

Staffordshire Commissioner Fire and Rescue Authority Going Concern Assessment 2023/24

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. Finance Report

The Authority produces and circulates a full pack of financial information (Finance Report) to the Principal Management Team on a monthly basis (periods 2-12). 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 also the Finance Panel (sub Committee of ETAP) which is reported by the chair of the 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 detailed pay cost analysis for each Service Delivery Group. The budget position is reviewed regularly and a forecast is included within the reporting usually during the final quarter to ensure that the year end position is clearly understood and material variances are reported.

The reporting is timely, relevant, and transparent and ensures that all key stake holders are 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 detailed cash flow is 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.

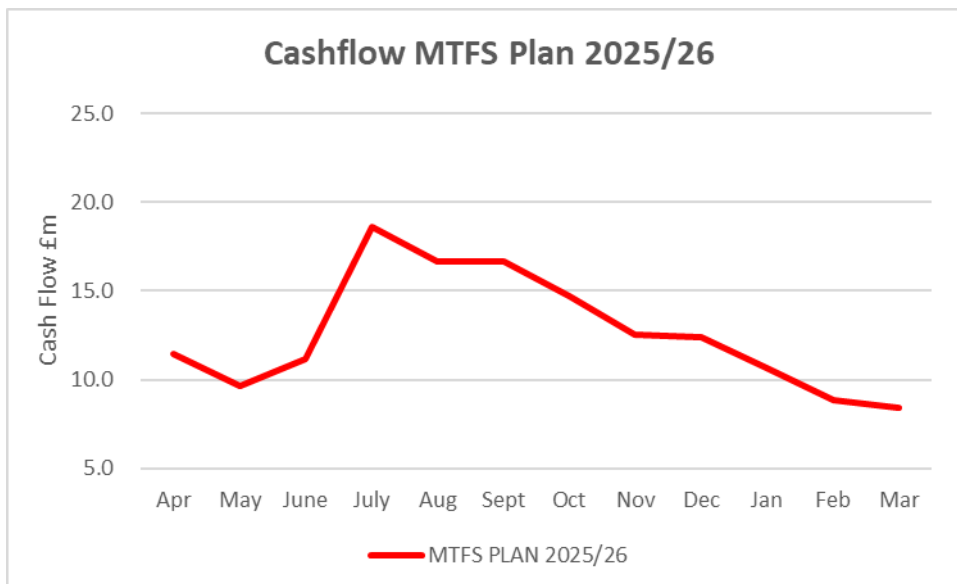
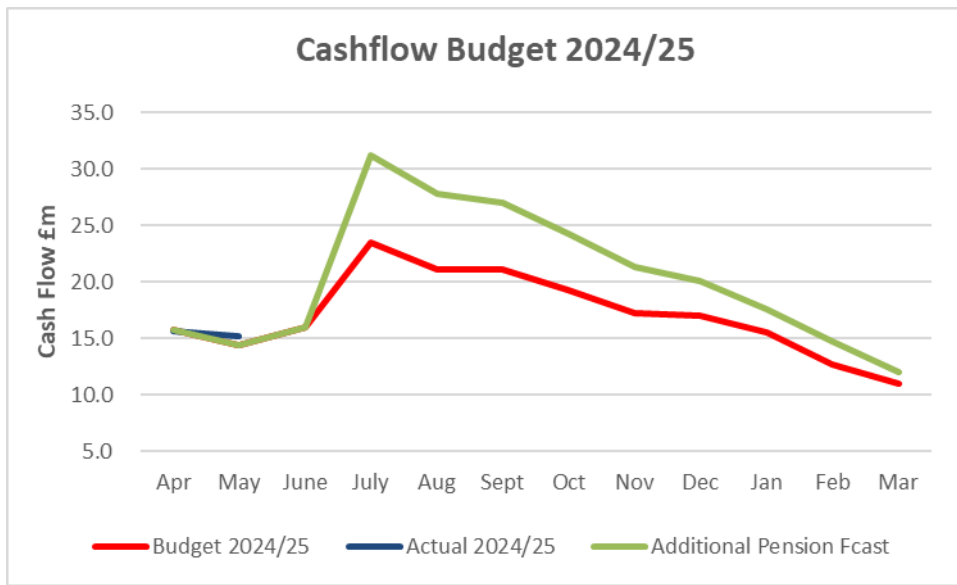
The cash flow forecast for 2024/25 is based upon the budget that has been approved for the year, with the 2025/26 cash flow based upon the approved MTF5.

