

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

30 September 2020

North East Derbyshire District Council – Statement of Accounts 2019/20 and Assessment of Going Concern

Report of the Head of Finance and Resources

This report is public.

Purpose of the Report

- The Committee is asked to approve the audited Statement of Accounts for 2019/20, as attached as **Appendix 1** to this report. The report also informs the Committee of an assessment of the Council as a 'going concern' for the purposes of producing this year's accounts.

1 Report Details

Statement of Accounts

- 1.1 The External Audit team, Mazars LLP, has been undertaking work on the Statement of Accounts throughout June and July. The outcomes of the external audit work are set out in the Audit Completion Report presented by Mazars under Item 4a) of this agenda.
- 1.2 Attached as **Appendix 1** to this report is the Council's Audited Statement of Accounts in respect of 2019/20. The External Auditor's work is substantially complete however there may be some changes still requested by the External Auditors following completion which, if required, will be reported verbally at the Committee. It is not anticipated that there will be any material changes between the version attached and the final Statement of Accounts for 2019/20.
- 1.3 Given the possibility that issues raised either at today's meeting or subsequently may require the Statement of Accounts to be amended it is recommended that delegated powers be given to the Chief Financial Officer in consultation with the Chair or Deputy Chair of this Committee to agree any final changes to the Council's Statement of Accounts 2019/20. It should be noted that the only changes that will be made under these delegated powers will relate to amendments agreed with the Council's external auditors Mazars.

Assessment of Going Concern

- 1.4 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).

- 1.5 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.
- 1.3 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.
- 1.4 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. Similarly our current medium term financial plan and the 2019/20 financial statements largely reflect a pre-Covid set of circumstances and we need to be confident that we understand and have taken into account any threats to financial sustainability. This report sets out the position for the Council and provides justification for the 2019/20 financial statements being prepared on a 'going concern' basis.
- 1.5 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 2019/20 ("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

- 1.6 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.

- 1.7 The provisions in the 2019/20 Code section 3.4 (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.

- 1.8 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

- 1.9 As reported to Cabinet in September, the Council under spent on the General Fund revenue budget in 2019/20 by £0.147m. As at 31 March 2020 the Council held a General Fund Balance of £2.0m and held Earmarked Reserves totalling £13.423m. The Earmarked Reserves balance has increased by £1.622m during the year. The adequacy of reserves and balances and the ongoing requirement for specified earmarked reserves, is reviewed on a regular basis.

Housing Revenue Account (HRA)

- 1.10 The financial performance in 2019/20 resulted in a net under spend of £0.640m on the HRA revenue budget. As at 31 March 2020 the Council held an HRA Balance of £3m which was in line with the revised budget. Earmarked Reserves totalling £47.128m were held and the net reserve movement during 2019/20 was an increase of £5.652m. 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 30 year Business Plan which is showing as affordable with the required estimated resources available to meet the plan.
- 1.11 The Section 151 Officer is satisfied that the Council's 2019/20 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.

Covid-19

- 1.12 The pandemic has meant an increase in cost to the Council which is currently covered by the £1.2m grant received from Central Government. However, the loss of income to the Council is a greater concern and the Government announced a package of financial support in July 2020. This scheme will allow council tax and business rates collection fund deficits to be repaid over three years instead of one. In addition, where losses from fees and charges are more than 5% of a Council's planned income, the Government will cover 75p for every pound lost. These provisions, together with the Government's stated commitment to support public services through the pandemic, give management confidence that the Council will be able to manage the financial challenge in the medium term.

The Council's Projected Financial Position – Revenue Resources

- 1.13 The financial projection for 2020/21 to 2023/24 was approved by Members in February 2020 in the Medium Term Financial Plan (MTFP). The Council set a balanced budget for 2020/21 with a small shortfall of £0.217m to be met by efficiencies identified from transformation savings. The requirement to achieve financial savings over the medium term was 2021/22 £1.064m; 2022/23 £1.346m and 2023/24 £1.904m.
- 1.14 To help mitigate losses caused by changes in Government funding, last year the Council established a Resilience Reserve in the MTFP. Un-ring fenced surpluses are accrued in this reserve and the accumulated balance will be utilised to even out the government funding losses over the life of the current MTFP. The balance on this reserve currently stands at £1.349m.
- 1.15 The Council's Section 151 Officer made a formal statement in February 2020 as part of the approval on the robustness of estimates and the adequacy of reserves, as contained within the Medium Term Financial Plan. We have revisited the underlying assumptions and plan in the light of the challenges presented by Covid-19 and are satisfied at this stage that the financial plan remains intact. We will continue to review the performance against our 2020/21 budget and ensure our medium term plan is updated as part of our 2020/21 budget preparations to reflect any significant changes. At this stage we are 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 2020

