

**2022/2023 OUTTURN AND FINANCIAL REPORT****JOINT REPORT OF THE CHIEF FIRE OFFICER  
AND TREASURER****For Approval****1. PURPOSE OF REPORT**

- 1.1 To report the final outturn position against the approved 2022/23 budget.
- 1.2 To inform Members of the arrangements for approving the Authority's 2022/23 Financial Report and to provide a copy of the draft 2022/23 Financial Report.

**2. RECOMMENDATIONS**

- 2.1 That Members:-
  - i. Approve the 2022/23 Annual Governance Statement as detailed on pages 83 to 88 of **Appendix B**.
  - ii. Note that the Financial Report detailed in **Appendix B** will be subject to the completion of the independent audit by Mazars and details of any audit amendments will be reported to this Committee later in the year.
  - iii. Approve the submission to Mazars detailed in **Appendix D**.

**3. BACKGROUND**

- 3.1 In accordance with the Accounts and Audit Regulations 2015, all Local Authorities are required to produce a draft annual Statement of Accounts. For the previous two financial years the deadline had been extended from 31 May to 31 July owing to the impact of COVID.
- 3.2 The Government carried out a consultation within the sector to seek views on reverting the deadline for publication of the draft 2022/23 accounts to the 31 May. The Local Government Association and the majority of local authorities requested an extension to the 30 June 2023, one month earlier than the deadline for the 2021/22 accounts. Despite this the Government announced in March 2023 that the deadline was 31 May 2023.

- 3.3 Members will recall that the external auditors have not yet issued an audit opinion on the 2021/22 accounts. This is owing to Mazars requiring assurances from the Teesside Pension Fund auditors. This has also delayed the issue of audit opinions for the four Tees Valley councils. At a national level, capacity issues within audit firms mean 73% of 2021/22 audit opinions remain outstanding and consequently 2022/23 audit opinions will also be delayed.
- 3.4 In March 2023 the Teesside Pension Fund carried out its triennial review. The results of this review were considered to be such that they would impact on the 2021/22 pension reports used to produce the 2021/22 Statement of Accounts. This started discussions between the auditors of the Teesside Pension Fund, Mazars and the 4 Tees Valley Authorities.
- 3.5 It was agreed that the 2021/22 pension reports would require updating and that the changes would need to be reflected in the 2021/22 Statement of Accounts. This has been actioned. To be able to conclude their audit work, Mazars need a report from the Pension Fund auditor on the results of testing of the membership data provided by the Teesside Pension Fund to the actuary for the triennial revaluation exercise. It is expected that the Pension Fund auditor will be able to issue assurance to Mazars later this year and the 2021/22 accounts will be signed off in October.
- 3.6 This late change to the 2021/22 pension reports impacted on the actuary's ability to produce the 2022/23 pension reports in time for the 31 May deadline. The 2022/23 pension reports were received late on the 22 May 2023. This resulted in the Council missing the 31 May deadline. As required by the Accounts and Audit Regulations a public notice was placed on the Authority's website explaining the delay. The accounts were published on the Authority's website on 16 June 2023.
- 3.7 Although Mazars will commence the audit of the 2022/23 accounts in August, it is understood the audit work and issue of the audit opinion will not be completed by the deadline of 30 September 2023.
- 3.8 The pension issues referred to above will not affect the value of the Authority's usable reserves. Therefore, whilst the delay is frustrating, it does not impact on the Authority's ability to manage the 2023/24 budget and to begin financial planning for future financial years.

#### 4. **REVENUE POSITION AT 31<sup>st</sup> MARCH 2023**

- 4.1 The Authority continues to operate in an uncertain financial environment as separate one year Government grant allocations were made for 2021/22 and 2022/23. This position reflects a further delay in proposed national funding changes relating to the Fair Funding Review and increase in Business Rates Retention from 50% to 75%.

