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Devon and Cornwall - Joint Leadership Board

Date: 26th August 2020

2019/20 GOING CONCERN ASSESSMENT

Reports may be submitted for one or more of the following purposes:

<i>For a decision from JLB</i>	
<i>To provide assurance to JLB regarding progress, process and/or performance</i>	x
<i>To seek direction/guidance from JLB regarding a course of action or arising issue</i>	
<i>To advise JLB in order to inform JLBs wider strategic decision making</i>	
<i>To seek approval from JLB for a particular course of action or change of direction</i>	

PURPOSE OF THE REPORT

The purpose of this report is to present the S151 Officers' assessment of Devon and Cornwall Police as a "going concern" for the purposes of producing the 2019/20 Statement of Accounts.

1. Introduction

- 1.1. The Code of Practice on Local Authority Accounting as published by the Chartered Institute of Public Finance and Accountancy requires that the presentation of the financial statements should be prepared on a "going concern" assumption. The assumption is that the functions of the PCC Group will continue in operational existence for the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the PCC Group will realise its assets and settle its obligations in the normal course of business.
- 1.2. Where the 'going concern' concept is not the case, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would have a fundamental impact on the financial statements.
- 1.3. Traditionally it has seemed very unlikely that a public sector body, effectively supported by government grant and direct tax raising, would fail to be a 'going concern'. It still of course remains highly unlikely. The requirement has primarily been for private companies who may be continuing to trade without having sufficient resources to do so. Given the significant reduction in funding in recent years, greater emphasis is now placed by auditors on undertaking an assessment of the 'going concern' basis on which the financial statements are prepared. In addition, some local authorities 'going concern' status has been under question recently given previous cuts, a reliance on car parking and other non-guaranteed income and significant investment decisions.
- 1.4. The s151 officers have, in liaison with the external auditors, produced this going concern report that evaluates the risk to the PCC Group of failing to assure a going concern basis.

2. Recommendation

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2.1. That the Resources Board notes the content of the report and supports the assessment that the PCC Group financial statements should be prepared on a going concern basis.

3. Going Concern Assessment

3.1. The main factors which underpin this assessment are:

- 2019/20 financial outturn position;
- Balance Sheet at 31/03/20;
- Medium-term Financial Strategy;
- Cash flow forecasts;
- Legal status;
- Governance arrangements

3.2. Each of the above is considered in more detail below.

The 2019/20 Financial Position

3.3. The 2019/20 final outturn position for the PCC Group showed expenditure of £311,035k against a budget of £312,102k resulting in an underspend of £1,067k. This underspend was transferred to the general reserves, and subsequently used to reduce the Local Government Pension Scheme deficit in the current year.

3.4. As at 31 March 2020, the PCC Group held revenue reserves of £43,922k including £32,551k earmarked reserves. A review of balances held in reserves is carried out at the budget setting process, during the year and at year end. The Reserves Strategy is produced annually with a risk assessment on the level of reserves available.

Balance Sheet as at 31 March 2020

3.5. In order to determine and reach the conclusion that the Balance Sheet is robust, specific areas of consideration were identified and reviewed, which were:

- Reserves
- Working Capital

Reserves

3.6. The Reserves Strategy seeks to maintain general balances at no more than 5% and no less than 3% of overall funding levels each year. Reserves that are no longer required for their intended purpose will be identified and made available for other defined priorities.

3.7. The table below shows the anticipated levels of reserves across the MTFS period.

Reserves	<i>2019/20 Agreed Plan £'000</i>	<i>2019/20 Actual outturn £'000</i>	<i>2020/21 Agreed Plan £'000</i>	2021/22 MTFS Plan £'000	2022/23 MTFS Plan £'000	2023/24 MTFS Plan £'000
Earmarked Reserves	23,338	32,551	23,115	12,210	5,239	1,048
General Balances	9,765	11,371	10,201	10,944	11,073	11,509
Total Reserves	33,103	43,922	33,316	23,154	16,312	12,557
Net revenue expenditure	312,103	312,103	332,277	343,089	353,816	365,685

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General balances %	3.1%	3.6%	3.1%	3.2%	3.1%	3.1%
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- 3.8. Earmarked reserves are reducing as they are released to support the capital programme, whilst the level of general balances is expected to remain above the 3% minimum level.

