Item No. 5b

Tyne and Wear Fire and Rescue Authority
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Minutes of the meeting of the GOVERNANCE COMMITTEE held in the Fire and Rescue Service Headquarters, Barmston Mere on Monday 24 MAY 2021 at 10.30 a.m.

Present:

Mr G. Cook in the Chair

Councillors Burdis, Dodds, Flynn, Hunter and Woodwark.

In Attendance:

Cameron Waddell (Mazars)

Apologies for Absence:

Apologies for absence were submitted to the meeting on behalf of Mr Knowles, Miss Goodwill, Councillor Kilgour and CFO Lowther.

The Chairman expressed his thanks to Mr Knowles for acting as Chairman during his period of absence.

Declarations of Interest

There were no declarations of interest.

Minutes

18. RESOLVED that the minutes of the meeting of the Governance Committee held on 8 March 2021 were confirmed and signed as a correct record.

DCFO Heath referred to Page 2, in particular the programme of works which had been established under TWFRS 2025 and commented that this would be shared with all Members of the Fire Authority. Councillor Burdis welcomed this and suggested that it be incorporated within the Members Training Programme.

ACFO McVay referred to Page 3 and advised Members that a lot of work was being undertaken in relation to the Service Improvement Plan and that an update report would be submitted to the next meeting of the Committee.

Internal Audit – Annual Report 2020/2021

The Head of Internal Audit submitted a report to consider the performance of Internal Audit for 2020/2021, areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Service.

Members were advised that performance during the year was shown at Appendix 1 of the report. Although not all of the KPIs were achieved, this was due to delays in getting documentation and responses from the required officers within the Service which was understandable given the pressures of responding to the COVID-19 pandemic and whilst unusual, was completely understandable, given a heavier workload as a result of the Pandemic.

It was envisaged that progress on achieving all KPIs would be back on track for 2021/22.

The findings of the 2020/21 audits had been taken together with the findings of audits from the previous two years to form an opinion on each of the identified key risk areas, and an opinion on the adequacy of the overall system of internal control for the Authority. The detailed analysis of these opinions was provided at Appendix 2 of the report.

Members were asked to note that the overall opinion from the previous 3 years was substantial, and that whilst a few areas had been highlighted as amber, they were nothing of concern to bring to the attention of Members.

The Committee was advised that Internal Audit continued to comply with the Public Sector Internal Audit Standards through the standards being built into audit working practices. This was confirmed during a review of Internal Audit by the external auditors, Mazars in December 2018.

The Chairman referred to Page 13 and asked for further information in relation to the PFI Contract Management Arrangements and was advised that discussions had taken place with external providers and that a follow up audit would be undertaken which would show that issues had been addressed and that evidence was available to evidence the actions taken.

Councillor Burdis asked for further information in relation to the ICT Systems Development and DCFO Heath outlined each of the actions and reviews, together with the progress made to date, to assure members that issues were being addressed.

Councillor Woodwark commented that the PFI Contract was a moveable feast given that the longer the contract had run, more issues could be raised and questioned whether there was anything that the Committee should be aware of. The Finance Director responded by advising that the Authority was liaising with Contractors to ensure that they were adhering to the terms of the contract and that the aim was to ensure that all PFI buildings were in the best possible condition once the contract had ended.

In response to a question from Councillor Flynn querying whether inspection visits had been undertaken, the Finance Director explained that Internal Condition Surveys were undertaken of all the Authority's PFI buildings to highlight any areas of concern and Facilities Management had also undertaken their own year end review. A copy had been requested to ensure that both parties were in agreement which would be used to better inform future repairs and upgrades etc.

In summary, Members were advised that the report provided assurance that sufficient audit work was completed within the year to enable an opinion on the service's internal control environment, with no high or significant risk issues being identified.

Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2020/21, it was considered that overall, throughout the Service, there continued to be a good internal control environment

19. RESOLVED that the contents of the report be noted.

Audit Strategy Memorandum 2020/2021

The Finance Director submitted a report detailing the external auditors Audit Plan which notified the Authority of the work that they were proposing to undertake in respect of the audit of the financial statements and the value for money conclusion for the financial year 2020/2021.

Members were advised that the audit fees had been maintained at £23,590 for the 2020/2021 audit, which was the same level set for 2019/2020 and were in accordance with the agreed scale fees guidance provided by Public Sector Audit Appointments Ltd (PSAA). Mazars had however, had to incur additional work to complete their audits in the past two years and an additional fee of £3,652 was charged for the late changes to pension disclosures for the 2018/19 Statement of Accounts and an additional fee of £9,923 was made in respect of the additional audit work involved in completing the 2019/20 accounts to reflect changes in external auditing requirements and more detailed work needed on the Authority's pensions and asset valuations. There were also changes to the way the value for money conclusion would be reported in 2020/21 and an expectation that audit fees would increase generally as the PSAA and the recent Redmond Review acknowledged that current scale fees were underestimated based on the fact external auditing work had increased and that there were also fewer accountancy firms actively involved in the public sector market.

