



**Fire and Rescue  
Sector Audit  
Committee  
Briefing**



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

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It covers issues which may have an impact on your organisation, the Fire sector, and the audits that we undertake.

The briefings are produced by our national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Fire sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



# Government and economic news

## Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced

our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019-21

Much depends on how the Brexit negotiations develop. The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

## Provisional 2018-19 Local Government Finance Settlement

On 19 December 2017 the Government set out the provisional funding plan for the 2018-19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The provisional settlement sets out the model for estimating the funding each council and fire authority can expect to receive from central government. The main themes of the provisional settlement were:

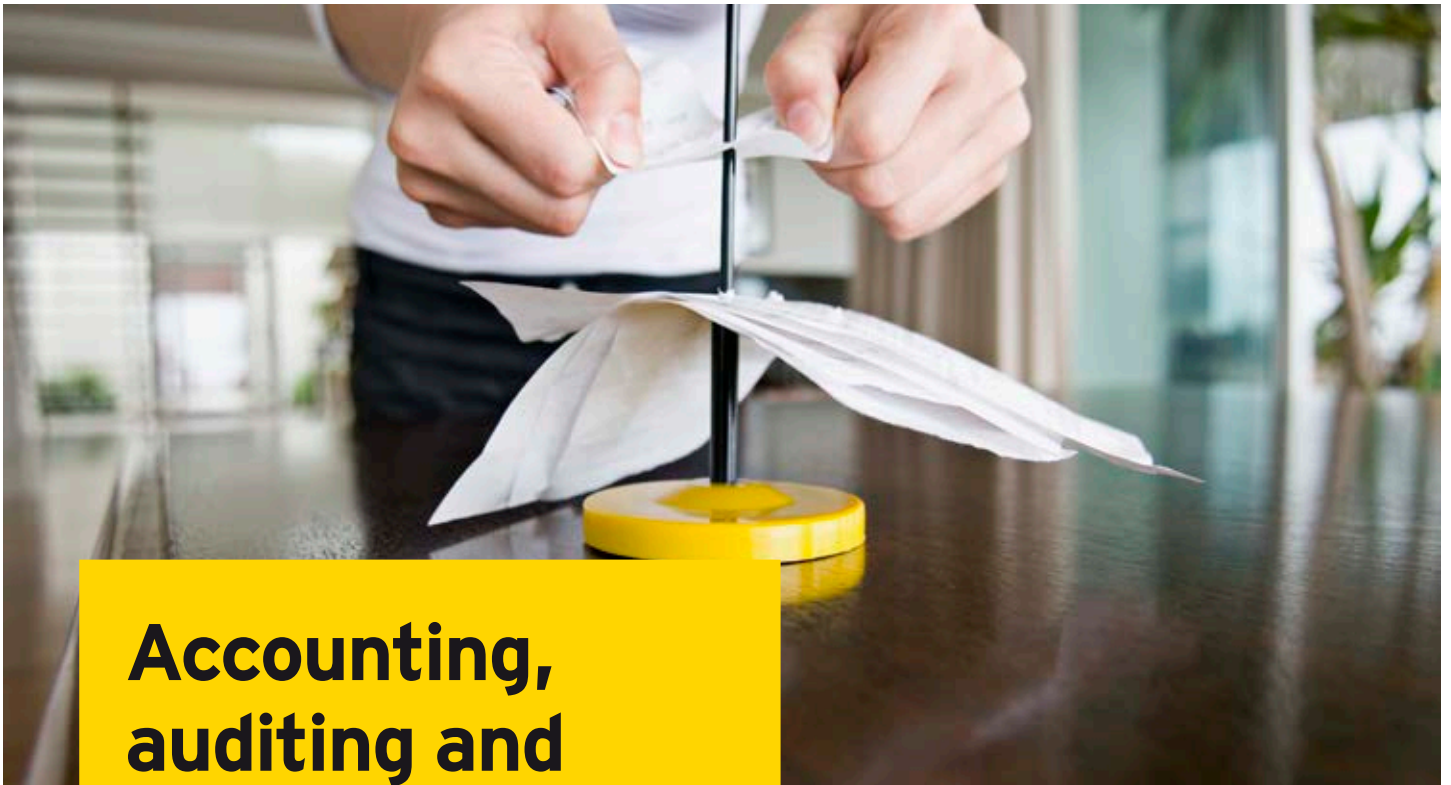
**Council Tax Referendum Principles** – as a result of the financial settlement consultation process the Government has decided to set the core referendum principle at 3% in 2018-19 and 2019-20, to match higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. The settlement means that for fire authorities, a general council tax referendum principle of 3 per cent will apply in 2018/19 and 2019/20, however this will be offset by a £56 million decline in funding for fire and rescue services through RSG in 2018/19.