- 1.16 The Council's net assets amounted to £238m and Usable Reserves totalled £57m. We are satisfied that 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

- 1.17 The Council maintains short 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 2020 the Council has long term borrowing commitments of £149m and held £28m in Cash and Cash Equivalents. The Council has adequate financial resources to meet its immediate financial obligations. We are satisfied that 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

- 1.18 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.

- 1.19 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. We are satisfied that 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

- 1.20 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.
- 1.21 The provisions in the Code on the going concern requirements reflect the economic and statutory environment in which local authorities operate. We are satisfied that 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

- 1.22 The Council is aware that there is a requirement to consider any material uncertainties which would impact on the Council's ability to continue as a going concern.
- 1.23 Economic uncertainty and difficulties in attaching weight to previous market evidence for comparison has impacted on valuers being able to inform opinions of value at 31 March 2020. In accordance with RICS guidance and in common with other local authorities the property valuations on our land and buildings have been reported by our internal valuer on the basis of 'material valuation uncertainty' as per VPS3 and VPGA 10 of the RICS Red Book Global. These valuations therefore have less certainty and should be viewed with a higher degree of caution than what would normally be the case. This has been disclosed in our 2019/20 accounts for completeness, as under the Code of Practice on Local Authority Accounting these assets are required to be disclosed at valuation. There is a statutory override in place though which means that any valuation movements do not affect the cost to tax payers or our useable reserves. There are no indications from our understanding of the local property market or the properties we hold that this is a significant medium term issue for the Council.
- 1.24 We are satisfied that 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.

2 Conclusions and Reasons for Recommendation

- 2.1 The external audit process in respect of 2019/20 is substantially complete and, subject to the satisfactory completion of outstanding work, is expected to receive an unqualified audit opinion. The outcome of this review is summarised in the External Auditors Audit Completion Report (Item 4a).
- 2.2 It is considered that having regard to the Council's arrangements and such factors as highlighted in this report that the Council remains a 'going concern' and the Council's accounts for 2019/20 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 and provides assurance to Mazars, the Council's external auditor.

3 Consultation and Equality Impact

- 3.1 There are no consultation and equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 There are no alternative options for consideration.

5 Implications

5.1 Finance and Risk Implications

- 5.1.1 There are no additional financial implications arising from this report.

5.2 Legal Implications including Data Protection

- 5.2.1 The process has been undertaken in accordance with the requirements of the Accounts and Audit Regulations. It should be noted that due to the Covid pandemic, this year the Council is required to complete and approve the audited Statement of Accounts by the end of November.

5.3 Human Resources Implications

- 5.3.1 There are no Human Resource implications arising from this report.

6 Recommendations

- 6.1 That the Audit and Corporate Governance Scrutiny Committee approve the audited Statement of Accounts in respect of 2019/20
- 6.2 That delegated powers are granted to the Chief Financial Officer in consultation with the Chair or Deputy Chair of the Audit and Corporate Governance Scrutiny Committee to agree any changes which may be necessary in order to ensure the finalisation of the external audit currently being concluded by the Council's external auditors KPMG to ensure completion of the Statement of Accounts by the revised statutory deadline of 30 November 2020.

- 6.3 That the Audit and Corporate Governance Scrutiny Committee accepts the outcome of the assessment of the Council's 'going concern' status for the purpose of preparing the Statement of Accounts for 2019/20.

7 Decision Information

Is the decision a Key Decision? 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: BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/> NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/> <input checked="" type="checkbox"/> Please indicate which threshold applies	N/A
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	N/A
Has the relevant Portfolio Holder been informed	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

8 Document Information

Appendix No	Title
1	North East Derbyshire District Council – Statement of Accounts 2019/20.
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Report Author	Contact Number
Jayne Dethick –Head of Finance and Resources	(01246) 217078