

From Adrian Balmer email dated 13/04/2021

Hi David/Alan,

Good to speak with you both just now.

We will need to update our Going Concern consultation for 19/20. In order to help support us with that it would be good if you could provide the following:

- Cashflow forecast through to June 2022 at least;
- Updated management assessment reflecting the Council's assessment re: Going Concern (I attach the version which David will have used to update for 18/19. Happy for the version submitted to Justine and Andrew to be updated as of now);
- Latest version of the MTFP;
- Latest 20/21 outturn (Revenue and Capital);
- Updated Going Concern disclosure Note to reflect latest position
- Updated Post Balance Sheet Event Note to reflect latest position
- Information supporting the Council's income compensation scheme in 20/21 and any returns back to MHCLG
- Information supporting any C-19 grants received in 20/21

If there are any other reports which you think it would be helpful for us supporting your Going Concern position then please do send these on. Also happy to pick up any questions on a call if needed.

Thanks

Adrian Balmer  
Senior Manager  
07880 807 449

From Callum Coombs email dated 15/07/2021

Firstly, I hope you are keeping well.

Thank you for what you have provided for our going concern work. We require a few more things to complete our procedures; please see below.

If you have any questions please let me know. Thank you in advance for your help.

- Cashflow forecast
  - Please update the attached to include July 2022 also
  - Please explain how we can see that COVID-19 grants have been included in this forecast as per Justine's request in the attached email *FW Rushmoor BC Going Concern Consultation - documents outstanding*. If they haven't been, can the forecast please be updated to include these? Response to Callum dated indicated cashflow forecast will have included impact of Covid Grants. **MHCLG have indicated to Local Authority Treasurer Societies that ministers are not minded to provide any further Covid funding beyond the amount included in the 2021/22 LGFS and the extension of the SFC scheme into Q1 2021/22. Therefore would consider cashflow to be prepared in the basis of no further Government support/Grants etc.**
- In the attached email *FW Rushmoor BC Going Concern Consultation – 19/20* you state that *The only remaining item is the Grants WP which I need to access through Citrix so will follow later today*. I don't believe that we have this yet so can you please access and send over? **This is being prepared by the finance team as part of the WPs to support the 2020/21 SOA and will be available later this week.**
- Please see my comments on the proposed disclosures attached. Can you please explain/provide the evidence for the figures commented on and add the figures where they are currently to be updated. **Comments included on draft 2. Awaiting the cashflow forecast to amend this version of the disclosure note.**

Kind regards, Callum

## **Draft Note (as drafted July 2021)**

### **Events after the Balance Sheet Date/IAS 10 consideration**

Rushmoor Borough Council prepared and published a draft Statement of Accounts for 2019/20 on 31 August 2020 with an updated (status tbc) set published on <<Date>>. A revised set of accounts was provided to the Council's external auditors (EY) in <<Date>> which included a number of material adjustments following the conclusion of external audit work.

The impact from Covid-19 has been wide-ranging and has had a significant impact on the UK and global economy over the short to medium term.

Given Covid-19 emerged as a global pandemic just prior to the balance sheet date (31 March 2020), it is considered as a non-adjusting event for which a limited estimate of the financial effect on the reporting entity (Rushmoor Borough Council) can be made at the balance sheet date. It is noted that the financial impact for 2019/20 and future years may be greater with consideration of the financial implications on the Balance Sheet in relation to asset valuations/impairments and the pension fund liability measurement, as at the relevant balance sheet dates.

Whilst any future financial implications of such asset and liability valuation movements would be recognised within the Comprehensive Income and Expenditure Statement in the year to which they relate, in accordance with proper accounting practice, they would be adjusted for within the Movement in Reserve Statement - Adjustments between Accounting Basis & Funding Basis under Regulations, to negate any financial impact on the Council Tax payer.

### **Going Concern Basis**

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

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. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

Restrictions in place during 2020 and 2021 in response to Covid-19 have had a wide-ranging impact on local businesses and residents. Council services have been reviewed in light of Government guidance, with income from fees and charges, council tax and business rates adversely affected. The Government has provided emergency funding to local authorities, with £1.434m received by Rushmoor Borough Council along with £1.005m in respect of Income loss compensation during the 2020/21 financial year.

As stated within the note, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.

### Balances and Reserves reported in the financial statements

Items/Description	Balance as at 31 March 2018 (£'000)	Balance as at 31 March 2019 (£'000)	Balance as at 31 March 2020 (£'000) (unaudited)
General Fund Balance	2,000	2,000	2,000
<i>Earmarked Reserves</i>			
Stability and Resilience Reserve	4,353	4,869	5,870
All other Earmarked Reserves	5,472	7,195	11,089

The Council has reviewed its financial position in light of Covid-19 and assessed the impact as follows:

#### Impact on 2019/20

Additional expenditure: £Nil

Loss of Income: £187k

Income loss from Treasury management investment income (pooled funds) and is offset by reduced borrowing costs of £186k. Net variation across all Treasury Management activities is £8k

Given the outturn position for 2019/20, the impact from Covid-19 was contained within the net surplus on the Revenue Budget.

