



## **Staffordshire Commissioner Fire and Rescue Authority Going Concern Assessment 2020/21**

### **Introduction**

The Code of Practice on Local Authority Accounting in the UK issued by CIPFA stipulates that the financial statements are prepared on a going concern basis. They are therefore drawn up under the Code to assume that a local authority's services will continue to operate for the foreseeable future.

This paper reviews the guidance on going concern provided by CIPFA and makes an assessment of the going concern for the Staffordshire Commissioner Fire and Rescue Authority.

### **Guidance**

The Code of Practice on Local Authority Accounting in the UK issued by CIPFA stipulates that the financial statements are prepared on a going concern basis. They are therefore drawn up under the Code to assume that a local authority's services will continue to operate for the foreseeable future. This assumption 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. The Code is clear that transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

A25 of the code states that 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 in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. Paragraph 3.4.2.23 of the Code confirms that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The substantial resource issues that some authorities may be experiencing do not negate the presumption of going concern, even though there might be a tension between the going concern assumption and those resource issues. Authorities should ensure that, where required, appropriate reference to financial resilience and sustainability is included in the relevant reports. The authority's relevant officers (e.g. the responsible finance officer and monitoring officer) must also ensure that they comply with their statutory and professional duties in respect of reporting such resourcing issues.

CIPFA states that Local authorities that can only be discontinued under statutory prescription and shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future.

## **Going Concern Assessment**

### **1. Resource Control Reporting / Management Accounts**

The Authority produces and circulates a full pack of financial information (Resource Control Report) to the Principal Management Team on a monthly basis. The report is also circulated to all budget holders across the Service and senior managers.

A quarterly finance report is reviewed by the Strategic Governance Board (Chaired by the Commissioner) and as bi monthly the report is reviewed and scrutinised by the Finance Panel which is reported by the chair of Panel through to ETAP.

The Resource Control report clearly identifies performance against budget, delivery of savings targets and plans. It reports the capital programme, cash flow management, headcount, reserves and also detailed pay cost analysis for each Service Delivery Group.

The reporting is timely, relevant, and transparent and ensures that all key stake holders of well informed on the financial performance of the Authority.

### **2. Cash Flow**

As part of the Authority's cash controls and financial management process a detailed cash flow is prepared each year. This has been extended to cover a two year period in support of this Going Concern Assessment required by the external Auditors.

The cash flow is prepared by experienced and qualified staff from the Finance Team and reviewed by the Section 151 Officer.

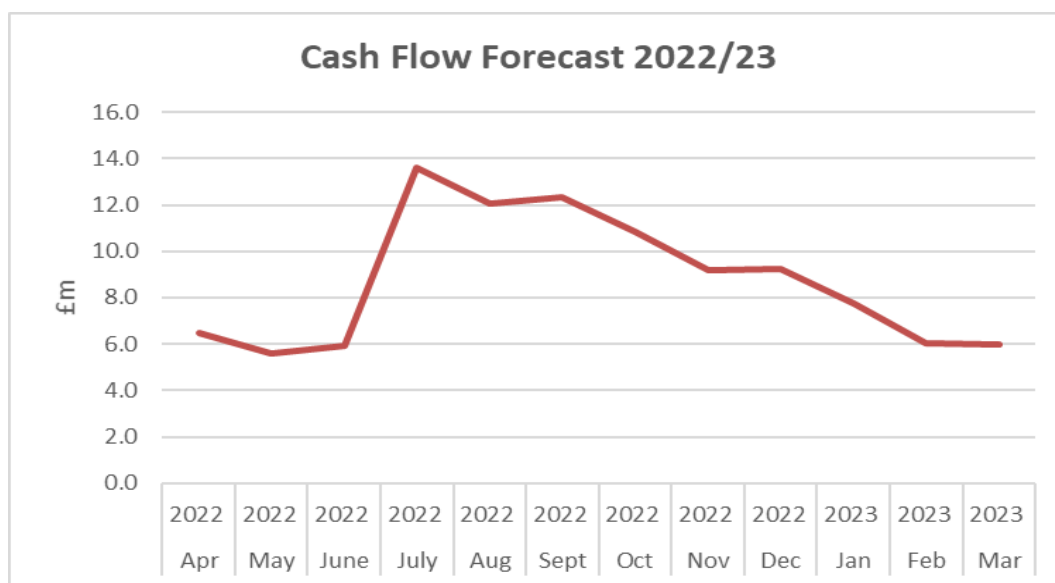
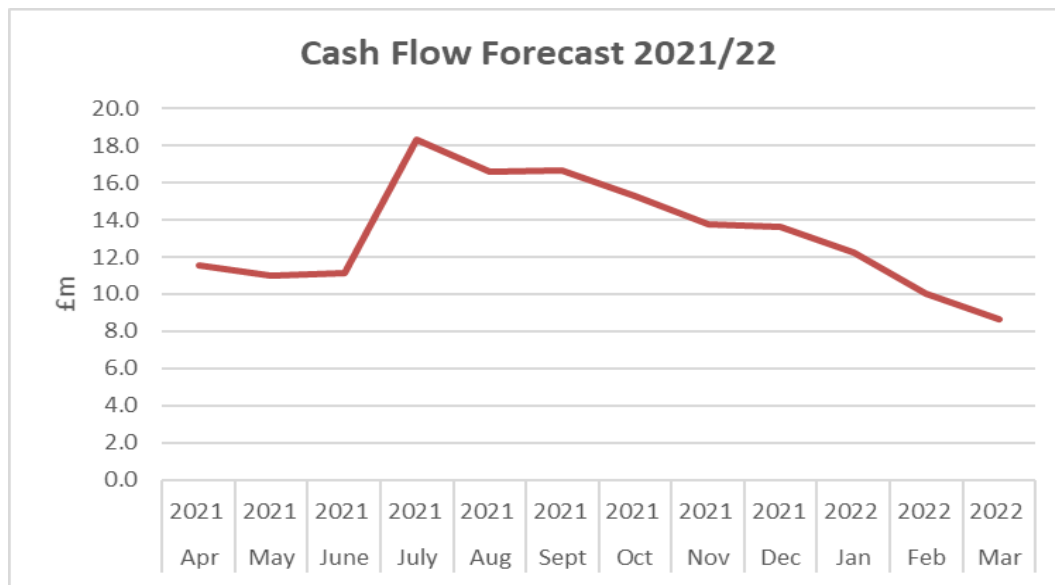
A treasury Management Strategy is provided on an annual basis and performance against the strategy is reported to ETAP and the Strategic Governance Board in order to review progress in year against the strategy. Reports are provided at the half year and the final outturn position.

