

**North East Derbyshire District Council**

**Audit Committee**

**8 July 2024**

**Assessment of Going Concern 2023/24**

**Report of the Director of Finance and Resources (S151 Officer)**

Classification: This report is public

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

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**PURPOSE/SUMMARY**

To inform the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the 2023/24 accounts.

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**RECOMMENDATIONS**

1. That the Audit Committee accepts the outcome of the Council's Section 151 Officer's assessment of the Council's 'going concern' status for the purpose of preparing the Statement of Accounts for 2023/24.

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**IMPLICATIONS**

**Finance and Risk**

**Yes**

**No ✓**

There are no additional financial implications arising from this report.

On Behalf of the Section 151 Officer

**Legal including Data Protection**

**Yes ✓**

**No**

The process has been undertaken in accordance with the requirements of the Accounts and Audit Regulations.

On Behalf of the Solicitor to the Council

**Staffing****Yes****No ✓**

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

**DECISION INFORMATION**

<p><b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><b>NEDDC:</b> <b>Revenue - £100,000</b> <input type="checkbox"/> <b>Capital - £250,000</b> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	N/A
<p><b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)</p>	N/A
<p><b>District Wards Significantly Affected</b></p>	None
<p><b>Consultation:</b> <b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Cabinet</b> <input type="checkbox"/> <b>SMT</b> <input checked="" type="checkbox"/> <b>Relevant Service Manager</b> <input checked="" type="checkbox"/> <b>Members</b> <input type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/></p>	Yes  Details:

<p><b>Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.</b></p>
<p>All</p>

**REPORT DETAILS****1 Background**

- 1.1 The statement of accounts are audited by the Council's external auditors, Mazars LLP who provide an opinion with regard to the quality or integrity of the financial information, including the principal of 'going concern'.

**2 Details of Proposal or Information****Assessment of Going Concern**

- 2.1 The concept of 'going concern' assumes that a Council's functions and services will continue in operational existence for the foreseeable future. This assumption underpins the accounts drawn up under the Code of Practice for Local Authority Accounting 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).

- 2.2 If a Council was in financial difficulty, the prospects are that alternative arrangements would 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 Where the assessment determines the 'going concern' status is not proven, 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.
- 2.4 Given the significant reduction in funding for local government in recent years and the potential threat this poses to the ongoing viability of councils as a consequence, external auditors continue to place a greater emphasis on local authorities undertaking an assessment of the 'going concern' basis on which they prepare their financial statements. This report sets out the position for the Council and provides justification for the 2023/24 financial statements being prepared on a 'going concern' basis.
- 2.5 As with all principal local authorities, the Council is required to compile its Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting for 2023/24 ("the Code"). The Code is published by the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with the Code, the Statement of Accounts is prepared each year 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.

### **The Assessment for Going Concern**

- 2.6 The main factors which underpin this assessment are:
  - The Council's current financial position;
  - The Council's projected financial position;
  - The Council's balance sheet;
  - The Council's cash flow;
  - The Council's governance arrangements;
  - The regulatory and control environment applicable to the Council as a local authority.

Each of the above is considered in more detail below.

- 2.7 The provisions in the 2023/24 Code (Presentation of Financial Statements) on the going concern accounting requirements, reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as local authorities cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be prepared on anything other than a going concern basis.

- 2.8 The requirements to use the going concern basis of accounting mean that Council's do not apply paragraph 25 of IAS 1 Presentation of Financial Statements mandating management to make an assessment of the authority's ability to continue as a going concern. However, this reporting requirement is separate from the need for them to report on the impact of financial pressures in the Narrative Report and, for example, other relevant liquidity reporting requirements such as those under the Code's adoption of IFRS 7 Financial Instruments: Disclosures.

## **The Council's Current Financial Position – Revenue Resources**

### General Fund

- 2.9 The General Fund's Net Cost of Services was under spent by £0.525m in 2023/24. This is discussed in the outturn report that will be scrutinised by the Services Scrutiny Committee before being considered by Cabinet, in July. As of 31 March 2024, the Council held a General Fund Balance of £2.0m and Earmarked Reserves totalling £23.644m. The adequacy of reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

### Housing Revenue Account (HRA)

- 2.10 The HRA Net Cost of Services was £0.012m under spent against budget. As at 31 March 2024 the Council held an HRA Balance of £3m which was in line with the revised budget. HRA Earmarked Reserves totalling £30.868m were held. The level of adequate reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on an annual basis. The HRA has a fully funded 30-year Business Plan.
- 2.11 The Director of Finance and Resources (Section 151 Officer) is therefore satisfied that the Council's 2023/24 financial outturn for both General Fund and HRA, does not present any material uncertainties regarding the Council's ability to continue as a going concern.