The cashflow is based upon the gross revenue and capital budgets and includes the grants that are received annually for the Firefighters' Pension Top-up grant, New Dimensions, Section 31 grants and Airwave etc. No additional borrowing requirements are anticipated during the next two years, with all capital spend funded through the intelligent use of earmarked reserves, grants and the continued use of internal cash.

In addition to the approved cash budget for 2024/25 pension uplift grant money has been announced by the Home Office following engagement with the Government Actuary Department (GAD) and will be added to each FRA's forecasts for FY24/25 to reflect additional costs relating to the implementation of Matthews and McCloud remedies. This has been incorporated into the 2024/25 cash flow graph below. It is forecast that 90% of the additional £7.78m will be spent in year. The Authority will benefit from additional investment receipts resulting from this additional cash held.

Positive cash balances are 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 forecasts are considered during the year as information become more certain e.g. some capital projects may slip into the following year. Home Office Grants may also be delayed and not always received in the expected month.

The cash flow shown below details by month the expected cash balance for the financial years 2024/25 and 2025/26 so covers the period to March 2026.



The cash flow increases in July significantly following the receipt of the Firefighters’ Pension Top-up Grant from Government. This top-up payment represents the expected difference between cash receipts into the Firefighters’ Pension Scheme and payments out e.g. includes employee and employer pension contributions, pension payroll and lump-sum retirements benefits. As explained above the Firefighters’ Pension Top-up grant received a one-off boost in 2024/25 funding the two pension remedy projects.

The main driver behind the reduction in cash flow during the two-year period is the impact of the capital programme which is not funded by additional borrowing but from earmarked reserves, grants and the use of internal cash. The capital programme is reviewed in more detail within the next section of the report.

Overall cash balances are forecast to remain positive with a balance of £8.4m by 31 March 2026.

3. Capital Financing Requirement

The closing capital financing requirement (CFR) as at 31 March 2024 closed at £21.376m, and remains at a level of gross debt lower than in 2009/10. This level of debt is supported by long term borrowing of £16.7m again the lowest level since 2008/9. The difference between the CFR and debt is funded by the use of internal cash which currently remains the cheapest way to borrow for capital investment purposes. The use of internal cash in lieu of borrowing has become even more important due to the spiralling cost of external borrowing which has significantly increased alongside higher Bank of England interest rates.

The combination of capital investment and loan repayments may result in new borrowing being required in 2026/27 as the internal funding requirement increases.

	2023/24 Actual	2024/25 Forecast	2025/26 Plan	2026/27 Plan
Debt Outstanding - 1 April	20,901,036	21,376,012	25,341,022	26,936,194
+ New Borrowing	3,836,110	6,807,600	4,951,000	2,826,000
TOTAL DEBT POSITION	24,737,146	28,183,612	30,292,022	29,762,194
TOTAL MRP CHARGEABLE	1,319,728	1,559,638	1,858,328	2,162,303
TOTAL DEBT POSITION (Post MRP)	23,417,418	26,623,974	28,433,694	27,599,891
less				
Capital Financing from Grants and reserves	2,041,406	1,282,952	1,497,500	522,500
Total Capital Financing Requirement	21,376,012	25,341,022	26,936,194	27,077,391
opening long term debt	16,800,000	16,700,000	16,150,000	16,150,000
In year funding				
In year repayments	100,000	550,000		250,000
LONG TERM FUNDED DEBT	16,700,000	16,150,000	16,150,000	15,900,000
INTERNAL FUNDING	4,676,012	9,191,022	10,786,194	11,177,391