- 4.2 The Government grant allocation for 2022/23 was favourable and provided an increase in funding of £0.809m. This was the first significant increase since 2013/14, although it did not reverse previous reductions and Government funding in 2022/23 was £5.7m less than it was in 2013/14 – a reduction of 31%. To manage this position the Authority previously made significant changes to modernise services and achieve efficiencies, including a significant reduction in our workforce:
- 33% (162) reduction in whole time firefighters from 494 in 2010/11 to 332 in 2022/23
  - 33% (24) increase in on-call firefighters from 72 in 2010/11 to 96 in 2022/23
  - 25% (9) reduction in fire control posts from 26 in 2010/11 to 17 in 2022/23
  - 300% (3) increase in on-call fire control operators from 0 in 2010/11 to 3 in 2022/23
  - 12% (16.06) reduction in Green Book staff from 129.21 in 2010/11 to 113.15 in 2022/23
  - 50% (2) reduction in Gold Book Officers from 4 in 2010/11 to 2 in 2022/23
- 4.3 The budget for 2022/23 was set in February 2022, well before the full extent of inflation became known and the CPI peaked in October 2022 at 11.1%. National pay awards for support staff were agreed in November 2022 and for Fire Fighters in February 2023 (backed dated to July 2022). These factors made managing the 2022/23 budget extremely challenging. The Authority recognised these risks and the Chief Fire Officer managed the budget carefully, including managing vacant posts and deferring expenditure where this did not impact on operational delivery. This strategy also earmarked investment income to support the 2023/24 budget.
- 4.4 The net outturn was an underspend of £70,000, which was transferred to the General Fund reserve, as detailed on page 10 of **Appendix B**.

## 5. **CAPITAL POSITION AS AT 31 MARCH 2023**

- 5.1 Attached at **Appendix A** is a monitoring statement on each Capital scheme.
- 5.2 The 2022/23 capital works included significant slippage from 2021/22 mainly due to timing issues following Covid. Significant schemes in 2022/23 included the control mobilising system, purchase of foam equipment, and the installation of electric charging points across the Brigade. These costs were funded from a combination of Prudential Borrowing and the Capital Investment Programme Reserve.
- 5.3 Where expenditure has been re-phased from 2022/23 to 2023/24 capital resources have been carried forward to fund these commitments.

## 6. **BACKGROUND**

- 6.1 The Financial Report presents the Authority's financial position for 2022/23. In line with previous years the draft accounts are being reported to enable Members to ask questions.

- 6.2 The Financial Report is attached at **Appendix B**, which in summary provides the following information: -
- i) Authority Membership (as at 31.03.23)
  - ii) Narrative Report
  - iii) Statement of Responsibilities for the Statement of Accounts
  - iv) Statement of Accounts
  - v) Group Statement of Accounts
  - vi) Annual Governance Statement
  - vii) Draft Independent Auditor's Report
  - viii) Glossary of Terms
- 6.3 The narrative report provides an explanation of the Authority's overall financial performance for 2022/23 and outlines the impact of the current economic climate on the Authority's ongoing financial position. The report also provides a guide to the most significant matters reported in the Statement of Accounts including an explanation of the purpose of each of the core statements.
- 6.4 One of the key statements is the Balance Sheet which comprises two main balancing parts, Net Assets and Total Reserves, which represents the Authority's financial position as at the 31<sup>st</sup> March 2023.
- 6.5 The Net Assets section of the Balance Sheet shows the Authority's assets including Property, Plant and Equipment, Investments and Debtors and liabilities including Short and Long-term Borrowing and Creditors. The Authority's Balance Sheet reports negative Net Assets (i.e. net liabilities) and this is because of an accounting requirement in relation to pensions. This requires authorities to report the total pension liability if this was to be paid out in full as at 31<sup>st</sup> March 2023 i.e. if all employees and former employees drew down their current full pension entitlement as at 31<sup>st</sup> March 2023. In practice this situation would never arise and contributions to the pension schemes are adjusted over a period of time to mitigate the liability and are included as part of the budget setting process. For the Fire Fighters Pension Scheme the contributions include "Pension Top-up Grant" paid by the Government.
- 6.6 The Total Reserves section of the Balance Sheet is made up of Usable and Unusable Reserves. Unusable Reserves cannot be used to support services and include notional accounting gains and losses. These accounting gains and losses are referred to as unrealised. Included within Unusable Reserves is a negative Pension Reserve offsetting the pension liability outlined above.

