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# Going Concern Assessment as at 31<sup>st</sup> March 2021

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<b>Committee considering report:</b>	Governance and Ethics Committee
<b>Date of Committee:</b>	26 July 2021
<b>Portfolio Member:</b>	Councillor Ross Mackinnon
<b>Date Portfolio Member sent/agreed report:</b>	15 June 2021
<b>Report Author:</b>	Shannon Coleman-Slaughter
<b>Forward Plan Ref:</b>	GE4030

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## 1 Purpose of the Report

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 2020/21.

## 2 Recommendation

2.1 The following recommendation is made:

On the basis of the s151 Officer's assessment, it is proposed that 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<sup>st</sup> March 2021.

## 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, S151 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 obligations 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>	<p>Cllr Ross Mackinnon; Executive Portfolio Holder for Finance and Economic Development</p> <p>Joseph Holmes, Executive Director for Resources, S151 Officer</p>			

## 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 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 is able to operate in the foreseeable future as a going concern.
- 4.2 In order to complete the assessment the following areas were reviewed:
- (a) The Council's provisional outturn (subject to change during the final closure of the financial statements by the 31<sup>st</sup> July and any potential amendments required by External Audit) for 2020/21 was £4.6 million. The under spend was effectively 3.5% of the Council's 2020/21 net revenue budget of £131 million. From the £4.6 million under spend, the impact of Covid on spend against budgets accounts for £3.6 million, with business as usual (BAU) accounting for the remaining £1 million. The Council played a significant role in responding to the pandemic, supported by Central Government grant funding of £113 million and £5 million of Clinical Commissioning Group funding. £101 million was spent/distributed during the financial year, £5.9 million put to a Covid reserve and £10 million of funding is currently held in net assets on the Balance Sheet for deployment in 2021/22.

- (b) The provisional outturn for the 2020/21 capital is a £11 million underspend against a revised capital budget of £48.2 million. £9.9 million of planned expenditure from 2020/21 was agreed to be re-profiled into financial year 2021/22 as a result of projects being impacted by the Covid pandemic.
- (c) The revised Medium Term Financial Strategy (MTFS) for the three year period commencing assumes a Council Tax increase of 1.99% in 2020/21 and 1.99% annually thereafter. The Council is proposing no use of the Adult Social Care Precept for 2021-22, but the Government has allowed a 3% rise in the precept over the period 2021-23, so the option for the full precept remains for 2022-23.
- (d) The three year capital programme from 2021/22 to 2023/24 allocates £122.9 million (pre additional re-profiling at outturn) of funding sourced through a combination of grants, Section 106, Community Infrastructure Levy and Council capital resources. £69.4 million of Council funding has been allocated to the programme, sourced from a combination of prudential borrowing and anticipated capital receipts.
- (e) The authority's net assets amounted to a net liability of £18.4 million and were significantly reduced by the inclusion of the pension scheme liability of £426.7 million. The Council's overall usable reserves (revenue and capital) amount to £99.6 million compared to £70 million at 31.3.2020.
- (f) With regard to cash flow, as at the 31 March 2020 the Council held £35 million of investments (£32 million, March 2020). During 2020/21 long term debt reduced through no additional long term borrowing being undertaken. Total long term borrowing as at 31.3.2021 was £203.6 million inclusive of a £1 million community bond to support green initiatives and £12.2 million of PFI liability.
- (g) 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. The governance framework was in place at the Council for the year ended 31 March 2021 and for the year commencing 1 April 2021. The review process is outlined in the Annual Governance Statement, which as at 2020/21 was deemed fit for purpose and is reviewed as part of the control framework in 2021/22.

4.3 Having considered the assessment above and the overall financial strength of the Council, it is 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<sup>st</sup> March 2021 Balance Sheet, it is anticipated that the Section 151 Officers 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 2020/21 financial statements, a going concern assessment as at the Balance Sheet date of 31<sup>st</sup> March 2021 has been completed. In light of the Covid-

19 outbreak and the significant expenditure, and lost income, for the Council as well as the financial support provided by Government, this is increasingly important.

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 a 'going concern' assumes that a Council, 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.

5.4 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.

