

---

# Going Concern Assessment as at 31 March 2022

---

<b>Committee considering report:</b>	Governance and Ethics Committee
<b>Date of Committee:</b>	25 July 2022
<b>Portfolio Member:</b>	Councillor Ross Mackinnon
<b>Date Head of Service agreed report:</b> <i>(for Corporate Board)</i>	6 July 2022
<b>Date Portfolio Member sent/agreed report:</b>	12 July 2022
<b>Report Author:</b>	Shannon Coleman-Slaughter

---

## 1 Purpose of the Report

This report summarises management's assessment of the Council's ability to function as a going concern; this determination supporting the preparation of the Statement of Accounts for 2021/22.

## 2 Recommendation

2.1 The following recommendation is made:

On the basis of the Section 151 Officer's assessment, it is proposed that this report is provided as a working paper to the external auditor confirming that the going concern assessment has been completed and that the conclusion maintains the assertion that the Council is a going concern as at the Balance Sheet date of 31 March 2022.

## 3 Implications and Impact Assessment

Implication	Commentary
<b>Financial:</b>	Based on the review undertaken, there is no imminent risk to the going concern assertion.  Joseph Holmes, Executive Director for Resources, Section 151 Officer.
<b>Human Resource:</b>	Not applicable

<b>Legal:</b>	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 liabilities in the normal course of business.			
<b>Risk Management:</b>	Reserve provisions have been earmarked within the General Fund to respond to future risks identified and currently unknown risks.			
<b>Property:</b>	Not applicable			
<b>Policy:</b>	Not applicable			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
<b>Environmental Impact:</b>		X		

<b>Health Impact:</b>		X		
<b>ICT Impact:</b>		X		
<b>Digital Services Impact:</b>		X		
<b>Council Strategy Priorities:</b>		X		
<b>Core Business:</b>		X		
<b>Data Impact:</b>		X		
<b>Consultation and Engagement:</b>	Joseph Holmes, Executive Director for Resources, Section 151 Officer			

## 4 Executive Summary

- 4.1 The Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting as published by 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 current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its liability obligations in the normal course of business. As part of this process, the Council's appointed external auditor requires the Section 151 Officer to undertake an assessment and determine that the Council is able to operate in the foreseeable future as a going concern.
- 4.2 In order to complete the assessment, the following key financial data for 2021/22 has been reviewed:
- (a) The Council's provisional outturn (subject to change during final approval of the financial statements by Friday 29 July 2022 and any potential amendments required by external audit) for 2021/22 was an under spend of £0.2 million. The under spend was effectively 0.1% of the Council's 2021/22 net revenue budget of £142 million.
  - (b) The provisional outturn for 2021/22 capital is a £10.5 million under spend against a revised capital budget of £43.0 million. £9.4 million of planned expenditure from 2021/22 was agreed to be re-profiled into financial year 2022/23 as a result of projects being delayed.
  - (c) The 2022/23 Revenue Budget approved by Council Committee included a Council Tax increase of 1% and an Adult Social Care precept of 3%.

