

Cherwell District Council

Accounts, Audit and Risk Committee

28 July 2021

Support to Subsidiaries

Report of Director of Finance

This report is public

Appendix 1 to this report is exempt from publication by virtue of paragraph 3 of Schedule 12A Local Government Act 1972

Purpose of report

To inform the Committee of the overall level of support provided to the Council's subsidiaries and how this is considered as part of the external audit.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the report and raise any queries on the exempt appendix.

2.0 Introduction

- 2.1 The Council has several subsidiaries which are consolidated into its Group Accounts. Each of these subsidiary companies are required to be audited externally and each audit requires a Letter of Support from the Council as Parent. The Letter of Support is a document which demonstrates that the Parent will ensure its subsidiaries are able to meet their liabilities and are relied upon by the subsidiary auditors in determining the Going Concern status of the company. A Going Concern is a company which is financially stable enough to meet its obligations and continue to trade for the foreseeable future.
- 2.2 The Council also needs to demonstrate its status as a Going Concern to its external auditors. Having a robust understanding of its financial commitments is crucial in assessing whether the Council has the financial security to support itself and its subsidiaries.

3.0 Report Details

- 3.1 Demonstrating that the Council is a Going Concern is increasingly important to the Council's external auditors, and auditors across all sectors, not least because of the impact of the Covid-19 pandemic and its impact on businesses. An entity's Management is responsible for assessing its status as a Going Concern and part of how it does so is to prepare detailed forecasts which reflect potential scenarios and Management's plans to deal with them.
- 3.2 For the 2019/20 assessment of Going Concern, the Council provided a detailed cashflow forecast with assumptions of its own cash in and outflows. This forecast was then tested for sensitivities to expected cash inflows (e.g. 5% reduction in Council Tax collection) and outflows (e.g. a subsidiary requiring financial assistance).
- 3.3 The external auditors were keen to determine what the overall cash position of the council would be if all of the identified risks happened on the same day; could the Council manage financially? Appendix 1 details the level of support committed to the Council's subsidiaries in their Letters of Support and quantifies, where possible, the level of financial exposure this entails. Each is then assessed for its potential impact on the Council's cashflow and the likelihood of the Council being called on to step in. The document then details the mitigations and governance arrangements the Council has in place to manage the risk.
- 3.4 Sections 3 and 4 of the Appendix assesses the ability of the Council to cope financially with the worst-case scenario which consist of a selection of the identified risks occurring on the day the Council is forecasting its lowest cash position. This scenario results in the Council being required to borrow in the short term to manage its cashflow, but comfortably within the limits which were set as part of the Capital Strategy approved by Council in February 2021.
- 3.5 The document that is Appendix 1 will now become an integral part of the Council's Going Concern assessment and will be regularly updated and brought to this committee as part of the governance and mitigation to which it refers. It will also be used to ensure the borrowing boundaries in the Capital Strategy are set appropriately.

4.0 Conclusion and Reason for Recommendations

- 4.1 The information in Appendix 1 summarises the support the Council has extended to its subsidiaries. It is important that the Committee is aware of the level of support extended in order to ensure good governance, manage risk and to inform decision making.

5.0 Consultation

- 5.1 None

6.0 Implications

Financial and Resource Implications

- 6.1 There are no new financial implications to the Council arising as a result of this report. The report does however set out the scale of the financial support provided to its subsidiaries and the Council should be mindful of this in the future.

Comments checked by: Michael Furness, Assistant Director of Finance, 01295 221845, Michael.Furness@cherwell-dc.gov.uk

Legal Implications

- 6.2 There are no legal implications arising directly as a result of this report.

Comments checked by: Richard Hawtin, Team Leader – Non-contentious, 01295 221695, richard.hawtin@cherwell-dc.gov.uk

Risk Implications

- 6.3 There are no new risk management implications to the Council arising directly from this report

Comments checked by: Louise Tustian, Head of Insight and Corporate Programmes, 01295 221786, louise.tustian@cherwell-dc.gov.uk

7.0 Decision Information

Key Decision N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected

All

Links to Corporate Plan and Policy Framework

All

Lead Councillor

Councillor Tony Ilott, Lead Member for Financial Management and Governance

Document Information

Appendix No and Titles

- Appendix 1 – Support to Subsidiaries (Exempt)

Background Papers

None

Report Author and contact details

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