

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item No: 7

GOVERNANCE COMMITTEE MEETING: 27 MAY 2022

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 Committee formally recognises this and furthermore recommends that this report is presented to full Authority for information.

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.

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 12 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 including rationale behind the judgement, which considers the identification, monitoring and achievement of savings and also includes their view on the sustainability of the Authority. The latest letter issued in relation to 2020/2021 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 2021/22

- 4.1 Authority agreed the original revenue budget for 2021/22 on 15th February 2021. This was set at £48.542m. The revenue outturn position is to be reported in July for 2021/22, including any further transfers to and from reserves but based on the latest reported forecast presented to members in January 2022, the Authority was projecting a broadly neutral budget position after already taking into account an underspend of £0.703m in November 2021 which was reported to members who agreed to transfer £0.700m 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 continuing impact of the COVID-19 pandemic.
- 4.2 The projected capital outturn position reported in January 2022 for 2021/22 also forecast an overall underspend of £0.347m when compared to the revised budget of £17.848m, although further reductions are envisaged. All schemes had 'slipped' to some degree mainly because of the continuing 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 be 'slipped' to match the revised programme.
- 4.3 Revenue and capital monitoring is reported on a quarterly basis to Authority in accordance with the budget cycle framework.

Audited Statement of Accounts 2020/21

- 4.4 The latest audited Statement of Accounts for 2020/21 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 £3.943m and this represented 7.9% of the 2020/21 (£49.961m) revenue budget.

- Useable revenue reserves have increased by £4.968m to £40.739m as at 31 March 2021.
- Long Term Assets have increased from £77m to £81m mainly due to a combination of the addition of 14 new fire appliances and also an increase in the assets under construction.
- Current Assets have marginally increased from £52m to £53m mainly due to an increase in cash and cash equivalents.
- Current Liabilities have also reduced slightly from £11m to £10m mainly due to a reduction in grants received in advance.
- Long Term Liabilities have increased from £908m to £1,000m mainly as a result of an increase in pension liabilities.
- *Net Liabilities have increased from £790m to £876m.

**It should be noted that whilst the Authority shows a net liability or a negative net worth of £876.227m, most of the implied 'deficit' relates to the pensions deficiency of £966.910m 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 £90.683m. The Authority has assets worth £80.993m and also cash backed reserves of £40.739m 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 2021

- 4.5 A breakdown of the £40.739m revenue reserves as at 31 March 2021 is shown in the following table:

Reserves	£000s
General Fund	
General Fund Reserve*	(3,943)
Total General Fund Reserve	(3,943)
Earmarked Revenue Reserves	
Insurance Reserve*	(1,128)
Early Retirement Reserve*	(5)
PFI Smoothing Reserve*	(8,231)
Budget Carry Forward Reserve*	(3,269)

Medium Term Planning Reserve*	(3,444)
Capital Developments Reserve*	(9,026)
Transformation and Reform Reserve*	(10,093)
Resilience Reserve#	(3,500)
Injury Pension Reserve*	7,139
New Dimensions Reserve#	(845)
Covid19 Reserve*	(1,742)
ESMCP Revenue Reserve#	(1,080)
Total Revenue Reserves	(35,224)

Earmarked Capital Reserves

Capital Receipts Reserve#	(1,403)
ESMCP Capital Reserve#	(169)
Total Capital Reserves	(1,572)

Total Earmarked Reserves **(40,739)**

Total Useable Reserves as at 31st March 2021 **(40.739)**

*Total Reserves that prevent an increase in the revenue budget (33,742)

#Total Reserves that support service delivery (6,997)
(40.739)

4.6 The audited statement of accounts for 2020/21 included the Annual Governance Statement which was approved by full Authority on 12 July 2021. 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 – 2022/23 Budget

5.1 Authority agreed the original revenue budget for 2022/23 on 14th February 2022. This was set at £51.487m, the budget was balanced by increasing council tax by 1.99%, budget savings of £3.712m and temporary use of reserves of £0.516m. It will depend on the level of future grant settlements if reserves are required to temporarily fund any budget gap identified however savings and efficiencies will also reduce any long term reliance on reserves.

5.2 The original budget for the capital programme for 2022/23, as agreed by Authority on 14th February 2022, totalled £12.655m.

5.3 The pandemic has continued to have an adverse financial impact on the Authority's revenue position with most of the impact being in significantly reduced business rates income. However an additional one-off government grant (Service Delivery Grant) of £1.072m has been received as part of the local government grant funding settlement for 2022/23 to help the Authority address the additional costs of the planned increase in Employers National Insurance costs and to meet other inflationary cost pressures. This funding was very timely but it would be

preferable if this grant was to continue into future years as the cost pressures are of a recurring nature. 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.

- 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 £3.943m. This is almost 8% of the 2022/23 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 2022/23 to 2025/26 and this estimates a £2.3m 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 however 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 During 2021 the Authority and its communities have still been impacted by the COVID-19 Public Health crisis, although things are beginning to return to normal. From a financial perspective some of the cost pressures and loss of income 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 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' to the MTFS forecasts.
- 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 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. This is currently being refreshed and will be presented to members of the Authority separately once completed.
- 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 2022 and this covered the period 2022/23 to 2025/26. 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 data published in the autumn and the one year settlement provided for 2022/23, although disappointingly there was no multi-year settlement which would have been more helpful in improving effective service 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 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, the unknown impact of Brexit 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. Recommendations

- 8.1 It is recommended that the Committee agrees that the Authority is considered to be a going concern based upon the assessment in this report and that the Accounts continue to be prepared and approved on that basis.
- 8.2 It is further recommended that this report is presented and agreed by the full Authority at its next available meeting.