- (d) The five year capital programme from 2022/23 to 2026/27 allocates £220.4 million (pre additional re-profiling at outturn) of funding sourced through a combination of grants, Section 106 funding, Community Infrastructure Levy and Council Capital resources. £118.4 million of Council funding has been allocated to the programme, sourced from a combination of prudential borrowing and anticipated capital receipts.
  - (e) The Council's net assets for 2021/22 totalled £30.6 million (2020/21 DRAFT: net liabilities of £19.1 million); a key driver being the year-on-year decrease in the defined benefit pension liability by £44.1m. The Council's usable reserves for 2021/22 amounted to £77.5 million (2020/21 DRAFT: £98.9 million).
  - (f) As at 31 March 2022, the Council held £18 million of short-term investments (31 March 2021 DRAFT: £14 million). Short-term borrowings and long-term borrowings were both broadly consistent across 2021/22 and 2020/21. Short-term borrowings decreased year-on-year from £6.4 million to £5.8 million, with long-term borrowings reducing from £191.8 million to £186.9 million. The Council's PFI liability reduced to £11.5 million (2020/21 DRAFT: £12.2 million).
  - (g) The Council has approved and adopted a corporate governance code which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The governance framework was established at the Council during the year ended 31 March 2022, and in respect of the financial year commencing 1 April 2022. The review and scrutiny process is outlined in the Annual Governance Statement section in the Statement of Accounts, which for 2021/22 was deemed fit-for-purpose and will be reviewed within the scope of the Council's control framework during 2022/23.
- 4.3 Having considered the assessment above and the overall financial strength of the Council, it has been concluded by the Section 151 Officer (Executive Director for Resources) that this assessment does not contain an imminent risk to the going concern assertion. This opinion will be finalised upon completion of the 31 March 2022 Balance Sheet; however it is anticipated that the Section 151 Officer's final conclusion will support the going concern assertion.

## 5 Supporting Information

### Introduction

5.1 As requested by the Council's appointed external auditor Grant Thornton, and as part of the closure of the 2021/22 financial statements, a going concern assessment as at the Balance Sheet date of 31 March 2022 has been completed. The Council acknowledges the end of the Covid-19 pandemic but remains mindful of the importance of sound financial governance; this especially significant due to the substantial Covid-19 related expenditure incurred and income amounts lost, primarily during 2020 and 2021.

5.2 Paragraphs 4 and 6 of ISA (UK) 570 states the following:

*4. 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 framework does not include an explicit requirement to do so;*

*6. The auditor's responsibilities are 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. 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'.*

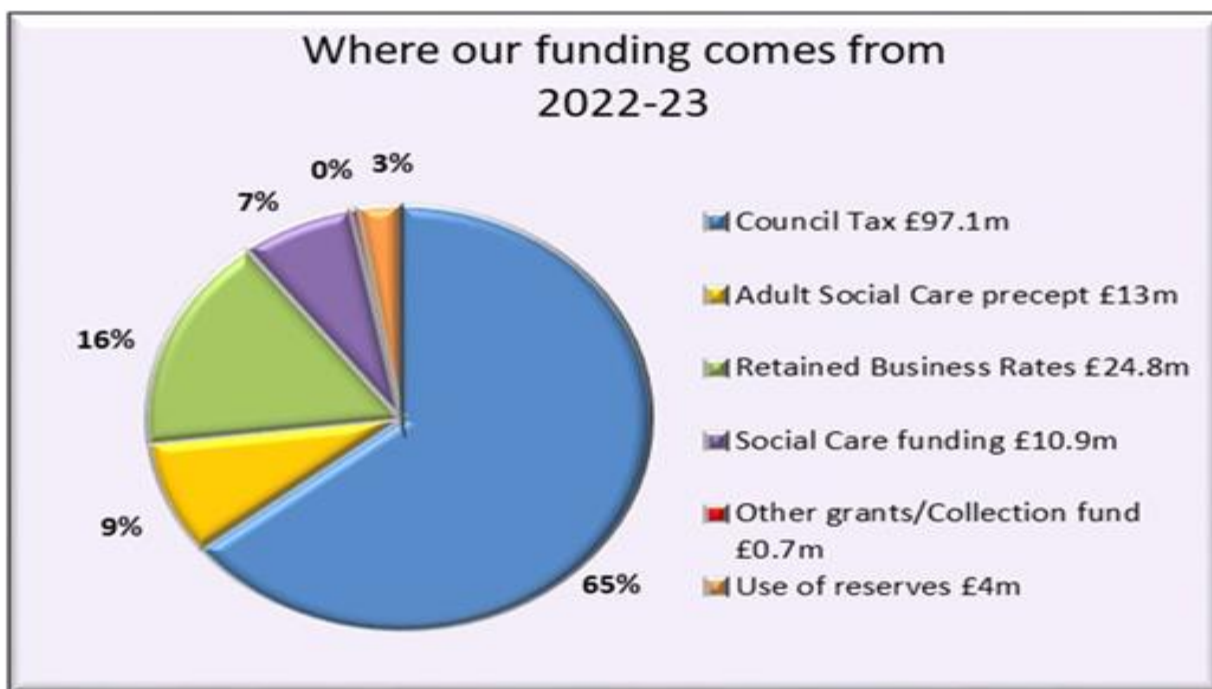
- 5.3 The concept of 'going concern' assumes that a Council, its functions and services, will continue in operational existence for the foreseeable future. This key assumption underpins the financial statements prepared under the Local Authority Code of Accounting Practice, and is made because local 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 was in financial difficulty, the prospects are thus that alternative arrangements may be made by Central Government either for the continuation of the provision of services that the Council supplies, or for assistance with the recovery of a deficit over a period of greater than one financial year.
- 5.4 Where the 'going concern' concept is not appropriate relating to the preparation of the financial statements, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be fully 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 upon an Authority's financial statements.
- 5.5 In order to complete the assessment the following critical areas were reviewed:
- (a) The Council's current financial position;
  - (b) The Council's projected financial position;
  - (c) The Council's Balance Sheet;
  - (d) The Council's projected cash flow;
  - (e) The Council's governance arrangements;
  - (f) The regulatory and control environment applicable to the Council as a local authority.

