;
  - (b) The projected financial position;
  - (c) The balance sheet and Cash Flow;
  - (d) Governance Arrangements; and
  - (e) The regulatory and control environment.
- 2.2 Each of these elements will be considered in greater detail in the following sections.

## **3. THE CURRENT FINANCIAL POSITION**

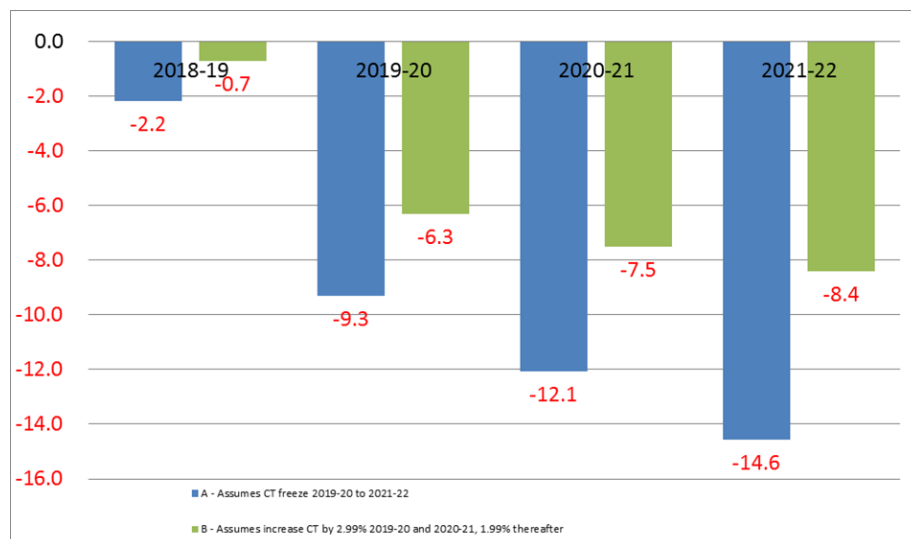
- 3.1 Total revenue spending in 2017-18 was £72.273m compared to an agreed budget of £72.596m, resulting in an underspend of £0.322m, equivalent to 0.44% of total budget.
- 3.2 The Authority has consistently delivered underspends against the Revenue Budget and has therefore built up Earmarked Reserves of £31.944m and General Reserves of £5.315m as at 31 March 2018. The strategy for use of those reserves and adequacy of the general fund is contained in the forthcoming paper on Reserves Strategy, to be considered by the Authority on 30 July 2018. The risk assessment of the general fund offers assurance that the Authority will be able to cover any unforeseen liabilities in the short to medium term.

- 3.3 The Authority has set a balanced budget for 2018-19 of £73.583m with £0.945m planned use of Reserves in respect of grants received in advance of need. At this early stage in the financial year forecasts suggest that spending will be within the agreed budget figure with no further depletion of Reserves to support revenue expenditure.
- 3.4 The Authority's main sources of funding are Council Tax and Business Rates income and central government grant funding. Levels of funding are agreed and set as part of the budget setting process which offers a guarantee that the income will be received for 2018-19. Any adjustments to Council Tax and Business Rates income are made via the collection fund budgeting process so will impact on future years.
- 3.5 Because there is surety of funding from billing authorities and central government the main area of risk to the short term financial position of the Authority is its ability to control expenditure. There are robust financial monitoring processes in place to review spend against budget.

#### 4. **THE PROJECTED FINANCIAL POSITION**

##### *Revenue Budgets*

- 4.1 As outlined above, the predicted financial position for 2018-19 is for spend to be within the revenue budget. Expenditure from reserves is anticipated to be £6.717m within the financial year with projected balances of £17.848m by 2022.
- 4.2 In considering its annual budget requirement the Authority reviews the Medium Term Financial Plan. In February 2018, a potential funding gap of between £8.4 and £14.6m was identified as shown in the chart below. In order to close the funding gap, significant savings will need to be identified.



- 4.3 A Change and Improvement Plan is currently in development which will support changes to current ways of working and the way the Service is organised to deliver a sustainable future in terms of community and financial outcomes. £6.424m of funding has been earmarked as an Invest to Improve reserve to support the change activity and provide investment where necessary.

- 4.4 If improvement activity does not yield sufficient savings in the early years of the programme a budget smoothing reserve of £1.818m is available but can only be used once.

