

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**GOING CONCERN ASSESSMENT AS AT 31 MARCH 2021**

**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 presenting the completed Statement of Accounts for 2020/21.
- 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 31 March 2021.

**2. BACKGROUND INFORMATION**

- 2.1 The Council prepares its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In presenting information in its financial statements, the Council is required to have regard to the going concern assumption. The detailed requirements of the code are considered in further detail in appendix 1, together with the responsibilities placed on our external auditors in obtaining sufficient assurance via an annual management assessment.
- 2.2 The going concern assumption underpins the accounts drawn up under the Code and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies. If an authority were in financial difficulty, alternative arrangements may 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.
- 2.3 If the going concern assumption was deemed not to apply, this would have a material impact on the financial statements. Adjustments 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.

- 2.4 In accordance with the Code, the Council's statement of accounts have been prepared under the going concern basis assuming the Council will continue to operate in the foreseeable future and is able to do so within the current and anticipated resources available. This means the Council will realise its assets and settle its obligations in the normal course of business.
- 2.5 This is supported by the going concern assessment undertaken by the section 151 officer which concludes that the Council can operate in the foreseeable future as a going concern.
- 2.6 The going concern assessment has been completed as at the balance sheet date of 31st March 2021. It includes consideration of the impact that Covid-19 has had, and continues to have, on Council finances. It is worth noting that the approved 2020/21 budget pre-dated the pandemic, and accordingly plans were altered during 2020/21 to reflect the changing composition of funding, income and expenditure brought about by the pandemic.

### **3. OPTIONS FOR CONSIDERATION**

- 3.1 To endorse the going concern assessment set out in this report.
- 3.2 To not endorse the going concern assessment set out in this report.

### **4. ANALYSIS OF OPTIONS**

- 4.1 Endorsing the going concern assessment supports the assertion of the s151 officer that the financial statements are correctly prepared under the going concern assumption.
- 4.2 Not endorsing the going concern assessment would impact upon the extent to which external audit can obtain sufficient assurance necessary, which would reflect in their opinion on the Council's financial statements.

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

- 5.1 Financial – having considered the assessment in this report and the overall financial strength of the Council, it is concluded that this assessment does not contain an imminent risk to the going concern assertion.
- 5.2 Legal – the Council is required to compile its statement of accounts in accordance with the code of practice for local authority accounting, which requires the Council to have regard to the going concern assumption.

### **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.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Date: 16<sup>th</sup> September 2021

### **Background Papers used in the preparation of this report**

2021/22 Q1 Financial Management and Medium-Term Financial Plan Update

Financial Strategy, Budget 2021/22 and Medium-Term Financial Plan 2021/24

Capital Investment Strategy and Capital Programme 2020/2024

Treasury Management and Investment Strategy 2021/22

Financial Position 2020/21

International Standard of Auditing (UK) 570

NLC Annual Governance Statement 2020/21

Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

### Introduction and Accounting/Audit Requirement

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). The code of practice states:

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- “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”  
*(paragraph 2.1.2.9)*
  - “local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting. Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1”  
*(paragraph 3.4.2.23)*
  - “an authority shall prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided. An intention by government to transfer services from one authority to another (for example, as part of local government reorganisation) does not negate the presumption that the authority is a going concern”  
*(paragraph 3.8.2.14)*
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2. International Standard of Auditing (UK) 570 sets out that a specific assessment is required, and the responsibility of the auditor:

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- “In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity’s ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity’s ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so”  
*(paragraph 4)*

- “The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on:
  - Whether a material uncertainty related to going concern exists; and
  - The appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.”

*(paragraph 6)*

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3. To demonstrate compliance with the Code and provide our external auditors with the necessary audit evidence, the Council completes an annual going concern assessment. The assessment is contained within this report, and the following areas have been considered as part of the assessment:

- a) National Context
- b) Current Financial Position
- c) Medium Term Financial Plan Update
- d) Balance Sheet
- e) Cash Flow
- f) Governance Arrangements
- g) Regulatory and Control Environment

**a) National Context**

4. The Council has control over its internal environment and can ensure it has the necessary governance arrangements in place to ensure optimal risk management. It has less control and influence over its external environment, which can impact on current and/or future financial position of the Council.
5. The Secretary of State for Ministry of Housing, Communities and Local Government has been required to provide exceptional financial support to a handful of local authorities recently where there was a high risk of bankruptcy or the potential for services to cease. Exceptional financial support normally comes in the form of a capitalisation directive through powers under sections 16 and 20 of the Local Government Act 2003, in effect allowing the recovery of a deficit over more than one financial year. This is accompanied with a requirement for an independent and external assurance review to provide a comprehensive assessment of the financial position and the strength of wider governance arrangements and the potential for imposed changes.
6. Effective financial management, governance and assurance arrangements can mitigate financial risks and continue to be an integral part of our organisation culture which helps to ensure that we run the business well and sustainably.
7. The emergence of Covid-19 represented a material sector-wide change of circumstances for all local authorities, significantly altering financial planning assumptions. The going concern assessment of most, if not all, local authorities could have been undermined without additional grant support.

