

MEETING: 14TH JUNE 2021

SUBJECT: AUTHORITY'S STATUS AS A GOING CONCERN

REPORT OF THE FINANCE DIRECTOR

1. Purpose of the Report

- 1.1 The purpose of this report is to consider the Authority's status as a going concern and request that the Authority formally recognises and notes this position based on the evidence and assessment of the Finance Director.
- 1.2 Governance Committee scrutinised the report at its meeting held on 24th May 2021 and recommended that this report should be presented to full Authority and furthermore that the report and appendix should be provided to members of authority in advance of the formal meeting to be held in June.

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 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.

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. Over at least the past 10 years the Authority has always 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 Letter from Mazars includes a value for money conclusion, which considers the identification, monitoring and achievement of savings. The latest letter issued in relation to 2019/2020 concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

4. Current Position

Budgets 2020/21

- 4.1 Authority agreed the original revenue budget for 2020/21 on 17th February 2020. This was set at £49.961m. The revenue outturn position is to be reported in July for 2020/21, including any further transfers to and from reserves but based on the latest reported forecast presented to members in January 2021, the Authority was projecting an underspend of £1.490m and members had agreed a £1.000m transfer to the Transformation and Reform Reserve to help fund the Authority's TWFRS25 vision for the service from planned in-year budget reductions which were also inevitably impacted by the COVID-19 pandemic.
- 4.2 The projected capital outturn position reported in January 2021 for 2020/21 also forecast an overall underspend of £3.061m when compared to the revised budget of £8.133m, although further reductions were envisaged. All schemes had 'slipped' to some degree mainly because of the adverse impact of COVID-19. 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 however be 'slipped' to match the revised programme.
- 4.3 Revenue and capital monitoring is reported on quarterly basis to Authority in accordance with the budget framework.

Audited Statement of Accounts 2019/20

- 4.4 The latest audited Statement of Accounts for 2019/20 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 £3.944m and this represented 8.1% of the 2019/20 revenue budget.
 - Useable revenue reserves have increased by £3.778m to £35.771m as at 31 March 2020.

- Long Term Assets have decreased from £79m to £77m mainly due to the disposal of surplus assets in the year and a small decrease in the value of Property, Plant and Equipment.
- Current Assets have increased from £143m to £189m mainly due to an increase in both short term debtors and in cash and cash equivalents.
- Current Liabilities have increased from £8m to £11m mainly due to an increase in short term creditors.
- Long Term Liabilities have decreased from £989m to £908m mainly as a result of a decrease in pension liabilities.
- *Net Liabilities have decreased from £872m to £790m.

**It should be noted that whilst the Authority shows a net liability or a negative net worth of £789.890m, most of the implied 'deficit' relates to the pensions deficiency of £872.935m 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 £83.045m. The Authority has assets worth £77.161m and also cash backed reserves of £35.771m 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.

Reserves at 31st March 2020

- 4.5 A breakdown of the £35.771m revenue reserves as at 31 March 2020 is shown in the following table:

Reserves	£000s
General Fund	
General Fund Reserve*	(3,944)
Total General Fund Reserve	(3,944)
Earmarked Revenue Reserves	
Insurance Reserve*	(1,132)
Early Retirement Reserve*	(9)
PFI Smoothing Reserve*	(8,288)
Budget Carry Forward Reserve*	(1,688)
Medium Term Planning Reserve*	(1,336)
Capital Developments Reserve*	(9,325)

Transformation and Reform Reserve*	(8,335)
Resilience Reserve#	(3,500)
Injury Pension Reserve*	7,639
New Dimensions Reserve#	(767)
Covid19 Reserve*	(1,515)
ESMCP Revenue Reserve#	(1,163)
Total Revenue Reserves	(29,419)

Earmarked Capital Reserves

Capital Receipts Reserve#	(2,147)
ESMCP Capital Reserve#	(261)
Total Capital Reserves	(2,408)

Total Earmarked Reserves **(31,827)**

Total Useable Reserves as at 31st March 2020 **(35,771)**

*Total Reserves that prevent an increase in the revenue budget	(27,933)
#Total Reserves that support service delivery	(7,838)
	(35,771)

- 4.6 The audited statement of accounts for 2019/20 included the Annual Governance Statement which was approved by full Authority on 13 July 2020. This was further scrutinised by the Governance Committee's review of the evidence of assurance provided on the Authority's internal controls, risk management and governance arrangements. The statement concluded that the Governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework which adheres to best practice.