5.5 In order to complete the assessment the following areas were reviewed:

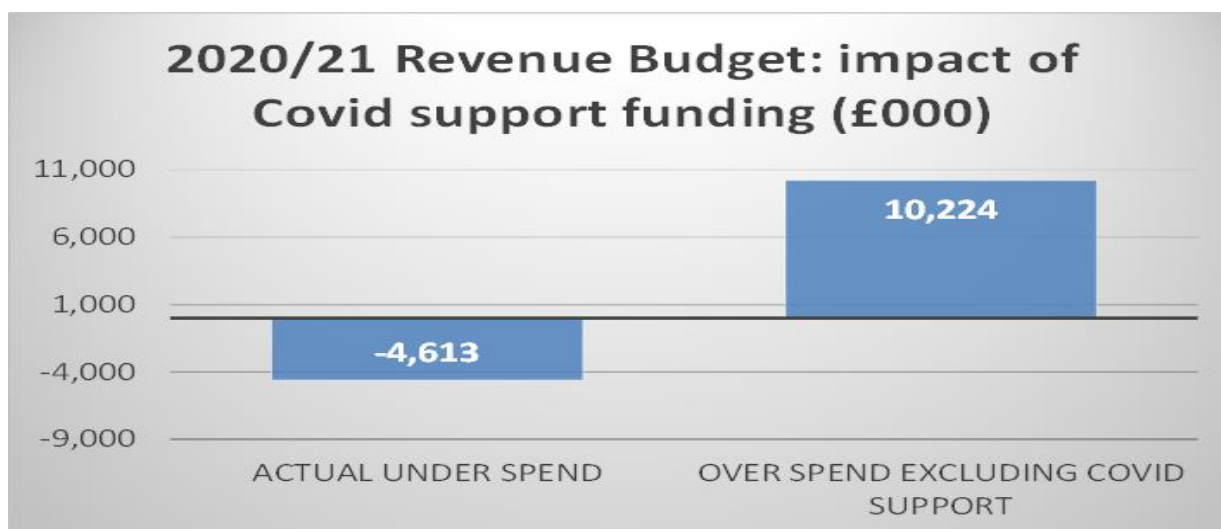
- (a) The Council's current financial position;
- (b) The Council's projected financial position;
- (c) The Council's Balance Sheet;
- (d) The Council's cash flow;
- (e) The Council's governance arrangements;

- (f) The regulatory and control environment applicable to the Council as a local authority.

## Background

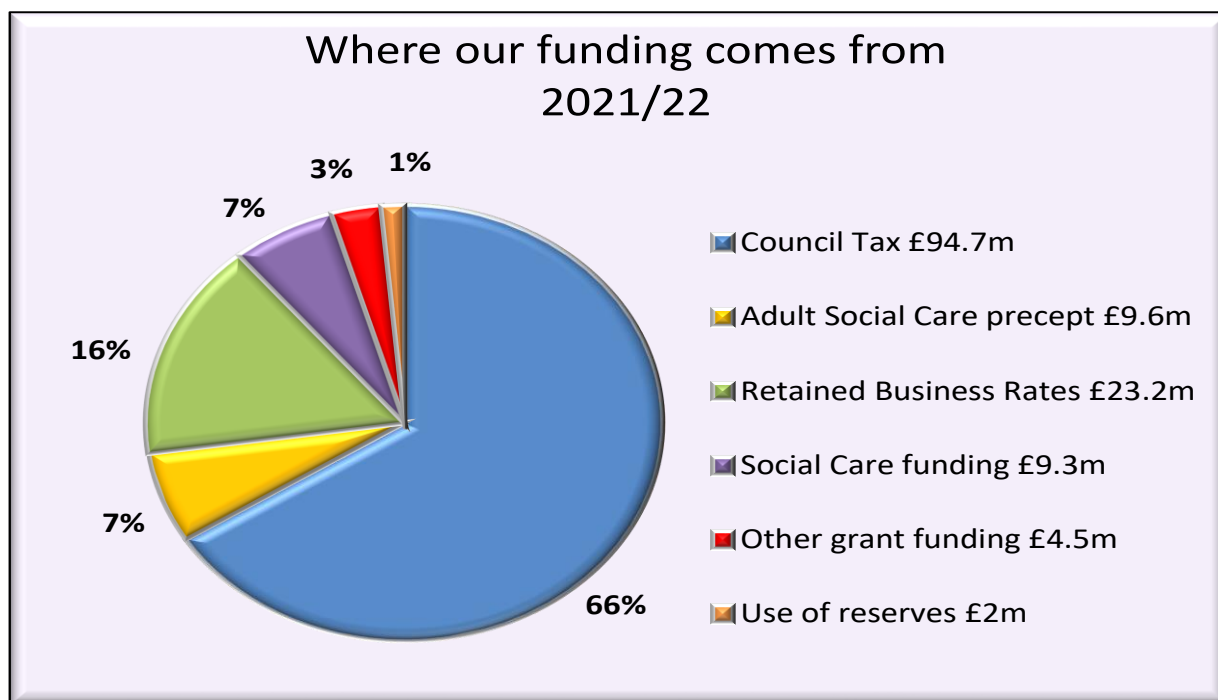
5.6 The Council's Current Financial Position is outlined below. The figures for the 2020/21 financial year are subject to further amendments completed by the time the Financial Statements are approved by the s151 officer prior to the 31<sup>st</sup> July 2021 deadline.

