

REPORT REFERENCE NO.	APRC/23/13
MEETING	AUDIT AND GOVERNANCE COMMITTEE
DATE OF MEETING	21 JULY 2023
SUBJECT OF REPORT	GOING CONCERN REVIEW
LEAD OFFICER	TREASURER
RECOMMENDATIONS	<i>That the report be noted.</i>
EXECUTIVE SUMMARY	<p>The Authority's External Auditors have requested a formal response from management over the ability of the Authority to continue as a going concern.</p> <p>This report contains a review of the financial position as at 31 March 2023 alongside an assessment of the ability of the Authority to continue operating for the foreseeable future.</p>
RESOURCE IMPLICATIONS	As indicated within this report.
EQUALITY RISKS AND BENEFITS ANALYSIS	N/A
APPENDICES	None
BACKGROUND PAPERS	Medium Term Financial Plan 2023-24 to 2026-27

1. INTRODUCTION AND BACKGROUND

- 1.1. Under International Audit Standards auditors are required to “obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements”, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.
- 1.2. This report is the fifth such report made to the Audit and Governance Committee and will consider the Authority's ability to continue as a “Going Concern” i.e. to deliver its functions and services for the foreseeable future, particularly focussing on the 12 month period following the Statement of Accounts balance sheet date of 31 March 2023.
- 1.3. The sustained period of Austerity since 2010 and resulting reductions to funding across Local Government now pose a significant threat to public sector organisations. As a consequence, the External Auditors, Grant Thornton LLP, are placing greater emphasis on the Authority's ability to continue as a Going Concern. There have also been several high profile cases of Local Authorities struggling to meet their financial and service delivery obligations which makes the ability to continue as a Going Concern of greater relevance. The COVID-19 Pandemic has had a significant impact on public sector finances and the Authority as a whole. This is covered in more detail below.

2. GOING CONCERN REVIEW

- 2.1. This report will consider the following factors which underpin the Authority's ability to operate as a going concern:
 - (a) The current financial position;
 - (b) The projected financial position;
 - (c) The balance sheet and Cash Flow;
 - (d) Governance Arrangements; and
 - (e) The regulatory and control environment.
- 2.2. Each of these elements will be considered in greater detail in the following sections.

3. THE CURRENT FINANCIAL POSITION

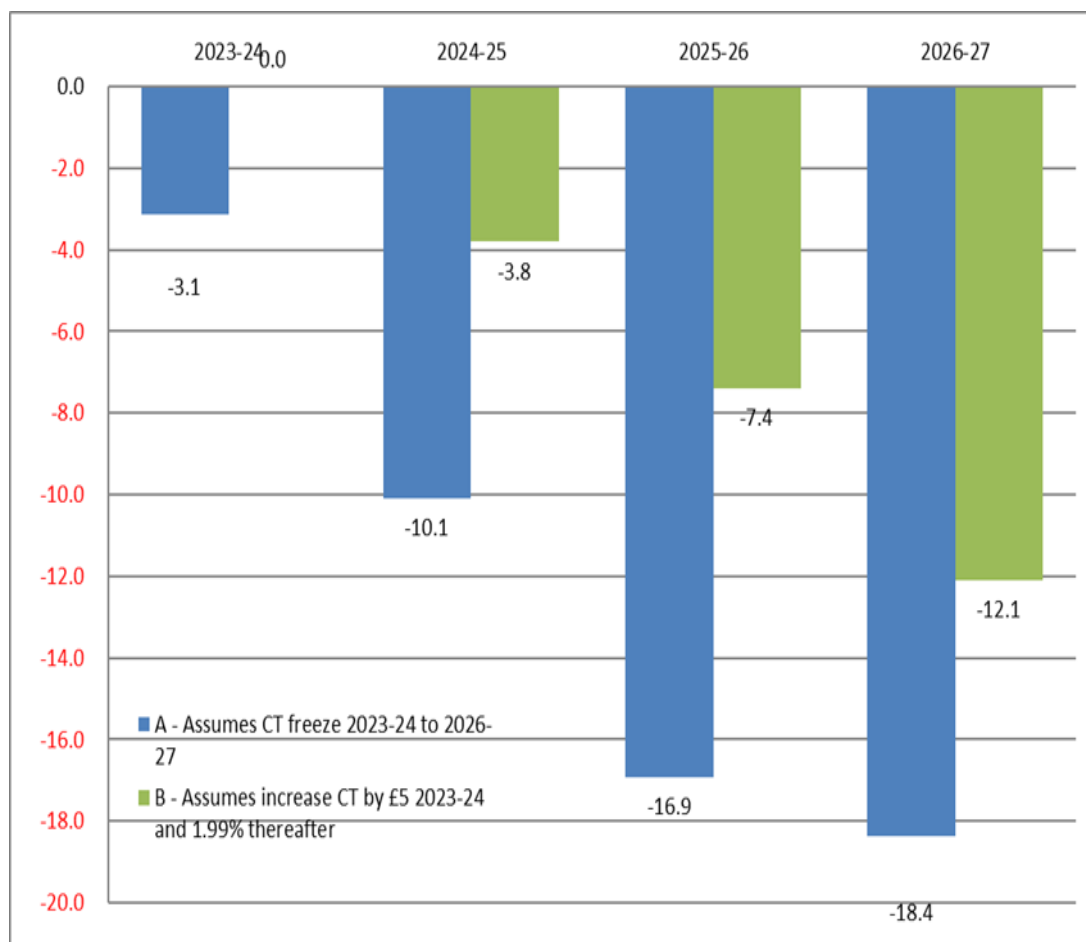
- 3.1. Total revenue spending in 2022-23 was £78.236m compared to an agreed budget of £77.289m, resulting in an overspend of £0.947m, equivalent to 1.23% of total budget. To ensure the revenue position was balanced at year-end, it was necessary to use reserves. A review of the reserves held was also undertaken with balances being moved to support other reserves where necessary. An example being an increase to the general fund balance to ensure the balance matched 5% of the 2023-24 net revenue budget.