Cameron Waddell advised the Committee that the scope of audit work had recently changed, with expectations being increased and also to include 'Going Concern'. The new Code also changed the Electors Rights, where objections could be raised by any Members of the Public that felt that unlawful accounting practices had taken place for example deliberate manipulations. Mazars confirmed that no objections or issues had been raised.

Members were advised that in relation to timelines, the key thing to note was that the deadline for the Authority to produce its unaudited accounts had been extended by two months from the end of May to the end of July. Mazars were aiming to complete the external audit by September/October, however works would commence sooner if possible.

In relation to risks the following areas had been identified:

- Management Override Controls - Management at various levels within an organisation were in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there was a risk of material misstatement due to fraud on all audits;
- Net Defined Benefit Liability Valuation - The financial statements contained material pension entries in respect of retirement benefits. The calculation of these pension figures could be subject to significant volatility and included estimates based upon a complex interaction of actuarial assumptions. This resulted in an increased risk of material misstatement; and
- Valuation of Property, Plant and Equipment - The Authority employed a valuation expert to provide information on valuations, however there remained a high degree of estimation uncertainty associated with the (re)valuations of PPE due to the significant judgements and number of variables involved.

Councillor Woodwark questioned whether there was an occasion where an electorate had raised an objection or any causes for concern and was advised that this was an extreme circumstance and had never happened with TWFRS.

Councillor Woodwark then referred to section 8 of the report (Materiality and other Misstatements) and questioned where the £1.320m had been derived from and was advised that Mazars set a benchmark percentage to calculate this figure.

With regards to Value for Money, Members were advised that whilst Mazars were still required to be satisfied that the Authority had proper arrangements in place, they would now report by exception in the auditor’s report where they had identified significant weakness in those arrangements. This was a significant change to the requirements under the previous Code which required External Auditors to give a conclusion on the Authority’s arrangements as part of the auditor’s report.

Under the new Code, the key output of work on VFM arrangements would be a commentary on those arrangements which would form part of the Auditor’s Annual Report.

The Code required external auditors to structure their commentary to report under three specified criteria:

- Financial sustainability – how the Authority planed and managed its resources to ensure it could continue to deliver its services;

- Governance – how the Authority ensured that it made informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness – how the Authority used information about its costs and performance to improve the way it managed and delivered its services

20. RESOLVED that the contents of the report be noted.

Authority's Status as a Going Concern

The Finance Director submitted a report to consider the Authority's status as a going concern and requested that the Committee formally recognised this and furthermore recommended that the report was presented to full Authority for information.

Councillor Burdis commented that it would be useful if the minutes of the Committee were included within the agenda for the next Fire Authority meeting and also commented that it would be beneficial for the document to be forwarded to all Members in advance of the meeting.

Members were advised that Authorities were required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector meant that the Chief Finance Officer (Section 151 officer) may need to consider whether action was 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 believed expenditure was likely to exceed incoming resources in the current or in any future year.

Although the financial context continued to be challenging and uncertain the Authority had a track record of meeting its financial obligations and maintaining financial sustainability. Over at least the past 10 years the Authority had always delivered an outturn within its original budget.

The Finance Director explained that the assessment which had been made was evidence based and centred around 5 key points as follows:

- Budgets 2020/2021

The Authority agreed the original revenue budget for 2020/21 and was set at £49.961m. The revenue outturn position was to be reported in July for 2020/21, including any further transfers to and from reserves but based on the latest reported forecast presented to members in January 2021, the Authority was projecting an underspend of £1.490m and members had agreed a £1.000m transfer 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 COVID-19 pandemic

The projected capital outturn position forecasted an overall underspend of £3.061m when compared to the revised budget of £8.133m, although further reductions were envisaged. All schemes had 'slipped' to some degree mainly because of the adverse impact of COVID-19. This would mean that most capital projects / schemes would be delivered later than planned but would still be completed as the capital programme was fully funded. The resources required to complete these projects would also however be 'slipped' to match the revised programme.

Members were assured that the Capital Programme was funded from either reserves or internal funding and did not rely upon borrowing. In addition, it was regularly scrutinised to ensure that only necessary items of expenditure were included.