**Business Rate Retention** – the Government's continued intention is to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, Public Health Grant) direct from central government. By 2020-21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

The Local Government Association (LGA) have responded to the Finance Settlement, stating that additional funding will be needed to enable fire and rescue services to respond to the full range of risks and drive transformation in service delivery and capital funding.







# Accounting, auditing and governance

## **IFRS 15 – Revenue from Contracts with Customers**

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or Authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- ▶ Fees and charges for services under statutory requirements
- ▶ Sale of goods provided by the authority
- ▶ Charges for services provided by a local authority

## **EY – CIPFA Accounts Closedown Workshop 2017-18**

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'Telling the Story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'Faster, Smarter and more Accurate' accounts closedown for 2017-18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline.
- ▶ Appropriate staff to be available throughout the agreed audit period.
- ▶ Complete and prompt responses to audit questions.

If your authority is unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below:

## Summary of faster close activities

Finance teams are:

- ▶ Critically appraising the content of their accounts, removing unnecessary disclosures.
- ▶ Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals.
- ▶ Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work.
- ▶ Focusing on judgements and significant estimates earlier including engagement with auditors.
- ▶ Reviewing the de-minimis level for accruals, including discussion with auditors.
- ▶ Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old.
- ▶ Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing.

Auditors are:

- ▶ Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when.
- ▶ Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas.
- ▶ Increasing the use of analytics to interrogate ledger and payroll transaction data.
- ▶ Using the online EY client portal to streamline communications with finance teams.
- ▶ Attending workshops with finance teams on accounting issues and effective working papers.
- ▶ Selecting items for sample testing earlier.

Together finance teams and auditors are:

- ▶ Holding regular meetings throughout the year to share progress and discuss issues.
- ▶ Planning respective activities to ensure sufficient capacity on both sides.
- ▶ Revisiting audit issues from the prior year, agreeing how similar issues can be avoided.
- ▶ Ensuring the client assistance schedule is appropriately tailored.

We have produced a Faster Close Briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.

## Consultation on enabling Police and Crime Commissioners to sit and vote on Combined Fire and Rescue Authorities

The Government consultation, which took place between 27 November 2017 and 15 January 2018, aimed to collect the views on the proposal to vary the combination schemes of Combined Fire and Rescue Authorities and to implement the 'representation model' of the Policing and Crime Act 2017 (the Act).

The 'representation model', one of a number of governance provisions included in the Act, will enable Police and Crime Commissioners (PCCs) to be represented on a Fire and Rescue Authority (FRA) and treated as a member of the FRA with voting rights, where the FRA agrees.

The intention of the model is to help drive greater collaboration between two emergency services. The representation model has applied to County and Metropolitan FRAs as of 3 April 2017 on commencement of primary legislation, whereas combined FRAs under section 2 and 4 of the Fire and Rescue Services Act 2004 must have their combination schemes amended for these provisions to apply. A statutory instrument is expected to be drafted to make amendments to the combination schemes of those FRAs who are supportive of the amendments early this year and will come in to force shortly thereafter.