- (a) The Council's provisional outturn (subject to any potential amendments required by External Audit) is a £4.6 million under spend. The under spend is 3.5% of the Council's 2020/21 net revenue budget of £131 million. From the £4.6 million under spend, the impact of Covid on spend against budgets accounts for £3.6 million, with business as usual (BAU) accounting for the remaining £1 million. The Council played a significant role in responding to the pandemic, supported by Central Government grant funding of £113 million and £5 million of Clinical Commissioning Group funding. £101 million was spent/distributed during the financial year, £5.9 million put to a Covid reserve and £10 million of funding is currently held in net assets on the Balance Sheet for deployment in 2021/22.
- (b) In respect of business as usual, the overall under spend is interlinked to the impact of the pandemic and the use of Covid support funding. Without the Emergency Grant funding for expenditure and income compensation, and Adult Social Care funding from the Clinical Commissioning Group, the Council would be facing an over spend of £10 million, which would likely have put the Council far below the minimum level of reserves resulting in some immediate ceasing of service activity.



- (c) 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 and ongoing potential impacts of the COVID pandemic. 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. A further £10 million of ring-fenced funding for responding to the pandemic is held on the Balance Sheet within net assets in accordance with accounting regulations.

- (d) The Council has set a balanced budget for 2021/22 including £3.7 million of savings and income generation proposals. The Government Spending Review (SR20) that was announced in November 2020 was for a one year period for Local Government, understandably so at a time of significant uncertainty over public finance. The absence of a longer term financial envelope for Local Government does mean that there remains significant uncertainty over the financial position from 2022-23. The Medium Term Financial Strategy (MTFS), incorporates the following key assumptions for 2021/22:
- (i) Council Tax funds 66% of the revenue budget. The MTFS is built on a 1.99% Council Tax increase which will raise £2.04 million. Income from Council Tax is also expected to increase by a further 0.21% 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 no use of the Adult Social Care Precept for 2021-22, but the Government has allowed a 3% rise in the precept over the period 2021-23, so the option for the full precept remains for 2022-23 which would support the medium term financial position. The previous adult social care precepts now raise annual funds of £9.6 million.
  - (iii) Retained Business Rates represents the Council's share of the actual business rate collected in West Berkshire. The Government has paused the further retention of business rates to 75% until 2021-22 at the earliest; therefore West Berkshire continues to receive 50% of business rates less a significant tariff to Government meaning 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 31.3.2021 the DSG has a £1.4 million deficit and a deficit recovery plan is under development.
  - (v) The pie chart below provides a split of the funding underpinning the 2021/22 budget.

