THE FINAL 2018/2019 FINANCIAL REPORT AND AUDIT COMPLETION REPORT

REPORT OF THE TREASURER

For Approval

1. PURPOSE OF REPORT

1.1 The purpose of this report is to:

i) present Mazars' Audit Completion Report; and

ii) enable Members to approve the final 2018/2019 Financial Report (including the 2018/19 Statement of Accounts).

2. RECOMMENDATIONS

2.1 It is recommended that Members;

i) consider the matters raised in Mazars' Audit Completion Report detailed in Appendix A;

ii) note that the Chairman will sign the Letter of Representation attached at Appendix B; and,

iii) approve the final 2018/19 Financial Report attached at Appendix C, which incorporates the changes agreed with Mazars.

3. BACKGROUND

3.1 The Audit and Governance Committee considered the draft Statement of Accounts on the 28th June 2019 and Members were advised that the document would then be subject to review by the external auditors - Mazars. The Full Authority would then need to approve the final accounts by 31st July, 2019.

3.2 The June report reminded Members that as the timescale for completing the audit process by the end of July is tight, that if they had any questions on the draft Statement of Accounts they could raise these issues during July. This would enable any issues to be addressed before today's meeting. For Members' information no issues have been brought to my attention by Members of the Audit and Governance Committee following the meeting in June.

3.3 At the Executive Committee meeting on 5th July 2019 Members were advised of the accounting changes that would need to be actioned to reflect national pension's issues. A copy of the draft accounts were then emailed to Executive Committee members.

4. FINANCIAL OVERVIEW AND REVENUE POSITION AT 31st MARCH 2019

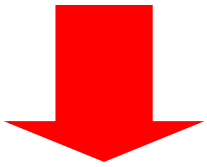
4.1 The Medium Term Financial Strategy (MTFS) report approved on 15th February 2019 enabled the Authority to set the budget for the current financial year (i.e. 2019/20). The MTFS included recommendations in relation to the 2018/19 financial year which are reflected in the statutory Financial Report and also provided useful background information in relation to the significant financial risks and uncertainties facing the Authority, as detailed in the following paragraphs.

4.2 Financial Risk and Uncertainties

4.3 Financial year 2019/20 is the final year of the current four year Government financial settlement. Whilst, the four year settlement has provided financial certainty, it has resulted in further recurring cuts in Government funding received by the Authority.

4.4 By 2019/20 the Authority will have faced nine consecutive years of cuts in Government funding – which is unprecedented and has resulted in a significant reduction in the Authority's budget as summarised below:

Cash reduction in budget between 2010/11 and 2019/20



Recurring reduction in 2019/20 - **£7.3m**

- A reduction of **22%**

4.5 Whilst, the cuts in Government funding since 2010/11 have affected all Fire and Rescue Authorities, the impact on Cleveland Fire Authority is greater as we raise less income from Council Tax and were more reliant on Government funding when the cuts commenced in 2010/11.

4.6 As a result of the cuts in Government funding between 2013/14 and 2019/20, decisions the Authority has taken to increase Council Tax and the impact of housing growth, the proportion of overall spending funded from Council Tax has increased between 2013/14 (the first year of the current Local Council Tax Support scheme arrangements) and 2019/20 as summarised below:

Increase in recurring Council Tax income between 2013/14 and 2019/20, compared to Grant Cut for same period

2019/20 proportion of budget funded from Council Tax – **48%**, compared to **32%** in 2013/14.

Recurring increase in Council Tax income - **£2.4m** (includes housing growth of £950k)

Grant Cut 2013/14 to 2019/20 **£6.0m** – a cut of 32%

4.7 If the increased Council Tax income had not been achieved the Authority would have had to make additional recurring cuts of £2.4m. This increase has effectively enabled the Authority to maintain **58** firefighter posts, which is approximately **17**% of current firefighter establishment.

4.8 The approved MTFS and Community Integrated Risk Management Plan (CIRMP) covered four financial years (2016/17 to 2019/20) to align with the period of the Government financial settlement. These plans were designed to deliver recurring savings of **£3.695m** by 2019/20.

4.9 As a result of the funding cuts implemented over the nine years up to 2019/20 the Authority has made significant operational changes to ensure safe and effective services continue to be provided to the community. As approximately 80% of the budget is spent on staff costs (pay, pensions and national insurance) these changes have been underpinned by modernising the way services are provided, including reducing whole time firefighter posts and increasing retained duty system firefighter posts. These changes have been achieved by natural wastage and there have been no firefighter redundancies.

