

CHESHIRE FIRE AUTHORITY

MEETING OF : **CLOSURE OF ACCOUNTS COMMITTEE**
DATE : **28 JUNE 2017**
REPORT OF : **HEAD OF FINANCE**
AUTHOR : **WENDY BEBBINGTON**

SUBJECT : **2016/17 DRAFT FINAL ACCOUNTS**

Purpose of Report

1. To allow Members to have sight of the draft final accounts prior to their approval by the Treasurer.

Recommended: That Members

- [1] Note the draft accounts and enclosed going concern document prior to them being approved by the Treasurer.

Background

2. The Treasurer is required to approve the Authority's draft annual accounts by the end of June and in support a draft set of accounts is reported to the Closure of Accounts Committee for scrutiny and comment. Once approved by the Treasurer the draft accounts are subject to External Audit. Members wishing to raise any issue in respect of the accounts may therefore do so during the period of the audit. When the audit is complete, the accounts are formally considered for approval by the Fire Authority in September. The Auditors have already commenced their work, although the Treasurer will not formally approve the accounts until after the Closure of Accounts Committee has taken place.

Information

3. A copy of the Narrative Report included in the draft accounts is attached as Appendix 1 to this report. This provides an introduction to the accounts. The draft accounts themselves form a substantial document - to avoid excessive printing, hard copies have not been enclosed with this report. A copy of the draft accounts will be placed on the internet in the week before the Closure of Accounts Committee and hard copies will be made available at the meeting. Should any Member wish to receive a hard copy in advance of the meeting, please contact Joanne Smith in Democratic Services. The Finance Team will provide Members with a detailed presentation of the accounts at the meeting.

4. An important supporting document to the accounts is the Authority's Annual Governance Statement, which explains how the Authority manages its governance and internal control measures. This now forms part of the Annual Statement of Assurance, a draft copy of which was considered at the meeting of the Governance and Constitution Committee on 12 June 2017. It is therefore no longer considered by the Closure of Accounts Committee.
5. Appendix 2 to this report explains the Treasurer's view as to why the Authority should be considered as a going concern. This is an important consideration in the context of preparation and audit of the annual accounts, and Members are asked to consider whether they agree with the Treasurer's conclusion.
6. For 2016/17 the accounts include a new statement called 'The Expenditure and Funding Analysis'. This statement shows how annual expenditure is used and funded from Government grants and council tax by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's services and departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.
7. On 10 February 2016 the Authority approved the 2016/17 revenue budget of £42.03m together with a capital programme of £2.62m. Budget monitoring reports have been presented to the Performance and Overview Committee on a quarterly basis focussing on the forecast outturn position and revisions to the overall budget in response to changes in year. At the end of the financial year the Authority reported an outturn underspend of £1.5m which will be transferred to reserves as shown on the Expenditure and Funding Analysis Statement within the accounts.
8. The Authority started 2016/17 with £36.7m of usable reserves and by the end of the financial year these had reduced to £28.1m reflecting the investment made through the Emergency Response Programme in new fire stations and the Safety Centre at Lymm together with the annual vehicle replacement programme.

Financial Implications

9. The accounts report the financial performance and position of the Authority, and as such are a key part of ensuring that the finances of the Authority are properly managed.

Legal Implications

10. The approval of the accounts before 30 June by Members is not now a statutory requirement. However, the Treasurer is required to formally approve the accounts before 30 June, and Members are required to approve the audited accounts by 30 September.
11. From 2017/18 the deadlines for the approval of accounts will change. The accounts will need to be signed off by the Treasurer by 31 May, and will need to be approved by the Authority by 31 July. Plans are in place to deliver the accounts within the new deadlines and the relevant Member meetings will be timetabled accordingly.

Equality and Diversity Implications

12. There are no Equality and Diversity implications arising from the report.

Environmental Implications

13. 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.

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BACKGROUND PAPERS:

Appendix 1

Narrative Report

1. Introduction

- 1.1 Welcome to the 2016/17 Cheshire Fire Authority Statement of Accounts. Cheshire Fire Authority (the Authority) is the public body which manages the Fire and Rescue Service on behalf of local communities. The Authority is responsible for providing an efficient and effective fire and rescue service which protects the communities and infrastructure of Cheshire. It is made up of 23 elected Members, with eight appointed by Cheshire East Borough Council, seven by Cheshire West and Chester Borough Council, three by Halton Borough Council and five by Warrington Borough Council.
- 1.2 Cheshire Fire and Rescue Service's mission is a Cheshire where there are no deaths, injuries or damage from fires and other emergencies. The service is led by the Chief Fire Officer and Chief Executive (CFO) and operates out of 27 fire stations and its current headquarters in Winsford.