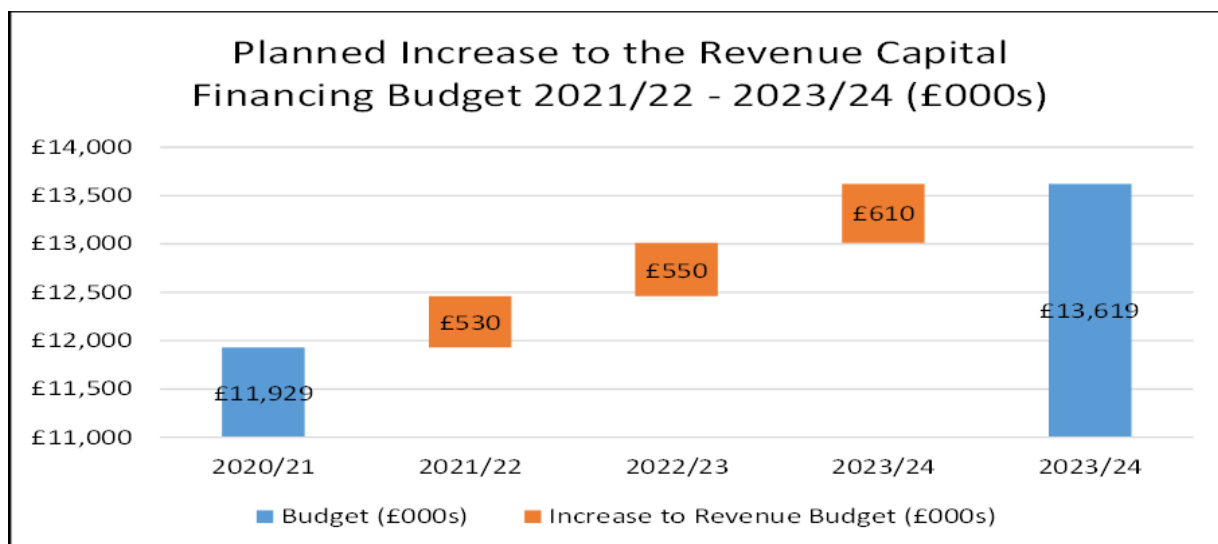


- (e) The 2020/21 budget is supported through an estimated £58.7 million of usable revenue reserves. £20.8 million of reserves are earmarked for future repayment of the Collection Fund deficit of £23.1 million. The Collection Fund deficit is payable over a three year period in line with regulations enacted in response to the Covid pandemic.

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

- (a) The provisional outturn for the 2020/21 capital is a £11 million underspend against a revised capital budget of £48.2 million. £9.9 million of planned expenditure from 2020/21 was agreed to be re-profiled into financial year 2021/22 as a result of projects being impacted by the Covid pandemic.
- (b) The three year capital programme from 2021/22 to 2023/24 allocates £122.9 million (pre additional re-profiling at outturn) of funding sourced through a combination of grants, Section 106, Community Infrastructure Levy and Council capital resources. £69.4 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. The graphic below details the planned expenditure on capital financing and increases to budget provision during the current MTFS.



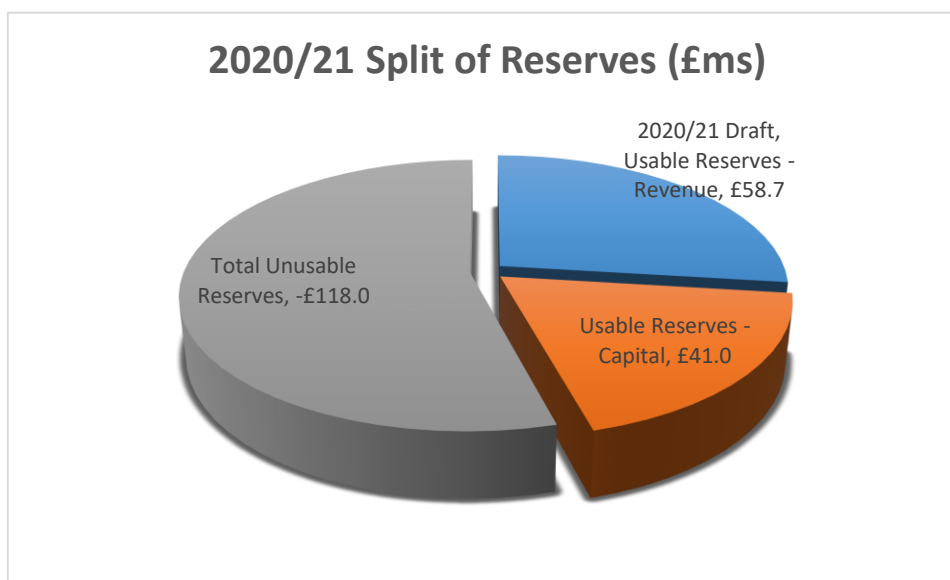


- (c) As at 31 March 2020 the Council held usable capital reserves of £33.3 million. Current usable balances as at 31<sup>st</sup> March 2021 are £40.9 million.

