



## Police and Crime Commissioner for Staffordshire Going Concern Assessment 2022/23

### 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 Police and Crime Commissioner for Staffordshire.

### 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. Finance Report / Management Accounts**

The Finance Team produce and circulate a full pack of financial information (Finance Report) to the Executive Team on a quarterly basis, with year to date position reviewed monthly. The report is also circulated to all budget holders across the directorates and senior managers.

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

The Finance report clearly identifies performance against budget, delivery of savings targets and plans. It reports the capital programme, cash flow management, headcount, reserves and also reports performance for each Directorate including the Staffordshire Commissioner's Office.

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

### **2. Cash Flow**

As part of the 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.

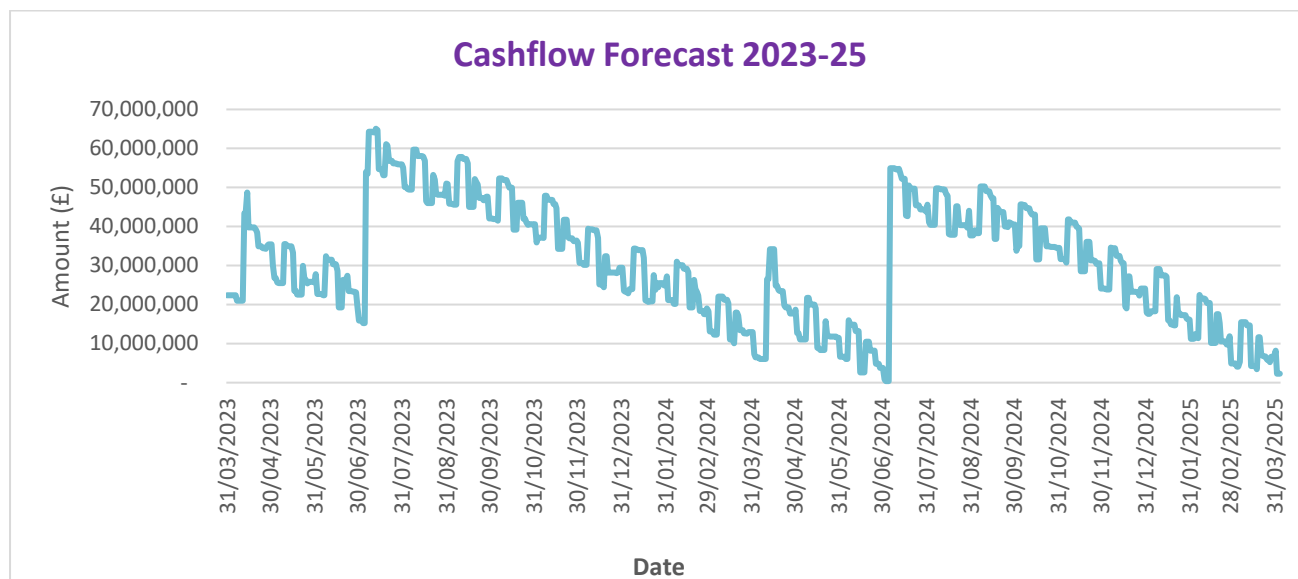
A Treasury Management Strategy is provided on an annual basis and performance against the strategy is reported to ETAP and the Strategic Governance Board in order to review progress in year against the strategy. Treasury management update reports are presented to the Strategic Governance Board at half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

The cash flow forecast for 2023/24 is based upon the budget that has been approved for the year, with the 2024/25 cash flow based upon the approved MTF5.

The cashflow is based upon the gross revenue and capital budgets and includes the grants that are received annually for the Police Pension Top-up grant, Core funding etc. No additional borrowing requirements are anticipated during the current year 2023/24 and 2024/25, with all capital spend funded through Earmarked Reserves, Capital Grants, Capital Receipts and the continued use of internal cash. This position will be closely monitored and updated during the year.

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 becomes more certain e.g. some capital projects may slip into the following year. This is currently under review as capital spend has been lower than budget in the last three years impacted by issues such as the COVID pandemic, Brexit and the war in Ukraine. These factors and also rising costs will likely continue to have some impact during the current financial year.

