

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 24TH JULY 2019
REPORT OF: TREASURER
AUTHOR: ALLAN RAINFORD AND WENDY BEBBINGTON

SUBJECT: FINAL ACCOUNTS 2018-19

Purpose of Report

1. The Authority is required to approve its audited Statement of Accounts for publication on or before 31 July. This report summaries the changes that have been made to the unaudited Statement of Accounts.
2. The Statement of Accounts includes the Annual Governance Statement which the Authority is also required to approve and publish on or before 31 July.
3. Copies of the Statement of Accounts have not been attached to this report because of their considerable length. Hard copies will be available in group rooms prior to the meeting and are available on the internet for Members to access.

Recommended that:

- [1] The Annual Governance Statement for 2018/19 be approved;
- [2] The Statement of Accounts for 2018/19 be approved;
- [3] The movement on reserves, as shown in the accounts, be noted; and
- [4] The Letter of Representation, as detailed at Appendix 1 to this report, be approved for signature by the Chair on behalf of the Authority.

Background

4. The unaudited Statement of Accounts for 2018/19 was reported to the Performance and Overview Committee acting as the Closure of Accounts Committee on 29 May 2019. The Annual Governance Statement for 2018/19 was also considered by the Closure of Accounts Committee. This provided an opportunity for Member scrutiny before its inclusion with the accounts.
5. The Authority at its meeting on 19 June 2019, considered an End of Year Financial Report which indicated that there had been an underspend of £0.7m compared to budget in the final quarter of the financial year. This brought the overall underspend compared to budget to £3m for the full year.

Statutory Requirements

6. The Accounts and Audit Regulations 2015 (the Regulations) set out the requirements for the production and publication of the annual Statement of Accounts. To comply with the Regulations the unaudited Statement of Accounts were approved by the Treasurer before 31 May 2019 following consideration by the Closure of Accounts Committee.
7. The Regulations require the audited Statement of Accounts, including an updated "Treasurer's Certificate", to be approved by the Authority on or before 31 July 2019. At the time of writing this report there has been a delay to the completion of the audit, for reasons explained later in this report, but it is expected that the audit opinion will be available by the date of the meeting.
8. The Regulations stipulate that the accounts be prepared in accordance with "proper practices". The CIPFA "Code of Practice on Local Authority Accounting" represents proper practices and is based on International Financial Reporting Standards. The Code requires that a great deal of financial information is produced including a comprehensive set of notes supporting the main financial statements, which are: a Comprehensive Income and Expenditure Statement, a Movement in Reserves Statement, a Balance Sheet, a Cash Flow Statement and a Firefighter Pension Fund Statement.
9. The Regulations also set out the requirements for the preparation and publication of the Annual Governance Statement (AGS). The AGS sets out how the Authority has reviewed the effectiveness of its system on internal controls and on the assurance provided by the Governance Framework. The inclusion of the AGS in the Statement of Accounts and approval by the Authority before 31 July 2019, provides compliance with the Regulations. The AGS can be found on page 82 of the Statement of Accounts.

Changes to the Statement of Accounts

10. Changes have been made to the unaudited Statement of Accounts that were considered by the Closure of Accounts Committee. The majority of these changes are as a result of events in the past month relating to the outcome of the McCloud/Sargeant legal judgement. This was a case that had been proceeding through the legal system concerning the transitional protections given to members of the judges' and firefighters' pension schemes who in 2012 were within 10 years of their normal retirement age. In December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination.
11. On 27 June 2019 the Court of Appeal denied the Government permission to appeal the December 2018 judgement. Now that the finding of the Court of Appeal stands, significant changes to public sector pension schemes may be required. Although the precise implications of this decision will not be clear for some time – there will be an Employment Tribunal which could take 12 months or more to resolve the matter – it does have the potential to significantly

increase the pension liabilities for employers. In order to assess the potential scale of this increase, the Authority's actuaries were requested to re-value the "past service cost" of pension scheme liabilities.

12. The revised cost projections provided by the actuaries is above the level of "Materiality for the Financial Statements" set by the external auditors, Grant Thornton, of approximately £0.8m. The pension estimates in the accounts are at a significant level and receive an appropriate degree of audit focus. Therefore the necessary changes have been made to the accounts within a relatively short period of time to ensure that a revised Statement of Accounts can be made available to the auditors to allow the deadlines to still be met.
13. The potential increased pension changes have required adjustments to many of the notes to the accounts. In summary, the potential increased pension liabilities have required the following changes to the figures for 2018/19 in the main financial statements:

The Comprehensive Income and Expenditure Statement (page 16 of the accounts): the "Cost of Services" has increased by £22.6m (to £57.9m), the "Financing & investment income & expenditure" has increased by £0.3m (to £15.5m), the "Re-measurement of the net defined benefit asset" has reduced by £3.8m (to £4.6m) and the "Total Comprehensive Income and Expenditure" is now a deficit of £17.9m (previously a surplus of £8.8m).

The Movement in Reserves Statement (page 17 of the accounts): increase in "Pension Reserve" balance at 31 March 2019 of £26.7m.

Balance Sheet (page 25 of the accounts): increase in "Net Pension Liability" of £26.7m. The figure for "Unusable Reserves" has increased by a corresponding amount to ensure that the Balance Sheet remains in balance.

14. At the time of writing this report, discussions are ongoing with the external auditors about the changes that have been made to ensure that the auditors are able to conclude the audit as quickly as possible. It is intended that the external auditor will provide an audit opinion and Audit Findings Report in time for the meeting.
15. The additional work that has been carried out by the actuaries and the external auditors will result in additional costs to the Authority, although the final position is uncertain at this time. More importantly, there is the question of the impact on future Fire Authority revenue budgets once the details of the changes to pension scheme benefits and employer liabilities become clearer following input from the employment tribunal. There is uncertainty as to how these additional liabilities will be funded and as to whether there will be additional financial support from Government to offset these costs.

Outturn position and impact on Reserves

16. The changes described above that have been made to the Statement of Accounts do not affect the revenue outturn position and they do not impact on

the level of “Usable Reserves”. As reported to the Authority at its meeting on 19 June 2019, the outturn position represents an underspend of £3m compared to the budget approved by the Authority for 2018/19. This has resulted in the level of Usable Reserves at 31 March 2019 increasing by this amount when compared to the level at 31 March 2018. The figures reported to the Authority on 19 June 2019 are therefore unchanged.

Letter of representation

17. 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 as Appendix 1 to this report. It is recommended that the Authority approves the letter and authorises the Chair to sign it.

Financial Implications

18. This report deals with financial matters. Notwithstanding the significant changes to some of the figures in the statement of accounts, there are no direct budgetary implications as a result of the report.

Legal Implications

19. The approval and publication of the accounts is a legal requirement.

Equality and Diversity Implications

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

Environmental Implications

21. 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.