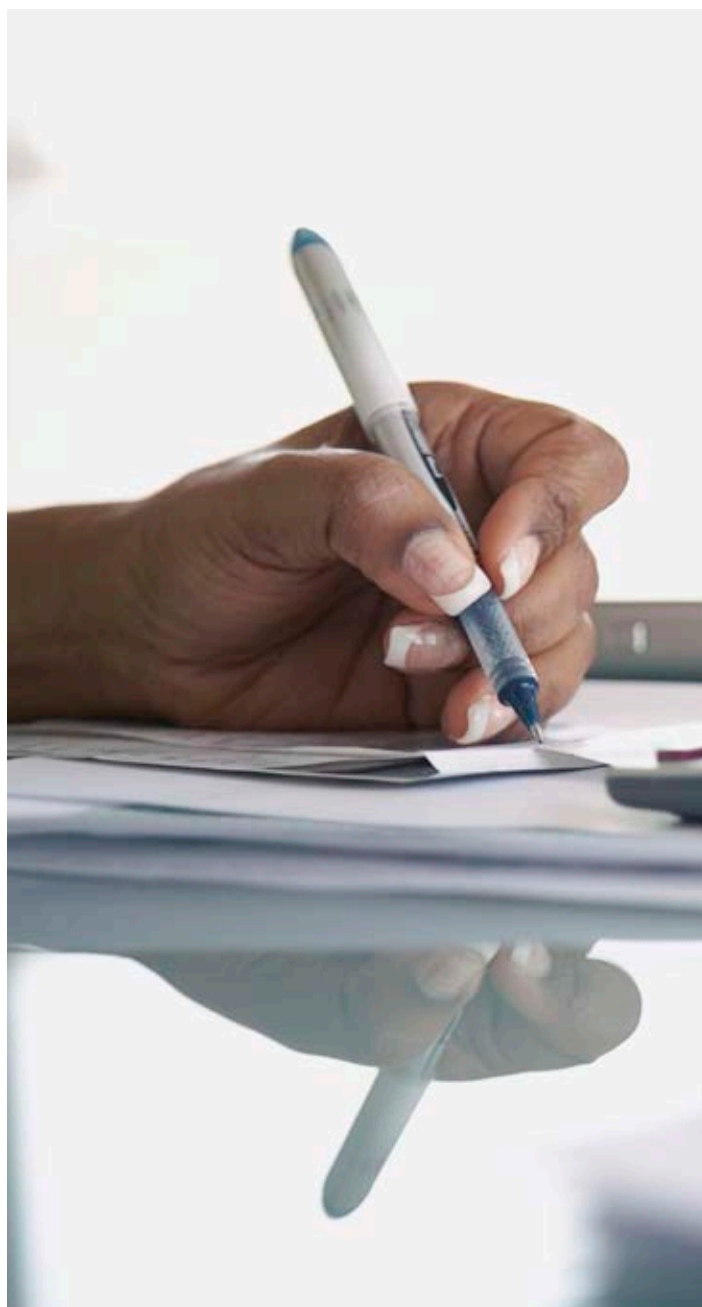


The summary of proposed amendment included in the consultation are as follows:

- ▶ The Authority may appoint a relevant PCC to be a member of the Authority, and enables a PCC to be appointed with voting rights.
- ▶ A relevant PCC may only be appointed as a member of the Authority in response to a request by the commissioner.
- ▶ If a relevant PCC makes such a request the Authority must:
  - ▶ Consider the request.
  - ▶ Give reasons for its decision to agree to or refuse the request.
  - ▶ Publish those reasons in such a manner as it thinks appropriate.
- ▶ If appointed, a PCC can delegate a deputy to attend and speak at FRA meetings, but this deputy will not have any voting rights and will not be treated as a member of the Authority for any purpose, for example in determining whether the meeting is quorate.