5. Future Position - 2021/22 Budget

- 5.1 Authority agreed the original revenue budget for 2021/22 on 15th February 2021. This was set at £48.542m, the budget was balanced by increasing council tax by 1.99%, budget savings of £4.711m and temporary use of reserves of £1.178m as government funding to guarantee 75% of the in-year 2020/21 Council Tax and Business Rates losses was not made available when the budget was approved. It is expected this funding will replenish the reserve once finalised by the government.
- 5.2 The original budget for the capital programme for 2021/22, as agreed by Authority on 15th February 2021, totalled £13.224m.
- 5.3 The pandemic has had a substantial financial impact on the Authority's revenue position. However additional government grant funding totalling £1.483m to date has been received to help the Authority address the additional costs incurred and income lost due to the pandemic. As mentioned above special grant is yet to be received by the Authority to compensate it for 75% of its losses in Council Tax and Business Rates incurred in 2020/21 which will replenish the temporary use of reserves approved when setting the revenue budget for 2021/22. The government also recognised that council tax and business rates may be

impacted in 2021/22 and the Authority was allocated an additional £0.872m to help with anticipated reduced council tax receipts. The overall budget position is being monitored closely as central government has indicated it will provide additional funds should they be required because of the ongoing effects of the pandemic on the public sector.

- 5.4 Cash has been managed effectively to ensure a positive cash flow for the Authority throughout the pandemic 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 to be agreed by Authority.
- 5.6 The Authority's General Reserve remains at £3.944m. This is 8% of the 2021/22 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 2021/22 to 2024/25 and this estimates a broadly neutral funding position over the four-year period. The MTFS however will be refreshed once the government release the details of their planned Comprehensive Spending Review 2021 (CSR21) in the summer.
- 6.2 During 2020 the Authority and its communities have been impacted by the COVID-19 Public Health crisis. The lives and livelihoods of all residents have been severely affected by the impact of the Coronavirus pandemic and the measures that have been put in place to control the infection. From a financial perspective some of the cost pressures and loss of income will 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 in its current MTFS planning as best as it can but will be monitoring the position to ensure forecasts are updated and revised as required.
- 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 IRMP 2020-2023 proposals and its TWFRS 25 vision.
- 6.4 Reserve levels and their use will be kept under regular review and the latest position is set out in the Authority's Reserves Policy 2020/21 to 2024/25 (attached as **Appendix 1** to this report for information). It should be noted that the temporary use of £1.178m of reserves was approved by Authority to balance the revenue budget for 2021/22, however these will be replenished when the government pay over grant in compensation for 75% of the Authority's in-year losses of both Council Tax and Business Rates income for 2020/21 as set out in the Chancellor's Autumn Budget announced in November 2020.
- 6.5 The MTFS is reviewed at least twice 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 2021 and this covered the period 2021/22 to 2024/25. The review incorporated estimated cost pressures facing the Authority, projected funding both from government and that locally generated income through council tax and business rates as well as performance of the Authority in delivering its planned services. An update is expected to be provided in the autumn reflecting the implications of the CSR21.

- 6.6 Due to the pandemic, the Authority's emerging priorities are providing support into communities, moving services to be more digital and supporting the voluntary and community sector and other government agencies in any way that we are able to.
- 6.7 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.
- 6.8 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.
- 6.9 Future risks for the Authority include the ongoing impact of the COVID-19 public health crisis, the continued changes in central government funding, increasing demand for services, the uncertainty concerning the possible move to 75% business rates retention, and the unknown impact of Brexit on the wider economy. 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 upon the Assessment undertaken and the evidence provided, the Finance Director's (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 will continue to be prepared on this basis.

8. Recommendation

- 8.1 It is recommended that the Authority notes the contents of the report and endorses the view that the Authority is considered to be a going concern based upon the Assessment from the Finance Director and the evidence provided in this report and that the Accounts of the Authority will continue to be prepared and approved on this basis.