## Background

- 5.6 The Council's current financial position is outlined below. The amounts for the 2021/22 financial year are subject to further accounting amendments which may be processed

prior to the point that the financial statements are approved by the Section 151 officer (in accordance with the statutory deadline of 31 July 2022).

- (a) The Council's provisional outturn (subject to any potential amendments required by external audit) is a £0.2 million under spend. The under spend is 0.1% of the Council's 2021/22 net revenue budget of £142.0 million.
- (b) A formal review of reserves and key financial risks is undertaken by the Council as part of the annual budget setting process. Assessment of key financial risks includes allowance for significant risks such as business rates volatility and demand sensitivity of key services. Service-specific risk reserves have been established within the Balance Sheet, the levels of these reserves are informed by the individual risk levels detailed within service risk registers.
- (c) The Council has set a balanced budget for 2022/23 including £5.3 million of savings and income generation proposals. The Medium Term Financial Strategy (MTFS) incorporates the following key assumptions for 2022/23:
  - (i) Council Tax funds 65% of the revenue budget. The MTFS is built on a 1.00% Council Tax increase which will raise £1.1 million. Income from Council Tax is also expected to increase by a further 1.50% as a result of growth in the tax base (the number of properties paying Council Tax). This is based on a collection rate of 99.6%.
  - (ii) The Council is proposing a 3% Adult Social Care precept for 2022/23, which will raise £3.2 million. The maximum allowed is a 4% precept.
  - (iii) Retained business rates represent the Council's share of the actual business rates total collected in West Berkshire. The Government has paused the further retention of business rates to 75% until 2023-24 at the earliest; therefore West Berkshire continues to receive 50% of business rates less a significant tariff to Government meaning that the overall amount of business rates retained by the Council is 25% of the total business rates collected.
  - (iv) The Council received a number of ring-fenced grants, primarily Better Care Fund (Adult Social Care), the Public Health Grant and the Dedicated Schools Grant (DSG). As at 31 March 2022 the DSG has a £3.0 million deficit (31 March 2021 DRAFT: deficit of £1.5 million). A wider long-term strategy to fund this deficit is in the process of formulation.
  - (v) The pie chart immediately below provides a split of the funding underpinning the 2022/23 budget:



- (d) The 2022/23 budget is supported through an estimated £48.0 million of usable revenue reserves. £9.7 million of reserves have been earmarked for future repayment of the Collection Fund deficit as at 31 March 2022.

