

AGENDA ITEM:

<b>REPORT TO:</b> Meeting of the	<b>MERSEYSIDE FIRE &amp; RESCUE AUTHORITY POLICY AND RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>27 SEPTEMBER 2012</b>
<b>REPORT NO.</b>	<b>CFO/124/12</b>
<b>REPORTING OFFICER:</b>	<b>KIERAN TIMMINS, DEPUTY CHIEF EXECUTIVE</b>
<b>CONTACT OFFICER:</b>	<b>IAN CUMMINS, HEAD OF FINANCE, EXTN. 4244</b>
<b>OFFICERS CONSULTED:</b>	
<b>SUBJECT:</b>	<b>STATEMENTS OF ACCOUNTS 2011/12 – AUTHORISED FOR ISSUE</b>

<b>APPENDIX</b>	<b>A</b>	<b>STATEMENT OF ACCOUNTS 2011-2012</b>
	<b>B</b>	<b>CFO/082/12 – THE ANNUAL GOVERNANCE STATEMENT 2011/12</b>
	<b>B1</b>	<b>“ANNUAL GOVERNANCE STATEMENT 2011/12”</b>
	<b>B2</b>	<b>“CODE OF CORPORATE GOVERNANCE”</b>

**ATTACHED – HARD COPY**

Purpose of Report

1. To present to Members the audited 2011/12 Statement of Accounts for approval and request they be authorised for issue.

Recommendation

2. That Member's approve the audited Statement of Accounts 2011/12, attached as Appendix A to this report, and request they be authorised for issue.

Introduction & Background

3. 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 30<sup>th</sup> September in the current year.
4. Members have already considered and approved the 2011/12 year-end outturn position and movement of reserves when they considered report CFO/089/12 at the Authority meeting on 3 July, 2012. CFO/0089/12 reported net revenue expenditure in the year of £64.663m against a budget of £69.781, a favourable variance of £5.118m. The report also identified of this variance £1.867m was

required to be carried forward as earmarked reserves to meet future financial liabilities and projects. Member's also agreed to utilise the remaining £3.251m to increase the capital investment reserve in light of the major investment projects planned and to facilitate specific investments in firefighter health and safety (training facilities etc).

5. At the time of writing this report the Audit Commission are in the process of finalising their Annual Governance Report, AGS, for 2011/2012. The final AGS can be found elsewhere on today's agenda for this Committee, and this document will inform members on the Auditor's findings following their audit work on the Statement of Accounts 2011/12. 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, capital programme, and movement on reserves reported in CFO/089/12 has not changed.**

**Statement of Accounts:**

6. The Statement of Accounts is a record of the Authority's financial activities for 2011/12 with comparative figures for 2010/11. 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 2011/12 have therefore been prepared under these regulations. The move to an IFRS-based system of accounting has resulted in a significant increase in disclosure requirements and the formats of the principal financial statements. The Statement of Accounts Explanatory Foreword provides 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 its budget and monitors spend during the year 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 2011/12 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 2011/12 the paragraphs below analyse the material entries in the statements:-

#### **Movement in Reserves Statement (MiRS):**

- 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).
- The General Fund balance remained at the 2010/11 figure of £4.684m.
- The movement in usable Earmarked Reserves from £13.138m to £17.126m was outlined in the year-end report CFO/0089/12 and is summarised below:

	Opening Balance	Anticipated Closing Balance	Actual Closing Balance	Variation to that Anticipated	Explained By:	
					Specific Projects continuing into Year 2	Year-End Saving
	£'000	£'000	£'000	£'000	£'000	£'000
Total Earmarked Reserves	13,138	12,008	17,126	5,118	1,867	3,251
General Revenue Reserve	4,684	4,684	4,684	0	0	0
<b>Total Reserves</b>	<b>17,822</b>	<b>16,692</b>	<b>21,810</b>	<b>5,118</b>	<b>1,867</b>	<b>3,251</b>

- The change in the unusable reserves, +£65.474m, 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)**

- 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 2011/12 of £5.1158m is shown as net expenditure of £58.984m on the CIES (and how it changed from a £92.866m surplus on the CIES in 2010/11).
- The "non-distributed costs reduction in Past Service Cost" gain in 2010/11 of £90.292m was due to a change in pension scheme benefits (due to a change in benefit indexation from the Retail Price Index to the Consumer Price Index). Obviously this reduction was a one-off and not repeated in 2011/12.
- The (Surplus)/Deficit on the Actuarial (gains) & losses on pension fund assets and liabilities moved from a gain of £53.213m in 2010/2011 to a loss of £14.171m in 2011/12. 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**

- 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).

- 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:
  - Long Term Assets - reduction of £3m. 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 (this does not impact in the general fund account).
  - Short Term Investments (+£6m) & Cash & Cash Equivalents (+£3m), reflects the long and short term investments held at the end of 2011/12 due to the re-phasing of planned capital spend and the receipt of grant monies in advance of spend (PFI) .
  - The reduction in short-term borrowing reflects the net repayment of short-term loans with PWLB.
  - Long-term borrowing increased by £4.000m after the Authority took out £4.000m of PWLB loans in the year.
  - Other long-term liabilities / Unusable Reserves - Liability related to Defined Benefit Pension Scheme and Pension Account movements in the year. 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.
  - Usable Reserve increase £6.5m – this reflects the year-end net increase in the earmarked reserves of £4m, and £2.5m held in the capital grant unapplied reserve (grant received in advance of expenditure).

### **The Cash Flow Statement**

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.

8. 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

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

### Staff Implications

10. None directly related to this report.

### Legal Implications

11. 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 30<sup>th</sup> September in the current year.

### Financial Implications & Value for Money

12. The report confirms the 2011/2012 outturn position is consistent with that previously reported.

### Risk Management, Health & Safety, and Environmental Implications

13. None arising from this report.

### Contribution to Our Mission – To Achieve; Safer Stronger Communities – Safe Effective Firefighters”

14. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority’s mission.

## **BACKGROUND PAPERS**

Report CFO/089/12 “Revenue Outturn 2011-2012” Authority 3 July 2012.

### **Glossary of Terms**

PWLB – Public Works Loans Board

MiRS - Movement in Reserves Statement

CIES - The Comprehensive Income and Expenditure Statement

The Code - Code of Practice on Local Authority Accounting

IFRS - International Financial Reporting Standards

CIPFA - Chartered Institute of Public Finance and Accountancy

PFI – Private Finance Initiative

RPI – Retail Price Index

