

## Finance Director moves to protect Authority reserves

Finance Director and Treasurer Mike Clayton has moved quickly to secure a more positive position for the Service following the announcement of the £15m debt to Government earlier this week.

🔑 His action means the Authority will retain most of its reserves after also removing £1m of a similar charge included in the unaudited 2013/14 accounts.

After lengthy discussions with our auditors, the Finance Director has an agreement for the Authority to correct the accounting treatment of the injury pension payments and revisit decisions made in 2011/12 and 2012/13 to make more than £11m of voluntary contributions to capital financing charges.

This is because the decision to make the voluntary contribution was directly linked to the forecast underspend in those years.

🔑 “This new position maintains the Authority’s flexibility to achieve savings over longer time periods through the use of reserves in future years to balance timing differences between when we need to make savings and when savings can be achieved,” Mike Clayton explained.

🔑 “Our forecast position for 2014/15 means that we are able to absorb the extra cost this year and still forecast a further £1m of underspending .

🔑 “While there is still a budget gap for 2015/16, we expect to be able to close this through the budget process, though it is too early to say what specific changes will be needed to achieve this position.”


ECFRS has shared its position with all Fire and Rescue Authorities through the Fire


🔑 Finance Network. The Service is aware that both Staffordshire and Cheshire had similar accounting anomalies but no remedial action was taken by Government to inform the UK FRS of this potential pitfall.


“There have been a lot of questions as to why the Authority needs to pay this back immediately, particularly bearing in mind the Government’s involvement in the process, but delaying payment does not help our position,” Mike Clayton added.

🔑 “We have to account for the error now, so the impact on our reserves is immediate. We have sufficient cash to be able to make the repayment. Any delay will attract interest, though the position on past years’ interest has not yet been decided by the Government.”

🔑 Kent FRS Finance Director and Treasurer to Kent Fire Authority Charles Kerr will begin an independent investigation shortly. The investigation will take between four to six weeks with the intention that his report is submitted to the Fire Authority’s Audit, Governance and Review Committee at its meeting on October 8.

 Charles Kerr is one of the UK FRS' most respected Finance professionals and like Mike Clayton is one of only a handful of people to hold the dual role of FD and Treasurer. The Service was keen to engage a FRS specialist who understands the issues faced by sector finance teams, was not impacted by this issue and one experienced in dealing complex financial issues.

 In terms of the culpability of the Service's Auditors – PricewaterhouseCoopers and later Ernst and Young - who are appointed by the Audit Commission, Mike Clayton says: "Auditors can never provide complete assurance. Where there are changes to the accounting rules we should expect the audit to focus on the risk that the rules have not been correctly applied. Clearly in this instance, the focus was not sufficient to enable them to identify the problem.

 "There is clearly a question to be asked of Government. The fact is, the Government did not seek assurances from Fire and Rescue Authorities until July of this year, and this is what led to the discovery of the accounting error when they contacted us for the first time."

## Reserves to fund pensions injury deficit

Essex Fire Authority will use its reserves to repay £15m to the Government, a debt that has built as a result of changes made to the way firefighter injury pension payments are funded.

A shortfall of £1.8m a year has been building since 2006 when changes to accounting for injury payments to retired firefighters were made, leaving this financial burden with fire authorities. The payments relate to firefighters who have left the Service since 1992 and have been given early access to their pensions because of a Service injury, which attracts an additional injury pension.



The Fire Authority's accounts have been audited annually by independent auditors appointed by the Audit Commission but until now, the discrepancy was missed. Even the Department for Communities and Local Government, who receive an annual return from all UK fire and rescue services failed to pick up on the liability.



The Authority has already predicted a £1.8m under spend in this year's budget, so the Service is able to meet the shortfall going forward. However, repayment of the outstanding debt, with the potential for interest charges on top, will deplete ECFRS' reserves challenging Service Managers to bring review expenditure plans that potentially were cushioned.



"Because of our prudent financial management over the last few years we have built up significant reserves and we are in a healthy financial position and able to wipe out this debt immediately. This is a significant burden but unlike other fire and rescue services that will likely face a similar financial challenge, the Fire Authority has the cash to pay while remaining financially sound," said DCFO Adam Eckley, acting as Chief Fire Officer.



"We had already set the target of delivering £5.9m of savings over the next few years, we now have to look for £7.7m. As an organisation, we are geared up for transformation and although this presents an additional challenge, Essex is still far better off than many Fire Authorities nationwide who have already had to look to job cuts and station closures to balance their books.



"This year's underspend has been the result of the organisation pulling together to deliver more with less and we are confident through our innovative and progressive approach, we can continue to keep Essex safe while meeting budgetary demands.



"As a result of this discovery, I have moved quickly to commission an independent external enquiry. We have reviewed our governance arrangements and believe that no individual is to blame. While the Treasurer and Finance Director is clearly accountable, we are not looking for any scapegoats. This was a genuine oversight by a number of parties and was brought to the Fire Authority's attention as soon as it was discovered. We will now move forward and put this behind us while we



concentrate on preparing for an uncertain future with cuts in government funding expected to continue after 2015/16.”



The Treasurer and Finance Director of neighbouring Kent Fire and Rescue Service will conduct the investigation.