4.10 By 2019/20 these measures will have resulted in the following changes:

- **36% reduction** in the number of **whole time firefighter posts** from 518 in 2010/11 to 330 in 2019/20.
- **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96 in 2019/20.
- **38% reduction** in the number of **fire control posts** from 26 in 2010/11 to 16 in 2019/20.
- **19% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 105.15 in 2019/20.
- **30%** reduction in number of Elected Members from 23 to 16 – effective from June 2016.

4.11 Looking ahead, the financial position for 2020/21 is the most uncertain ever faced by the Authority. This position reflects the significant uncertainty regarding factors impacting on both expenditure and resources, including whether these issues may be delayed to 2021/22, which would increase uncertainty, as follows:

- The outcome of the 2019 Spending Review
- Business Rates Retention and Fair Funding Review
- Council Tax referendum limits
- Pay Awards Fire Fighters Pension contributions

4.12 To address the financial uncertainties facing the Authority over the period 2020/21 to 2022/23 the Authority instructed the Chief Fire Officer to develop a contingency savings plan based on two planning scenarios i.e. forecast deficits of **£2.297m** and **£3.841m** respectively, which equate to reductions of **9%** and **15%** to the current budget. Further details will be reported to a future meeting as part of the process for setting the 2020/21 budget. This will include the use of the Budget Support Fund to help phase the achievement of further budgets reduction over the three year commencing 2020/21.

4.13 **Revenue Budget Outturn 2018/19**

4.14 The MTFS report informed Members that the Chief Fire Officer had continued to manage the 2018/19 budget extremely carefully and taken action to hold posts vacant to achieve the planned 2019/20 CIRMP savings and therefore help secure the 2019/20 financial position. It was anticipated that these measures would result in a 2018/19 managed under spend of **£0.749m.** In February the Authority approved that this amount be earmarked to supplement the Budget Support Fund, which is earmarked to manage the significant financial risks and financial uncertainties facing the Authority in 2020/21 and future years.

4.15 The actual managed under spend was **£0.801m,** which is £52,000 more than forecast, and this amount has been transferred to the Budget Support Fund.

4.16 As reported to the Executive Committee on 26th April 2019 the additional underspend of £52,000 may need to be used to partly fund increased Fire Fighters pension costs in 2019/20 of £136,000 which are not funded from additional Government Grant provided for this national increase. This will only be necessary if the additional unfunded Pension costs cannot be funded by achieving a managed budget under spend in 2019/20.

5. THE 2018/19 FINANCIAL REPORT

5.1 The Financial Report is attached at Appendix C and 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) Independent Auditor's Report

viii) Glossary of Terms

5.2 The narrative report provides an explanation of the Authority's overall financial performance for 2018/19, details the year-end financial position for 2018/19 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.

5.3 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 31st March 2019.

5.4 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 31st March 2019 i.e. if all employees and former employees drew down their current full pension entitlement as at 31st March 2019. 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.

5.5 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.

5.6 Usable reserves are those which the authority can utilise to support future service provision. The Usable Reserves as at 31st March, 2019 reflect the review of risks and reserves undertaken as part of the 2019/20 budget process and consist of the following key areas:

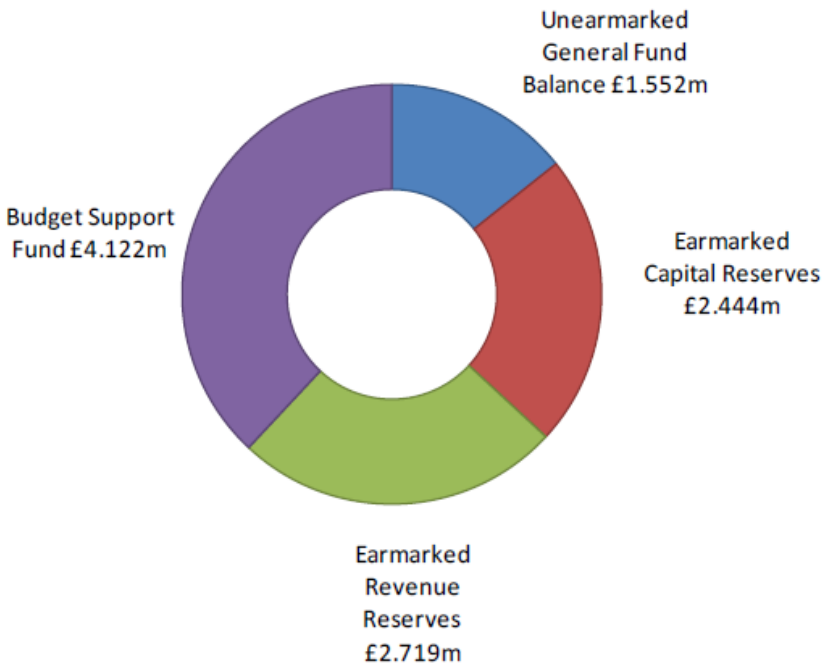
- **Unearmarked General Fund Balance £1.552m** – this reserve is maintained to meet unforeseen circumstances which might arise the value of this reserve reflects the Authority's assessment of a range of financial risks which may occur over the next four years.

