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# Financial Year 2018/19 Going Concern Assessment – Supporting Information

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### 1. Introduction/Background

- 1.1 As a result of the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of one or more councils as a consequence, External Auditors are placing a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. 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 2018/19.

### 2. Guidance from External Auditor (Grant Thornton)

- 2.1 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'.

### 3. Management Assessment

- 3.1 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.

3.2 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.

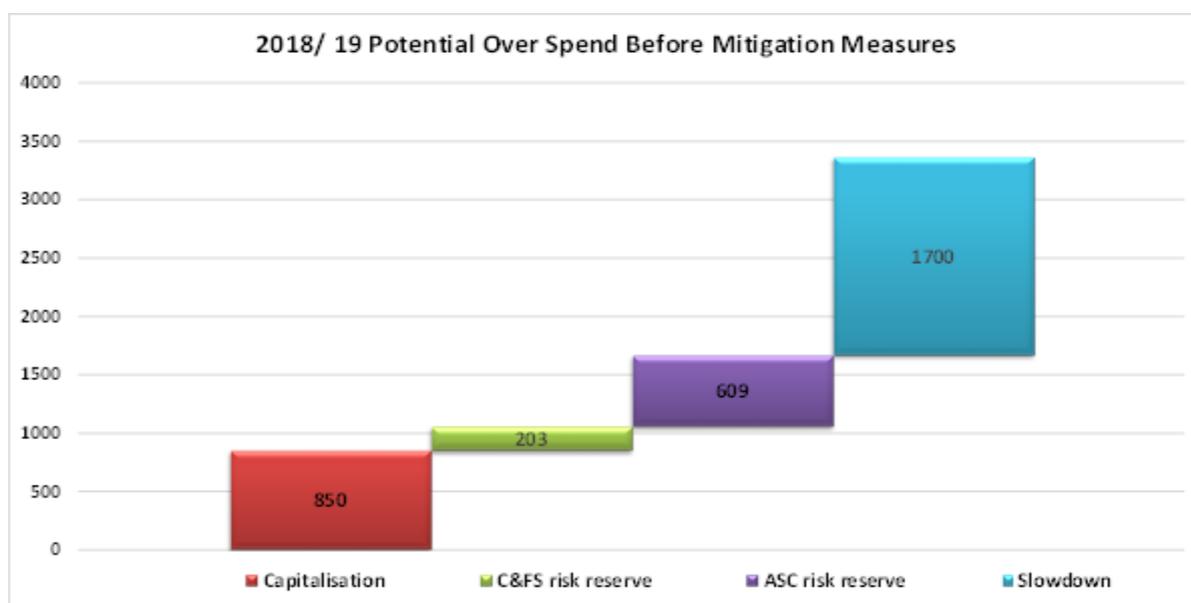
3.3 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice for Local Authority Accounting (hereafter referred to as the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance 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.

3.4 The main factors which underpin this assessment are:

- (1) The Council’s current financial position;
- (2) The Council’s projected financial position;
- (3) The Council’s Balance Sheet;
- (4) The Council’s cash flow;
- (5) The Council’s governance arrangements;
- (6) The regulatory and control environment applicable to the Council as a local authority.

#### 4. The Council’s Current Financial Position

4.1 The Council faced a potential overspend of £3.3million against a net revenue budget of £119.4million in 2018/19 and responded with a Council wide mitigation programme to arrive at a balanced outturn. The following graph provides a breakdown of the potential 2018/19 overspend and mitigation measures.



