Minutes of the Audit and Risk Committee

23 July 2018
at Fire Service Headquarters, Vauxhall Road,
Birmingham B7 4HW

Present: Councillors Miks (Chair), Craddock, Dehar, Iqbal, Jenkins and Mr Ager (Independent)

Apology: Mr P Farrow, Mr J Matthews

All Members of the Committee and Officers in attendance introduced themselves as most Members were new.

35/18 Declarations of Interest in contracts or other matters

There were no declarations of interest.

36/18 Minutes of the Audit Committee held on 4 June 2018

Resolved that the minutes of the meeting held on the 4 June 2018 be approved as a correct record.

37/18 Audit Findings 2017-18

The Committee noted the Audit Findings Report (AFR) 2017/18. The AFR set out and reported on the key messages arising from the external audit work undertaken during the year. The AFR is designed to support the Auditor's opinions and conclusions and is a requirement of the Code of Audit practice.

Mr Richard Percival, Grant Thornton, explained the findings to the members of the Committee and summarised the key messages on the Financial Statements and Value for Money arrangements arising from their audit of the accounts.
The accounts had been received promptly and the Auditors wished to record their appreciation for the assistance

provided to them by Kal Shoker and the Finance Team and other staff during the audit.

The Auditor stated that Audit Opinion would be issued in a day or two and the AFR would be presented to the Fire Authority as its meeting on the 17 September 2018.

The Management Representation letter would be signed following the meeting. Nothing unusual had been found during the audit and following update work on the final version of the accounts, the auditor would produce an unqualified Value For Money conclusion.

The External Auditor stated that they had not exercised any of their additional statutory powers or duties.

Materiality calculations remained the same as reported in the audit plan and were set out in a table in the report. The materiality level was set at circa £2.5m with the performance materiality level circa £1.8m.

Of the six standard risks, the Auditor stated there were no risks to be reported to the Committee.

The Auditor had given a green light, to the accounting policies, confirming that they were appropriate and disclosures sufficient.

There were no other matters to be reported by exception as the Annual Governance Statement and information in the narrative report were considered consistent with the accounts and passed the tests.

In respect of Value for Money, the Auditor had carried out an initial risk assessment in February 2018 and identified one significant risks in respect of certain areas of proper arrangements using the guidance contained in AGN03.

The significant risk identified by the Auditor was the development of the governance arrangements to the West Midlands Combined Authority, and recognised that the Authority was operating within a dynamic environment as part of the West Midlands.

The Auditor acknowledged that in seeking to settle its Trade Dispute with the Fire Brigades Union, the Authority's Executive Committee had decided that the Plan should be revised. New employment contracts had been withdrawn resulting in the Authority no longer being able to provide "Wider Health Related" services as planned. This too would impact on the delivery of the Financial Efficiency Plan and moving forward it would be extremely important to demonstrate to the WMCA financial sustainability.

Expansion of wider health services was now limited and the Authority would need to demonstrate how it would be working with partners.

The Auditor considered the overall pace of change to be good and there were mechanisms in place for keeping Members aware of developments.

Another key risk was the potential for delay of the Parliamentary Order in December 2018.

The Governance arrangements required a clear split between holding the Authority to account and scrutiny and this would be provided by the Mayoral Fire Advisory Committee and Overview and Scrutiny Committee with membership from each constituent authority and this would improve the accountability of the FRS through an elected Mayor.

The Auditor noted that risks were being managed at authority level and at project levels, but the detail of how arrangements would be delivered was yet to be worked through. This was due to the uncertainly of the over-arching governance arrangements and recognised this by the change of title of committee and felt this level of granularity was important.

The Chair thanked the Auditor and was impressed to note that the Authority's accounts were amongst the best in the West Midlands.

38/18 **Statement of Accounts 2017-18**

The Audit and Risk Committee's approval was sought for the Authority's Statement of Accounts for the financial year ended 31 March 2018. The full Statement was attached as Appendix A to the report and can be viewed at www.wmfs.net/your-fire-service/openness/documents

A summary of the Statement outlining the main issues was attached at Appendix B to the report. The Treasurer stated the Statement links closely with the Audit Findings Report.

It was confirmed that the Letter of Representation was to be signed by the Chair of the Audit and Risk Committee at the end of the meeting.