Working Capital

- 3.9. The Working Capital ratio indicates if an organisation has enough current assets to cover its current liabilities. A working capital greater than 1 indicates that the Force has enough current assets to pay current liabilities. Ratio calculations have been performed for 2017/18, 2018/19 and 2019/20, each year shows a ratio greater than 1 (1.18, 1.27, 1.14 respectively). There is no indication that creditors will increase or debtors decrease. Based on this and the last three year's ratios, it is assumed that this ratio level will continue over the MTFS period.

The Medium Term Financial Strategy (MTFS) – Revenue Budget

- 3.10. The MTFS was refreshed in February 2020 as part of the 2020/21 budget setting and covered the periods 2020/21 to 2023/24. A balanced revenue budget was presented for each of the four years, with net growth of 3% per annum 2021/22 onwards.

	19/20 Agreed Plan £000's	20/21 Agreed Plan £000's	21/22 MTFS Plan £000's	22/23 MTFS Plan £000's	23/24 MTFS Plan £000's
Net Revenue Expenditure	312,103	332,277	343,089	353,816	365,685
Funding	312,103	332,277	343,089	353,816	365,685

Increase:- 6% 3% 3% 3%

- 3.11. The budget makes assumption around levels of Police Grant, Precept income, savings levels, and pay and non pay expenditure and income.

Funding Assumptions	2019/20 Agreed Plan	2020/21 Agreed Plan	2021/22 MTFS Plan	2022/23 MTFS Plan	2023/24 MTFS Plan
Police Grant - Increase from previous year	2.22%	7.50%	2.50%	2.50%	2.50%
Precept - % increase	12.75%	4.41%	2.99%	2.99%	2.99%
Annual increase in tax base	1.40%	1.46%	1.75%	1.75%	1.75%
Annual surplus on Council Tax collection funds	£1.3m	£1.4m	£1.2m	£0.5m	£0.5m

Net Revenue Expenditure Assumptions	2019/20 Agreed Plan	2020/21 Agreed Plan	2021/22 MTFS Plan	2022/23 MTFS Plan	2023/24 MTFS Plan
Pay Award	2.50%	3.00%	3.00%	2.75%	2.75%
Police Officer Pension Contribution	31.00%	31.00%	31.00%	31.00%	31.00%
Police Staff (LGPS) Pension Contribution	14.10%	16.30%	16.30%	16.30%	16.30%
LGPS deficit (Lump Sum)	£2.113m	£0.522m	£0.522m	£0.522m	£0.522m
Non Pay Inflation	<i>Discretionary - subject to expenditure type</i>				
Permanent savings targets		£2.75m	£0.04m	£0.05m	£0.05m

- 3.12. The assumptions for future years were a robust and realistic forecast at the time, based on the current economic position of the country, alongside indications of trends from previous years. The COVID-19 pandemic has changed the economic outlook and these assumptions

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will be subject to review during the 2021/22 MTFS process. If funding assumptions are reduced there is flex within the net revenue assumptions to mitigate. The police officer pay award for 2020/21 has already been agreed at 0.5% lower than planned and it is now considered likely that future years would follow. Savings programmes are relatively small and there is not a heavy reliance on such programmes to balance budgets. The larger saving requirement in 2020/21 relates to a scheme that is underway and there is a high level of confidence in it delivering the saving requirement.

- 3.13. The government remain committed to the Uplift of 20,000 officers nationally. The MTFS assumes Devon & Cornwall will receive an additional 470 officers over the three years of the programme (year 1 = 141, year 2 = 188, year 3 = 141). The cost of the year 1 intake is fully built into the financial plan with the ongoing additional costs for year 2 and 3 assumed to be funded via a specific government grant.

The Medium-Term Financial Strategy – Capital

- 3.14. The capital plan as set out in the 2020/21 MTFS is as per the table below.