- 4.2 £500k of unutilised risk management budget provision has been returned to reserves as part of the 2018/19 yearend process. A further £81k was returned to the General Fund at the yearend. The outturn position will be reported to Executive in June 2019.
- 4.3 The General Fund Reserve balance as at 31 March 2018 was £6.07million. At outturn the General Fund Reserve has increased by £81k as at 31 March 2019. The Council has set a balanced budget for 2019/20 with an increased General Fund Reserve of £6.55million, equivalent to 5% of the Council's net revenue expenditure budget for 2019/20 in accordance with the minimum balance requirement, as set by the s151 Officer (Head of Finance and Property).
- 4.4 A formal review of reserves and key financial risks is undertaken as part of the annual budget setting process. Assessment of key financial risks includes allowances for significant risks such as business rates volatility, and demand sensitivity of key services. Service specific risk reserves have been established, the levels of these reserves are informed by the level of risks detailed in individual service risk registers.
- 4.5 The Earmarked Reserves balance was £11.37million at 31st March 2018, at 31 March 2019 the balance had increased to £21.7million. £1.6million of reserves have been earmarked specifically to support risks identified by services (agreed by Budget Board on 25<sup>th</sup> April 2019).
- 4.6 The Council has set a balanced budget for 2019/20, inclusive of £6.24million of savings, of which £5.24million relate to transformation and £1million of income from commercial investments.
- 4.7 In October 2016, West Berkshire Council accepted the Government's offer of a four year funding settlement from 2016/17 to 2019/20. Whilst this settlement committed the Council to a continued reduction in the Revenue Support Grant (RSG), it has provided some financial certainty on which the Council has planned ahead and built other sources of income. The Medium Term Financial Strategy (MTFS), incorporates the following key assumptions:
- (1) The Council forms part of the 75% business Rates Retention pilot, generating approximately £1.75million of additional funding annually. £24million of the £86million collected is retained by locally post payment of 25% to central government and a further 48% tariff.
  - (2) Negative revenue Support Grant (RSG) has been eliminated, generating a £1.8million benefit. Negative RSG is the name given to a downward adjustment of a local authority's business rates tariff, as a consequence of changes to distribution methodology adopted in 2016/17.
  - (3) The Council raised Council Tax by 2% in 2016/17 and 2017/18 and then by 3% in 2018/19, when government raised the threshold. These increases when added to tax base growth now generate an additional £10m per year. Authorities have been given the opportunity to raise an Adult Social Care (ASC) Precept on Council Tax above the existing threshold with funds ring-fenced to pay for adult social care. The Council applied a 2% precept in 2016/17, and 3% in 2017/18 and

2018/19. This now funds £7.3m per year to support adult social care needs in the district. The MTFs is built on a 2.99% Council Tax increase in 2019/20 and a 1.99% increase thereafter, tax base growth of 0.2% in 2019/20 and 0.75% thereafter, and a collection rate of 99.6%.

- (4) In future years, once fully invested the Property Investment portfolio of £100million is projected to generate a £2million contribution to the revenue budget, which is equivalent to 2% Council Tax.

4.8 The assumptions underpinning the MTFs are kept under regular review to ensure forecasts remain robust.

## **5. The Council's Projected Financial Position – Revenue**

5.1 The revised MTFs for the three year period commencing 2019/20 identifies an annual funding gap of approximately £6million, this is at an assumed Council Tax increase of 2.99% in 2019/20 and 1.99% annually thereafter.

5.2 The Council has proposed a balanced budget for 2019/20 through a £5.24million savings strategy paired with £1million of additional commercial income from the Property Investment Strategy. The MTFs has proposed balanced budgets for 2020/21 and 2021/22 with savings targets of £6.7million and £6.3million respectively. The Council has undertaken a prudent approach to budget setting, basing the funding gap on a 1.99% annual Council tax rise from 2020/21. Any additional 1% increase in Council tax above current assumptions is the equivalent of approximately £900k. £1.6million of one off additional social care funding from central government has been factored into the budget for 2019/20. Provision for receipt of additional funding to support social care pressures has not been factored into the 2020/21 and 2021/22 budgets.

5.3 The 2019/20 budget is supported through the £6.55million General Fund Reserve and Earmarked reserves of £10.58million supporting key risk areas. Earmarked reserves are reviewed as part of the annual budget setting process.

## **6. The Council's Projected Financial Position – Capital**

6.1 The provisional outturn for the 2018/19 capital is a £8.68million underspend against a revised capital budget of £89.9million.

6.2 The three year capital programme from 2019/20 to 2021/22 allocates £131million of funding sourced through a combination of grants, Section 106, Community Infrastructure Levy and Council capital resources. £68million of Council funding has been allocated to the programme, sourced from a combination of prudential borrowing and anticipated capital receipts.

6.3 The £68million Council funded expenditure is split between £33million to fund investment in operational assets and £35million to fund the Property Investment Strategy. Operational assets are funded from borrowing financed through the Council's revenue budget for capital financing, a £500k additional annual increase in the revenue capital financing budget has been built into the MTFs.

6.4 The Council has agreed to invest significant sums to support the Property Investment Strategy (£35million over the programme period). The cost of borrowing

to support investment in commercial property is expected to be met from rental income from the portfolio. Governance and reporting arrangements have been structured in response to the guidance issued by the MHCLG (February 2018) and CIPFA's Prudential Code for Local Authority finance which underpins the Council's Capital Strategy and the Investment Borrowing Strategy.

6.5 As at 31 March 2018 the Council held usable capital reserves of £40million. Current usable balances are £41.2million.