#### Impact on 2020/21

The Council's budget for 2020/21 has been significantly impacted by Covid-19 largely as a result of reduced income and additional expenditure following restrictions that were put in place in late March 2020.

Council revised budget approved in February 2021 took into account expenditure pressures and income losses incurred during 2020/21, with additional provision made

given the uncertainty of further local and national restrictions during the remaining part of the financial year.

As reported to Cabinet in April 2021, the latest forecast showed a net impact on the General Fund revenue budget of £0.804m, after taking into account Government funding of £1.133m and additional reserve transfers (Treasury Management, £0.290m). The £0.804m impact would be funded from the Stability and Resilience Reserve.

**Table 1 –2020/21 Budget Monitoring position (as reported to Cabinet in April 2021)**

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Outturn Forecast (£'000)	2020/21 Variation (£'000)
<b>General Fund Revenue Budget</b>				
Corporate Services	5,289	5,470	5,470	0
Customer Experience & Improvement	19	88	87	(1)
Major Projects & Property	(4,928)	(4,473)	(4,305)	168
Operational Services	7,847	10,768	11,058	290
Planning & Economy	2,548	2,470	2,250	(220)
ICE Programme	496	556	556	0
<b>SUBTOTAL</b>	<b>11,272</b>	<b>14,880</b>	<b>15,117</b>	<b>237</b>
Less: Reversal of Accounting entries	(2,519)	(2,519)	(2,519)	0
<b>Net Service Revenue Expenditure</b>	<b>8,753</b>	<b>11,926</b>	<b>12,163</b>	<b>237</b>
Corporate Income & Expenditure	3,227	2,243	2,243	0
C19 Expenditure Pressures	0	0	0	0
C19 Risk	0	0	0	0
Movement in Reserves	746	(463)	(284)	179
Savings Plan	(1,436)	(446)	(388)	58
<b>Net General Fund Revenue Budget</b>	<b>11,290</b>	<b>13,260</b>	<b>13,734</b>	<b>474</b>
Funded by:				
Council Tax	6,705	6,705	6,705	0
Business Rates	3,767	3,767	3,767	0
New Homes Bonus	1,169	1,169	1,169	0
Covid-19 Emergency Funding	0	1,478	1,478	0
Covid-19 Income Loss	0	684	871	187
Other Funding	(3)	(270)	(270)	0
<b>TOTAL Funding</b>	<b>11,637</b>	<b>13,533</b>	<b>13,720</b>	<b>187</b>
<b>Core (Surplus) or Deficit</b>	<b>(347)</b>	<b>(273)</b>	<b>14</b>	<b>287</b>
Balanced by:				
General Fund Balance				0
Service Improvement Fund	297	0	0	0
Workforce Reserve	50	0	0	0
Stability & Resilience Reserve	0	273	(14)	(287)
<b>Core Surplus or Deficit after Transfers</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

However, this forecast did not include the full impact from the restrictions in place since December 2020. It was anticipated that income and expenditure would remain under pressure as a result.

A draft outturn report was considered by Cabinet at their meeting on -6 July 2021 and reflected the information available to support the outturn position as at 17 June 2021. A more detailed report will be considered by Cabinet at their meeting in August 2021 when it is expected that a number of material items such as Business Rates, Council Tax and Housing Benefit returns will have been completed. Paragraph 3.1 of the report is included below for reference:

*The draft outturn position for the Revenue budget is set out in the Table below. This is based on a snapshot of actual expenditure and income as shown on the Council's financial system on 17 June 2021, with broad assumptions made in relation to budgets subject to further review and accounting entries. In particular, the following areas are subject to greater fluctuation between the draft and final outturn reports and may have a material impact.*

- *Business Rates Retention income*
- *Housing Benefit income and expenditure*
- *Commercial Property income*
- *Asset valuations*
- *Treatment of On-Street Car Parking deficit (to be agreed with Hampshire County Council)*
- *Earmarked Reserves and Carry Forwards*

The report indicated that the draft outturn was likely to be in-line with the forecast in April although some uncertainty remains.

