CHELTENHAM
BOROUGH COUNCIL

Notice of a meeting of
Audit, Compliance and Governance Committee

Wednesday, 22 July 2020
6.00 pm

Virtual WEBEX video conference via YouTube - https://www.youtube.com/user/cheltenhamborough

Membership	
Councillors:	Steve Harvey (Chair), David Willingham (Vice-Chair), Victoria Atherstone, Matt Babbage, Jonny Brownsteen, Jo Stafford and Tony Oliver

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

9.		**ASSESSMENT OF THE GOING CONCERN** Paul Jones, Executive Director Finance and Assets	(Pages 3 - 12)

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Cheltenham Borough Council

Audit, Compliance and Governance Committee – 22 July 2020

Assessment of Going Concern status

Accountable member	**Cabinet Member for Finance, Councillor Rowena Hay**
Accountable officer	**Executive Director Finance and Assets (Section 151 Officer), Paul Jones**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	**A representation must be made each year by the management of the Council to the external auditors that the Council is a going concern.** **The Council set a balanced budget for 2020/21 and over the Medium-Term Financial Strategy period in February 2020. However, since then COVID-19 has impacted significantly on the Council's activity and finances. COVID-19 therefore is the biggest risk to the Council's financial resilience.** **Whilst the assumption is that the Council is no better or worse off financially as it is expected that the Government will fund all costs incurred, there is greater uncertainty on how lost income from fees and charges, as well as losses on the collection fund (council tax and business rates) will be compensated. Consideration will also be required to how the Council will react to replacing these income streams if they fail to recover to pre COVID-19 activity.** **This paper sets out the basis for that representation.**
Recommendations	**1. Note the conclusion that Cheltenham Borough Council is a going concern and the basis for that assumption.**

Financial implications	As contained in the report. **Contact officer: Paul Jones, Executive Director Finance and Assets.** **paul.jones@cheltenham.gov.uk Tel no: 01242 264365**

Legal implications	Section 25 of the 2003 Local Government Act requires the authority's Section 151 Officer to comment on the robustness of the estimates and the adequacy of reserves. A report was considered as part of its budget determination by Full Council in February 2020. Section 114 (1) of the Local Government Finance Act 1988 places a duty on the Section 151 Officer to report certain matters to the authority. The duty of the Section 151 Officer to report is triggered if they believe that a decision involves (or would involve) unlawful expenditure a course of action is unlawful and is likely to cause a loss or deficiency an entry of account is unlawful. Likewise the Section 151 Officer must inform the authority where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the Council has considered the report. **Contact officer: One Legal – legal.services@tewkesbury.gov.ukTel no: 01684 272012**
HR implications (including learning and organisational development)	None as a direct consequence of this report. However, if the Council is not fully compensated by Central Government for the losses incurred as a result of COVID-19, the Council may need to reconsider its priorities and existing service provision. The HR team will continue to work with the senior management team and trade unions to mitigate the impact on employees. **Contact officer: Julie McCarthy** ***julie.mccarthy@publicagroup.uk*** **Tel no: 01242 264355**
Key risks	As outlined throughout the report
Corporate and community plan Implications	The aim of the budget proposals agreed in February 2020 was to direct resources towards the key priorities identified in the Council's Corporate Business Plan whilst recognising the reduction in Government funding. Reallocation of resources could have a detrimental impact on these commitments.
Environmental and climate change implications	The final budget contained a number of proposals for improving the local environment, such as the Climate emergency. Reallocation of resources could have a detrimental impact on these commitments.
Property/Asset Implications	The Council has long-term assets valued at in excess of £0.5Bn. Whilst not desirable, the Council may need to consider some asset disposals in order to alleviate some of the pressures that the Council may experience as a direct result of COVID-19 and its longer term implications. **Contact officer: Dominic Stead** **dominic.stead@cheltenham.gov.uk Tel no: 01242 264151**

1. Background

1.1 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.

1.2 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.

1.3 Given the significant reduction in funding for local government in recent years and the potential threat that COVID-19 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. In response this report sets out the position at Cheltenham Borough Council.

1.4 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 (hereafter referred to as the Code). The Code is 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.

1.5 The main factors which underpin this assessment are the:

- Council's current financial position;
- Council's projected financial position;
- Council's governance arrangements; and
- regulatory and control environment applicable to the Council as a local authority.