The cash flow shown below details by month the expected cash balance for the financial years 2023/24 and 2024/25 so covers the period to March 2025.



### 3. Capital Financing Requirement

The closing capital financing requirement (CRF) as at 31<sup>st</sup> March 2023 closed at £71.420m, reflects a continued reduction of gross debt reported by the Group. This level of debt is supported by long term borrowing of £64.7m again a consecutive reduction year on year. 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. Even more so as the cost of borrowing has significantly increased in the last year.

The combination of capital investment and loan repayments will result in new borrowing being required during 2025/26 or 2026/27 as the internal funding requirement increases beyond the level of cash reserves.

	2021/22 Actual	2022/23 Actual	2023/24 Budget	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt Outstanding 1st April	76,467,986	72,649,037	71,420,033	83,010,518	87,002,807	92,918,713
+ New Borrowing (Capital Spend)	4,725,161	8,096,869	19,497,000	11,970,000	13,640,000	7,290,000
<b>TOTAL DEBT POSITION</b>	<b>81,193,147</b>	<b>80,745,907</b>	<b>90,917,033</b>	<b>94,980,518</b>	<b>100,642,807</b>	<b>100,208,713</b>
<b>TOTAL MRP CHARGEABLE</b>	3,551,627	3,562,541	3,378,515	5,340,711	5,467,094	5,646,137
<b>TOTAL DEBT POSITION (Post MRP)</b>	77,641,520	77,183,366	87,538,518	89,639,807	95,175,713	94,562,577
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Capital Financing from Revenue Contributions	4,992,483	4,952,825	4,078,000	2,257,000	2,257,000	4,041,000
Capital Financing from Grants and Receipts	0	810,508	450,000	380,000	0	331,000
<b>Total Capital Financing Requirement</b>	<b>72,649,037</b>	<b>71,420,033</b>	<b>83,010,518</b>	<b>87,002,807</b>	<b>92,918,713</b>	<b>90,190,577</b>
In year funding						
In year repayments	3,600,000	2,500,000	1,600,000	1,600,000	1,850,000	1,600,000
<b>LONG TERM FUNDED DEBT</b>	67,200,000	64,700,000	63,100,000	61,500,000	59,650,000	58,050,000
<b>INTERNAL FUNDING</b>	5,449,037	6,720,033	19,910,518	25,502,807	33,268,713	32,140,577

#### 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 Police Fire and Crime Commissioner.

The balance of Useable Reserves as incorporated into the unaudited statement of Accounts for 2022/23 is £45.921m and is reported as follows:

31 March 2022 £'000		31 March 2023 £'000
<b>8,509</b>	<b>General Fund</b>	<b>9,489</b>
1,449	Capital receipt reserve	2,276
514	Capital grants unapplied	331
2,332	Reshaping the Future	2,329
2,580	IT Transformation Reserve	2,384
981	Insurance Reserve	699
4,499	Pension Reserve	6,021
292	Collaboration Reserve	213
2,216	Capital Reserve	2,477
1,784	ESN Reserve	1,784
923	Major Policing Events Reserve	674
12,076	Operational Reserves	17,244
<b>27,683</b>	<b>Total Earmarked Reserves</b>	<b>33,825</b>
<b>38,155</b>	<b>Total Usable Reserves</b>	<b>45,921</b>

The general reserves meets the minimum level of 3% of the total revenue budget which has been set by the Staffordshire Commissioner and is considered to be a reasonable provision for an emergency events that may occur.

There were a number of transfers to earmarked reserves in 2022/23 taking the total value of earmarked reserves to £33.825m as at 31st March 2023. Covid, Border delays and War in Ukraine have all contributed to supply chain issues which has impacted on the receipting of goods in the financial year, necessitating higher than forecast revenue budget carry forwards.

Overall total reserves remain in a healthy position moving in 2023/24, and are now more in line with sector standards. This improved level of reserves is a visible sign of continued improvement in financial health for the group.

The Reserve Strategy will focus only on the General Reserve and the Earmarked Other Reserve (2), which totals £43.3m. This closing level of reserve was better than anticipated reflecting the positive outturn financial position reported for 2022/23 and reserve transfers in year.