The cash flow forecast for 2021/22 is based upon the budget that has been approved for the year, with the 2022/23 cash flow based upon the approved MTFS.

The cashflow is based upon the gross revenue and capital budgets and includes the grants that are received annually for the Firefighters' Pension Top-up grant, New Dimensions, Airwave etc. No additional borrowing requirements are anticipated during the next two years, with all capital spend funded through Earmarked Reserves, Capital Grants and the continued use of internal cash.

Positive cash balances are therefore reported during the two year period and it is therefore unlikely that any short term borrowing would be required. The cash position is reviewed on a quarterly basis with the Treasury Team from Staffordshire County Council and revised forecast are considered during the year as information become more certain e.g. some capital projects may slip into the following year.

The cash flow shown below details by month the expected cash balance for the financial years 2021/22 and 2022/23 so covers the period to March 2023.



### 3. Capital Financing Requirement

The closing capital financing requirement (CRF) as at 31 March 2021 closed at £22.095m, and is the lowest level of gross debt reported by the Authority since 2009. This level of debt is supported by long term borrowing of £17.1m again the lowest level since 2009. The difference between the CRF and debt is funded by the use of internal cash which currently remains the cheapest way to borrow for capital investment purposes.

The combination of capital investment and loan repayments may result in new borrowing being required in 2023/24 or 2024/25 as the internal funding requirement increases beyond the level of cash reserves.

#### CAPITAL FINANCING REQUIREMENT 2021-22 BUDGET

	2020/21 Actual	2021/22 Budget	2022/23 Plan	2023/24 Plan	2024/25 Plan
Debt Outstanding - 1 April	23,349,034	22,095,034	24,657,065	26,618,854	28,272,129
+ New Borrowing	2,691,000	5,959,100	4,364,000	3,855,000	3,500,000
<b>TOTAL DEBT POSITION</b>	<b>26,040,034</b>	<b>28,054,134</b>	<b>29,021,065</b>	<b>30,473,854</b>	<b>31,772,129</b>
<b>TOTAL MRP CHARGEABLE</b>	<b>1,254,000</b>	<b>1,496,969</b>	<b>1,837,211</b>	<b>2,201,725</b>	<b>2,448,294</b>
<b>TOTAL DEBT POSITION (Post MRP)</b>	<b>24,786,034</b>	<b>26,557,165</b>	<b>27,183,854</b>	<b>28,272,129</b>	<b>29,323,834</b>
less Capital Financing from Grants and reserves	2,691,000	1,900,100	565,000	0	0
<b>Total Capital Financing Requirement</b>	<b>22,095,034</b>	<b>24,657,065</b>	<b>26,618,854</b>	<b>28,272,129</b>	<b>29,323,834</b>
opening long term debt	17,550,000	17,050,000	17,050,000	16,800,000	16,700,000
In year funding	0	0	0	0	0
In year repayments	500,000	0	250,000	100,000	550,000
<b>LONG TERM FUNDED DEBT</b>	<b>17,050,000</b>	<b>17,050,000</b>	<b>16,800,000</b>	<b>16,700,000</b>	<b>16,150,000</b>
<b>INTERNAL FUNDING</b>	<b>5,045,034</b>	<b>7,607,065</b>	<b>9,818,854</b>	<b>11,572,129</b>	<b>13,173,834</b>

#### 4. Reserves

Statutory provision is made within the Local Government Finance Act 1992 that requires precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure.