It is emphasised that PCCs are not mandated to sit on a Combined FRA, nor are FRAs required to agree to a PCC request. Instead, this aims to ensure that Combined FRAs can appoint a PCC with voting rights, and that the same level of transparency applies to Combined FRAs as it does to County or Metropolitan FRAs.

The results of the consultation will be published on the Home Office website shortly.





# Regulation news

## A revised Fire and Rescue National Framework for England

The Home Office has opened a consultation on a revised Fire and Rescue National Framework for England, which closes on 14th February 2018.

The revised National Framework seeks to embed the programme of reform outlined by the Home Office in 2016, including:

- ▶ Transforming local governance of fire and rescue. This will enable mayors and police and crime commissioners to take on responsibility for fire and rescue services where a local case is made.
- ▶ Establishing Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) as an independent inspection regime for fire and rescue authorities.
- ▶ Developing a comprehensive set of professional standards to drive sector improvement.
- ▶ Supporting services to transform commercially through more efficient procurement and collaboration.
- ▶ Increasing the transparency of services through publication of performance data and the creation of a new national fire website.
- ▶ Establishing an ambitious programme for workforce reform through enhancing professionalism, management and leadership, training and development, equality and diversity, improved culture and options for flexible working.

As a result of recent reforms, the fire landscape is changing with the formation of the National Fire Chiefs Council; an independent inspectorate – Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS); and a professional standards body. The revised framework outlines the roles and responsibilities of these bodies and sets expectations for how services should work with them.

The National Framework will continue to provide an overall strategic direction to fire and rescue authorities, but fire and rescue services remain free to operate in a way that enables the most efficient and effective delivery of their services.

## HMICFRS: consultation on fire and rescue services inspection

In December 2017 HMICFRS confirmed the pilot areas for the first comprehensive inspections of England's 45 fire and rescue services in over ten years. The three pilots are West Yorkshire, Staffordshire and Suffolk and will take place in spring 2018:

- ▶ Pilot 1 fieldwork 19-23 March
- ▶ Pilot 2 fieldwork 16-20 April
- ▶ Pilot 3 fieldwork 14-18 May

The structure and methodology of the inspections is set out in a draft inspection programme which has been developed with the support of fire and rescue services. The assessment will cover the effectiveness and efficiency of each service, including how well fire

and rescue services prevent, protect against and respond to fires and other emergencies and how well they look after the people who work for the service.

Fire and rescue services are to be inspected in tranches, and the indicative timelines for each tranche:

- ▶ Tranche 1 (15 inspections): Summer 2018
- ▶ Tranche 2 (15 inspections): Autumn/Winter 2018
- ▶ Tranche 3 (15 inspections): Spring 2019

### **Consultation outcome: Re-engagement of senior fire officers after their retirement.**

In February 2017, the Government commenced a consultation on amending the Fire and Rescue National Framework in England (the Framework) to include requirements to discourage fire and rescue authorities from re-engaging senior officers post-retirement. Based on the responses received, the Home Office has concluded that action should be taken to discourage the practice. In exceptional circumstance where re-appointment is necessary in the interests of public safety, this decision should be subject to a public vote of the elected members of the FRA, or a publicised decision by the appropriate elected representatives. As the full revision of the National Framework is currently underway, the change will be included as part of the revised Framework to come into force in spring 2018. Until the revised Framework comes into force, the Home Office expects FRA to take this policy position into account if seeking to re-employ any retired fire personnel in the interim.

### **EU General Data Protection Regulation: Are you ready?**

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/ EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- ▶ Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- ▶ Data Protection Officers (DPOs) – DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- ▶ Accountability – organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures.
- ▶ Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data
- ▶ Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- ▶ Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- ▶ Introduction of new rights – right to be forgotten, right to data portability and right to object to profiling
- ▶ Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- ▶ Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.