Members were informed that the Statement linked to the Workshop held for Members of the Audit Committee on 4 June 2018, however, as the majority of Members were new to the Audit and Risk Committee, the Treasurer recapped the main areas of the lengthy report.

The Treasurer stated that the main Statements were the Comprehensive Income and Expenditure Statement and the Balance Sheet, although both were significantly affected by accounting requirements relating to pension arrangements.

The Treasurer highlighted the Movement in Reserves Statement which showed Earmarked Reserves had decreased by £4.750 million to £38.984 million in the year ending 31st March 2018 and General Reserves had decreased by £0.846 million to £8.390 million in the year ending 31st March 2018.

This was the first year for some time the overall level of balances had reduced and would need to be closely monitored during the next three year budget cycle.

The reserve strategy presented to the Authority on 19th February 2018 as part of the budget report had indicated both General Reserves and Earmarked Reserves would fall significantly over the next three financial.

In summary, as at 31 March 2018, there was £8.390m in general balances, £38.984m in earmarked reserves and £50.027m in total usable reserves.

The Balance Sheet set out Long term borrowing as £36.002m as at 31st March 2018. No further borrowing had taken place during 2017/18 and this had reduced from £37.363m as at 31 March 2017. The Committee noted the link to the treasury management strategy later on the agenda. At the top of the Balance Sheet, Property, Vehicles, Plant and Equipment which had been acquired in part from loans taken out in previous years, totalled £144m, which was quite significant in comparison to the long term borrowing figure.

£51.379m cash and cash equivalents was held in balances as at 31st March 2018 compared to £57.428m as at 31st March 2017. The utilisation of balances reflected on the cash and cash equivalents.

Cllr Craddock noted the transfer from Earmarked Reserves of £4.750m and the increase in the use of General Reserves of £846,000 and felt there was a bigger hole in the budget than was reflected in the figures provided. Cllr Craddock indicated that the Treasurer was playing with figures.

The Treasurer advised that Grant Thornton, the Authority's Independent Auditors had audited the accounts and re-emphasised the scale of Balances used during 2017/18 as reflected within the Statement of Accounts

The Treasurer acknowledged in his view the effect of Pensions didn't help with the clarity of the accounts due to valuations and liabilities associated with this issue but confirmed that prescribed local government accounting conventions were used in the preparation of the Statement of Accounts.

Cllr Craddock still felt that the Authority was operating at a deficit and that the Treasurer was hiding the Authority's deficit.

The Treasurer stated that General Balances had been used in 2017/18 to help fund the Authority's budget but the use of balances was in line with information provided specifically in budget reports approved by Members, with the use of General Balances being £846k in 2017/18 compared to £850k reflected in the Budget report approved by the Authority on 19th February 2018 and this had specifically been highlighted within the reserve strategy contained in the budget report. The Reserve Strategy had also highlighted the anticipated significant use of Balances over the next three financial years.

Richard Percival from Grant Thornton confirmed that the accounts and their format were difficult to understand even for qualified accounts.

However, the Fire Authority as part of Local Government needed to comply with accounting standards to demonstrate its performance on council tax.

There is a deal of adjustment regarding precept figures and pension liability.

The Auditors were aware ~~of~~ the movement of reserves of £846,000 had been set aside to be drawn down in the current year and the Auditor would have been concerned if the amount budgeted for had not been drawn down in line with the financial plans.

The Auditor confirmed the Treasurer was right to flag to Members that the Authority would be continuing to use its balances and should be aware what the balances were and if they would be sufficient going forward. The Auditor stated that protecting balances to a reasonable level was important.

The Deputy Chief Fire Officer stated the accounts were difficult to understand and the Authority found itself in a difficult situation. However, officers were looking at options for further efficiencies, including Council Tax options, Grants, and the Fair Funding Review.

The future was unclear but would not get better and there would be continued pressure on the budget and in order to balance the budget, the Authority had agreed the use of reserves.

A report would be presented to the Fire Authority in September on the efficiencies to be made. The Authority were aware of the cuts in funding and how it had tried to find alternative ways of delivering the budget. However, this would not now be achieved and there was a need~~ed~~ to refocus on where the money is going to come from.

There was no capital funding or transformation grants from the Government and the refurbishment of Coventry and Aston Fire stations, the purchase of fire kit and fire appliances etc. all required capital funding which was predominantly being met currently from Earmarked Reserves.

