

**2020/2021 OUTTURN AND FINANCIAL REPORT****REPORT OF THE TREASURER AND CHIEF FIRE OFFICER****For Approval****1. PURPOSE OF REPORT**

- 1.1 To report the final outturn position against the approved 2020/21 budgets.
- 1.2 To inform Members of the arrangements for approving the Authority's 2020/21 Financial Report and to provide a copy of the draft 2020/21 Financial Report.

**2. RECOMMENDATIONS**

- 2.1 That Members:-
  - i. Approve the 2020/21 Annual Governance Statement as detailed on pages 82 to 86 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 this Committee on 19<sup>th</sup> November 2021.
  - iii. Approve the submission to Mazars detailed in Appendix D.

**3. REVENUE POSITION AT 31<sup>st</sup> MARCH 2021**

- 3.1 The Authority continues to operate in an uncertain financial environment as separate one year Government grant allocations were made for 2020/21 and 2021/22. 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%.
- 3.2 There is also financial uncertainty in relation to Pensions Funding from 2022/23. Fire and Rescue Authorities (FRAs) currently receive a specific Pensions Grant which the Government has indicated will be mainstreamed from 2022/23. There is a risk this funding may change if a different distribution formula is used. The Authority currently receives a Pensions Grant of approximately £1.4m.

3.3 Against the continuing financial uncertainty and the impact of the Covid pandemic the Chief Fire Officer managed the 2020/21 revenue budget extremely carefully and details of the revenue outturn are summarised below which reflects the following key issues:

- **Employee costs** – there was a 4% underspend (£0.927m) on the pay budget which reflects a higher than anticipated number of retirements and phasing of recruitment during the Covid pandemic. Clearly this position was operationally challenging, although we maintained services to our community and supported the Covid response across a range of areas.
- **Supplies and Services** – costs were higher (£0.395m) which reflected the costs of the Covid response (£0.237m) and excess expenditure in relation to communications, computing equipment, furniture and materials (£0.158m). These costs were funded from the Covid-19 and FireLink grants.
- **Income and grants** - were greater than budgeted (£0.908m) which reflects additional grants received Covid, ESMCP, Grenfell costs, Business Risk Review and Protection Uplift (high rise) and New Dimension. These grants have either been used to meet expenditure in year or carried forward to 2021/22 to meet future commitments.
- **Contributions to Reserves** – a number of contribution we made reserves in relation to the Budget Support Fund – which supports financial resilience; Commissioned Services – to fund expenditure in 2021/22; Collection Fund deficit – to address the impact of Covid on Council Tax and Business Rate income; Property Reserve – to fund schemes deferred from 2020/21.
- **Contribution to Grant Reserves** – as detailed above under the bullet point “Income and Grants” a number of grants received in 2020/21 related to financial commitments in 2021/22.
- **Transfer to Budget Support Fund** - a final additional contribution of £0.425m was made, which will help the Authority manage ongoing financial risks and uncertainty. A strategy for using the Budget Support Fund will be developed as part of the 2022/23 to 2024/25 Medium Term Financial Strategy – although this will be predicated on the Government providing a three year grant settlement.

SUMMARY OF 2020/21 REVENUE OUTTURN

	Approved Budget	Actual Expenditure/ (Income)	Variance from approved Budget Adverse / (Favourable)
	£'000	£'000	£'000
<b><u>Operational Costs</u></b>			
Employee Costs	23,580	22,653	(927)
Premises Costs	1,678	1,718	40
Supplies & Services	2,592	2,987	395
Transport Costs	678	674	(4)
Support Services	357	356	(1)
Capital Financing Costs	838	826	(12)
Income / Grants	(1,052)	(1,960)	(908)
Section 31 Grant - Business Rates	(456)	(589)	(133)
Section 31 Grant - Pension	(1,409)	(1,409)	-
COVID Grant	-	(137)	(137)
<b><u>Contribution to Reserves</u></b>			
Budget Support Fund	171	671	500
Commissioned Services	-	38	38
Collection Fund Deficit	-	133	133
Property Reserve	-	196	196
<b><u>Contribution to Grant Reserves</u></b>			
Covid Reserve	-	137	137
Grenfell Action Plan	-	197	197
New Dimensions Grant	-	61	61
<b>Transfer to Budget Support Fund</b>	<b>26,977</b>	<b>26,552</b>	<b>(425)</b>

**4. CAPITAL BUDGET**

- 4.1 Attached at **Appendix A** is a monitoring statement which includes physical as well as financial information on each Capital scheme. In summary the majority of the spend in 2020/21 related to the completion of Queens Meadow Training Centre, completion of Stockton Fire Station, ongoing construction of five water tenders and operational equipment. These costs were funded from a combination of Prudential Borrowing and the Capital Investment Programme Reserve.
- 4.2 Where expenditure has been re-phased from 2020/21 to 2021/22 capital resources has been carried forward to fund these commitments.

**5. THE 2020/21 PRE-AUDIT FINANCIAL REPORT**

- 5.1 In accordance with the Accounts and Audit Regulations 2015, all Local Authorities are normally required to produce an annual Statement of Accounts by 31<sup>st</sup> May. These regulations have been temporarily relaxed owing to the impact of Covid and the deadline for 2020/21 is 31<sup>st</sup> July. The draft accounts were published on the Authority's website on 16<sup>th</sup> July 2021.
- 5.2 The Financial Report presents the Authority's financial position for 2020/21. In line with previous years the draft accounts are being reported to enable Members ask questions.

- 5.3 The Financial Report is attached at **Appendix B**, which in summary provides the following information: -
- i) Authority Membership
  - 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
- 5.4 The narrative report provides an explanation of the Authority's overall financial performance for 2020/21 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.
- 5.5 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 2021.
- 5.6 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 2021 i.e. if all employees and former employees drew down their current full pension entitlement as at 31<sup>st</sup> March 2021. 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.
- 5.7 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.

- 5.8 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.
- 5.9 The Usable Reserve as at 31st March, 2021 reflect the review of risks and reserves undertaken as part of the 2021/22 budget process. This position will be updated as part of the 2022/23 budget process and details will be reported to the full Authority. An analysis of comparative reserves information at 31<sup>st</sup> March 2021 is summarised below:

Comparison of Reserves as a percentage of budget for 29 standalone FRAs

- Range of Reserves - 24% to 80%
- 10 FRAs above 50%
- 17 FRAs higher percentage than Cleveland
- 12 FRAs lower percentage than Cleveland
- Cleveland 39%
- Average FRAs 47%

**6. ANNUAL GOVERNANCE STATEMENT**

- 6.1 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 **82 to 86 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.
- 6.2 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.
- 6.3 The 2020/21 AGS assessment takes account of all recent internal and external assessments, inspections and audits.

- 6.4 No significant governance issues have been identified for 2020/21. However, in the interests of improving and developing governance arrangements a Governance Improvement Action Plan has been produced and included in the 2020/21 AGS. Progress will be monitored through the Authority's Performance Monitoring and Management System, with progress reports, circulated during 2021/22, to Officers and Members, enabling scrutiny through the Audit and Governance Committee.
- 6.5 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.

## **7. INFORMATION REQUESTED BY MAZARS**

- 7.1 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.
- 7.2 **Appendix D** details the recommended response to be submitted to Mazars.

## **8. CONCLUSION**

- 8.1 The 2020/21 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. The audit document and the External Auditors report will be reported to a future meeting of the Committee, currently scheduled to be 19<sup>th</sup> November 2021.
- 8.2 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**