1.6 Each of the above is considered in more detail below.

2. The Council's current financial position (revenue)

2.1 The estimated cost of COVID-19 is £1.785m which includes £0.5m in slippage to savings initiatives planned for 2020/21. The total amount received to date from Central Government is £1.210m which highlights the severe financial implications on the horizon if no further Government support is received in respect of expenditure incurred.

2.2 The estimated non-collection fund losses from income are £6.670m, with the largest contributor to that figure being lost income from car parking. The income figure reported includes estimates for lost income from the Cheltenham Trust and Gloucestershire Airport.

2.3 On the 2nd July 2020, the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) announced a new package of financial support. The latest package includes £500m to be distributed across the sector and will allow council and business rates tax deficits to be repaid over three years instead of the usual one.

2.4 In addition, where losses are more than 5% of a council's planned income from sales, fees and charges, MHCLG said it would cover 75p for every pound lost.

2.5 MHCLG said the 5% figure accounted for an 'acceptable level of volatility while shielding authorities from the worst losses' while covering three-quarters of every pound lost would encourage councils to 'manage and minimise loss where they can'. Specific mention was made in respect of the loss of revenue from car parks and leisure centres which predominately account for the majority of income losses reported by this Council.

2.6 The Council awaits the detail on how the baseline for compensating income losses will be calculated but can take some comfort from Ministers commitments to provide access to vital, additional funding so they can continue to serve their communities as they so admirably have done to date throughout this pandemic.

2.7 As to be reported to the Cabinet and Full Council in July, the Council overspent on the General Fund revenue budget in 2019/20. The reported underspend was £47,518.56 which is a pleasing position to be in given the documented issues above. As at the 31st March 2019 the Council held revenue reserves of £5.769m comprised of:

	£m
Working Balances	1.273
Business Rates Retention Reserve	0.393
Repairs & Renewals Reserves	1.410
Budget Strategy (Support) Reserve	0.459
Other earmarked reserves	2.234
	5.769

2.10 For 2020/21 the Council set a balanced budget which included c£0.846m of efficiency savings and additional income. As part of the medium-term financial planning framework and annual budget strategy, the Council has plans in place for the use of reserves and has identified further budget efficiencies through modernisation of services, economic growth and regeneration and a rationalisation of its substantial property portfolio in response to ongoing reductions in government funding whilst also trying to reduce the reliance on reserves each year in order to balance the budget. Over the course of the medium term financial strategy the Council will need to use its budget strategy (support) reserve to ensure efficiency savings can be delivered effectively. Whilst this is not a sustainable position over the medium to longer term the Council's corporate and financial planning framework is intended to support the transition to a more sustainable cost base.

2.11 Whilst not ideal, the Council has identified £1.446m of its reserves that could be applied to meet the current fallout from COVID-19. However it is imperative that if this route is forced, the Council will need to replenish those reserves, either through new tools provided by Government, or through cuts to services

2.12 One of those tools may be through deferment or a change of policy in its Minimum Revenue Provision (MRP) policy. To date the Council has made voluntary overpayments on its MRP totalling £1.061m. If Government do not intend to make statutory changes to the MRP legislation, the Section 151 Officer may need to engage with the External Auditor to utilise the voluntary overpayments in order to provide additional in-year resources.

3. The Council's current financial position (capital)

3.1 Details of the capital outturn for 2019/20 are also to be reported to the Cabinet and Full Council in July. The report highlighted an underspend on the approved capital programme for the year of £3.312m (in the main due to the planned straddling of major schemes over 2018/19 and 2019/20). Council funds its capital programme from borrowing, capital receipts, government grants and partnership funding (e.g. developer contributions).

3.2 The Council has a well-established process for the development of the Capital Strategy and associated Asset Management Plan adopting a four year planning cycle albeit that years three and four are viewed as 'indicative' only. This approach ensures that the Council maintains a capital programme which is prudent, sustainable and affordable whilst having to accept that the need for capital spending exceeds the level of resources available

3.3 The Section 151 Officer is in the process of reviewing the capital programme and the council's existing asset base in order to assess the potential for generating additional capital receipts. Depending on the tools provided by Central Government (e.g. capitalisation directive) it may be permissible to apply capital resources to fund revenue expenditure. In addition it may be advantageous to apply capital receipts to repay debt, thus reducing the MRP commitment detailed above which currently represents £2.062m expenditure in the current financial year 2020/21.