- 3.2. The Authority has previously consistently delivered underspends against the revenue budget and has therefore built-up earmarked reserves of £22.777m and general reserves of £4.280m as at 31 March 2023. The strategy for use of those reserves and adequacy of the general fund is outlined in the Authority's Reserves Strategy which was reviewed and approved by the Authority on 11 May 2023.
- 3.3. The Authority has set a balanced budget for 2023-24 of £85.413m with £0.244m planned use of reserves in respect of grants received in advance of need. The revenue budget for 2023-24 was agreed by the Authority on 15 February 2023 using the latest intelligence available to the Service which included an anticipated pay award of 2% across the board. Since that date, the pay award for grey book staff (Firefighters) has been agreed at 5% with the green book staff pay award still being negotiated. Agreement was made at the Authority meeting on the 15 February to delegate the authority to the Treasurer to move up to £2.8m from reserves to fund the pay awards as necessary.
- 3.4. The Authority's main sources of funding are Council Tax and Business Rates income and central government grant funding. Levels of funding are agreed and set as part of the budget setting process which offers a guarantee that the income will be received for 2022-23. Any adjustments to Council Tax and Business Rates income are made via the collection fund budgeting process so will impact on future years.
- 3.5. Because there is surety of funding from billing authorities and central government, the main area of risk to the short-term financial position of the Authority is its ability to control expenditure. There are robust financial monitoring processes in place to review spend against budget, with reports presented monthly to the Executive Board and quarterly to the Resources Committee.

4. THE PROJECTED FINANCIAL POSITION

Revenue budgets

- 4.1. As outlined above, the predicted financial position for 2023-24 at year-end is for spend to be within the revenue budget. Expenditure from reserves is anticipated to be £14.9m within the financial year with projected balances of circa £12.2m at year-end.
- 4.2. In considering its annual budget requirement, the Authority reviews the Medium-Term Financial Plan (MTFP). In February 2023, a potential funding gap of between £12.1m and £18.4m was identified as shown in the chart overleaf. In order to close the funding gap, significant savings will need to be identified, the Authority's change programme, has been tasked with finding efficiencies along with potential changes to progress towards a model which will fit future funding.



- 4.3. The Authority has published its Medium-Term Financial Plan, which articulates the basis of the forecast, funding scenarios and the assumptions made and covers the five-year period to 2026-27.
- 4.4. The Authority was permitted to increase the Precept by up to £5 for 2023-24 which was a one-off concession. Until further information is available to inform financial strategy such as flexibility to increase the Precept by more than the current 1.99%, new targets cannot be established.
- 4.5. One of the current concerns to the Authority is inflation. The 2023-24 revenue budget was built with an assumption of 2% inflation on items such as payroll. Energy and vehicle fuel had presented large increases by February 2023 when the budget was agreed and so have been factored in. The Consumer Price Index (CPI) increase has remained stubborn for over the last 6 months and was still over 8% in June 2023. It is anticipated this will drop once the effects of interest rate rises are being felt.

Capital Budgets

- 4.6. Capital Budgets are set annually by the Authority as part of the budget setting process and are published alongside an indicative programme for the following three financial years. Funding requirements are identified as part of that planning cycle and for 2023-24 consist of a Revenue Contribution of £0.050m, Application of Existing Borrowing of £1.283m and use of Earmarked Reserves of £11.418m.