2. Financial Statements

- 2.1 For 2016/17 these accounts include a new statement called 'The Expenditure and Funding Analysis' which is included on page 10. This statement shows how annual expenditure is used and funded from Government grants and council tax by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's services and departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on page 12.
- 2.2 The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. It shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. This Statement has a strong link to the Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement.

- 2.3 The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. It essentially captures the inflow and outflow of resources for the financial year up to 31 March, which have been received or incurred as part of the ordinary activities of the Authority. A key figure is the (Surplus)/ Deficit on Provision of Services for 2016/17 which shows a deficit of £14.3m compared to £6.2m in 2015/16. This has increased by £8.1m compared to 2015/16 due mainly to higher IAS 19 pension costs, higher depreciation costs and lower grant income.
- 2.4 The Balance Sheet is a statement showing the Authority's assets and liabilities i.e. what is owned and what is owed as at 31 March. The net impact of this is funded by Reserves, which is the residual interest in the assets of the Authority after deducting all of the liabilities. The 'net worth' shows the net position of the Authority and is calculated by deducting total liabilities from total assets. This was £451.3m in 2016/17 compared to £397.1m in 2015/16. This is mainly due to changes in the pension liability.
- 2.5 The final Primary Statement is the Cashflow Statement. This shows the changes in cash and cash equivalents of the Authority during the financial year. The statement shows how the Authority generates and uses cash by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

3. Financial Performance 2016/17

- 3.1 Where does the Fire Authority get its revenue funding from?
- 3.1.1. The Authority receives over half of its revenue funding from its share of the council tax (called the precept) which is collected by the four local authorities (Cheshire East; Cheshire West and Chester; Halton; and Warrington). The precept approved by the Authority for 2016/17 was increased by 1.99% (£71.86 compared to £70.46 in 2015/16 based on a Band D property). In addition to the precept, the Authority receives its share of any surplus or deficits on the council tax collection funds. For 2016/17 this amounted to a surplus allocation of £0.46m (£0.33m 2015/16).

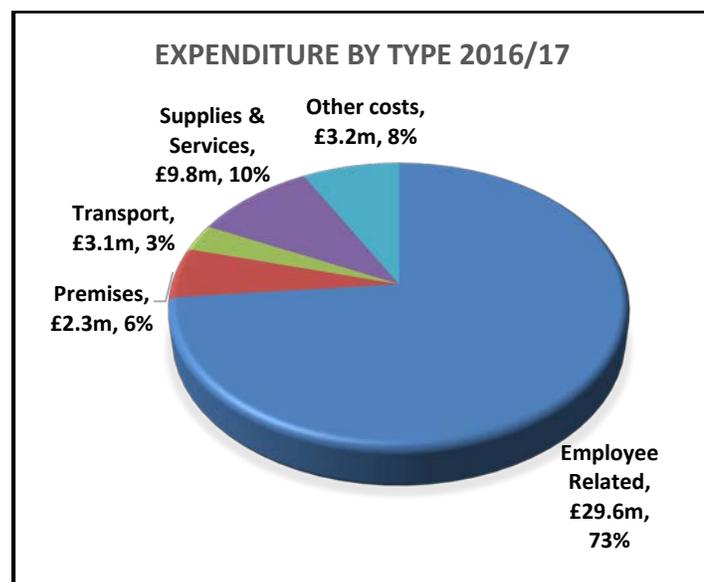
3.1.2. The majority of the balance of revenue funding was received from Central Government and the four local authorities in the form of the Settlement Funding Assessment. This can be broken down into two elements – Revenue Support Grant and Baseline Funding Level. Revenue Support Grant is determined by Central Government and allocated based on a formula. Baseline Funding Level is the amount which Central Government determines should be receivable by the Authority for its share of business rates as collected by the four local authorities. However, the amount of business rates due is not sufficient to meet the Baseline Funding Level so Central Government also pays the Authority a ‘top-up’ grant to meet the shortfall.