	2020/21 Agreed Plan £000'S	2021/22 MTFS Plan £000'S	2022/23 MTFS Plan £000'S	2023/24 MTFS Plan £000'S	Total
CAPITAL PROGRAMME					
Vehicles	2,526	2,425	2,425	2,425	9,801
Minor Building Works	1,750	500	500	500	3250
Major Building Works	4,145	14,383	5,000	0	23528
ICT	9,663	8,440	8,490	6,803	33,396
Equipment	948	2,068	365	365	3746
TOTAL PROGRAMME	19,032	27,816	16,780	10,093	73,721
CAPITAL FUNDING					
Grants	746	546	296	296	1,884
Reserves	3,781	9,533	6,451	4,921	24,686
Receipts	7320	0	1100	0	8420
Revenue Funding	3,690	3,637	3,933	3,862	15,122
Borrowing	3,495	14,100	5,000	1,014	23,609
TOTAL FUNDING	19,032	27,816	16,780	10,093	73,721

- 3.15. The four year capital programme totalled £73.7m, with £23.6m funded from borrowing, £15.1m revenue, £24.7m reserves, £8.4m capital receipts and £1.9m capital grants.
- 3.16. The cost of borrowing and revenue contributions are fully built into the revenue MTFS. Borrowing levels broadly equate to the investment in major buildings works, and are considered affordable. The boundaries for external debt are set out in the Treasury Management Strategy, and borrowing levels over the course of the MTFS are expected to be within these boundaries.

Cashflow

- 3.17. Treasury Management is under the direction of the Treasurer and its function is performed in accordance with the strategy and practices approved by the PCC.

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- 3.18. Both the CIPFA Code and government guidance require funds to be invested prudently, regarding the security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 3.19. At 31 March 2020 short term investments and cash equivalents were £15.231m. In the year to March balances ranged between £0.6m and £72m.
- 3.20. Cashflow projections over the MTFS period show similar monthly patterns to previous years. Assumptions on the PCC Group main sources of funding have been made. At the reporting date there is no indication that these levels will reduce. If reductions do occur, they can be mitigated by borrowing funds in accordance with the Treasury Management Strategy.

Legal Status

- 3.21. Police Forces are statutory bodies and it would take primary legislation to change that. The most likely event to cause a loss of legal status would be an amalgamation or change in legal governance. In previous cases (previous amalgamations, the creation of PCCs) primary legislation has ensured continuity of service and a transfer to a successor body. There is no indication of the potential for loss of legal status over the 2020/21 MTFS.

Governance

- 3.22. The Annual Governance Statement is reviewed on an annual basis taking account of external and internal audit reviews. The Governance Statement summarises the nature of corporate governance in the organisation and identifies any significant weaknesses in the Code of Corporate Governance and its implementation. The Governance Statement is reviewed by the Independent Audit Committee. The Annual Governance Statement for 2019/20 does not identify any significant weaknesses in the Corporate Governance Framework or its application.
- 3.23. Devon & Cornwall Police and the OPCS are required to operate within a highly legislated and controlled environment and their relationship is governed by legislation supplemented by Codes of Practice issued by the Home Office. They are subject to inspection by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services to ensure services are of a high standard. The Home Office also monitors the efficiencies achieved by police forces via annual returns.
- 3.24. The Group is subject to an audit regime controlled by the National Audit Office in terms of the standards of audit set out in the Audit Code of Practice. The external auditors are appointed independently, by Public Sector Audit Appointments and the standards of their work are reviewed by the Financial Reporting Council. The contents of the financial statements are governed by the Code of Practice on Local Authority Accounting. Failure to comply with its provisions would be a breach of the Local Government Finance Act 1988.
- 3.25. The Chief Finance Officer has to provide assurance that the annual budget is robust and based on reasonable assumptions. Similarly, the Treasurer has to provide the same assurance to the PCC and the Police and Crime Panel.
- 3.26. Like all public sector organisations the Group has to operate its systems and processes within adequate internal controls which are subject to internal audit review, with the results



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reported to an Independent Audit Committee. Furthermore, the Group takes part in national data matching exercises designed to identify and investigate potential fraud.

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