The Accounting Regulations made the Statement of Account difficult to read, however officers understood the position the Service found itself and confirmed that the use of balances was not sustainable.

He agreed that it was the purpose of Audit and Risk Committee to scrutinise the accounts, but currently there was a specific funding problem and the Authority needed a clear plan on how it was going to be addressed.

Further reports would be presented to the Audit and Risk Committee for Challenge and Review and the DCFO welcomed the scrutiny of the committee as it triangulated the issues being faced.

To meet the challenges ahead the Authority would be changing its strategy and was working on efficiency plans. The Trade Dispute had compressed the timeline but a rationale would be provided to members at future meetings of the Authority.

The Treasurer confirmed that £2m in alternative funding from health and wellbeing was appropriate at the time of preparation of the budget report, however, this was a concern as highlighted in the Audit Findings Report presented by the Auditor at page 42 financial outlook

Resolved that the Statement of Accounts Summary be noted and the Statement of Accounts for 2017/18 as set out at Appendix A be approved.

39/18 **<u>Treasury Management Annual Report 2017-18</u>**

The Committee received the Treasury Management Annual Report 2017/18, which covered the Treasury Activity during 2017/18 and the Actual Prudential Indicators for 2017/18, which had been compiled by the Treasurer

The Authority approved its 2017/18 Treasury Management strategy as part of the Budget setting process in February 2017 and the Audit Committee received a mid-year Treasury Management update in November 2017.

The key Treasury Management activities were:

- Capital expenditure
- The Authority's Debt
- The Authority's Investment

Capital expenditure

The Authority's capital expenditure for 2017/18 was £4.527m, which was funded mainly by revenue contributions (£4.354m) and capital grants (£0.173m). The largest spend on capital was £2.1m on the redevelopment of Coventry Fire Station and £0.8m on vehicle replacements. No borrowing undertaken to finance any capital expenditure in 2017/18.

The Authority's Debt

The Authority's total External Debt as at the 31 March 2018 was £37.4m, £34.2m of the debt was with the Public Works Loan Board and the balance £3.2m is related to the Authority's Share of the ex-WMCC debt.

The Authority holds long term assets valued at of £144m which the loans have help to fund and the average rate of interest paid on the debt was 5.5%.

The Authority's Investments

As at the 31st March 2018 the Authority's investments totalled £51.9m which are invested with Sandwell MBC as part of the pooling of bank account arrangements the Authority has with them.

Interest is received on the Authority's average cash balance and is based on the average return achieved by Sandwell MBC plus 10 basis points which for 2017/18 was 0.404%. This compares favourably to the benchmark, which is the average 7-day LIBID rate of 0.21%.

In answer to a Member's question about the average interest rate of 5.5% on debt, it was noted that many loans had been taken out several years previously. There were options for refinancing, but this would require the payment of a premium. It was also noted that some of the higher interest rate loans were reaching their maturity date and would be ending soon.

Members discussed the problems facing local authorities in respect of investments and the advantages of bank accounts being part of a pool.

It was noted that the Treasurer works closely with Sandwell MBC who have appointed Treasury Management Advisors. It was felt that the pooling arrangement with Sandwell did not provide any additional level of risk or exposure.

The Treasurer stated that interest rates are expressed as an average rate and any Treasury Management~~s~~ reports would look at a range of loans. In respect of their interest rates, this could include fixed and variable rates.

Many of the loans were taken out in previous years when interest rates were higher. Perversely if the Authority had borrowed more recently, the interest rate would have been lower and therefore the average rate would be reduced.

Resolved that the report and Appendix be noted and the Prudential and Treasury Indicators 2017/18 be approved.

40/18 **Audit and Risk Committee Work Programme 2018/19**

The Committee noted the Work Programme for 2018/19.

It was agreed that the Fraud Awareness would be arranged to take place on 3 September 2018 at the Audit and Risk Committee.

Cllr Craddock agreed to enquire about the training provided by Walsall MBC and agreed to provide further information to the Committee at a future meeting.

DCFO stated this could be included in the Members Training Programme.

41/18 **Update on Topical, Legal and Regulatory Issues (Verbal Report)**

There were no new issues to report.

The meeting finished at 1117 hours.

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