3.1.3. The funding amounts for 2016/17 are:

Funding	£000	£000	%
Council Tax		(25,540)	60.8
Council Tax - surplus / deficit		(457)	1.1
Revenue Support Grant	(7,370)		17.5
Business Rates	(4,643)		11.1
Top-up' Grant	(4,173)	(16,186)	9.9
Business Rates - surplus / deficit		152	(0.4)
Total		(42,031)	

3.2 What does the Fire Authority spend its money on?

3.2.1. As a service, the majority of its expenditure relates to employee costs. The following chart shows a breakdown of what was actually spent in 2016/17 by expenditure type.



3.2.2. On 10 February 2016 the Authority approved the 2016/17 revenue budget of £42.03m together with a capital programme of £2.62m. Budget monitoring reports have been presented to the Performance and Overview Committee on a quarterly basis focussing on the forecast outturn position and revisions to the overall budget in response to changes in year.

3.2.3. At the end of the financial year the Authority reported an outturn underspend of £1.5m which will be transferred to reserves. Details are shown in the table below:

Service Area	Budget £000	Actual £000	Variance £000
Firefighting & Rescue Operations	23,946	23,243	(703)
Protection	1,571	1,547	(24)
Prevention	1,936	1,874	(62)
Support Services	10,048	9,803	(245)
Capital & Other Costs	4,530	4,045	(485)
	42,031	40,512	(1,519)
Council Tax	(25,997)	(25,997)	0
Settlement Funding Assessment	(16,034)	(16,034)	0
Net Total	0	(1,519)	(1,519)

3.2.4. The main reason for this underspend as reported to the Authority at its meeting on 21 June 2017, is due to lower than anticipated pay costs; contingencies set aside at the start of the year which were not required in year; and business rate income received.

3.2.5. The Authority holds a number of reserves in support of its transformational programmes and to support the delivery of the Integrated Risk Management Plans (IRMPs). These are explained in detail within the accompanying draft accounts (Note 19, page 44).

3.3 Capital

3.3.1. During 2016/17 the Authority invested £13m as follows:

Capital Expenditure	2016/17 £000
New Station Builds	9,905
Fire Appliances	1,209
Hydraulic Platforms	982
Other Vehicles	167
Operational Equipment	784
Total	13,047

3.3.2. During 2016/17 two new fire stations were opened:

Powey Lane, Mollington is a new whole-time Fire Station near to the M56 and forms part of a comprehensive plan to improve response times across Cheshire. Not only does it house traditional fire engines but also a number of specialist vehicles intended to deal with risks specific to the local area in Chester and Ellesmere Port, such as heritage buildings and industrial complexes. The location near to the motorway network provides these vehicles with ready access to respond to other incidents across the whole of Cheshire



Penketh Fire Station was officially opened by the Lord Lieutenant of Cheshire, David Briggs MBE in February 2017 in front of an audience of local councillors, Cheshire Fire Authority members, invited guests and children from St Vincent's Primary School. The Station will help to fulfil the Service's mission to make Cheshire safer and continue to reduce rates of death and injury from fire and other emergencies. The building is also unique in that it is Cheshire's first station to have a sedum rooftop which complements the existing greenery of the location and enhance the building's sustainable credentials.



4. Non-financial Performance 2016/17

- 4.1 In 2015 the Fire Authority approved a five year strategy "Planning for a Safer Cheshire" which outlined the challenges facing almost every aspect of the organisation and set out the overarching principles and direction of travel it would adopt in responding to them. Annual action plans set out in more detail

the projects and work scheduled for the forthcoming financial year – an approach which fulfils the Authority’s statutory requirement to produce an Integrated Risk Management Plan (IRMP) reflecting up-to-date risk information and outlining how resources will be used. The IRMP also includes a summary of performance for 2016/17 with the headline performance indicators shown below.

Headline performance indicators	Target	Performance for 2016-17
• Emergency response to life risk incidents within 10 minutes	80%	87%
• Reduce the number of accidental house fires by 10% compared to the previous five year average	370	401
• Reduce the number of injuries in accidental house fires by 20% compared to the previous five year average	26	29
• Deliver a minimum of 40,000 Safe and Well Assessments to high risk households	40,000	36,962
• Reduce the numbers of false alarms from automatic systems in non domestic premises by 30% compared to 2016-17	1,036	1,122
• Reduce the numbers of deliberate fires by 16% compared to the previous five year average	1,253	1,127
• Reduce the numbers of fires within business premises by 20% compared to the previous five year average	151	176
• Limit staff sickness to no more than 5.5 days lost per person per year	5.5	2.64

For further details please follow the link <http://www.cheshirefire.gov.uk/about-us/key-documents/irmp>.