8. The Government are continuing to progress work on Local Government oversight and ensuring effective accountability of local government for stewardship of public funds. The final aim in the MHCLG Outcome Delivery Plan: 2021 to 2022 over the coming year and Spending Review period is to “oversee a sustainable and resilient local government system that delivers the key services we all rely on”.

#### **b) Current Financial Position**

9. The Council approved its 2020/21 budget on 26<sup>th</sup> February 2020. The financial plans reflected the Council’s best knowledge around funding, expenditure and income at that point. The emergence of Covid-19 required a fundamental shift in approach, with heightened need requiring frequent changes – often at short notice – to service delivery models to ensure the Council continued to keep people safe, lead and enable communities through the pandemic.
10. Many of the supporting assumptions to the Council’s approved financial plans substantively changed around the start of 2020/21, reflecting the fast moving and widespread changes brought about by the pandemic and the associated actions taken by Government. The national measures introduced to counter the spread of the virus had impacts on the economy, the local taxbase and demand across a range of some Council services.
11. In recognising the financial impact to individuals and businesses, the Government outlined a series of intervention measures to increase support. For individuals, this included job support schemes, additional council tax support for those in receipt of council tax support and temporarily increasing universal credit. For businesses, this included grants, additional business rate reliefs and loans.
12. The Government also recognised the financial impact to local authorities and provided additional financial support to the sector to help meet heightened need and in recognition of income pressures. The composition of funding therefore changed, with the Council placing greater reliance on Government funding to offset taxbase reductions. In 2020/21, the Council received £33.7m to fund additional cost and income losses, and £61.0m to distribute to businesses via grant support schemes.
13. Despite the challenges brought about by the pandemic, the Council was able to successfully adapt itself to ensure the needs of its residents and area were met, within the revised resource envelope. At outturn, an overall revenue underspend was achieved supported by the relatively high level of in-house service delivery. Reserve balances increased at the end of 2020/21 and provide the Council with increased resilience through the ongoing impact of the pandemic.
14. The Council has a strong track record of managing risk and costs which reflects in its financial outcomes. It was able to contain costs better than forecast during the financial year and increased the balance of available reserves. There remains a possibility that some restrictions could need to return at short notice which will continue to be reflected in ongoing risk management and financial monitoring.
15. Cabinet recently received its first full update in respect of progress against the approved 2021/22 budget. Based upon financial management information at quarter one, a balanced position is projected with net operating costs of £163m:

REVENUE	Budget £000's	Potential Spend £000's	Potential Budget Adjustment £000's
<b>EXPENDITURE</b>			
Keeping People Safe and Well	73,515	74,144	629
Enabling Resilient and Flourishing Communities	26,885	28,712	1,827
Enabling Economic Growth and Renewal	7,771	9,100	1,329
Organisational Enablers	32,309	33,130	821
Running the Business Well	22,173	18,267	(3,906)
<b>NET OPERATING EXPENDITURE</b>	<b>162,653</b>	<b>163,353</b>	<b>700</b>
<b>FUNDING</b>			
Council Tax and Business Rates	(125,266)	(125,266)	-
Government Grants	(29,178)	(29,362)	(184)
Covid-19 Resources	(7,070)	(6,231)	839
Use of Reserves	(1,139)	(2,494)	(1,355)
<b>TOTAL FUNDING</b>	<b>(162,653)</b>	<b>(163,353)</b>	<b>(700)</b>
<b>POTENTIAL VARIANCE</b>	<b>-</b>	<b>-</b>	<b>-</b>

This position has been enabled by application of the COVID-19 funding allocated for use in 2021/22. As the reported position in year is not material, any overspend (should it materialise) would be drawn from useable reserves.

16. The Council set a funding base in February which reflected the ongoing impact of Covid-19, with a phased return to 'normal' taxation funding levels assumed. Current monitoring has identified that the taxbase is progressing within expected parameters with a modest surplus at the year-end forecast. Any variance in Business rate and council tax variances are managed through the collection fund.

### c) Medium Term Financial Plan Update

17. The Council approves a multi-year medium term financial plan in February/March, and then keeps this actively under review – in the context of changes to its operating environment – to ensure it remains deliverable, and an enabler of the Council plan. It is continuing to develop opportunities for working differently and improving operating models in the future. Whilst Covid-19 is less disruptive than twelve months previously, it very much remains at the forefront of Council planning as it seeks to keep people safe and well, and lead communities through the recovery and renewal stage.