The Reserves held are supported by a detailed reserves strategy that is updated annually as part of the budget planning process and presented to Strategic Governance Board, ETAP and the Police Fire and Crime Panel.

The cash available to use as internal funding for the capital programme is supported by the overall level of reserves held by the Authority.

The balance of Useable Reserves as incorporated into the draft statement of Accounts for 2020/21 is £17.237m and is reported as follows:

31-Mar-20 £,000		31-Mar-21 £,000
1,906	General Fund (1)	1,906
1	Capital grants unapplied	1
1,109	Earmarked reserves - grants	1,550
5,816	Earmarked reserves - PFI grant	5,577
528	CCU Reserve	718
7,101	Other Reserves (2)	7,485
<b>14,354</b>	<b>Earmarked Reserves</b>	<b>15,330</b>
<b>16,261</b>	<b>Total Usable Reserves</b>	<b>17,237</b>

The overall balance of reserves at £17.237m includes some items that the Authority may report as an earmarked reserve but the reality of how the reserves can be utilised are quite different. For example, the £5.6m Earmarked PFI grant will unwind completely at the end of the 25 year period for each PFI project, so it supports the cash flow but can't be classified as a normal earmarked reserve and must be used for the purpose intended.

The Reserve Strategy will focus only on the General Reserve and the Earmarked Other Reserve (2), which totals £9.4m. This closing level of reserve was slightly better than anticipated (£8.7m shown below for 2020/21) reflecting the positive outturn financial position reported for 2020/21.

The following table is as reported within the approved reserves strategy for 2021/22, and shows the categorisation of Earmarked Reserves and a reducing balance over the MTFS.

	2019/20 Approved £m	2020/21 Fcast £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
<b>General Fund</b>	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>Earmarked Reserves</b>							
PFI Reserve (Project Reserve Deductions)	0.7	0.8	0.6	0.6	0.6	0.6	0.6
Operational Budget Holder Reserves	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Budget and MTFS Support Reserve	0.5	0.3	0.3	0.3	0.3	0.3	0.3
Refurbishment Reserve Abbots Bromley	0.5	0.4					
Capital Reserves	1.4	1.1	0.6				
Pension Reserve	1.8	1.8	1.8	1.8	1.1	1.1	1.1
Collaboration Rserve	0.5	0.5	0.5	0.5	0.5	0.5	0.5
LCTS Covid Grant Balance		0.2	0.2				
Future Funding Reserve	1.3	1.3	1.3	1.3	1.3	1.3	1.3
<b>Total Earmarked Reserve</b>	<b>7.1</b>	<b>6.8</b>	<b>5.6</b>	<b>4.8</b>	<b>4.1</b>	<b>4.1</b>	<b>4.1</b>
<b>Total Reserves Available</b>	<b>9.0</b>	<b>8.7</b>	<b>7.5</b>	<b>6.7</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>

The level of reserves, however, does provide a level of financial resilience and supports the going concern assessment, with a balance of £6m forecast by 2025/26.

## 5. Medium Term Financial Strategy (MTFS)

The MTFS is updated fully as part of the budget setting process and has identified and reported a predicted gap in funding during the next few years.

The gap is based upon a number of assumptions that are agreed and supported by the Staffordshire Commissioner. The main assumptions cover the following areas:

1. Levels of future Settlement Funding and Council Tax Growth incl. precept increase
2. Impact of COVID on Council tax and business rate collection
3. Levels of Pay Awards
4. Assessment of Capital spend and borrowing
5. Estimated RPI increases for Non Pay items
6. Cost of Pensions

The funding for local Government for the last two years has been based upon single year settlements which makes planning into the medium term challenging. The Home Office is currently preparing a three year settlement for consideration by HMT.

However, the future uncertainty has not stopped the Authority and Service undertaking detailed scenario planning in order to develop a number of options that are being considered by the Commissioner and will be reported through the existing governance framework. This work is all part of the Service 2025 project.

## 6. Going Concern Conclusion

A discussed above A25 of the CIPFA code of Practice states that the concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future.

The key factors that need to be considered when undertaking a going concern review have been covered within this paper and the S151 Officer supports the evidence presented that the Staffordshire Commissioner Fire and Rescue Authority should be treated as a going concern.

**This report will be considered by the Finance Panel on 15 September 2021.**

David Greensmith  
Director of Finance / S151 Officer  
16 July 2021