- Audited Statement of Accounts

Referring to section 4.4 of the report, Members were advised that the latest audited Statement of Accounts for 2019/20 showed the health of the Authority's Balance Sheet which covered the following key points:

- The general reserve had been maintained at a planned level of £3.944m and this represented 8.1% of the 2019/20 revenue budget, which was well within the tolerances.
- Useable revenue reserves had increased by £3.778m to £35.771m as at 31 March 2020.
- Long Term Assets had decreased from £79m to £77m mainly due to the disposal of surplus assets in the year and a small decrease in the value of Property, Plant and Equipment.
- Current Assets had increased from £143m to £189m mainly due to an increase in both short term debtors and in cash and cash equivalents.
- Current Liabilities had increased from £8m to £11m mainly due to an increase in short term creditors.
- Long Term Liabilities had decreased from £989m to £908m mainly as a result of a decrease in pension liabilities.
- Net Liabilities had decreased from £872m to £790m.

Members were asked to note that whilst the Authority showed a net liability or a negative net worth of £789.890m, most of the implied 'deficit' relates to the pensions deficiency of £872.935m.

If this accounting requirement was removed, then the Authority had a 'real' net worth of £83.045m. The Authority had assets worth £77.161m and also cash backed reserves of £35.771m which further supported the view that the Authority's Balance Sheet and finances were 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 was shared by the external auditor.

- Reserves at 31st March 2020

The Finance Director referred Members to section 4.5 of the report which detailed a breakdown of the £35.771m revenue reserves as at 31 March 2020.

- Future Budget Position – 2021/22 Budget

Members were advised that Authority agreed the original revenue budget for 2021/22 which was set at £48.542m, the budget was balanced by increasing council tax by 1.99%, budget savings of £4.711m and temporary use of reserves of £1.178m as government funding to guarantee 75% of the in-year 2020/21 Council Tax and Business Rates losses was not made available when the budget was approved. It was expected this funding would replenish the reserve once finalised by the government, which was expected around January.

The original budget for the capital programme for 2021/22, totalled £13.224m.

The Finance Director explained that the pandemic had had a substantial financial impact on the Authority's revenue position. However additional government grant funding totalling £1.483m to date had been received to help the Authority address the additional costs incurred and income lost due to the pandemic. The special grant was yet to be received by the Authority to compensate it for 75% of its losses in Council Tax and Business Rates incurred in 2020/21 which would replenish the temporary use of reserves approved when setting the revenue budget for 2021/22. The government also recognised that council tax and business rates may be impacted in 2021/22 and the Authority was allocated an additional £0.872m to help with anticipated reduced council tax receipts.

Cash had been managed effectively to ensure a positive cash flow for the Authority throughout the pandemic and this continued to be the position projected forward.

The Authority's General Reserve remained at £3.944m. This was 8% of the 2021/22 revenue budget which was in accordance with both the Authority's MTFS principles and its Reserves policy and in line with best practice.

- Future Position – Medium Term Financial Strategy (MTFS)

Members were advised that the current MTFS covered the period 2021/22 to 2024/25 and this estimated a broadly neutral funding position over the four-year period. The MTFS however would be refreshed once the government released the details of their planned Comprehensive Spending Review 2021 (CSR21) in the summer.

Reserve levels and their use would be kept under regular review and the latest position was set out in the Authority's Reserves Policy 2020/21 to 2024/25 (attached as Appendix 1 to the report). Members were asked to note that the temporary use of £1.178m of reserves was approved by Authority to balance the revenue budget for 2021/22, however these would be replenished when the government pay over grant in compensation for 75% of the Authority's in-year losses of both Council Tax and Business Rates income for 2020/21 as set out in the Chancellor's Autumn Budget announced in November 2020.

The Finance Director explained that based on the assessment undertaken, the view was that the Authority was aware of the challenges it faced and was equipped to continue to deliver its services taking account of its future known risks and therefore the Authority was a going concern and the Statement of Accounts continued to be prepared on this basis.

Councillor Burdis referred to Page 75 and asked for an explanation in relation to the Resilience Reserve. The Finance Director responded by advising that this would be used if there was a threat for the Fire Authority to continue to provide its service and was therefore a key reserve. This had therefore been bolstered on the basis of prudent financial planning. This reserve could only be used if there was an underspend on the revenue budget and had therefore been increased to £3.5m from £2m.

Councillor Hunter referred to the Business Rates and expressed her concerns given that due to the Pandemic, more buildings were vacant and questioned whether this would impact on the Revenue Budget. The Finance Director responded by advising that recognition had been given within the Medium Term Financial Plan to acknowledge that Business Rates may not grow and could in fact fall. As a result, a zero growth position had been assumed.

Councillor Woodwark thanked the Finance Director for the report, acknowledging that these were based on unknowns and best estimates at the time of writing.

21. RESOLVED that:

(i) The Committee agreed that the Authority was considered to be a going concern based upon the assessment in the report and that the Accounts continued to be prepared and approved on that basis; and

(ii) The report be presented and agreed by the full Authority at its next available meeting.

Members Safety Briefing

22. RESOLVED that the contents of the report be noted.

(Signed) G. COOK,
Chairman