- **Budget Support Fund £4.122m** – part of this reserve (£0.154m) is earmarked to support the revenue budget in 2019/20. The remaining balance (£3.968m) is earmarked to manage financial risks and financial uncertainties from 2020/21 onwards.

- **Earmarked Revenue Reserves £2.719m** – these resources are earmarked to fund a range of one-off commitments and initiatives. Further details are provided in note 22 (page 50) of the Financial Report

- **Earmarked Capital Reserves £2.444m** – these resources are allocated to fund the approved Asset Management Plan.

Analysis of Usable Reserves as at 31 Match 2019 – Total £10.837m



6. MAZARS AUDIT COMPLETION REPORT

6.1 A copy of the Audit Completion Report (ACR) and the 2018/19 Financial Report were issued on Friday 19th July 2019. However, it should be noted that whilst the External Auditors have substantially completed their work the audit is not complete. If required an update in relation to any outstanding matters will be reported in a follow-up letter prior to the auditor's report being signed. The external Auditors will be present to explain the ACR and answers any questions.

6.2 As Members will be aware the purposes of the ACR are:

- to share information to assist both the auditor and those charged with governance (i.e. Members of the Audit and Governance Committee) to fulfil their respective responsibilities;
- to provide constructive observations arising from the audit process to those charged with governance;
- to ensure as part of a two way communication process the external auditors, gain an understanding of the attitude and views of those charged with governance at the Council of internal and external operational, financial, compliance and other risks which might affect the accounts, including the likelihood of those risks materialising and how they are managed; and,
- to receive feedback from those charged with governance on the performance of the engagement team.

6.3 Any adjustments or misstatements are reported within the ACR.

6.4 As reported to the Audit and Governance Committee there was some uncertainty in relation to national pension issues, which had arisen after the draft accounts were prepared, and how these issues would need to be accounted. On 28th June the Government were denied the right to appeal the previous McCloud judgement and as a result authorities now need to account for the impact of this decision on the Pension Liabilities disclosed in the statutory accounts at 31st March 2019.

6.5 In addition, an amendment required to a Fire Station valuation has also been amended.

6.6 As previously indicated the accounting requirements to correct these misstatements do not at this stage impact on the cash position of the Authority, which means there is **no change in Usable Reserves.** The impact of the accounting changes required at the 31st March 2019 on the Balance sheet are summarised below:

Impact of Pension Accounting changes and Asset Valuation Increases on the Balance Sheet (page 17)

	Figures reported in draft accounts £'000	Final figures £'000	Change £'000
Property, Plant & Equipment	35,938	36,005	67
Other Long Term Liabilities	(479,895)	(488,827)	(8,932)
Net Assets	**(441,716)**	**(452,822)**	**(8,865)**
Usable Reserves	10,837	10,837	-
Unusable Reserves	(452,553)	(461,418)	(8,865)
Total Reserves	(**441,716)**	(450,581)	(8,865)

6.7 Accounting changes have also been reflected in the 'Movement of Reserves Statement' and the 'Comprehensive Income and Expenditure Statement' to reflect the above changes.

6.8 Whilst, the accounting changes do not impact on usable reserve at 31st March 2019, there may be a future impact on the revenue budget when the impact of these changes has been separately assessed as part of the actuarial valuations to determine future employers pension contributions for public sector pension schemes, including the fire fighters scheme. As this is a different valuation methodology details of any impact will be reported to a future meeting as part of the regular Medium Term Financial Strategy updates.

6.9 Key positive issues reported in the Audit Completion Report include:

- confirmation that the draft accounts were received on time and were of a good quality and that the supporting working papers were also of a good quality;
- that Mazars anticipate issuing an unqualified opinion of the statement of accounts; and
- that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

7. CONCLUSIONS

7.1 The Audit of the 2018/19 accounts will be complete before this meeting. Any issues will have been reported as part of the ACR, or will be included in the update letter, which includes specific issues to be considered before approving the final Financial Report before 31st July 2019 statutory deadline. The draft accounts have been revised to reflect national pension issues affecting all authorities. These changes have all been agreed with the External Auditors and do not result in any change to the Authority's Usable Reserves. The recommendations to this report enable Members to finalise the reporting arrangements for 2018/19.

CHRIS LITTLE
TREASURER TO THE AUTHORITY