4. The Council's Balance Sheet as at 31st March 2020

4.1 The financial overview included in the Statement of Accounts for 2019/20 includes reference to the Council's balance sheet as at 31st March 2020 and concludes that it is robust. Factors giving rise to this assessment include:

- review of debts owed to the Council;
- the adequacy of risk-assessed provisions for doubtful debts;
- the range of reserves set aside to help manage expenditure;
- an adequate risk-assessed working balance to meet unforeseen expenditure.

4.2 The draft statement of accounts, due to be published in July 2020, reflect the following when analysing the Balance Sheet from the position as at 31st March 2019 to the position as at 31st March 2020:

- net assets have decreased from £321.626m to £320.218m (a year on year decrease of £1.408m);
- long term assets have increased from £500.113m to £536.567m (a year on year increase of £36.454m);
- long term borrowing has increased from £111.965m to £115.293m (a year on year increase of £3.328m);
- the asset to debt ratio is 0.44 as at 31st March 2020.

4.3 The asset to debt ratio is a measure of a company's financial risk. That is, it measures how much of a company's debts could be paid off by selling its assets in case of liquidation. If it is less than 0.5, the company's ratio is strong, because the company is easily able to service their debts if they have to. If the ratio is large, like over 0.5 or especially over 1, more of the expenses are being paid by borrowed money, which might indicate less stability. With an asset to debt ratio of 0.44, the council's ratio is therefore strong.

5. Business Rates Retention (BRR)

5.1 Local Government shares 50% of the risk of negative changes in existing business rates but is offered some protection through a financial safety net for reductions of more than 7.5% from a baseline calculation. Growth in business rates within Gloucestershire, which is significantly influenced by the economic development policies of the County and District Councils, benefits local authorities directly. Under current arrangements local authorities can keep 50% of their business rates growth locally as long as this increase is not disproportionate to the size of their revenue budgets. The impact of future growth plans is kept under constant review and updated to the MTFS accordingly.

5.2 For 2020/21, Cheltenham Borough Council together with the County Council and the other five District Councils are in a business rates pool, sharing benefits in proportion to the area where the gain has occurred. This arrangement will keep more income within Gloucestershire instead of being allocated elsewhere in the Country.

5.3 Central Government is currently considering its plans for 75% devolution of Business Rates income to local Councils. Whilst there maybe potential for benefit in the system the County Council alongside its District Council partners will be taking more risks on the success of appeals and challenges. In addition, Central Government has indicated that it will be considering new services that will be devolved to Councils to support the 'new' funding that will be made available. A key risk is that these new services will not be adequately funded at the point of transfer under Central Government's New Burden's initiative.

5.4 COVID-19 has clearly presented a new risk given the volatility of the economy. An element of that risk has been offset in 2020/21 through Section 31 grants to compensate council's for a package of reliefs and discounts that were announced at the beginning of the pandemic.

5.5 The move to local business rates retention may not be so positive post COVID-19 as it is clear that the economy will take many years to recover. The Government's desire is to make sure that the system is fair and that there is a balance between incentives and managing risks – business rates retention will create another obstacle in the Government's commitment to unite and level up the country.

6. Council Tax

6.1 Government legislation, through the Localism Act, requires councils proposing excessive rises in council tax to hold a local referendum allowing the public to veto the rise. The referendum threshold for council tax increases was 1.99 per cent for all local authorities in 2020/21. However, shire districts were allowed increases of up to and including £5, or up to 1.99 per cent, whichever is higher.

6.2 With increased pressure to deliver services with reducing government support, there is a clear mandate from central government for the reliance of council tax to fund our local services. With the likelihood that COVID-19 will deplete Council's reserves, it is inevitable that there will be more pressure to increases taxes, including council tax, to repay the huge debt burden that this pandemic has placed on the country.

6.3 The Council has a good track record of increasing its tax base year on year but the impact of increased Universal Credit claims and the delay in many house-building programmes will impact the tax base in 2021/22. As part of the recovery, it will be even more important to fast-track house-building programmes, placing greater reliance on the importance of the Housing Revenue Account to deliver these much needed homes.

7. The Council's Medium Term Financial Strategy (MTFS)

7.1 The MTFS is updated annually and reflects a four-year assessment of the Council's spending plans and associated funding. It includes the ongoing implications of approved budgets and service levels and the revenue costs of the council's capital programme, as well as the management of short-term debt and investments.

7.2 The Council's MTFS for the period 2019/20 to 2023/24 was comprehensively updated in February 2020, but it is highly likely it will need to be updated again this year to reflect the most recent events

7.3 In the current exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's net costs via a commercial mind-set. Our aim is to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from cuts – an immensely challenging task in the present climate.