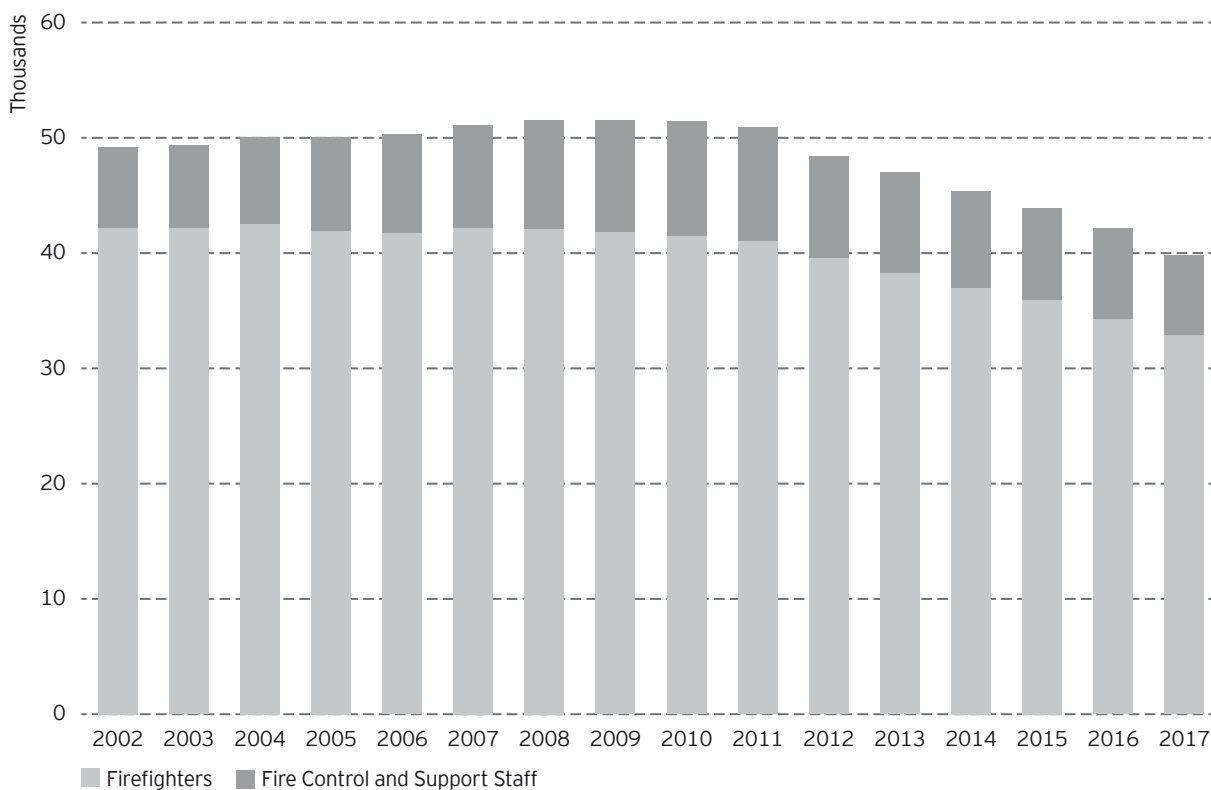
# Other

## Fire and rescue workforce statistics for 2016/17 financial year

The Home Office have released Statistical Bulletin 18/17, covering workforce trends in fire and rescue services. The key points below:

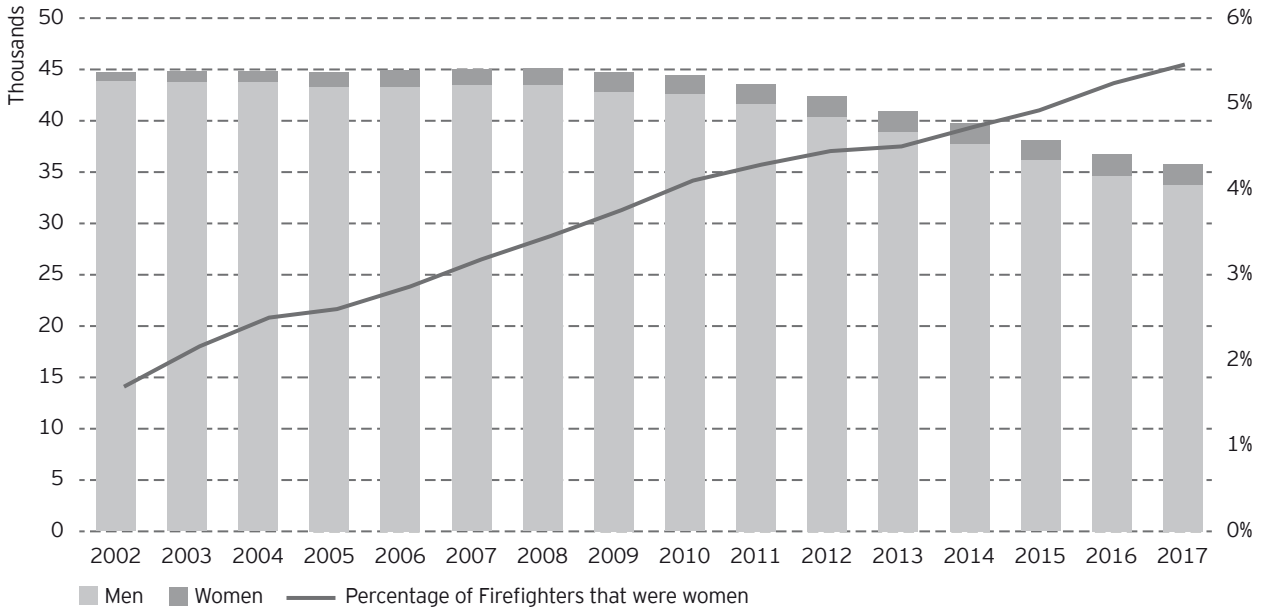
- ▶ The number of firefighters employed by FRS decreased by 4% compared with previous year (33,049 staff in 2017 compared to 34,395 in 2016). There was 5% decrease in fire control and support staff (40,180 in 2017 compared to 42,347 in 2016). (Figure 1)
- ▶ During the 2016/17 financial year, 4,425 staff members have left FRS (11% of staff headcount). Since 2009/10 the proportion of FRS leavers has been on a slow upward trend from 7% to 11% in 2016/17. This is partly caused by increases in the rate of staff retiring either through 'normal' retirement, 'early' retirement or ill health.
- ▶ The number of women employed as firefighters increased to 5.2% in 2017 compared to 5% in 2016. However, since 2010 the main cause in the increase in the proportion of female firefighters has been a decrease in the number of male firefighters. (Figure 2)
- ▶ The number of firefighters from ethnic minority groups also grew, to 3.9% in 2017 (3.8% in 2016).
- ▶ The Firefighters' Pension Scheme deficit in 2016/17 was £535.3 million. This was a 5% increase compared with the previous year (£510.6 million in 2015/16). Expenditure was £818.2 million while income was £282.9 million.