**Table 2– Draft Outturn position 2020/21 (as reported to Cabinet in July 2021)**

	2020/21 Original Budget (£'000)	2020/21 Latest Budget (£'000)	2020/21 Draft Outturn (£'000)	2020/21 Draft Outturn Variation (£'000)
<b>General Fund Budget</b>				
Net Service Revenue Expenditure	8,753	11,926	11,568	(358)
Corporate Items	2,537	1,334	1,115	(219)
<b>Net General Fund Revenue Budget</b>	<b>11,290</b>	<b>13,260</b>	<b>12,683</b>	<b>(577)</b>
Funded by:				
Council Tax	6,705	6,705	6,705	0
Business Rates	3,767	3,767	3,767	0
New Homes Bonus	1,169	1,169	1,169	0
Covid-19 Emergency Funding	0	1,478	1,478	0
Covid-19 Income Loss	0	684	1,005	321
Other Funding	(3)	(270)	(175)	95
<b>TOTAL Funding</b>	<b>11,637</b>	<b>13,533</b>	<b>13,949</b>	<b>416</b>
<b>Core (Surplus) or Deficit</b>	<b>(347)</b>	<b>(273)</b>	<b>(1,266)</b>	<b>(993)</b>
Less: Carry Forwards			800	800
<b>Core (Surplus) or Deficit - after c/f</b>	<b>(347)</b>	<b>(273)</b>	<b>(466)</b>	<b>(193)</b>

During the financial year the Council's proposed use of reserves will need to be kept under review. The Council will need to evaluate what further options to consider when reviewing the Budget Strategy for 2022/23. An updated MTFs and Budget Strategy will be presented to Cabinet in October 2021. This will also take into account recent consultations on New Homes Bonus, Prudential Code and any further announcements concerning the Spending Review period and implementation of the Fair Funding Review and introduction of 75% Business Rates Retention. The first budget monitoring report for 2021/22 will be considered by Cabinet at their meeting in September 2021 with further reports due in December 2021 and early 2022.

Appendix A (Table 3) shows an indicative forecast of the Council's Reserves and Balances. This is based on the position as reported to members in the MTFs in February 2021 with an assumed utilisation of reserves for 2020/21 as part of the draft outturn. Broad assumptions have been made around the utilisation of reserves to support the General Fund budget over the 3-year period 2021/22 to 2023/24 to provide members with some context around the proposed level of reserves and balances at 31 March 2021, and to provide a 'stress test' of the Council's financial resilience.

The Council has undertaken cash flow modelling through to August 2022 which demonstrates the Council's ability to work within its Capital Financing Requirement (CFR) and Cash management framework, with a minimum headroom of £40 million (based on CFR of £143.8m less actual borrowings of £102m).

The Council remains confident in its ability to maintain sufficient cash for its services through the medium term. This is based on its cash flow forecasting and the resultant liquidity position of the Council, taking account of the cash and short term investment balances of £17 million (as at 22 July 2021) and the ability for short-term borrowing under the Treasury Management Policy of up to the CFR. This demonstrates that the

Council has sufficient liquidity over the same period, assuming forecast average short term borrowings of £102 million.

The Council thereby concludes that it is appropriate to prepare the financial statements on a going concern basis, and that the Council will be a going concern, 12 months from the date of the audit report, based on the review of the forecasted reserve and cash position.

The Council's financial position was strengthened with the 2019/20 outturn, which provided additional headroom within the earmarked reserves and provides financial resilience to cope with the financial pressures from Covid-19 in the short to medium-term. During the course of 2020/21 the Council reviewed its financial commitments and revenue and capital budgets. A revised budget was approved by Council at their meeting in February 2021.

As set out earlier in this note, the Council is still working through the 2020/21 outturn position and will review earmarked reserves to ensure financial resilience can be maintained during 2021/22 and over the medium-term.

The Council is mindful of the lasting impact from Covid-19 and has taken steps to mitigate the funding gap forecast over the MTFS period. The Council has been working through a Cost Reduction and Efficiencies Plan (CREP) to identify opportunities to reduce expenditure, resize and optimise services, and generate new additional income. Further work will take place in July and August 2021 to evaluate the opportunities identified to date. The Budget Strategy report to Cabinet in October 2021 will set out the outcomes from the initial CREP work in more detail and update the financial forecast over the MTFS period.

#### *Collection Fund*

Given the changes to the collection of both Council Tax (Hardship Fund and deferred payments) and Business Rates (additional reliefs, deferred payments), officers are still working through the impact on the Collection Fund. Whilst there was a reduced It is likely there will be a reduced level of collection in 2020/21, the performance of Council Tax and Business Rates collection was strong given the impact from Covid on individual Council Tax and Business Rate payers. Government support has been provided to the Council through the ability to spread collection fund deficits over a - year period and the Tax Income Guarantee scheme. However, it is anticipated that Covid will have a nagtive impact on the Council's resources in future years and the Council should expect to budget for lower levels of Council Tax and Business Rates income as the Council's share of any collection fund deficit will need to be funded in future revenue budgets.