- 4.7. In considering the Capital Programme over a longer time period, an earmarked reserve of £6.0m is anticipated to be available for 2024-25 and beyond. However, the need to progress assets following a pause in replacement means that the Authority may need to borrow in 2025-26. There is sufficient funding to support capital expenditure in the short term with a need to rationalise assets if the programme is to be accelerated.
- 4.8. The long-term strategy of the Authority is to fully support the Capital programme through Revenue Contributions. This has been paused for 2023-24 and remains under consideration for 2024-25. Funding the capital programme in this way will prove to be a challenge in short to medium term, given the size of the current capital programme coupled with the pressure on the revenue budget.

5. THE BALANCE SHEET AND CASH FLOW

Balance Sheet Review

- 5.1. The draft unaudited Financial Statements of the Authority for year ending 2022-23 have been published on the website. They show a balance sheet deficit of £469.0m including a pension scheme deficit of £604.3m which must be included under accounting rules. Were the pension scheme deficit to be excluded, net assets of £135.2m would be reported, representing a small decrease of £1.5m over 2021-22.
- 5.2. Useable reserves were £27.1m as at 31 March 2023, a decrease of £8.7m since 2022-23. Reserves expenditure was on target with the plan for the year.
- 5.3. In order to determine and reach the conclusion that the Balance Sheet is robust, specific areas of consideration were identified and reviewed, which were:
- Debts owed to the Authority;
 - Net worth of the Authority;
 - Adequacy of provisions held;
 - Reserves set aside – either earmarked or not and whether actually committed; and
 - The adequacy of the General Fund Balance to meet unforeseen expenditure.

Cash Flow

- 5.4. Financial Assets (excluding debtors) of the Authority were £30.0m as at 31 March 2023 (a decrease of £5.2m since 2021-22) and are held as a mixture of short and long term investments. Income from central government and billing authorities is received throughout the year which enables robust forecasting of cash flow.
- 5.5. Cash flow is reviewed by officers on a daily basis so any risks can be identified and mitigated. In 2022-23 there were no instances where the bank accounts were overdrawn. The Service did take out one instance of short-term borrowing during March 2023 for one week to cover a temporary cash shortfall. A review was undertaken into this occurrence. The strategy was amended to ensure a minimal balance is held within the Money-Market funds to cover any large, unexpected payments to suppliers in future.

- 5.6. The Cash Flow forecast for the next 12 months has been reviewed. A continued healthy cash position is anticipated given the profile of income, revenue and reserves expenditure.

6. GOVERNANCE ARRANGEMENTS

- 6.1. Included within the agenda for this meeting (report APRC/23/11) is the draft Annual Statement of Assurance which makes up part of the suite of year end reporting. The Annual Statement of Assurance is reviewed taking account of external and internal audit reviews. Statements of assurance in the performance of internal controls and risk are sought from the management. The effectiveness of the Authority's governance arrangements are reviewed annually together with the evidence to support it and then presented to the Audit and Governance Committee.
- 6.2. Whilst it is not possible to secure absolute assurance, the annual review of the statement and assurance reports received during the year offers evidence arrangements are fit for purpose and effective.

7. THE REGULATORY AND CONTROL ENVIRONMENT

- 7.1. The Authority is required to operate within a highly legislated and controlled environment and particular emphasis of this can be exemplified and demonstrated with the financial controls in place. Examples of controls include the requirement of the Full Authority to approve a balanced annual budget, but within that to consider and have regard via assurance from the Treasurer as to the robustness of the budget, its estimates and the adequacy of reserves held.
- 7.2. The control environment is supported by the role of External Audit in auditing of the financial statements, the review of value for money and financial resilience. Further detail on the control environment of the Authority is available in the Annual Statement of Assurance elsewhere on this agenda (report APRC/23/11 refers).
- 7.3. The Service is also subject to a new inspection regime by Her Majesty's Inspectorate of Constabulary, Fire and Rescue Services, the latest inspection was undertaken during quarter 2 2021. The inspection report made reference to the performance of the Service in three areas: Effectiveness, Efficiency and People. The resulting improvement plan will be incorporated into the Authority's performance management reporting.

8. CONCLUSION

- 8.1. The Authority operates within a robust control environment which can be evidenced by review of its assurance arrangements such as External and Internal Audit processes, neither of which have identified any significant issues in the past year.
- 8.2. In addition to backwards looking assurance, financial and operational monitoring processes are in place to mitigate risks within the financial year and are regularly reported to management and those charged with governance.

- 8.3. Inflation is causing concern at this stage however, in reviewing the financial indicators contained within this report and planning assumptions regarding the Medium Term Financial Plan, Cash Flow and Reserves Strategy there is a high level of confidence that the Authority will be able to continue as a going concern for the foreseeable future.

SHAYNE SCOTT

Director of Finance & Corporate Services (Treasurer)