

Cherwell District Council

Accounts, Audit and Risk Committee

26 July 2023

Support to Subsidiaries

Report of the Assistant Director of Finance (S151 Officer)

This report is public.

Appendix 1 to the report is exempt from publication by virtue of paragraph 3 of Schedule 12A of the 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 legacy of the Covid-19 pandemic and the cost-of-living crisis and their impact on businesses. Those charged with governance are responsible for assessing its status

as a Going Concern and part of how that is done is by preparing detailed forecasts which reflect potential scenarios and the organisation's plans to deal with them.

- 3.2 For the 2021/22 assessment of Going Concern, as in previous years the Council will provide a detailed cashflow forecast with assumptions of its own cash in- and outflows. This forecast will then test 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 are 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 consists 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 2023.
- 3.5 The document that is Appendix 1 has now become an integral part of the Council's Going Concern assessment and will continue to be regularly updated and brought to this committee as part of the governance and mitigation to which it refers. It is also 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,
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Legal Implications

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

Comments checked by:

Shahin Ismail, Interim Assistant Director of Law & Governance and Monitoring Officer
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Risk Implications

- 6.3 There are no new risk management implications to the Council arising directly from this report. In the case of any new risks arising in the future, these will be managed through the service Operational Risk and escalated to the Leadership Risk Register as and when appropriate.

Comments checked by:

Celia Prado-Teeling, Interim Assistant Director – Customer Focus
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Equalities Implications

- 6.4 There are no equalities implications arising directly from any outcome of this report.

Comments checked by:

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7.0 Decision Information

Key Decision N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Links to Corporate Plan and Policy Framework

N/A

Lead Councillor

Councillor Adam Nell, Portfolio Holder for Finance

Document Information

Appendix No and Title

Appendix 1 - Support to Subsidiaries [Exempt]

Background Papers

None

Report Author

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