



**SUBJECT: AUTHORITY'S STATUS AS A GOING CONCERN**

**REPORT OF THE DIRECTOR OF FINANCE, ESTATES AND FACILITIES**

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**1. Purpose of the Report**

1.1 The purpose of this report is to consider annually the Authority's status as a going concern and members are now requested to note that the Authority is a going concern as set out by the evidence provided by the Director of Finance, Estates and Facilities. This report has to be scrutinised by this Committee with any comments being reported to full Fire Authority at the end of June. The Committee is therefore invited to note and comment upon the report before it is considered by Authority.

**2. Background**

2.1 As Local Authorities are created and abolished only by statutory changes there is an underlying assumption in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting (Accounting Code) each year that their accounts will be prepared on a going concern basis.

2.2 Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures and uncertainty within the local government sector mean that the Chief Finance Officer (Section 151 officer) may need to consider whether action is required under Section 114 of the 1988 Act, where the Section 151 officer must report, following consultation with the Authority's Monitoring Officer, to all of the Authority's members if they believe expenditure is likely to exceed incoming resources in the current or in any future year.

2.3 This report outlines the assessment of this Authority's status as a going concern in line with best practice, which is now considered an annual requirement to reassure both members of the Authority and the external auditor of the Authority's continued status as a going concern and its finances are sustainable into the medium term.

**3. Context**

3.1 The provisions in the Accounting Code on the going concern accounting requirements reflect the economic and statutory environment in which local authorities operate. The provisions confirm that local authorities have no ability to cease being a going concern as described by International



Accounting Standard (IAS) 1 Presentation of Financial Statements. As local authorities cannot be dissolved without statutory prescription, it would not be appropriate for the Authority's financial statements to be prepared on any other basis than as a going concern.

- 3.2 Although the financial context continues to be challenging and uncertain the Authority has a track record of meeting its financial obligations and maintaining financial sustainability. For a number of years the Authority has delivered an outturn within its original budget. An Authority wide approach to the budget, which is service priority driven and over a medium-term planning horizon ensures that this continues to be the case.
- 3.3 The Annual Audit Report from Mazars includes a value for money opinion including detailed rationale behind their judgement, which considers the identification, monitoring and achievement of savings and also includes their view on the sustainability of the Authority. The latest report issued in relation to 2022/2023 concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and had no issues to report on the Authority's sustainability position.

#### **4. Current Position**

##### **Budgets 2023/2024**

- 4.1 Authority agreed the original revenue budget for 2023/2024 on 13 February 2023. This was set at £57.201m. The revenue outturn position is to be reported in June for 2023/2024, including any transfers to and from reserves but in the latest reported forecast presented to members in January 2024 the Authority was projecting an underspend of £0.607m. The projected outturn report is expected to confirm at least this positive position despite another challenging year financially, subject to final accounting entries being completed.
- 4.2 This is in addition to the revenue budget underspend in 2022/2023 of £1.914m and helps to show the continued and sustained budget efficiencies that the service achieves despite very challenging financial conditions.
- 4.3 The projected capital outturn position reported in January 2024 for 2023/2024 also forecast an overall underspend of £2.468m when compared to the revised budget of £16.626m, although further reductions are anticipated because of slippage to some schemes which are expected to be completed in the following financial year due to a variety of different reasons. This will mean that most capital projects / schemes will be delivered later than planned but will still be completed as the capital programme is fully funded. The resources required to complete these projects will also be 'slipped' to match the revised programme.
- 4.4 Revenue and capital monitoring is reported on a quarterly basis to Authority in accordance with the budget cycle framework.



