AGENDA ITEM:

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY MEETING**
DATE:	**27 SEPTEMBER 2011**
REPORT NO.	**CFO/113/11**
REPORTING OFFICER:	**DEPUTY CHIEF EXECUTIVE**
CONTACT OFFICER:	**IAN CUMMINS, HEAD of FINANCE**
OFFICERS CONSULTED:	
SUBJECT:	**STATEMENTS OF ACCOUNTS 2010/11 – Authorised For Issue**

APPENDIX A TITLE Statement of Accounts 2010-2011 ATTACHED – HARD COPY

<u>Outcome</u>

1. The Statement of Accounts will be signed off as "authorised for issue" and be made available to the public.

<u>Purpose of Report</u>

2. To present to Members the audited 2010/2011 Statement of Accounts for approval and request they be authorised for issue.

<u>Recommendation</u>

3. That Member's approve the audited Statement of Accounts 2010/2011, attached as Appendix A to this report, and request they be authorised for issue.

<u>Background</u>

4. The Authority has a statutory requirement to approve and sign-off for publication the Statement of Accounts for the previous year before the regulation deadline of the 30th September in the current year. Members have already considered and approved the 2010/2011 year-end outturn position and movement on reserves when they considered report CFO/066/11 at the Authority meeting on 30 June, 2011. CFO/066/11 reported an increase in the general fund reserve of £2.14m to £4.684m, and the table below summarises the position on the revenue budget reported to Members on 30 June, 2011;

Year-End revenue summary:

	£'m
Revised Budget	73.326
Actual Expenditure (before year-end reserves)	71.209
Savings before reserves	-2.117
Required Year-End Earmarked Reserves	0.911
Actual Saving	-1.206
Fund capitalised alarm installation via borrowing	-0.934
Revised year-end saving	-2.140
Increase General Reserve	2.140
Adjusted Year-End Position	0.000

5. At the time of writing this report the Audit Commission are in the process of finalising their Annual Governance Report, elsewhere on this agenda, that will inform Members on their findings following their audit work on the Statement of Accounts 2010/2011. Although the auditors have identified some presentational amendments (that have been now been included in the Statement of Accounts attached to this report) the outturn position on the revenue account and movement on reserves reported in CFO/066/11 has not changed.

Statement of Accounts;

6. The Statement of Accounts is a record of the Authority's financial activities for 2010/11 with comparative figures for 2009/10. They have been prepared in accordance with the accounting practices set out in the *Code of Practice on Local Authority Accounting* (The Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) together with guidance notes issued by them.

   On 1 April 2010 the Authority, along with all other local authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2010/11 therefore are the first to be prepared under these new arrangements. The move to an IFRS-based system of accounting has resulted in a number of significant changes, including the adoption of a new accounting Code (referred to above), new accounting policies and new formats for the principal financial statements. These changes are explained in the Statement of Accounts Explanatory Foreword together with a brief description of each of the four core statements;

   - **Movement in Reserves Statement (MiRS)**
   - **The Comprehensive Income and Expenditure Statement (CIES)**
   - **The Balance Sheet, and**
   - **The Cash Flow Statement**

The Statement of Accounts must be prepared in accordance with the Code and as such the statements include a number of adjustments that are significant in value but do not alter the “council tax” bottom line. They effectively convert the statements into a format that is consistent with commercial accounts. For example the financial position shown in the Consolidated Income and Expenditure Account shows the true accounting position for the year as if the Authority was a commercial entity, and includes such expenses as depreciation and amounts to reflect pension costs. The Authority sets it budget and monitors spend during the year through in terms of its General Fund account, which is a statutory account that records only those expenses that regulations allow to be charged against the amount to be collected from council tax payers. Paragraph 4 of this report outlined the 2010/11 General Fund position for the Service.

7. To identify and briefly explain some of the largest movements between the figures in the formal statements for 2010/2011 the table below analyses the variations:-

Movement in Reserves Statement (MiRS):

(a) This statement shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves (those that have been created to reconcile the technical aspects of accounting which are not generally available to spend).

(b) The General Fund balance increased from £2.544m to £4.684m, an increase of £2.140m, reflecting the year-end saving reported to members in CFO/066/11. The net increase in earmarked reserves was £3.402m, and reflected the £3.400m increase in reserves approved by Members in the April – December financial review report, CFO/015/11 (inflation reserve +£1.142m and the severance reserve +£2.258m), and year-end adjustments approved in CFO/061/11. Note 8 on page 52 of the Statement of Accounts provides a full analysis of the reserve movements in the year.