#### *Cost Reduction and Efficiencies Plan (CREP)*

The CREP Programme opportunities will be evaluated, validated and reviewed over the coming months. Proposals for cost reductions, savings and additional income will be included in the Budget Strategy report to Cabinet in October 2021 and form part of the updated MTFS.



The 2021/22 budget includes a number of planned savings and additional income opportunities. These will be reviewed in the light of the recovery from Covid-19 and the Council will need to consider whether savings will be delivered in full and within the timescale identified in the MTFS. Any reduction in the level of savings planned for 2021/22 will place additional pressure on the Stability and Resilience reserve. It is likely that the CREP Programme will identify further savings for 2021/22 that can be delivered which can mitigate the impact of any shortfall in current planned savings.

David Stanley  
Executive Head of Finance and Section 151 Officer

08 July 2021 (as updated 22 July 2021)

Table 3 – Indicative Reserve and Balances levels (as forecast July 2021)

	Estimated Balance 31/03/2021 (£'000)	Transfers To (£'000)	Transfers From (£'000)	Estimated Balance 31/03/2022 (£'000)	Transfers To (£'000)	Transfers From (£'000)	Estimated Balance 31/03/2023 (£'000)	Transfers To (£'000)	Transfers From (£'000)	Estimated Balance 31/03/2024 (£'000)	Transfers To (£'000)	Transfers From (£'000)	Estimated Balance 31/03/2025 (£'000)
<b>Transfers To (From) Reserves</b>													
General Fund Balance	(2,000)	0	0	(2,000)	0	0	(2,000)	0	0	(2,000)	0	0	(2,000)
<b>Earmarked Reserves</b>													
Stability & Resilience	(5,757)		1,014	(4,743)		3,134	(1,609)		1,609	0		0	0
Negative Balance of Stability & Resilience *				0			0		2,448	2,448		4,177	6,625
Service Improvement Fund	(129)		129	0			0			0			0
Commercial Property Reserve	(1,750)		250	(1,500)		250	(1,250)			(1,250)			(1,250)
Regeneration Reserve	(450)		100	(350)		100	(250)		250	0			0
ICE Reserve	0		0	0			0			0			0
Climate Emergency Reserve ***	(227)		227	0			0			0			0
Deprivation Reserve ****	(100)	(100)	200	0			0			0			0
Pension Reserve	(669)	(818)		(1,487)	(960)		(2,447)			(2,447)			(2,447)
Regeneration Due Diligence Reserve	0			0			0			0			0
Workforce Reserve	(200)			(200)			(200)			(200)			(200)
Treasury Reserve	(290)		180	(110)		110	0			0			0
CPE Rolling Fund	(254)			(254)			(254)			(254)			(254)
Budget Carry Forwards	(800)		800	0			0			0			0
Elections Reserve	(87)		87	0			0			0			0
SANG/s106 **	(4,442)			(4,442)			(4,442)			(4,442)			(4,442)
Other Earmarked Reserves/Prior yr grants	(2,673)			(2,673)			(2,673)			(2,673)			(2,673)
<b>TOTAL Reserves and Balances</b>	<b>(19,828)</b>	<b>(918)</b>	<b>2,987</b>	<b>(17,759)</b>	<b>(960)</b>	<b>3,594</b>	<b>(15,125)</b>	<b>0</b>	<b>4,306</b>	<b>(10,819)</b>	<b>0</b>	<b>4,177</b>	<b>(6,641)</b>
<b>Excluding SANG</b>	<b>(15,386)</b>	<b>(918)</b>	<b>2,987</b>	<b>(13,317)</b>	<b>(960)</b>	<b>3,594</b>	<b>(10,683)</b>	<b>0</b>	<b>4,306</b>	<b>(6,377)</b>	<b>0</b>	<b>4,177</b>	<b>(2,200)</b>

## Assumptions made:

- General Fund Balance – maintained at risk-based minimum level of £2m
- General Fund Revenue budget would require £1.014m of support in 2021/22 and further support over the MTFS period on a 'do nothing' basis. The Council has established the CREP programme to address the funding gap. Negative Stability and Resilience reserve balance shown for illustrative purposes only.
- Commercial Property Portfolio would require £0.750m of support over the period 2020/21 to 2022/23
- Earmarked reserves support specific Council priorities are fully utilised (Service Improvement Fund, ICE Reserve, Climate Emergency, Deprivation Support, Regeneration Reserve, Regeneration Due Diligence, Workforce Strategy)
- Pension Fund Equalisation Reserve maintained as per February 2020 MTFS
- S106/SANG/Commutated Sums reserve – no assumption about income and expenditure
- All other earmarked reserves – maintained at current level