**Audited Statement of Accounts 2022/2023**

4.5 The latest audited Statement of Accounts for 2022/2023 shows the health of the Authority's Balance Sheet which covered the following key points:

- The general reserve has been maintained at a planned level of £4.072m and this represented 7.9% of the 2022/2023 (£51.487m) revenue budget.
- Useable revenue reserves have decreased marginally from the peak at £40.908m (at 31 March 2022) to £39.061m (31 March 2023) which was planned as earmarked reserves are now being utilised for their specific purposes as required. The Reserves Strategy 2024/2025 to 2027/2028 also shows that this will be a continuing trend over the next 4 years with reserves forecast to fall to £6m by 31 March 2028 with the planned use of earmarked reserves.
- Long Term Assets have increased from £86m to almost £89m mainly due to an increase in the assets under construction.
- Current Assets have marginally reduced from £55m to £53m mainly due to a reduction in short term debtors.
- Current Liabilities have increased slightly from £12m to £14m mainly due to an increase in short term liabilities.
- Long Term Liabilities have reduced significantly from £993m to £732m mainly as a result of a reduction in pension liabilities as performance of the pension fund has improved.
- \*Net Liabilities have also reduced from £864m to £604m.

*\*It should be noted that whilst the Authority shows a net liability or a negative net worth of £603.518m, most of the implied 'deficit' relates to the pensions deficiency of £702.640m which must be disclosed as part of the international financial reporting standard IAS19 (Accounting for Pensions) requirements.*

*The fact that all pension costs would never be incurred in one year (as implied by IAS19), coupled with the fact that the Authority is addressing this potential deficiency over a 21 year period in accordance with pension regulatory requirements by making additional annual pension deficiency payments, means the Balance Sheet Net Worth is effectively being distorted by this reporting standard.*

*If this accounting requirement is removed, then the Authority has a 'real' net worth of £99.122m. The Authority has assets worth £88.867m and also cash backed reserves of £39.061m which further support the view that the Authority's Balance Sheet and finances are in fact healthier than implied by the published accounts which must comply with international reporting standards and is as such a going concern. This view is shared by our external auditor.*



**Actual Reserves at 31 March 2023**

- 4.6 A breakdown of the £39.061m revenue reserves as at 31 March 2023 is shown in the following table:

<b>Reserves</b>	<b>£000s</b>
<b>General Fund</b>	
General Fund Reserve*	(4,072)
<b>Total General Fund Reserve</b>	<b>(4,072)</b>
<b>Earmarked Revenue Reserves</b>	
Insurance Reserve*	(1,160)
PFI Smoothing Reserve*	(7,866)
Budget Carry Forward Reserve*	(900)
Medium Term Planning Reserve*	(1,000)
Capital Developments Reserve*	(24,145)
Transformation and Reform Reserve*	(500)
Resilience Reserve#	(500)
Injury Pension Reserve*	6,139
New Dimensions Reserve#	(653)
Mobilisation Smoothing Reserve*	(1,841)
ESMCP Revenue Reserve#	(993)
<b>Total Revenue Reserves</b>	<b>(33,419)</b>
<b>Earmarked Capital Reserves</b>	
Capital Receipts Reserve#	(1,403)
ESMCP Capital Reserve#	(167)
<b>Total Capital Reserves</b>	<b>(1,570)</b>
<b>Total Earmarked Reserves</b>	<b>(34,989)</b>
<b>Total Useable Reserves as at 31 March 2023</b>	<b>(39,061)</b>
*Total Reserves that prevent an increase in the revenue budget	(35,345)
#Total Reserves that support service delivery	(3,716)
	<b>(39,061)</b>

**5. Future Position – 2024/2025 Budget**

- 5.1 Authority agreed the original revenue budget for 2024/2025 on 19 February 2024. This was set at £63.373m, the budget was balanced by increasing council tax by 2.99%. There was no requirement to use reserves to balance the budget for 2024/2025 but it will depend on the level of future grant settlements if reserves are required to temporarily fund any budget gap identified over the medium term however savings and efficiencies will also help to reduce any long term reliance on reserves in the future.



