# CHESHIRE FIRE AUTHORITY

**MEETING OF : FIRE AUTHORITY**
**DATE : 21st SEPTEMBER 2016**
**REPORT OF : CHIEF FIRE OFFICER AND TREASURER**
**AUTHOR : HEAD OF FINANCE**

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## SUBJECT : FINAL ACCOUNTS 2015-16

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## Purpose of Report

1. The Authority is required to approve its final accounts for publication before the end of September. This report provides an overview of the accounts, which should be considered in conjunction with the Grant Thornton Audit Findings Report presented prior to this item.

2. Copies of the accounts have not been attached to this report because of their considerable length. Hard copies of the accounts will be made available in group rooms prior to the meeting and are available on the internet for Members to access.

## Recommended that:

[1] the accounts are formally approved for publication;
[2] the current balances of the Authority's reserves are noted;
[3] the Authority's' underspend in 2015-16 is transferred to the capital reserve; and
[4] the Letter of Representation is approved and the Chair of the Authority is authorised to sign it (attached as Appendix 1).

## Background

3. The draft final accounts were reported to the Closure of Accounts Committee on 22nd June 2016.

4. The End of Year Finance and Performance Report 2015-16, reported to the Fire Authority meeting in June, identified a forecast underspend against the Authority's revised budgets of £941k.

## Final Accounts

5. The Authority's external auditors, Grant Thornton, have now completed their audit and intend to issue an unqualified opinion. This means that they are satisfied that the accounts fairly reflect the financial position of the Authority. The Audit Findings Report also comments favourably on the systems of internal financial control and includes a positive value for money conclusion.

6. An issue which affects the accounts has emerged since the Closure of Accounts Committee. The Authority was notified in mid August of an adjustment to the business rates provision made by Cheshire East Council. This impacts on the Authority's accounts because it is required to include 1% of each of the four billing authorities' business rates provisions in its own accounts. This has the effect of reducing the income on the Authority's Comprehensive Income and Expenditure Statement (CIES), and increasing the Authority's provisions which are shown on the Balance Sheet. These entries satisfy the appropriate International Financial Reporting Standards. However, the Authority is not permitted to allow these entries to affect the General Fund Balance, and so the amount of the provision is removed from the CIES and is charged to an unusable reserve, the Collection Fund Adjustment Account, in the Movement in Reserves Statement.

7. The effect of the change by Cheshire East has increased the level of its provision, leading to an increase in the Authority's provision of around £36k. The Authority discussed this issue with its external auditors and, because of the relatively small amount involved, and because of the fact that that there is no impact on the General Fund, the accounts have not been changed to reflect this adjustment. It is therefore shown in the report of the external auditor at the previous item on the agenda as an unadjusted misstatement.

8. Following the Audit, the Authority has agreed to make some minor changes to the draft accounts as signed off by the Treasurer and presented to the Closure of Accounts Committee. These affect the notes but do not affect the position on the Authority's Comprehensive Income and Expenditure Statement or Balance Sheet. They include an additional table in the narrative report showing more detail on the capital expenditure.

9. The accounts show an underspend of £941k against the revised revenue budget of £42,456. Details of this may be seen in Note 2 on pages 37 and 38 of the accounts. The budget is revised after the quarterly performance reports to Performance and Overview (P&O) Committee and the Authority during the year. In total for 2015-16 these reports projected an underspend of £2,039k, including the £941k reported at year end. It is recommended that the underspend is transferred into the capital reserve to fund future capital expenditure.

10. The Authority has adopted a financial health target that requires the final outturn position on the revenue budget to be within 1% of the revised budget. The actual figure is 2.21%. As Members will be aware, the Authority has anticipated and prepared for reductions in expenditure necessary to balance future years' budgets and fund capital expenditure, and this is reflected in the level of underspend in 2015-16.

11. The Authority's Balance Sheet shows a significant liability of £474,002k in respect of pensions as a result of the need to account for liabilities under International Accounting Standard (IAS)19. This standard requires the Authority to estimate all its future pension liabilities, in respect of existing pensioners and current staff, and does not represent an immediate call on resources. It is a liability which is discharged over the lifetime of pensioners and staff.

12. The effect of IAS19 is that it makes the Balance Sheet look as though the Authority is significantly indebted. Whilst future pension liabilities cannot be

ignored, removing the liability under IAS19 would show that the Authority's net assets are worth £76,930k

## Reserves

13. The Authority's overall reserve position is shown in the Movement in Reserves Statement on page 15 of the accounts. The Authority has significant usable reserves of £36,714k. Some of the most important are explained below, in particular those relating to IRMP, the capital element of the Emergency Response Programme (ERP) and other capital projects. At this particularly challenging time, it is considered prudent to ensure that the Authority retains the capability to quickly respond to changing circumstances and the ability to call on reserves forms a key part of the Authority's financial strategy as it makes changes to the delivery of its services.

14. The General Reserve has a balance of £7,409k which mitigates against the possibility of a significant financial consequence arising in the event of any of the Authority's corporate risks materialising. The next risk assessment of the level of this reserve will be conducted early in 2017 in order to inform the 2017-18 budget setting process.

15. The most significant earmarked reserves held by the Authority are the IRMP and Capital Reserves, which together amount to around £23m. However, the conclusion of the building of the new stations and safety centre to deliver the capital element of ERP in this financial year and early 2017-18 will utilise a significant part of these reserves. The remainder will be used to support the revenue and capital impact of future IRMP related projects, and other capital projects.

16. In addition the Authority has earmarked reserves to support the purchase of operational equipment and personal protective equipment, and to support the development of ICT systems.

## Capital

17. The Authority invested £6,058k in non-current assets in 2015-16. This includes significant expenditure on the capital element of the ERP. The Authority has a financial health indicator which requires slippage to be no more than 25% of the capital programme. The budget report presented to Members in February 2015 recognised that this target would not be met in 2015-16, as a result of the timings of the approvals process for the delivery of the capital element of the ERP, and delays in acquiring vehicles. Overall slippage is around 68%, but this is as a result not only of ERP, but also in delaying the acquisition of new vehicles and the impact of Blue Light Collaboration. ERP has now moved on quickly, and the purchase of new vehicles is moving forward as specifications have been finalised and procurement processes improved. Slippage in capital projects will continue to be monitored but it is anticipated that there will be a significant improvement by the end of 2017-18.

## Letter of representation

18. Each year, the Authority is required to sign a letter of representation to the Auditors. The letter explains the Authority's responsibilities in relation to the audit, and a copy is attached to this report as Appendix 1. It is recommended that the Authority approve the letter and authorise the Chair to sign it.

## Financial Implications

19. This report deals with financial matters. There are no direct budgetary implications as a result of the report.

## Legal Implications

20. The approval and publication of the accounts meets the Authority's legal obligations.

## Equality & Diversity Implications

21. There are no equality and diversity implications arising from this report.

## Environmental Implications

22. Copies of the accounts will be made available in electronic format, but the number of hard copies published will be kept to a minimum in recognition of the environmental impact.

**Background Papers**

**Appendix 1 – Letter of Representation**