- 6.7 Usable reserves are those which the authority can utilise to support future service provision and full details of these reserves are included in **note 23, page 52 of Appendix B**. This note provides a detailed explanations of each of the reserves held by the Authority and the most important reserve is the Budget Support Fund which is earmarked to manage financial risk and uncertainty.
- 6.8 The Usable Reserve as at 31st March, 2023 reflect the review of risks and reserves undertaken as part of the 2023/24 budget process. This position will be updated as part of the 2024/25 budget process and details will be reported to the full Authority.

## **7. ANNUAL GOVERNANCE STATEMENT**

- 7.1 The CFA has a statutory responsibility to ensure that its financial management is adequate and that there is a sound system of internal controls to facilitate the effective delivery of its functions, including arrangements for the management of risk. The Annual Governance Statement (AGS) is published as part of the Authority's Financial Statements and is detailed on pages **83 to 88 of Appendix B** and summarises the results of the annual review of internal controls. The AGS's primary function is to assess the adequacy of the Authority's governance arrangements, identify where those arrangements need to be improved and communicate to users and stakeholders how those improvements can be made and that better governance leads to better quality public services.
- 7.2 As Treasurer to the Fire Authority, I am responsible for conducting, annually, a review of the effectiveness of the Annual Governance Statement (AGS). The Annual Governance Statement has been reviewed and all significant internal control issues identified and updated.
- 7.3 The 2022/23 AGS assessment takes account of all recent internal and external assessments, inspections and audits.
- 7.4 No significant governance issues have been identified for 2022/23. However, in the interests of improving and developing governance arrangements a Governance Improvement Action Plan has been produced and included in the 2022/23 AGS. Progress will be monitored through the Authority's Performance Monitoring and Management System, with progress reports, circulated during 2022/23, to Officers and Members, enabling scrutiny through the Audit and Governance Committee.
- 7.5 An Internal Audit Review of the Fire Authority's Annual Governance Statement has been undertaken and a copy of the resulting letter from the Head of Audit and Governance is attached at **Appendix C** and states:
- Key systems are operating soundly and that there is no fundamental breakdown in controls resulting in material discrepancy. Satisfactory arrangements were implemented to ensure the effective, efficient and economic operation of Cleveland Fire Authority's financial affairs.

**8. INFORMATION REQUESTED BY MAZARS**

- 8.1 International Auditing Standards require external auditors to ask management and those charged with governance about arrangements the body has put in place:
- to prevent and detect fraud; and
  - to comply with applicable law and regulations.
- 8.2 **Appendix D** details the recommended response to be submitted to Mazars.

**9. CONCLUSIONS**

- 9.1 The 2022/23 Financial Report has been prepared in accordance with the relevant accounting standards. The report enables the Audit and Governance Committee to review the draft Financial Report.
- 9.2 The Draft Financial Report detailed in **Appendix B** will be subject to independent audit by Mazars and details of any material amendments will be reported to Audit and Governance Committee later in the year.
- 9.3 The Chartered Institute of Public Finance and Accountancy has issued a checklist of questions Members may wish to ask to assist in the understanding of an Authority's financial statements. This has been included at **Appendix E** and Members are advised that the Authority's Financial Report complies with these requirements.

**IAN HAYTON**  
**CHIEF FIRE OFFICER**

**CHRIS LITTLE**  
**TREASURER**