## 7. The Council's Balance Sheet as at 31 March 2019

7.1 The robustness of the Council's balance sheet for 2018/19 will be reassessed on completion of the draft financial statements and reported to Executive in June 2019. Factors giving included in the assessment:

- (1) Review of debts owed to the Council;
- (2) An assessment of the Council's net worth;
- (3) The adequacy of risk-assessed provisions for doubtful debts and other potential costs;
- (4) The range of reserves set aside to help manage expenditure (reported under current revenue position);
- (5) An adequate risk-assessed working balance to meet unforeseen expenditure (reported under current revenue position).

7.2 The authority's net assets amounted to £12million (£40.5million as at March 2018) and were significantly reduced by the inclusion of the pension scheme liability of £311million (£317million, March 2018). Contributions to the pension scheme have been increasing to meet this liability over the long term. In reality the Council has net usable reserves of £71million, consisting of £41.2million capital, £21.7million, Earmarked, £2million working balances and £6.1million General Fund (£60.4million, March 2018).

## 8. The Council's Cash Flow

8.1 The Council maintains short and long term cash flow projections. The Council maintains long term borrowing commitments to support the capital programme and the Property Investment Strategy. Borrowing is predominately undertaken from the Public Works and Loans Board (PWLB).

8.2 As at the 31 March 2019 the Council held £34million of investments (£24million, March 2018). Of this sum 24% was held in highly liquid investments (i.e. in instant access bank deposit accounts or money market funds). None of sum was invested for more than 364 days. The balance held in short term liquid investments and for working capital cash flow is maintained in line with the Investment Borrowing Strategy.

8.3 At March 2019 the PWLB loans balance increased to £200.4million, via funding investment in operational assets (£6million), and supporting the Property Investment Strategy (£40.1million), offset by £5.4million of loan repayments. Total debt at 31st March 2019 was £222.6million, inclusive of £13.7million of funding embedded in the Waste PFI.

- 8.4 In respect of the agreed £100million Investment Property Strategy, at 31st March 2018 £22million was invested, £42.8million was invested by the end of March 2019 and the remaining £35million to be borrowed and invested in 2019/20. Property Investment Strategy borrowing is undertaken on the assumption that once fully invested the yield on investments will cover the costs of borrowing and produce surplus returns to support the revenue budget. Surplus returns are projected by 2020/21 to produce an annual £2million contribution to the revenue budget.
- 8.5 The current operational boundary for long term debt is set at £273million with an authorised limit set £10million higher to allow for any unforeseen borrowing needs. The current limits are not proposed to be changed for 2019/20, but are expected to increase by £3million in 2020/21 and £2million in 2021/22.

## 9. The Council's Governance Arrangements

- 9.1 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
- 9.2 The governance framework comprises the systems and processes, and culture and values, by the Council is directed and controlled and its activities through which it engages with, leads and accounts to the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 9.3 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 on 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.
- 9.4 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 governance environment.
- 9.5 The governance framework was in place at the Council for the year ended 31 March 2019 and for the year commencing 1 April 2019. The review process is outlined in the Annual Governance Statement, which as at 2018/19 was deemed fit for purpose and is reviewed as part of the control framework in 2019/20.

## 10. The External Regulatory and Control Environment

- 1.1 The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each year combined, taking into account 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.

## 11. Options for Consideration

- 11.1 A detailed review of the Earmarked Reserves is undertaken to ensure financial provision aligns to key strategic financial risks identified via our internal governance processes. Future proofing our General Fund Reserve position, in accordance with criteria set by the s151 Officer in conjunction with External Audit.

## 12. Proposals

- 12.1 On this basis of the s151 Officer’s assessment, it is proposed reporting as follows:
- (1) External Auditor: this detailed assessment document is provided as a working paper to the external auditor.
  - (2) Audit Committee: this Executive Summary is included in the covering report with the annual statement of accounts confirming the assessment has been completed and the conclusion maintains the assertion the council is a going concern.

## 13. Conclusion of the S151 Officer

- 13.1 The assessment has been undertaken by the S151 Officer. Having considered the assessment above and the overall financial strength of the Council, it is proposed this assessment does not contain an imminent risk to the going concern assertion.

## 14. Officer consulted

Andy Walker – Head of Finance & Property

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### Background Papers: None

#### Subject to Call-In:

Yes:  No: X

Report is to note only

X

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#### Wards affected:

All

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#### Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim:

**X MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority:

**X MEC1 – Become an even more effective Council**

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