18. The financial planning cycle for the next budget has commenced, and contains three phases:

- Assessment of Financial Resilience  
Stress testing the financial plans through an assessment of financial resilience supported by the embedding of the requirements of the Financial Management code. This considers the ongoing impact of Covid-19, spending power projections, and areas with cost opportunities.
- Strategic Planning

Identifying opportunities through organisational commissioning, addressing historical variances, focus on achieving economy, efficiency and effectiveness, supported by continuously improving supporting information

- Budget Setting

Comprehensive budget proposal which supports the financial sustainability aspirations of the Council and sets out investment in outcomes, within available resources, together with; required actions, line-of-sight arrangements, and alignment with the Council Plan

19. The Council is currently in the strategic planning phase. In the first phase, the Council completed a comprehensive self-assessment of its compliance with the Financial Management Code (FM Code), which gave rise to a set of actions which have either been completed or are in the process of doing so. All of which seek to further improve collective financial management across the organisation.

20. In addition, the Council is in the final stages of completing a wide reaching and comprehensive assessment of financial resilience. This exercise gives rise to a focussed set of risks, challenges and opportunities which will be a key focus during the strategic planning phase, with cross-Council work needed to maximise the position as part of its journey towards financial sustainability.

21. The Spending Review 2021 will set UK government departments' resource and capital budgets for 2022/23 to 2024/25. This will conclude on 27<sup>th</sup> October 2021 – the date of the Autumn Budget Statement by the Chancellor of the Exchequer. The Local Government Finance Settlement is expected to be published in December and clarify the amount of funding available for each Council. Funding modelling has been undertaken in advance of settlement confirmation.

22. The current approved three-year medium term financial plan is as follows:

2021/22 Approved Budget £000's	MEDIUM TERM FINANCIAL PLAN	2022/23 Current Plan £000's	2023/24 Current Plan £000's
	<b>PRIORITY AND OTHER INVESTMENT</b>		
135,281	Investment in Priorities	135,862	136,446
20,882	Running the Business Well	22,484	23,201
1,946	Inflationary Provisions	5,446	8,946
4,544	Covid-19 Resource	-	-
<b>162,653</b>	<b>NET OPERATING EXPENDITURE</b>	<b>163,792</b>	<b>168,593</b>
	<b>SPENDING POWER</b>		
(125,266)	Council Tax and Business Rates	(125,650)	(130,305)
(29,178)	Government Grants	(28,866)	(28,720)
(7,070)	Covid-19 Resources	-	-
(1,139)	Use of Reserves	-	-
<b>(162,653)</b>	<b>TOTAL SPENDING POWER</b>	<b>(154,516)</b>	<b>(159,025)</b>
-	<b>Cost Reductions in Development</b>	<b>9,276</b>	<b>9,568</b>

23. 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. There is also the possibility that the Government could increase grant funding in 2022/23 as it has in recent years.

24. 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.

#### **d) Balance Sheet**

25. The Council's net assets, excluding the pension liability, has remained relatively stable for the past decade. At the end of March 2011, it stood at £402.6m. It now stands at £409.8m (March 2021), an increase of £10.2m from twelve months ago.

26. Whilst the Council's value of net assets is less important than a private sector organisation, a downward trend or sudden decline could still be a warning sign that the Council may be having financial difficulties. The stability and most recent increase in this measure does not indicate any such issues.

27. 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 2020/21 outturn to a level higher than anticipated when the budget was set, in part due to unspent Covid-19 grant balances which are expected to be utilised in 2021/22.

#### **e) Cash Flow**

28. 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).

29. As at the 31 March 2021 the Council held £18.6m of investments (£30.8m, March 2020). Also, as at the 31 March 2021 total borrowing was £161.6m (£204.2m, March 2020). Net borrowing reduced during 2020/21 due to grant funding being provided in advance of expenditure being incurred in some cases. Some grants have been maximised, with remaining balances to be returned during 2021/22.

30. As at the 31 March 2021, the capital financing requirement was £245.2m (£244.3m, March 2020). The current operational boundary for long term debt is set at £271.6million for 2021/22 with an authorised limit set at £309.6m 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.

#### **f) Governance Arrangements**

31. 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.

## **g) Regulatory and Control Environment**

32. The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each year considering robustness of the budget estimates and adequacy of reserves. The legal framework, central government control, 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 are other important factors.

### **Conclusion**

33. The Council emerged from 2020/21 in a very strong position, with it able to manage risks effectively and control increases within the cost base better than many others were able to. This led to an increase in Council reserves, which strengthens the buffer against future income and expenditure shocks, and potentially provides the Council with time to plan in sustainable cost base adjustments which can be delivered over a realistic time scale.

34. Financial management protocols during 2021/22 have identified that, at this early stage in the year, the Council expects to be able to operate within the budget limits set. This is further evidence of cost consciousness against a backdrop of uncertainty and the potential for further changes to the external environment.

35. The Council is not unique in having residual challenge to address in future years. The Council has a strong track record of collaboration within and with partners to achieve the required outcomes within the resources available. The financial planning process is working to resolve the challenge through a series of specific workstreams, which could be subject to a phased implementation.

36. The Council is in a strong financial position and has effective financial management arrangements in place as it continues its journey towards financial sustainability. It can therefore be asserted with confidence that the Council is a going concern as at the balance sheet date of 31<sup>st</sup> March 2021.