The following table is as reported within the approved reserves strategy for 2023/24, and shown the categorisation of Earmarked Reserves and a reducing balance over the MTFs.

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
<b>General Fund</b>	<b>9,703</b>	<b>9,703</b>	<b>9,703</b>	<b>9,703</b>
<b>Capital Receipts Reserve</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital Grants Unapplied</b>	<b>331</b>	<b>331</b>	<b>331</b>	<b>0</b>
Budget Support Reserve	3,553	109	0	0
Capital Reserve	420	420	420	420
Collaboration Reserve	70	70	70	70
ESN Reserve	1,784	1,784	1,784	0
Insurance Reserve	1,285	1,285	1,285	1,285
IT Transformation Reserve	2,412	2,412	2,412	2,412
Major Events Policing Reserve	418	418	418	418
Operational Reserves	4,828	3,992	3,041	3,041
Pension Reserve	5,207	5,207	5,207	5,207
Reshaping the Future Reserve	1,623	1,623	1,623	1,623
Uplift Reserve	5,315	5,315	5,315	5,315
<b>Total Earmarked Reserves</b>	<b>26,915</b>	<b>22,635</b>	<b>21,575</b>	<b>19,791</b>
<b>Total Usable Reserves</b>	<b>36,949</b>	<b>32,669</b>	<b>31,609</b>	<b>29,494</b>

The level of reserves, however, does provide a level of financial resilience and supports the going concern assessment, with a balance of £29.4m forecast by 2026/27.

## 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 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 five years has been based upon single year settlements which makes planning into the medium term challenging. A settlement covering more than a single year would be welcomed from the Home Office and Treasury.

Staffordshire Police have a newly established Corporate Development Team who will continue to develop savings during the medium term to support the identified future funding estimate and future funding gap.

## 6. Financial Position 2023/24

The Going Concern Assessment has also included a review of financial performance for the first quarter of the current year 2023/24 for the group.

The latest year-end forecast is £232.4m for the year. **This is a positive variance of c.£0.332m against the annual budget of £242.9m.** This represents an underspend of £1.141m against the revenue budget. The yearend forecast is an underspend of £0.332m, see table below:

	YTD			Forecast		
	Budget £'000	Actual £'000	Variance £'000	Budget £'000	Actual £'000	Variance £'000
Pay	50,616	49,573	(1,043)	202,479	203,747	1,268
Non Pay	8,270	7,883	(387)	33,180	32,264	(916)
Contracted	4,740	2,760	(1,980)	18,898	19,433	535
Capital Financing	2,552	6,366	3,813	8,066	8,073	8
Income	(4,255)	(5,017)	(762)	(17,322)	(18,241)	(919)
Funding	(2,485)	(935)	1,550	(2,565)	(2,531)	34
Unallocated Savings	51	0	(51)	211	(130)	(341)
<b>Total</b>	<b>59,489</b>	<b>60,630</b>	<b>1,141</b>	<b>242,947</b>	<b>242,615</b>	<b>(332)</b>

The Group savings target for the year has been approved at £7.001m with a forecast delivery of 97%. Full delivery of savings will be reviewed during the year to ensure that the target is achieved.

Overall the Total Reserves as at 30<sup>th</sup> June 2023 remains in a positive position at £41.2m, of which £9.4m (3.91%) is held as General Reserve and Earmarked Reserves of £31.8m. The Earmarked reserve position has reduced during the year, this is because £0.659m is being used to support the budget in 2023/24 and there are further plans to unwind more of this balance in year, and also spanning future financial years.

The Group Cash position as at 30<sup>th</sup> June 2023 was £19.1m but it's expected to increase by additional £48.9m receipt in July of the Police Pensions Top-up Grant. The cash position is favourable to budget and the organisation will take advantage of the favourable interest rates to make suitable investments during the year.

The Financial position for the current year is therefore positive will levels of spend forecast to be slightly below the approved budget set by the Staffordshire Commissioner, which is supported by healthy level of reserves and cash position.

## **7. 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 Police and Crime Commissioner for Staffordshire should be treated as a going concern.

**This report will be considered by ETAP on 26 July 2023.**

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