- 5.2 The original budget for the Capital Programme for 2024/2025, as agreed by Authority on 19 February 2024, totalled £10.890m.
- 5.3 There are a number of factors, (the continuing impact of the EU exit and the pandemic, the war in the Ukraine and the recent cost of living crisis), which has continued to have an adverse financial impact on both the Authority's revenue and Capital programme positions with most of the impact being in significantly reduced business rates income and significantly increased costs (both wage and price inflation) because of the very high inflation experienced especially over the past two years. The recent position for public sector funding has not seen grant increases beyond meeting inflationary cost pressures with little to no real terms growth in budgets / funding. The overall budget position is therefore being monitored very closely to ensure that the Authority continues to achieve value for money services based on a prudent financial strategy of operating within its financial resources and taking a pragmatic and realistic view of future funding settlements.
- 5.4 Cash has been managed effectively to ensure a positive cash flow for the Authority throughout the financial year and this continues to be the position projected forward.
- 5.5 The revenue and capital budgets continue to be monitored monthly by the Executive Leadership Team and quarterly by Authority with any changes to budgets being agreed by Authority.
- 5.6 The Authority's General Reserve remains at £4.072m. This is 6.4% of the 2024/2025 revenue budget which is in accordance with both the Authority's MTFS principles and its Reserves policy and in line with best practice.

## **6. Future Position- Medium Term Financial Strategy (MTFS)**

- 6.1 The current MTFS covers the period 2024/2025 to 2027/2028 and this estimates a £3.3m shortfall in resources over the four year period although budget savings and efficiencies have yet to be identified for the next three financial years which are expected to reduce this position significantly. The MTFS will continue to be monitored and refreshed as required especially if any material changes should occur that impact upon the Authority's finances.
- 6.2 The continuation of one year settlements since 2020/2021 through to 2024/2025 makes financial planning very difficult and as such the MTFS will be subject to variations as more up to date information on costs and funding are known. From a financial perspective some of the cost pressures particularly pay awards and inflationary increases are not in the Authority's control but will still have both an immediate and longer-term impact on the Authority's finances. As a result, the Authority has taken into account these likely implications into account in its current MTFS planning and will continue to monitor the position to ensure forecasts are updated and revised accordingly for this or any other potential 'shocks' that may occur to the MTFS forecasts provided.



- 6.3 The Authority continues to provide value for money services within its available financial resources and continually seeks to generate efficiencies that it can then re-invest into its service priorities such as its CRMP proposals.
- 6.4 Reserve levels and their use will be kept under regular review and the latest position is set out in the Authority's revised Reserves Policy 2024/2025 to 2027/2028. This has now been refreshed and will be presented to members of the Authority at the June Authority meeting.
- 6.5 The MTFs is reviewed at least annually to ensure Members are aware of the latest estimated future financial position of the Authority. The last review was considered by Authority in February 2024 and this covered the period 2024/2025 to 2027/2028. The review incorporated estimated cost pressures facing the Authority, projected funding both from government and the level of locally generated income through council tax and business rates as well as performance of the Authority in delivering its planned services. The update also takes into account the CSR21 base data updated by inflation and recent government announcements on public sector funding, although disappointingly there has been no multi-year settlements which would have been more helpful in improving effective service and financial planning.
- 6.6 The Authority continues to actively look to streamline its processes in order to support effective decision making and make the best use of available capacity and resources. Opportunities for working in collaboration and partnership and different ways of working will be identified and developed where this will support the delivery of the Authority's outcomes and improve service efficiency and delivery. This will include working collaboratively with key partners to reduce costs and/or to generate additional income where appropriate.
- 6.7 The Authority continues to have an ambitious capital strategy and its key investment aspirations are based on the principles of delivering essential service improvements, invest to save schemes, or generating income streams which contribute to the Authority's services, the local economy and allows further capital investment.
- 6.8 Future risks for the Authority include the ongoing impact of high inflation, the continued changes in central government funding, increasing demand for services, the uncertainty concerning the possible move to 75% business rates retention, the unknown impact of the EU exit and other global events on the wider economy and the significant increased risk of inflationary cost pressures that are currently being experienced. These risks will continue to be monitored by the Executive Leadership Team and members of the Fire Authority as required and financial plans will be adapted to the possible changing resources scenario as appropriate.

## **7. Conclusion**

- 7.1 Based on the assessment undertaken, the Authority's Chief Finance Officer (Section 151 officer) view is that the Authority is aware of the challenges it faces and is equipped to continue to deliver its services taking account of its future



known risks and therefore the Authority is a going concern and the Statement of Accounts continue to be prepared on this basis.

**8. Recommendation**

- 8.1 It is recommended that Members note and make comment upon the report which will be reported to Fire Authority in June.

**Tyne and Wear Fire  
and Rescue Authority**

