



Police and Crime Commissioner for Staffordshire 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 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 monthly basis. 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 bi monthly the report is reviewed and scrutinised by the Finance Panel which is reported by the chair of 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.

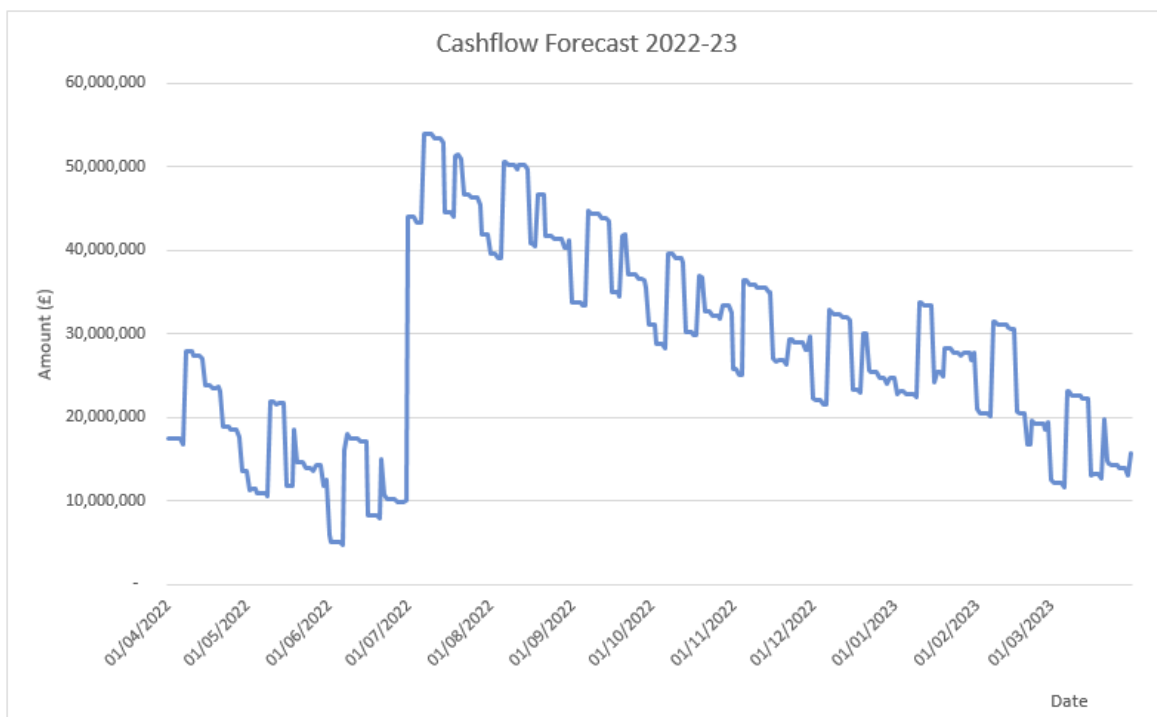
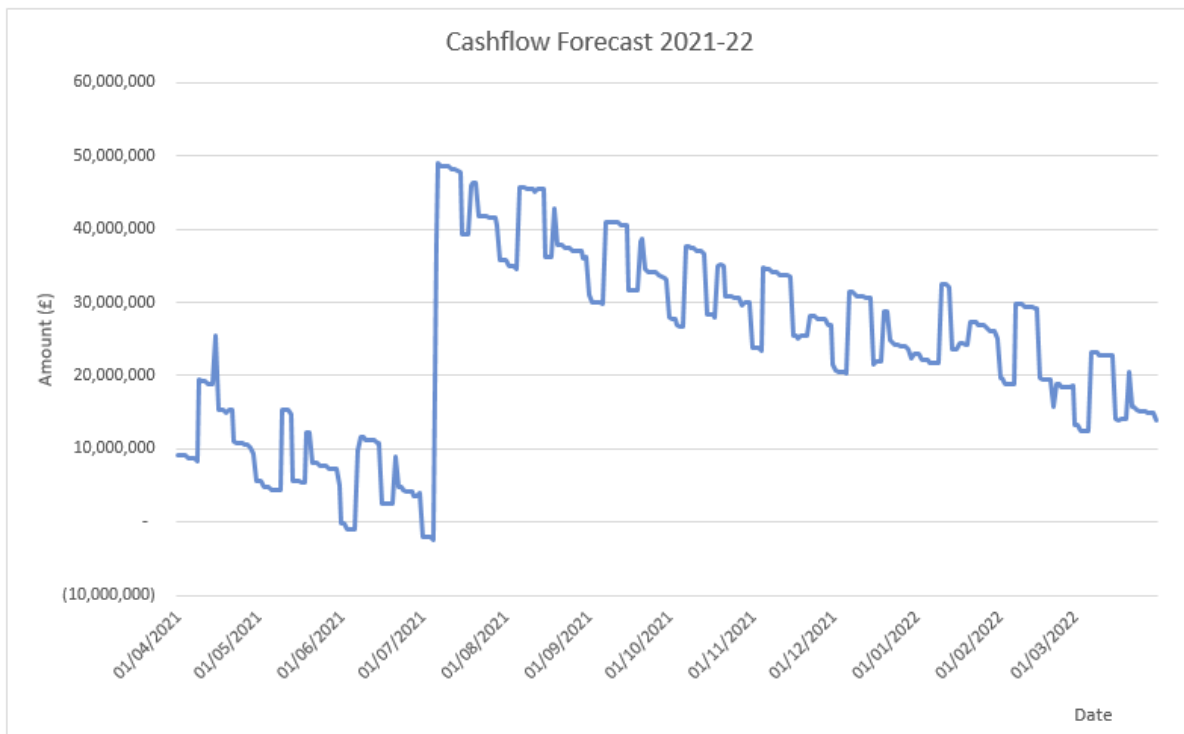
A treasury Management Strategy is provided on an annual basis and performance against the strategy is reported to ETAP and the Strategic Governance Board in order to review progress in year against the strategy. Reports are provided at the half year and the final outturn position.