(c) The change in the unusable reserves, -£87.684m, reflects the technical adjustment required in the accounting statements but is not available to spend. The main entries relate to charges for notional depreciation and changes to pension liabilities and assets.

The Comprehensive Income and Expenditure Statement (CIES)

(d) This statement shows the “accounting cost” in the year of providing services in accordance with generally accepted accounting practices, the Code, rather than the amount to be funded from General Fund Account (taxation). It can be difficult to follow how a General Fund Account saving in 2010/2011 of £2.140m is shown as a £92.866m surplus on the CIES (and how it changed from a £244.628m deficit on the CIES in 2009/2010).

(e) The “non-distributed costs reduction in Past Service Cost” gain in 2010/2011 of £90.292m is due to a change in pension scheme benefits. This is due to a change in benefit indexation from RPI (Retail Price Index) to CPI (Consumer Price Index).

(f) The (Surplus)/Deficit on the Actuarial (gains) & losses on pension fund assets and liabilities moved from a loss of £220.626m in 2009/2010 to a gain of £34.586m in 2010/2011. In accordance with FRS17 Actuarial estimates are completed each year, and they relate to the changing markets and assumptions made in calculating pension liabilities and assets. It can be ignored for council tax purposes.

The Balance Sheet

(g) The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority, 31 March each year. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, usable and unusable (see MiRS for explanation).

(h) The Balance Sheet statement refers to detailed notes within the Statement of Accounts that provide a full analysis of what makes up each line, but some new or significant changes have been outlined below:

(i) Long Term Assets - reduction of £0.995m, in 2010/11 the Authority has had to accelerate the depreciation on seven of its fire stations in order to incorporate the demolishing and rebuilding of them through the PFI scheme. As a result the buildings are being depreciated over a much shorter life and will result in additional depreciation charges of around £2.1m per year for the next 3 years. (this does not impact in the general fund account)

(ii) Assets Held for Sale – Low Hill Fire Station and the old Workshop at Speke are currently on the market for sale.

(iii) Short Term Debtors – the “other local authorities debtor figure” (reflecting the Authority’s share of Council Tax Arrears for the 5 billing authorities) has reduced in 2010/2011 by £0.767m compared to the previous year. This is as a consequence of an increase in the bad debt provision on council tax arrears reducing the amount of council tax arrears due to the Authority.

(iv) Cash and Cash Equivalents reduction of £2.080m is misleading in the sense it does not reflect the true cash position of the Authority. The “reversing” out of pension fund entries makes less transparent the actual cash balance held in the bank on 31 March 2011 was actually £0. 058m in credit.

(v) The reduction in short-term borrowing from £0.578m reflects the net repayment of £0.500m of short-term loans with PWLB.

(vi) Short-term creditor reduction of £0.793m is due to a £0.700m reduction in the billing authorities council tax creditor (the amount of cash paid to the Authority by the billing authorities in advance of them receiving the council tax income for that year).

(vii) Long-term borrowing reduced by £2.000m after the Authority repaid £2.000m of PWLB loans in the year.

(viii) Other long-term liabilities / Unusable Reserves - Liability related to Defined Benefit Pension Scheme and Pension Account movement - c£92m – This relates to the movement in liability and funds in Firefighter pension liability within the year. These accounts balance each other out and allow the inclusion of the pension liability in the balance sheet.

(ix) Usable Reserve increase £5.82m – this reflects the year-end increase in the general fund reserve, £2.140m (see paragraph 4 of this report), and an increase of £3.042m in earmarked reserve to cover projects or initiatives covering more than one year.

The Cash Flow Statement

8. The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

9. Members are required to approve the Statement of Accounts and authorise them for issue. Once the Statement of Accounts have been authorised for issue the public will have access to the document via the Authority's website.

Equality & Diversity Implications

10. There are no equal opportunity implications in this report.

Financial Implications & Value for Money

11. The report confirms the 2009/2010 outturn position is consistent with that previously reported.

Health & Safety and Environmental Implications

12. None arising from this report.

Contribution to Achieving our Purpose

13. "To Make Merseyside a Safer, Stronger, Healthier Community"

Sound budgetary management and the delivery of services within the approved budget helps the Authority deliver on its corporate aim of operating efficient and effective organisational functions that will support the core functions of the Authority in a way that provides value for money for the communities of Merseyside.

BACKGROUND PAPERS

Report CFO/061/11 “Revenue Outturn 2010-2011 & The Statement of Accounts” Authority 30 June 2011.

Glossary of Terms

CIES - The Comprehensive Income and Expenditure Statement
MiRS - Movement in Reserves Statement
PWLB – Public Works Loans Board