5. Pension Liability

5.1 The Authority as a responsible employer encourages its employees to participate in one of the pension schemes it operates. Firefighters have access to four schemes dependent upon when they joined. These are the 1992 Firefighter Pension Scheme; the 2006 Firefighter Pension Scheme; a modified version of the 2006 scheme; and the Firefighter Pension Scheme 2015. For non-firefighters, the Local Government Pension Scheme (LGPS) is available.

5.2 Under the International Accountings Standards (IAS19), the way in which pensions are reported within these accounts must reflect the full liability incurred for future pension costs in the year it is earned. Therefore, each year the value of the liability is calculated by the Authority’s actuaries and is shown on the balance sheet as a long-term liability. The large pension liability shows

what the Authority would owe if it had to pay all the pensions for all the existing and retired firefighters and staff in the pension schemes on 31 March. This would not happen as the actual payment of such pensions is made over many years and is funded by future contributions from firefighters and staff, together with Government funding.

6. Future Developments & Plans

- 6.1 As part of the Emergency Response Programme, during 2017/18 the Authority will open the new Lymm Fire Station and Safety Centre. Safety Central is part of a £4 million investment by Cheshire Fire Authority in community safety. The striking circular building, which is located opposite Lymm Services on the A50, features four interactive hi-tech learning zones, designed to simulate the most common avoidable harms in the community. The centre's free education programmes have been designed to help those most at risk recognise dangers and gain the skills and knowledge to stay safe, well and independent. It will open its doors September 2017 and more than 3,600 young people from across Cheshire, Halton and Warrington are already booked to visit.
- 6.2 The Authority has agreed to collaborate with Cheshire Constabulary. It will create a joint headquarters at Clemonds Hey and joint support services will deliver to Fire and Police. The programme to deliver this has progressed significantly during 2016/17 with IT services now being jointly delivered. The remaining services will be transferring to a joint provision during 2017/18 with the joint headquarters being created in the summer of 2017.

Appendix 2

Cheshire Fire Authority as a Going Concern

An underlying assumption to the accounts is that the Authority is a going concern for the foreseeable future.

The Authority delivers services which are essential to the communities it serves. Should the Authority find itself in financial difficulty, those essential services would continue to be delivered by Central Government or another agency.

The Authority has an annually approved Medium Term Financial Plan (MTFP) which models the Authority's estimated financial position in the current year and the next three years, informed by a set of assumptions about factors such as cuts in government support, pay and price inflation, council tax increases etc. This is the key tool by which the Authority measures its future financial viability. The latest version approved by Members shows that the Authority needs to save approximately £3.9m between 2017 and 2021. The MTFP is regularly reviewed by Members and officers, and the latest version will be considered by Members during the summer. Future savings will be addressed by the further changes to the delivery of services (both operational and support).

The Authority has almost completed three new fire stations and a Safety Centre during 2016/17. The Authority has the grant and reserve funding in place to build these without borrowing. It has a relatively low level of debt and has a strategy of continuing to fund its capital programme from revenue or reserves wherever possible. This is especially important if Capital Grant is no longer available to fund core expenditure such as the replacement of vehicles.

The Authority has recognised that the savings which it needs to make may lead to a need to temporarily bolster its budget from reserves, as there may be a time lag between the recognition of savings in the budget and their actual delivery. Underspends achieved in recent years have therefore been earmarked to an IRMP reserve in part to enable this, and also to help fund capital costs. This allows the Authority to undertake reviews and deliver savings in a more measured way than might otherwise be possible.

The Authority's high level cash flow forecast shows that the Authority maintains a cash surplus for the life of the MTFP, given the assumptions underlying the MTFP.

The Authority maintains a corporate risk register, which is used to report on risk, including that which relates to finance. This is regularly reviewed and the potential impact of finance risks coming to fruition is included in this process.

The Treasurer considers that taking all these matters into account, it is reasonable to conclude that the Authority should be viewed as a going concern and the Authority is able to adopt that basis in preparing its accounts.