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 Police Pension Top-up grant, Core funding etc. No additional borrowing requirements are anticipated during the current year 2021/22 and 2022/23, 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 become more certain e.g. some capital projects may slip into the following year. This is currently under review as capital spend in year has been slow in progressing. COVID did impact upon the spend for 2020/21 and will also have some impact during the current financial 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 £77.468m, is the first reduction of gross debt reported by the Group since 2012. This level of debt is supported by long term borrowing of £70.8m 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.

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.

	2020/21 Actual	2021/22 Budget	2022/23 Plan	2023/24 Plan	2024/25 Plan
Debt Outstanding 1st April	76,814,650	76,467,760	86,815,833	98,586,034	108,825,245
+ New Borrowing (Capital Spend)	11,255,000	19,285,351	20,695,500	19,489,000	4,695,000
TOTAL DEBT POSITION	88,069,650	95,753,111	107,511,333	118,075,034	113,520,245
TOTAL MRP CHARGEABLE	2,179,287	3,551,481	4,814,298	5,297,789	6,115,068
TOTAL DEBT POSITION (Post MRP)	85,890,363	92,201,630	102,697,034	112,777,245	107,405,178
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Capital Financing from Revenue Contributions	5,566,603	2,972,747	2,073,000	2,073,000	2,073,000
Capital Financing from Grants and Receipts	3,856,000	2,413,051	2,038,000	1,879,000	395,000
Total Capital Financing Requirement	76,467,760	86,815,833	98,586,034	108,825,245	104,937,178
Opening long term debt	71,800,000	70,800,000	67,200,000	64,700,000	63,100,000
In year funding	0	0	0	0	0
In year repayments	1,000,000	3,600,000	2,500,000	1,600,000	1,600,000
LONG TERM FUNDED DEBT	70,800,000	67,200,000	64,700,000	63,100,000	61,500,000
INTERNAL FUNDING	5,667,760	19,615,833	33,886,034	45,725,245	43,437,178

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 2020/21 is £28.106m and is reported as follows:

	Balance at 31 March 2020 £'000	Balance at 31 March 2021 £'000
General Fund	6,350	7,162
Capital receipt reserve	3,150	0
Capital grants unapplied	331	331
Reshaping the Future	1,011	2,264
IT Transformation Reserve	2,205	2,618
Insurance Reserve	348	1,201
Pension Reserve	1,314	2,562
Collaboration Reserve	250	705
Capital Reserve	1,286	1,574
ESN Reserve	617	780
Covid-19	478	2,197
Operational Reserves	2,636	6,712
Total Earmarked Reserves	10,145	20,613
Total Usable Reserves	19,976	28,106

The general reserves has now been restored back to the agreed 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.