**Figure 1: Total staff employed (FTE) by FRSs in England, 2002 to 2017**



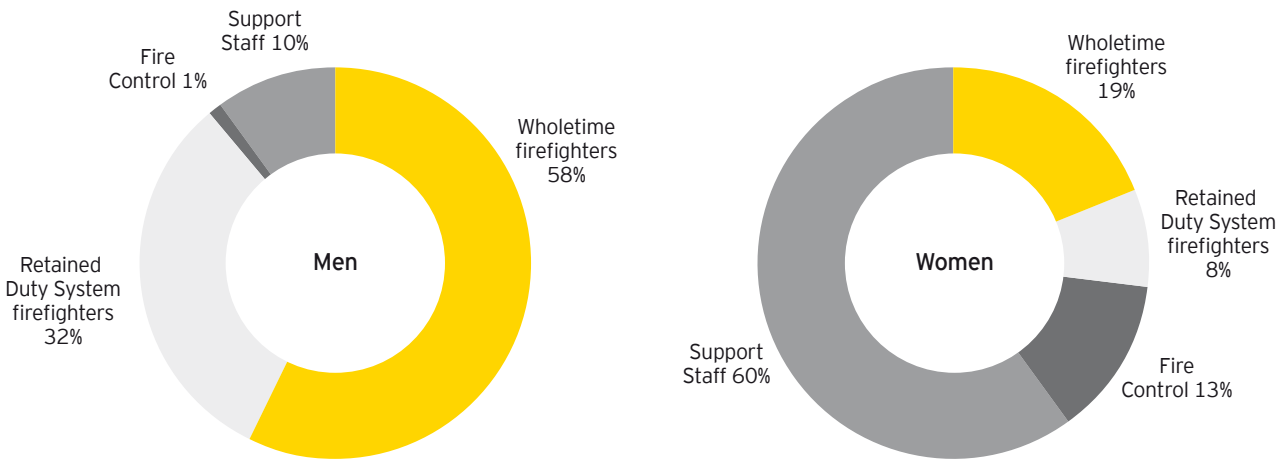
Source: FIRE1101

**Figure 2: Gender of firefighters in England, 2002 to 2017**



Source: FIRE1103

**Figure 3: Gender of staff employed by FRSs, by role in England in 2017**



Source: FIRE1103



# Find out more

## **EY Item Club forecast**

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

Consultation on revised Fire and Rescue National Framework can be found at

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/672148/171222\\_National\\_Framework\\_consultation\\_document\\_v2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/672148/171222_National_Framework_consultation_document_v2.pdf)

## **2018-19 Local Government Finance Settlement**

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/669538/LGFS\\_consultation\\_2018-19.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf)

<https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day>

<http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0>

## **IFRS 15 – Revenue from Revenue from Contracts with Customers**

[http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/\\$FILE/ey-applying-revenue-october-2017.pdf](http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/$FILE/ey-applying-revenue-october-2017.pdf)

## **EY – CIPFA Accounts Closedown Workshop 2017-18**

For Faster Close Activities Checklist: please contact your local engagement lead.

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at <http://www.cipfa.org/training>

More on 'representation model' consultation can be found at <https://www.gov.uk/government/consultations/enabling-police-and-crime-commissioners-to-sit-and-vote-on-combined-fire-and-rescue-authorities>

HMICFRS inspection details can be seen at <https://www.justiceinspectorates.gov.uk/hmicfrs/news/news-feed/hmicfrs-launches-consultation/>

More on Re-engagement of senior fire officers after their retirement

<https://www.gov.uk/government/consultations/re-employing-senior-fire-officers-after-their-retirement>

## **EU General Data Protection Regulation**

[http://www.ey.com/Publication/vwLUAssets/ey-gdpr-what-you-need-to-know/\\$FILE/ey-gdpr-what-you-need-to-know.pdf](http://www.ey.com/Publication/vwLUAssets/ey-gdpr-what-you-need-to-know/$FILE/ey-gdpr-what-you-need-to-know.pdf)

[http://www.ey.com/Publication/vwLUAssets/EY-eu-general-data-protection-regulation-are-you-ready/\\$FILE/EY-eu-general-data-protection-regulation-are-you-ready.pdf](http://www.ey.com/Publication/vwLUAssets/EY-eu-general-data-protection-regulation-are-you-ready/$FILE/EY-eu-general-data-protection-regulation-are-you-ready.pdf)

The full Fire and Rescue services workforce report can be found at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/654807/fire-rescue-workforce-pensions-1617-hosb1817.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/654807/fire-rescue-workforce-pensions-1617-hosb1817.pdf)



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