#### *Capital Budgets*

- 4.5 Capital Budgets are set annually by the Authority as part of the budget setting process and are published alongside an indicative programme for the following three financial years. Funding requirements are identified as part of that planning cycle and for 2018-19 consist of a Revenue Contribution of £2.384m, Application of Existing Borrowing of £1.911m and use of Earmarked Reserves of £2.818m.
- 4.6 In considering the Capital Programme over a longer time period, no further borrowing is anticipated for at least the next six years and a healthy earmarked reserve of £16.647m is available. There is sufficient funding to support capital expenditure in the medium to long term with flexibility to accelerate the programme if required.
- 4.7 The long term strategy of the Authority is to fully support the Capital programme through Revenue Contributions. This is achievable if the current contribution is enhanced to circa £6.5m per year; a further £1.1m of revenue contribution will need to be found (savings on debt servicing: Minimum Revenue Provision and Debt charges of £3.1m, current Revenue Contribution to Capital of £2.3m).

### **5. THE BALANCE SHEET AND CASH FLOW**

#### *Balance Sheet Review*

- 5.1. Elsewhere on the agenda are the Audited Financial Statements of the Authority which show a balance sheet deficit of £611.8m including a pension scheme deficit of £733.3m which must be included under accounting rules. Were the pension scheme deficit to be excluded, net assets of £121.5m would be reported, representing a small increase of £0.2m over 2016-17.
- 5.2. Useable reserves were £37.3m as at 31 March 2018, an increase of £1.9m over 2016-17.
- 5.3. In order to determine and reach the conclusion that the Balance Sheet is robust specific areas of consideration were identified and reviewed, which were:
- Debts owed to the Authority
  - Net worth of the Authority
  - Adequacy of provisions held
  - Reserves set aside – either earmarked or not and whether actually committed
  - The adequacy of the General Fund Balance to meet unforeseen expenditure.

#### *Cash Flow*

- 5.4. Financial Assets (excluding debtors) of the Authority were £37.5m as at 31 March 2018 and are held as a mixture of short and long term investments. Income from central government and billing authorities is received throughout the year which enables robust forecasting of cash flow.

- 5.5. Cash flow is reviewed by officers on a daily basis so any risks can be identified and mitigated. In 2017-18 there were no instances where the bank account was overdrawn. A continued healthy cash position is anticipated given the profile of revenue and reserves expenditure.

## **6. GOVERNANCE ARRANGEMENTS**

- 6.1 Elsewhere on this agenda is the Annual Statement of Assurance which makes up part of the suite of year end reporting. The Annual Statement of Assurance is reviewed taking account of external and internal audit reviews. Statements of assurance in the performance of internal controls and risk are sought from the management. The effectiveness of the Authority's governance arrangements are reviewed annually together with the evidence to support it and then presented to the Audit and Performance Review Committee.
- 6.2 Whilst it is not possible to secure absolute assurance the annual review of the statement and assurance reports received during the year offers evidence arrangements are fit for purpose and effective.

## **7. THE REGULATORY AND CONTROL ENVIRONMENT**

- 7.1 The Authority is required to operate within a highly legislated and controlled environment and particular emphasis of this can be exemplified and demonstrated with the financial controls in place. Examples of controls include the requirement of Full Authority to approve a balanced annual budget, but within that to consider and have regard via assurance from the Treasurer as to the robustness of the budget, its estimates and the adequacy of reserves held.
- 7.2 The control environment is supported by the role of External Audit in auditing of the financial statements, the review of value for money and financial resilience. Further detail on the control environment of the Authority is available in the Annual Statement of Assurance elsewhere on this agenda.

## **8. CONCLUSION**

- 8.1 The Authority operates within a robust control environment which can be evidenced by review of its assurance arrangements such as External and Internal Audit processes, neither of which have identified any significant issues in the past year.
- 8.2 In addition to backwards looking assurance, financial and operational monitoring processes are in place to mitigate risks within the financial year and are regularly reported to management and those charged with governance.
- 8.3 In reviewing the financial indicators contained within this report and planning assumptions regarding the Medium Term Financial Plan, Cash Flow and Reserves Strategy there is a high level of confidence that the Authority will be able to continue as a going concern for the foreseeable future.

**AMY WEBB**  
**Director of Finance**