#### 5.8 The Council's Balance Sheet at 31<sup>st</sup> March 2021

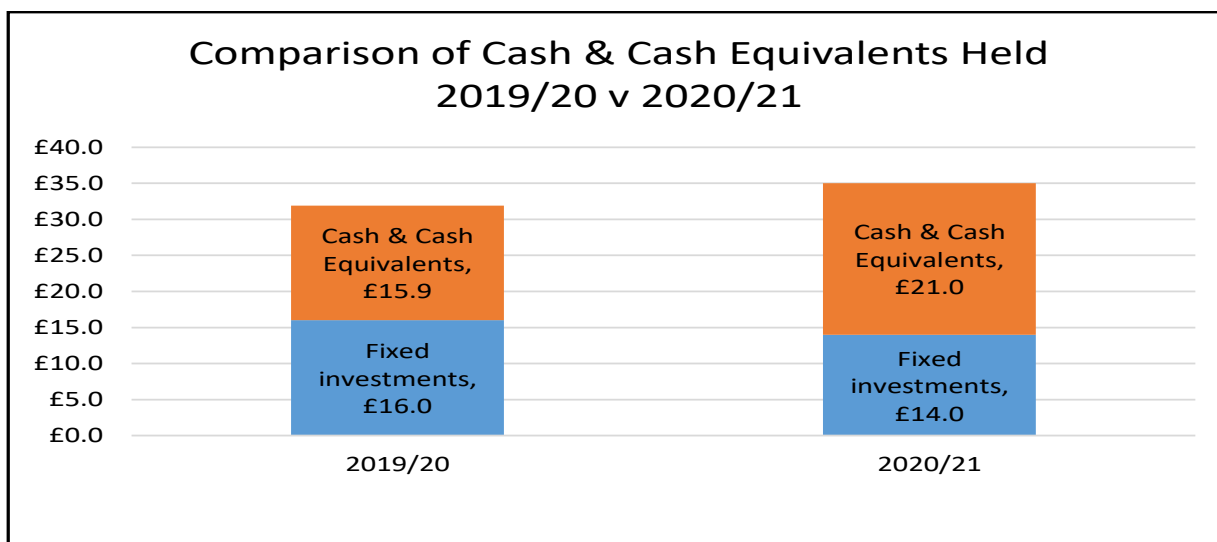
- (a) The Council's net assets as at 31.3.2021 amounted to a net liability position of £18.4 million. The net liability position has been generated through a substantial increase in the pension liability between 31.3.2020 (£293.1 million liability) and 31.3.2021 (£426.7 million liability).
- (b) The Council's assets have grown by £47.8 million to £703.4 million as at 31.3.2021. Operational assets have increased in value over the period as a result of significant investment by the Council. The Council's investment property portfolio incurred a minor downward revaluation of £255k as a result of market uncertainty in response to the pandemic, as at 31.3.2021 the portfolio held a balance of £66.3 million. The Council incurred success in year by agreeing a tenant for one property which had remained vacant. The portfolio continues to provide additional net income of approximately £500k per annum to the Council to support delivery of core Council services.
- (c) Current assets inclusive of cash balances held by the Council increased from £61 million as at 31.3.2020 to £98.1 million as at 31.3.2021. The main drivers of the increase have been additional cash balances held in year as a result of additional funding received from Government in response to the pandemic (£15.9 million as at 31.3.2020 and £21.0 million as at 31.3.2021) and a substantial increase in short term debtors of £31.5 million (£28 million as at 31.3.2020 increased to £59.5 million as at 31.3.2021). Debt recovery action was suspended during financial year 2020/21 in response to the pandemic impacting on the debtor levels contained within the financial statements. Debt recovery processes were re instigated in early 2021/22, the debtor levels will require review during the current financial year to ascertain and monitor the level of unrecoverable debt as the impacts of the pandemic continue to be felt.
- (d) In respect of reserves, usable reserves have increased from £70 million at 31.3.2020 to £99.6 million as 31.3.2021. Usable reserves are split between £58.7