## **The Council's Projected Financial Position – Revenue Resources**

- 2.12 The financial projection for 2023/24 to 2027/28 was approved by Members in January 2024 in the Medium-Term Financial Plan (MTFP). The Council continues to face financial pressures and as a result, £0.101m was required from reserves to set a balanced budget for 2024/25. As expected, the shortfall has been identified without a need to draw on reserves. There remains a requirement to achieve financial savings over the medium term for 2025/26 £0.700m; 2026/27 £1.650m and 2027/28 £1.769m (before council tax). However, there remains a lack of certainty from 2026/27 onwards due to continued delays to the expected funding reforms. With the impending general election, the impacts of funding reforms remain unclear.
- 2.13 To help mitigate losses caused by changes in Government funding and wider budget pressures the Council has established a Resilience Reserve in the MTFP. Un-ring fenced surpluses are accrued in this reserve and accumulated balances will be utilised to even out the government funding losses and other identified budget pressures over the life of the current MTFP. The balance on this reserve currently stands at £2.514m.

- 2.14 The Council's Section 151 Officer made a formal statement in January 2024 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the Medium Term Financial Plan. The underlying assumptions within the plan have been reviewed and at this stage remain in place. Performance continues to be reviewed through robust budget management and will be updated as part of the mid-year review. The medium term financial planning process will fully challenge the assumptions and estimates and refresh the position accordingly. At this stage the S151 Officer is satisfied that the Council's forecast financial position does not present any material uncertainties regarding the Council's ability to continue as a going concern.

### **The Council's Balance Sheet as at 31 March 2024**

- 2.15 The Council's net assets amounted to £422m and Usable Reserves totalled £74m. There are no material liabilities or underlying issues regarding the strength of the Council's balance sheet which present any material uncertainties regarding the Council's ability to continue as a going concern.

### **The Council's Cash Flow**

- 2.16 The Council maintains short-term and long-term cash flow projections, and manages its cash, investments and borrowing in line with the Council approved Treasury Management Strategy. As at the 31 March 2024 the Council has long-term borrowing commitments of £137m and held £17m in Cash and Cash Equivalents. The Council has adequate financial resources to meet its immediate financial obligations. There are no significant issues regarding the strength of the Council's underlying cash flow which present any material uncertainties regarding the Council's ability to continue as a going concern.

### **The Council's Governance Arrangements**

- 2.17 The Council has a well-established and robust corporate governance framework. This includes the statutory posts of Head of Paid Service, Monitoring Officer and Section 151 Officer in addition to the current political arrangements. An overview of this governance framework is provided within The Annual Governance Statement.
- 2.18 Whilst it is not possible to provide absolute assurance, the review process as outlined in the Annual Governance Statement does conclude that the existing arrangements remain fit for purpose and help provide reasonable assurance of their effectiveness. There are no plans for the Council to be reorganised or dissolved and we expect to operate under the current framework in the near future. There are no significant issues regarding the Council's governance framework which present any material uncertainties regarding the Council's ability to continue as a going concern

### **The External Regulatory and Control Environment**

- 2.19 As a principal local authority the Council has to operate within a highly legislated and controlled environment. An example of this is the requirement for a balanced budget each year combined with the legal requirement for the Council to have regard to consideration of such matters as the 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 the external auditor as well as the statutory requirement in some cases for compliance with best practice and guidance published by CIPFA and other relevant bodies.

- 2.20 The provisions in the Code on the going concern requirements reflect the economic and statutory environment in which local authorities operate. There are no significant issues regarding the external regulatory and control environment which present any material uncertainties regarding the Council's ability to continue as a going concern.

#### Material Uncertainties

- 2.21 The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Councils ability to continue as a going concern.
- 2.22 There are no material uncertainties which, under the Code of Practice on Local Authority Accounting framework, represent significant issues regarding the Council's ability to continue as a going concern.

### **3 Reasons for Recommendation**

- 3.1 It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that there are no material uncertainties regarding the Council's status as a 'going concern' and the Council's accounts for 2023/24 have appropriately been prepared on this basis. This report gives that assessment by the Council's Section 151 Officer in support of presenting the Accounts for approval (later in the year) and provides assurance to the Audit Committee and Mazars, the Council's external auditor.

### **4 Alternative Options and Reasons for Rejection**

- 4.1 There are no alternative options for consideration.

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### **DOCUMENT INFORMATION**

<b>Appendix No</b>	<b>Title</b>
<b>Background Papers</b>	