7.4 The key mechanism for carrying out this strategy is the commercial strategy, which seeks to bring service costs in line with available funding and seek additional forms of funding.

8. The Council's Governance Arrangements

8.1 The Council has a well-established and robust corporate governance framework. This includes the statutory elements like the post of Monitoring Officer and the Section 151 Officer in addition to the current political arrangements.

8.2 An overview of this governance framework is provided within the Annual Governance Statement (AGS)which is included in the Statement of Accounts. This includes a detailed review of the effectiveness of the Council's governance arrangements. Whilst it is not possible to provide absolute assurance the review process as outlined in the AGS does conclude that the existing arrangements remain fit for purposes and help provide reasonable assurance of their effectiveness.

8.3 The impact of COVID-19 will have an effect on financial sustainability and has been considered as part of this paper. That aside, there are no further material issues identified through the AGS process that may significantly impact management consideration of the Going Concern / Financial Resilience.

8.4 The Council is working with the Local Resilience Forum on COVID-19 recovery. The Council's focus is still firmly on the response activities and we are working with a range of partners locally and regionally on our COVID-19 recovery programme.

9. The External Regulatory and Control Environment

9.1 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 Council to have regard to consideration of such matters as the robustness of budget estimates and the adequacy of reserves detailed in the Section 25 report, which is independently written by the Section 151 Officer. 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.

9.2 Against this backdrop it is considered unlikely that a local authority would be 'allowed to fail' with the likelihood being when faced with such a scenario, that central government would intervene supported by organisations such as the Local Government Association to bring about the required improvements or maintain service delivery.

9.3 However, given the severity of this pandemic on the Country's finances, it would be complacent to sit back and wait for Government intervention. MHCLG have conceded that councils could still be left with unmanageable pressures and may continue to be concerned about their future financial position, urging any authority that found itself in that position to contact the department with immediate effect.

9.4 Whilst the Council has deployable resources and assets at its disposal in the short to medium term, the risk of significant cuts and a Section 114 notice has not gone away.

9.5 The Cabinet are fully briefed and aware that they must review services and its ambitious plans to ensure it can be proactive to change in the worst case scenario. Clearly, these are unprecedented times and affect every local authority in the country. For that reason, whilst the issuing of a Section 114 notice is not imminent, all Members and Staff need to act as if one had been issued.

9.6 A Section 114 notice would result in an immediate and severe curtailing of activity to the provision of statutory services only. Even those statutory services, like waste collection, may be subject to reduction in frequency. The lists below will largely be replicated in many other council's at the District tier of local authorities.

9.7 Services that would continue with some at de-minimis levels could include:

- Waste and recycling collection (e.g. reduced to 3 weekly)
- Street cleaning
- Planning & licensing
- Building control
- Crematorium (to support Covid-19 response)
- Environmental health
- Housing (via Cheltenham Borough Homes)
- Council tax and rates collection
- Housing benefit
- Parking services

9.8 Services that could be curtailed/stopped

- Commercial and growth strategy including ceasing the flagship Cyber Park scheme
- Closure of Leisure and culture facilities (via our Trust)
- All economic development & regeneration
- Closure of the Household Recycling Centre
- Ending of any financial support to visitor economy
- Parks, gardens and grounds maintenance (resulting in some closures)
- Cease CBC led schemes that seek to develop affordable housing
- Closure of public toilets
- Ending of recognised programmes to prevent Child Poverty and deprivation
- Closure of Gloucestershire Airport (which CBC is a joint shareholder)
- All programmes to tackle climate change and reduce carbon emissions
- Seagull egg oiling
- Shop-mobility

10. Reasons for recommendations

10.1 To provide assurance to Grant Thornton, the Council's external auditor, on the Council's status as a 'going concern', based on an assessment by the Section 151 Officer As outlined in the report.

11. Conclusion

11.1 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. This assessment will be undertaken annually in the course of preparing the Council's financial statements for each year.

12. Performance management – monitoring and review

12.1 The scale of potential budget savings as a result of COVID-19 will require significant work to deliver them within the agreed timescales and there is a danger that this could divert management time from the delivery of services to the delivery of savings. Regular progress meetings to monitor the delivery of savings will need to be matched with performance against the corporate strategy action plan to ensure that resources are used to best effect and prioritised.

12.2 The delivery of any savings work-streams arising from any emergency budget proposals, if approved by full Council, will be monitored by the Budget Scrutiny Working Group.

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Appendices	None

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