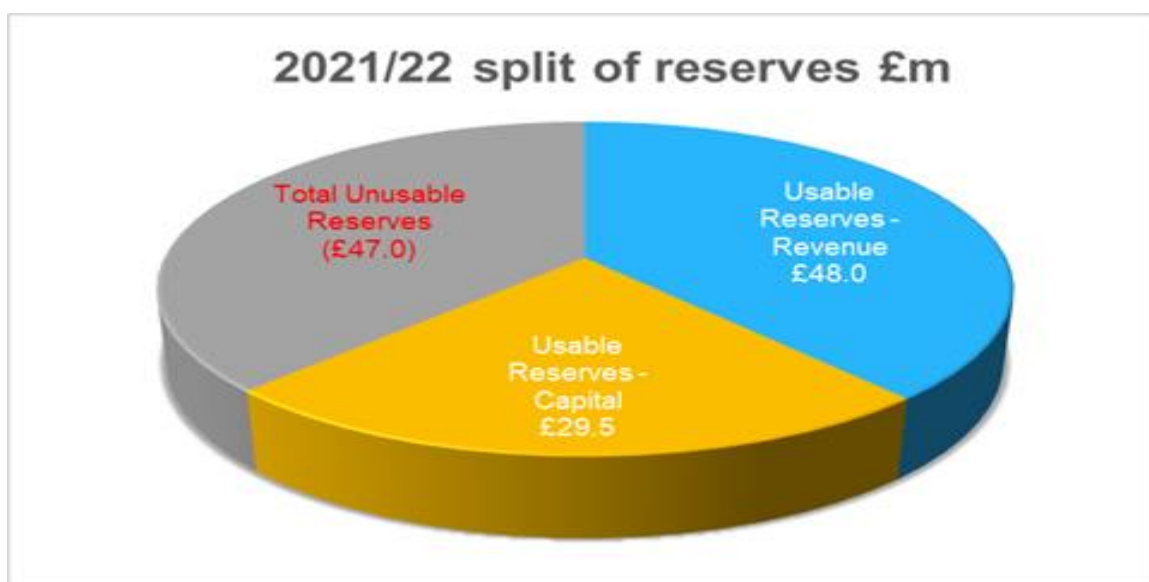
#### 5.7 The Council's Projected Financial Position – Capital

- (a) The provisional outturn for 2021/22 capital is a £10.5 million underspend against a revised capital budget of £43.0 million. £9.4 million of planned expenditure from 2021/22 was agreed to be re-profiled into financial year 2022/23 as a result of projects being delayed.
- (b) The five year capital programme from 2022/23 to 2026/27 allocates £220.4 million (pre additional re-profiling at outturn) of funding sourced through a combination of grants, Section 106 amounts, Community Infrastructure Levy receipts and Council capital resources. £118.4 million of Council funding has been allocated to the programme, sourced from a combination of prudential borrowing and anticipated capital receipts. Operational assets are funded from borrowing financed through the Council's revenue budget for capital financing. Annual increases to the capital financing budget have been built into the revenue capital financing budget and MTFS.
- (c) As at 31 March 2021 (DRAFT) the Council held usable capital reserves of £40.2 million. Current usable capital reserves total £29.5 million as at 31 March 2022.

#### 5.8 The Council's Balance Sheet as at 31 March 2022:

- (a) The Council's net assets summed £30.6 million (31 March 2021 DRAFT: net liabilities of £19.1m). A key factor in the increase in net assets between 2021 and 2022 is the reduction in the defined benefit pension liability, the total amount payable decreasing from £426.7 million to £382.6 million.