million revenue and £40.9 million capital as at 31.3.2021. £26.7 million of usable revenue reserves are earmarked for responding to future impacts of the Covid pandemic, in particular £20.8 million is earmarked for repayment of the Collection Fund deficit. The Collection Fund deficit is held within unusable reserves and increased from £7.4 million as at 31.3.2020 to 23.1 million at 31.3.2021. Total unusable reserves at 31.3.2021 are a net liability of £118 million.



## 5.9 The Council's Cash Flow

- (a) 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).
- (b) As at the 31 March 2021 the Council held £35 million of investments (£32 million, March 2020). During financial year 2020/21 availability of cash was high due to the various reliefs and compensatory grants issued to Local Authorities by Central Government. The Covid pandemic had a significant impact on the Council's finances during 2020/21. The Government provided a variety of funding schemes to support the Council, the main support has been through a non ring-fenced grant to compensate for additional costs and loss of income. The additional grant funding has resulted in higher cash balances held during 2020/21.



- (c) Due to the comparatively low cost of short term borrowing during 2020/21 no long term borrowing was undertaken in support of the Capital Strategy with the exception of the launch of a £1 million Community Bond in support of green initiatives. As at 31.3.2021 Public Works and Loan Board (PWLB) borrowing was £196.5 million. Total long term debt as at 31.3.2021 was £209.7 million inclusive of the £1 million community bond and £12.2 million of PFI liability (total long term debt £203.6 million, short term debt payable within twelve months of the Balance Sheet date £6.1 million). The operational boundary for long term debt was set at £293million for 2020/21 with an authorised limit set £10million higher to allow for any unforeseen borrowing needs. At the time of 2020/21 budget setting the increased boundaries took into consideration the ongoing investment into the Council's Commercial Property Investment Strategy. Post approval of the boundaries, the Council determined to cease investment in the strategy. The operational and authorised boundaries been revised as part of the 2021/22 to support increased spending on the Council's capital programme as follows:

Authorised Limit & Operational Boundary (Borrowing Limits)	2020/21	2021/22	2022/23	2023/24
	Limit	Limit	Limit	Limit
	£000s	£000s	£000s	£000s
Authorised Limit - Operational Borrowing	£275,000	£277,000	£298,000	£331,000
Authorised Limit - PFI and Leases	£13,000	£12,000	£11,000	£10,000
Authorised Limit - Short Term Borrowing	£15,000	£15,000	£15,000	£15,000
<b>Authorised Limit - Total External Debt</b>	<b>£303,000</b>	<b>£304,000</b>	<b>£324,000</b>	<b>£356,000</b>
Operational Boundary - Operational Borrowing	£265,000	£267,000	£288,000	£321,000
Operational Boundary - PFI and Leases	£13,000	£12,000	£11,000	£10,000
Operational Boundary - Short Term Borrowing	£15,000	£15,000	£15,000	£15,000
<b>Operational Boundary - Total External Debt</b>	<b>£293,000</b>	<b>£294,000</b>	<b>£314,000</b>	<b>£346,000</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, 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.

- (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 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.
- (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 governance environment.
- (e) The governance framework was in place at the Council for the year ending 31 March 2021 and for the year commencing 1 April 2021. The review process is outlined in the Annual Governance Statement, which as at 2020/21 was deemed fit for purpose and is reviewed as part of the control framework in 2021/22.

#### 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 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.

### Proposals

#### 5.12 The following recommendation are made:

- (a) On this basis of the s151 Officer's assessment, it is proposed that 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<sup>st</sup> March 2021.

## 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 contain an imminent risk to the

going concern assertion. The key risks from the 2020/21 financial year, the financial performance and the Covid-19 outbreak have all been considered.

## 8 Appendices

Not applicable

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### 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

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### Document Control

Document Ref:		Date Created:	
Version:		Date Modified:	
Author:			
Owning Service			

### Change History

Version	Date	Description	Change ID
1			
2			