

Purpose: Approval

Date: 23 July 2019

Title: **ANNUAL ACCOUNTS 2018/19**

Report of Treasurer



**HAMPSHIRE
FIRE AND
RESCUE
AUTHORITY**

SUMMARY

1. The Accounts and Audit Regulations require the Authority's Statement of Accounts to be approved by 31 July following the year end. The Authority has delegated responsibility for the approval of the statement of accounts to the Standards and Governance Committee.
2. The Authority's draft Statement of Accounts was published by the statutory deadline of 31 May following the year end, and has been audited by Ernst and Young (EY). The conclusions of the audit are contained within the audit results report which is also on this agenda.
3. A report on the final accounts for 2018/19 was submitted to the Authority on 17 July and the Statement of Accounts is consistent with that report. The Annual Governance Statement, which forms part of the Statement of Accounts was approved by the Authority on 5 June.
4. This report presents for the Committee's approval of the Statement of Accounts 2018/19 and recommends that the Treasurer be given delegated authority to make any amendments if required prior to the issue of the audit opinion.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

5. The Statement of Accounts have been drawn up in the form prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom, which constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.
6. The 2018/19 Code of Practice on Local Authority Accounting introduced some changes as a result of two new International Financial Reporting Standards (IFRS). IFRS 9 relates to how financial instruments are accounted for. These are now valued, depending upon the type of instrument, at amortised cost or fair value. The Authority has elected to account for its strategic pooled investment funds through other comprehensive income, which is in line with the advice received from its advisor, Arlingclose. As such changes in the fair value of these investments are transferred to a Financial Instruments Revaluation Reserve rather than the General Fund. Currently EY do not agree

with this treatment and the Authority is seeking further advice to determine an appropriate approach for further discussion with EY.

7. IFRS 15 sets out how revenue should be recognised from contracts with customers. This has not had any material impact upon, as the Authority's policy already was to record income in the correct period as the service is provided.

NARRATIVE STATEMENT

8. The narrative statement provides information about the key issues affecting the Authority, and reports on the Authority's financial and non-financial performance.
9. The narrative statement is designed to help readers understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

McCLOUD JUDGEMENT

10. At the time of publication of this report, our external auditor has not yet concluded the audit of the accounts, hence the accounts remain draft until conclusion of the audit.
11. One change which is likely to be made to the accounts is in relation to IAS19 (Employee Benefits). The IAS19 estimates are to be updated to account for an estimated change in pension liabilities following confirmation from the Supreme Appeal Court on the 27th June that the Government's request for leave to appeal against the Court of Appeal's judgement in the McCloud case had been denied. The Court of Appeal found in favour of judges and firefighters and ruled that the transitional pension arrangements that were introduced when the pension schemes changed in 2015 were unlawful on the grounds of discrimination.
12. Within the draft accounts, the IAS19 estimates took no account of the original McCloud judgement, as it was unclear what remedy would be put in place should the government lose its appeal, and therefore it was felt that a reasonable estimate of the impact could not be made. The draft accounts did however include a Contingent Liability note on the McCloud, and this was consistent with the guidance from CIPFA and our actuaries as to how the McCloud judgement should be reflected within the accounts.
13. Subsequently, the Government Actuaries Department (GAD), at the request of MHCLG, undertook work to estimate the potential cost of implementing a remedy to the McCloud judgement should the government lose its appeal against the Court of Appeals ruling.
14. In light of the Supreme Court's decision to dismiss the government's appeal, and further to discussions with EY as the external auditors, the actuaries

(AON) have been requested to provide updated IAS19 estimates for both the LGPS scheme and the Fire scheme based on work undertaken by GAD.

15. Should the revised numbers be materially different to those within the draft published accounts (which is expected to be the case), then the accounts will be updated accordingly.
16. Notwithstanding the comments above in relation to McCloud, and the outstanding resolution of the accounting treatment under IFRS 9 set out in paragraph 6, we are not currently aware of any other substantive issues or changes being required to the draft statement of accounts.

STATEMENT OF ACCOUNTS

17. The Statement of Accounts comprises a number of separate statements, the key features of which are summarised in the following paragraphs.

Statement of Responsibilities for the Statement of Accounts

18. This statement records the responsibility:
 - of the local authority to appoint an officer with responsibility for the proper administration of its financial affairs, the Treasurer within this Authority
 - of the Treasurer to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present a true and fair view of the Authority
 - of the Chairman of this Committee to confirm that the accounts have been considered and approved by the Committee.