During the year there have also been a number of transfers into earmarked reserves which include a provision for ICT Transformation following the change in provision of ICT services for the group. In addition reserves have been earmarked for anticipated additional pension costs and for ongoing future transformation. A reserve of £2.1m has also been earmarked specifically for the Covid-19 costs incurred by the Force.

Overall total reserves are in a significantly healthier position moving in 2021/22, and are now more in line with sector standards. This improved level of reserves is a visible sign of improving financial health for the group.

The Reserve Strategy will focus only on the General Reserve and the Earmarked Other Reserve (2), which totals £27.8m. This closing level of reserve was much better than anticipated (£20m 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 shown the categorisation of Earmarked Reserves and a reducing balance over the MTFS.

	2020/21 Budget £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
General Fund	6,373	6,373	6,373	6,373	6,373
Earmarked Reserves					
Transformation Reserve	3,216	3,216	3,216	3,216	3,216
Capital Reserve	1,935	1,580	1,225	221	0
Insurance Reserve	987	987	987	987	987
Pensions Reserve	2,211	2,211	2,211	2,211	2,211
Collaboration Reserve	57	57	57	57	57
Uplift Reserve	2,644	2,644	2,644	2,644	2,644
Operation Reserves	2,848	2,933	3,018	3,103	3,188
Total Earmarked Reserves	13,898	13,628	13,358	12,439	12,303
Capital Receipt Reserve	1,775	0	0	0	0
Unapplied Grants	331	331	331	0	0
Total Reserves	22,377	20,332	20,062	18,812	18,676

The level of reserves, however, does provide a level of financial resilience and supports the going concern assessment, with a balance of £18.6m forecast by 2024/25.

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 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.

Staffordshire Police have a dedicated Transformation Team and recently have a good track record of delivering savings. The Transformation team will continue to develop savings during the medium term to support the identified future funding estimate and future funding gap.

6. Financial Position 2021/22

The Going Concern Assessment has also included a review of financial performance for the first four months of the current year 2021/22 for the group.

The latest year-end forecast is £221.7m for the year. **This is a positive variance of c.£0.4m (0.17%) against the annual budget of £222.1m.** The year to date financial performance to the end of July 2021 is an under spend of £3.9m against the profiled budgets, see table below:

	Annual Budget £'000	Year to Date			Fore cast		
		Budget £'000	Actual £'000	Variance £'000	Budget £'000	Actual £'000	Variance £'000
Pay	180,775	60,824	59,799	(1,025)	180,808	180,577	(231)
Non Pay	33,755	10,756	9,328	(1,429)	33,666	33,726	59
Contracted	12,982	4,335	3,551	(784)	13,068	13,674	606
Capital Financing	9,153	8,124	7,756	(368)	9,153	9,154	1
Income	(11,512)	(3,989)	(4,476)	(486)	(11,514)	(12,955)	(1,441)
Funding	(2,840)	(1,719)	(1,671)	48	(2,869)	(2,313)	556
Unallocated Savings	(238)	(79)	0	79	(238)	(171)	67
Total	222,075	78,252	74,287	(3,965)	222,075	221,691	(384)

The Group savings target for the year has been approved at £2.052m with a forecast delivery of 96.6%. Full delivery of savings will be reviewed during the year to ensure that the target is achieved.

Overall the Total Reserves as at 31 July 2021 remains in a positive position at £25.5m, of which £7.2m (3.2%) is held as General Reserve and Earmarked Reserves of £18.3m (8.2%). The Earmarked reserve position has reduced during the year as part of the COVID-19 Reserve has been utilised to offset additional costs incurred during the year.

The Group Cash position as at 31 July 2021 was £64.1m following the receipt in July of the Police Pensions Top-up Grant. The cash position is favourable to budget and reflects a lower capital spend profile than originally anticipated during the first four months due to the timing of capital spend.

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 CIFPA 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 the Finance Panel on 15 September 2021.

David Greensmith
Director of Finance / S151 Officer
3 September 2021