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 2023/24 is £17.549m and is reported as follows:

31-Mar-23		31-Mar-24
£,000		£,000
1,906	General Fund (1)	1,906
1	Capital grants unapplied	1
1,726	Earmarked reserves - grants	1,661
5,786	Earmarked reserves - PFI grant	6,330
606	CCU Reserve	594
7,516	Other Reserves (2)	7,057
15,634	Earmarked Reserves	15,642
17,541	Total Usable Reserves	17,549

The overall balance of reserves at £17.549m 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 £6.3m Earmarked PFI grant will unwind completely at the end of the 25-year period for each PFI project, so it supports the cash flow for now but can't be classified as a normal earmarked reserve and must be used for the purpose intended. This reserve will need to be replaced with additional borrowing from 2035 and is a future financial pressure for the Authority and should be factored into the end of the PFI contract periods.

The Reserve Strategy's focus centres around the General Reserve and the Earmarked Other Reserve (2), which totals £9m. This closing level of reserve was in line with forecast which included a favourable outturn financial position reported for 2023/24 and a higher revenue contribution to capital spending in the year.

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

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Est.	Est.	Est.	Est.	Est.	Est.
	£m	£m	£m	£m	£m	£m	£m
General Fund	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Earmarked Reserves							
PFI Reserve (Project Reserve Deductions)	0.6	0.7	0.7	0.2	0.2	0.2	0.2
Reserve - Brewood Refurbishment	0.5	0.5					
Operational Budget Holder Reserves	0.5	0.7	0.9	0.8	0.6	0.4	0.2
Insurance Reserve	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Budget and MTFS Support Reserve	0.9	1.0	0.8	0.4	0.4	0.5	0.7
Capital Reserves	0.8	0.3	0.3	0.3	0.3		
Pension Reserve	1.8	1.5	1.5	1.5	1.5	1.5	1.5
Collaboration Reserve	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Future Funding and Investment Reserve	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Total Earmarked Reserve	7.5	7.1	6.6	5.6	5.4	5.0	5.0
Total Reserves Available (Useable)	9.4	9.0	8.5	7.5	7.3	6.9	6.9
Percentage of Revenue Budget							
General Reserve	4.5%	4.0%	3.8%	3.7%	3.6%	3.5%	3.4%
Earmarked Reserve	17.7%	14.7%	13.2%	10.7%	10.1%	9.1%	8.8%
Total	22.1%	18.7%	17.0%	14.4%	13.7%	12.6%	12.2%

The level of reserves, however, does provide a level of financial resilience and supports the going concern assessment, with a balance of £5m forecast by 2028/29.

5. Medium Term Financial Strategy (MTFS)

The MTFS is updated fully as part of the budget setting process and has identified and reported a balanced financial position by 2026/27.

The MTFS is based upon a number of key 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. Levels of future Pay Awards
3. Assessment of Capital spend and borrowing
4. Estimated RPI increases for Non-Pay items
5. Assumptions for Pensions contributions and the financial impact of the 2 remedy projects

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. The Home Office is currently considering an update to the assumptions contained within the fire grant formula funding.

There is also a significant level of political uncertainty and the impact upon local government funding into the medium term with the Fire and Rescue sector not falling within any protected department funding. In addition the world economy remains fragile due to ongoing conflict in Ukraine and the Middle East.

The future funding uncertainty has not stopped the Authority and Service undertaking detailed scenario planning in order to develop and implement a number of options and workstreams that has resulted in savings of around £1.3m being incorporated into the budget and MTFS.

The Service will continue with the important work of the Transformation Board in order to plan for changes in the funding position.

6. Going Concern Conclusion

As 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 ETAP on 23 July 2024.

David Greensmith
Director of Finance / S151 Officer
24 June 2024