Movement in Reserves Statement

19. This sets out the movement in the year on the different reserves held by the Authority, analysed into 'useable reserves' (those which can be applied to fund expenditure or reduce council tax) and 'unusable reserves' which are mainly used for accounting adjustments.

Balance Sheet

20. This shows the value of the assets and liabilities recognised by the Authority. The net assets of the Authority are matched by reserves; either useable or unusable.

Cash Flow Statement

21. The Cash Flow Statement is designed to demonstrate the changes that have taken place in the Authority's cash position over the year and to highlight the causes of that change.

Comprehensive Income and Expenditure Statement

22. This statement shows the accounting cost of providing services rather than the amount funded from taxation, and is presented using financial reporting headings. The taxation position is shown in the Movement of Reserves Statement.

Notes to the accounts

23. These comprehensive notes incorporate information to give the reader information to support the accounts. The accounting policies are incorporated within the notes.

Pension Fund Account

24. All Fire Authorities are required by legislation to operate a Pension Fund Account and the amounts paid into and out of it are specified by regulation. Members will be aware that the Authority pays an employer's pension contribution based on a percentage of pay into the pension fund account.
25. The Account is balanced each year to nil by receiving cash in the form of a pension top-up grant from the Government equal to a percentage of the amount by which the amount payable from the Account exceeded the amount receivable. This percentage is agreed on an annual basis and for 2018/19 was 100%.

Annual Governance Statement

26. In accordance with legislation, the Annual Governance Statement must accompany the Statement of Accounts. The Authority's Annual Governance Statement was considered for approval on 5 June.

LETTER OF REPRESENTATIONS

27. As part of the production and audit of the final accounts, the external auditors also require the Chief Financial Officer and Chairman of Standards and Governance Committee to provide a Letter of Representations which has been provided at Appendix B.
28. The letter provides additional assurance that all matters have been disclosed to the auditors and that no undue influence has been applied in producing the accounts that would prevent them giving a true and fair view of the Authority's

financial position.

SUPPORTING OUR SERVICE PLAN AND PRIORITIES

29. Ensuring that funding is appropriately accounted for is vital for all public sector organisations and the annual accounts also provide information to gauge the financial health of the organisation, which underpins the achievement of the Service Plan.

RESOURCE IMPLICATIONS

30. There are no direct resource implications contained within this report as it is based on historic information and is purely a factual document.

ENVIRONMENTAL AND SUSTAINABILITY IMPACT ASSESSMENT

31. It is not believed that this report has any impacts to the environment or sustainability.

LEGAL IMPLICATIONS

32. It is a legal requirement that the Statement of Accounts is approved by those charged with governance and is signed off by external audit.

EQUALITY IMPACT ASSESSMENT

33. This report is considered compatible with the provisions of equality and human rights legislation.

OPTIONS

34. This report deals with the approval of the annual accounts that have been prepared in line with Code of Practice for Local Authority Accounting, there are therefore no options for consideration in this report.

RISK ANALYSIS

35. The statement of accounts is an important element of the Authority's corporate governance arrangements. It has been prepared in accordance with the appropriate statutory code. Together with the Budget Book and the report on the final accounts for 2018/19, it provides evidence to the public that the Authority's financial affairs are being properly managed and in accordance with proper accounting practice.

CONCLUSION

36. The presentation and approval of the annual accounts is an important part of the overall governance framework for the Authority and this Committee is

therefore requested to consider and approve the accounts alongside the report of the external auditors.

RECOMMENDATION

37. That the attached Statement of Accounts for 2018/19 be approved subject to any amendments reported at the meeting.
38. That the Treasurer be given delegated authority to approve any minor amendments to the Statement of Accounts if required.
39. That the Letter of Representations contained in Appendix B is considered and signed by the Chairman on behalf of the Committee

APPENDICES ATTACHED

Appendix A – Statement of Accounts and Annual Governance Statement 2018/19

<https://www.hantsfire.gov.uk/how-were-performing/our-performance/budget-accounts-and-regulations/statement-of-accounts/>

Appendix B – Letter of Representations

BACKGROUND PAPERS

40. Section 100 D - Local Government Act 1972 – background documents
41. The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report.
42. Final Accounts Report – Hampshire Fire and Rescue Authority 17 July 2019
NB: the list excludes Published works Documents which disclose exempt or confidential information as defined in the Act:
43. None

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