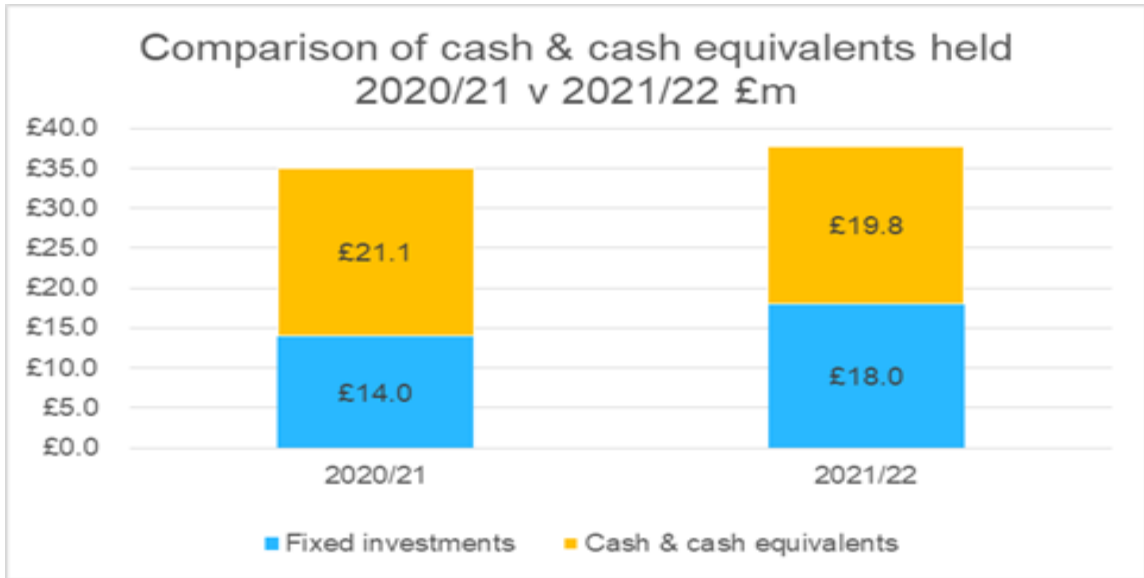
- (b) The Council's long-term assets have grown by £7.9 million to £711.3 million as of 31 March 2022. Operational asset items have increased from £605.3m (31 March 2021 DRAFT) to £628.8m as a result of continued capital investment during 2021/22. Investment property values have risen to £72.6m (from £66.3m).
- (c) Year-end current assets (inclusive of cash balances held by the Council) decreased from £98.1 million to £82.5 million as at 31 March 2022. The key factors driving the overall decrease are year-on-year reductions in other receivable amounts (from £24.2m to £19.6m) and council tax and business rates balances (£21.2m reducing to £8.5m in 2021/22).
- (d) Usable reserves have decreased from £98.9 million to £77.5 million at the end of 2021/22. Usable reserves are sub-divided into £48.0 million (revenue) and £29.5 million (capital) at the end of the current financial year. The Collection Fund deficit is held within unusable reserves and reduced between 2020/21 and 2021/22 (moving from £23.1 million to £9.7m). Total unusable reserves as at 31 March 2022 are in a negative position overall at £47.0m.



5.9 The Council's Cash Flow as at 31 March 2022:

- (a) The Council maintains and updates short-term and long-term cash flow projections to support service delivery. The Council maintains long-term borrowing commitments to support the capital programme and the Property Investment Strategy. Borrowing is predominately undertaken from PWLB.
- (b) As defined within the graphic immediately below, the Council held £37.8 million within current assets as at 31 March 2022, this total comprising cash and cash equivalents of £19.8 million and short-term (fixed) investments of £18 million. Consistent with 2020/21, it was notable during the financial year to 31 March 2022 that the Council continued to have access to additional funding via the various reliefs and compensatory grants awarded to local authorities by Central Government, primarily as financial support as the Covid-19 pandemic continued.





- (c) Due to the comparatively low cost of short-term borrowing during 2021/22, no long-term borrowing was undertaken in support of the Capital Strategy. As at 31 March 2022, Public Works and Loan Board (PWLB) borrowing was £191.0 million. Total debt as at 31 March 2022 was £203.3 million, inclusive of a £0.8 million community bond and £11.5 million of PFI liability. The operational boundary for long-term debt was set at £294.0 million for 2021/22 with an authorised limit set £10million higher to allow for any unforeseen borrowing needs. The operational and authorised boundaries have been revised as part of 2022/23 budget setting to support increased spending on the Council’s capital programme as set out here:

Authorised Limit & Operational Boundary (Borrowing Limits)	2021/22	2022/23	2023/24	2024/25
	£000s	£000s	£000s	£000s
Authorised Limit - Long Term Borrowing	£277,000	£328,732	£349,621	£358,892
Authorised Limit - PFI and Leases	£12,000	£14,400	£13,200	£12,000
Authorised Limit - Short Term Borrowing	£15,000	£24,000	£24,000	£24,000
<b>Authorised Limit - Total External Debt</b>	<b>£304,000</b>	<b>£367,132</b>	<b>£386,821</b>	<b>£394,892</b>
Operational Boundary - Long Term Borrowing	£267,000	£318,732	£339,621	£348,892
Operational Boundary -PFI and Leases	£12,000	£12,000	£11,000	£10,000
Operational Boundary - Short Term Borrowing	£15,000	£20,000	£20,000	£20,000
<b>Operational Boundary - Total External Debt</b>	<b>£294,000</b>	<b>£350,732</b>	<b>£370,621</b>	<b>£378,892</b>

### 5.10 The Council’s Governance Arrangements

- (a) The Council has approved and adopted a code of corporate governance in its Annual Governance Statement, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
- (b) The governance framework comprises the systems and processes, and culture and values established by the Council. The framework is directed and controlled, with a wide range of service activities delivered to the Authority’s community. The framework enables the Council to monitor the achievement of its strategic

objectives, and to consider whether these objectives have led to the delivery of appropriate, financially cost-effective services.

- (c) The system of internal control is a significant part of that framework, and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based upon an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.
- (d) The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of all managers within West Berkshire Council who have responsibility for the development and maintenance of the wider governance environment.
- (e) The governance framework was in place at the Council for the year ending 31 March 2022, and at the beginning of the financial year commencing 1 April 2022. The detailed review process is outlined in the Annual Governance Statement pages within the Council's 2021/22 Statement of Accounts. This framework was deemed fit-for-purpose in respect of 2021/22, and will continue to be reviewed as part of the control framework for 2022/23.

#### 5.11 The External and Regulatory Framework

- (a) The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each financial year, taking into account the robustness of budget estimates and the adequacy of financial reserves. In addition to the legal framework established and Central Government control, other factors must be taken into account, these including the oversight role undertaken by external audit and the statutory requirements for compliance with best practice and guidance issued by CIPFA and other relevant bodies.

### Proposals

#### 5.12 The following recommendation is made:

- (a) On the basis of the Section 151 Officer's assessment, it is proposed that this report is provided as a working paper to the external auditor confirming that the going concern assessment has been completed and that the conclusion maintains the assertion that the Council remains a going concern at the Balance Sheet date of 31 March 2022.

## 6 Other options considered

No other options have been considered.

## 7 Conclusion

- 7.1 Having considered the assessment above, and the overall financial strength of the Council, it is concluded that this assessment does not present an imminent risk to the going concern assertion. The key financial risks relating to the 2021/22 year-end, the Authority's financial performance and any continuing operational impacts of the Covid-19 pandemic have all been considered in making this determination.

## 8 Appendices

Not applicable

---

### Subject to Call-In:

Yes:  No: X

- The item is due to be referred to Council for final approval
- Delays in implementation could have serious financial implications for the Council
- Delays in implementation could compromise the Council's position
- Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months
- Item is Urgent Key Decision
- Report is to note only X

### Officer details:

Name: Shannon Coleman-Slaughter  
Job Title: Chief Financial Accountant  
Tel No: 01635 503225  
E-mail: shannon.colemanslaughter@westberks.gov.uk

---

### Document Control

DocumentRef:		Date Created:	
Version:		Date Modified:	
Author:			
Owning Service			

### Change History

Version	Date	Description	Change ID
1			
2			