

<b>MERSEYSIDE FIRE AND RESCUE AUTHORITY</b>			
<b>MEETING OF THE:</b>	<b>POLICY AND RESOURCES COMMITTEE</b>		
<b>DATE:</b>	<b>27<sup>TH</sup> JULY 2016</b>	<b>REPORT NO:</b>	<b>CFO/048/17</b>
<b>PRESENTING OFFICER</b>	<b>AUTHORITY TREASURER: IAN CUMMINS</b>		
<b>RESPONSIBLE OFFICER:</b>	<b>IAN CUMMINS</b>	<b>REPORT AUTHOR:</b>	<b>IAN CUMMINS TREASURER</b>
<b>OFFICERS CONSULTED:</b>	<b>STRATEGIC MANAGEMENT GROUP</b>		
<b>TITLE OF REPORT:</b>	<b>STATEMENT OF ACCOUNTS 2016/17 - AUTHORISATION FOR ISSUE</b>		

<b>APPENDICES:</b>	<b>APPENDIX A: STATEMENT OF ACCOUNTS 2016/17</b>
	<b>APPENDIX B: LETTER OF REPRESENTATION</b>

### **Purpose of Report**

1. To present to members the audited 2016/17 Statement of Accounts for approval and request that they be authorised for issue.

### **Recommendation**

2. That Members
  - a. approve the audited Statement of Accounts 2016/17, attached as Appendix A to this report, and
  - b. approve that the Statement of Accounts 2016/17 may be authorised for issue, and
  - c. approve the letter of representation in relation to the 2016/17 accounts, attached as Appendix B.

### **Introduction and Background**

3. The Authority has a statutory duty to approve and sign-off for publication the Statement of Accounts for the previous year before 30<sup>th</sup> September of the following year.
4. Members have already considered the 2016/17 year-end outturn position and movement on reserves within report CFO/049/17. That report identified net revenue expenditure in the year of £59.158m against a budget of £61.507, resulting in a favourable variance of £2.349m before any adjustments for year-end reserves. The report identified that of this variance £0.480m was required to be carried forward as earmarked reserves, leaving an actual saving in 2016/17 of £1.869m. Members approved the allocation of this one-off saving to increase the Capital Investment Reserve in light of the planned refurbishment of the Training and Development Academy.

5. At the time of writing this report Grant Thornton, the Authority's current external auditors, have yet to finalise the audit of the Statement of Accounts however no major issues have been identified. Grant Thornton are in the process of finalising their Audit Findings report, which is presented elsewhere on today's Agenda, and which will summarise the issues they have identified in the Statement of Accounts. **The outturn position on the revenue account, capital programme, and movement on reserves reported in CFO/049/17 as outlined above, has not changed.**

**Statement of Accounts:**

6. The Statement of Accounts is a record of the Authority's financial activities for 2016/17 with comparative figures for 2015/16. 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.
7. On 1<sup>st</sup> April 2010 the Authority, along with all other Local Authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2016/17 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 Narrative Report provides a brief description of each of the four core statements;
- **The Comprehensive Income and Expenditure Statement (CIES)**
  - **Movement in Reserves Statement (MiRS)**
  - **The Balance Sheet, and**
  - **The Cash Flow Statement**

And the "**Expenditure and Funding Analysis**" which reconciles the in the CIES back to the internal reporting and general fund reported outturn position.

8. 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. It therefore includes such expenses as depreciation and amounts to reflect pension costs.
9. The Authority sets its budget and monitors expenditure 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 2016/17 General Fund position for the service*).

10. The analysis below identifies and briefly explains some of the largest movements between the figures in the formal statement of accounts for 2016/17 and the Expenditure and Funding Analysis :-

**a 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 rather than the amount to be funded from General Fund Account (taxation). Whilst there is a neutral net General Fund Account position in 2016/17 (after taking into account the creation of reserves) this becomes net expenditure of £182.876m on the CIES because of additional accounting transactions relating mainly to pensions but also depreciation and some other technical adjustments. The table below outlines the reconciliation between the General Fund position and that in the CIES:

	Detailed Adjustments  £'000	Total Adjustments per Expenditure and Funding Analysis  £'000	Total Adjustments per Comprehensive Income and Expenditure Statement  £'000
<b>Net General Fund 2016/17 year-end position:</b>	0	0	0
<b>1 Net Creation of Earmarked Reserves (1)</b>	-		(3,610)
<b>2 Asset Valuation / Charges and Capital Funding Adjustments</b>			
Depreciation, Impairment and Revaluation adjustment	5,938	-	-
Revenue Expenditure Funded from Capital Under Statute (REFCUS)	1,028	-	-
Asset Disposal / Write-offs / Revaluation losses	4,531	-	-
MRP / Interest adjustment	(4,487)	-	-
Capital Expenditure Funded from the Revenue Account (CERA)	(669)	-	-
Capital Grants Income	(600)	5,741	-
<b>3 Pension related adjustments</b>			
Pension Contributions payable to pension fund	(7,534)		
Pension Current Service Costs	10,163		
Pension Past Service Costs	460		
Net Interest on the Defined Benefit Liability Scheme	32,748	35,837	
<b>4 Other technical accounting adjustments</b>			
Timing Differences for Premiums and Discounts	50		
Timing Differences for Council Tax / NNDR	704		
Timing Differences for Compensated Absences	(199)	555	
<b>Total Adjustments</b>			<b>42,133</b>
<b>(Surplus) Deficit on Provision of Services</b>			<b>38,523</b>
<b>Remeasurement of the Net Defined Benefit Liability (firefighter pension fund – actuarial losses in the year)</b>			<b>144,353</b>
<b>Total Comprehensive Income &amp; Expenditure</b>			<b>182,876</b>

**Whilst the CIES shows the true accounting position for the year, it is the General Fund position which more directly reflects the impact on Merseyside residents as it records only those expenses which statute**

allows to be charged against the Authority's annual budget, the amounts to be set aside as reserves and the amounts to be collected from local council tax payers.

**b. 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).

Increase in usable Earmarked Reserves of £3.610m. The year-end report, CFO/xxx/17, identified an overall net increase in reserves of £3.610m in 2016/17 compared to a planned increase of £1.261m, a variance of +£2.349m. The increase in reserves compared to that anticipated reflects the favourable 2016/17 year-end revenue position on the general fund and the proposal to utilise this to create additional year-end earmarked reserves of £2.349m, see analysis below:

	Opening Balance	Anticipated Closing Balance	Anticipated Movement in Reserves	Actual Closing Balance	Actual Movement 01.04.16 - 31.03.17	Variation to that Anticipated		
						Variance to anticipated movement (+£1,261k to Actual +£3,610k) =£2,349k	Explained By:	
							Year-End Earmarked Reserves	Net Underspend Increase in Capital Reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Earmarked Reserves	26,248	27,509	1,261	29,858	3,610	2,349	480	1,869

The General Fund balance was unchanged at £2.000m and reflects the perceived levels of risk within the current financial plan.

An increase in unusable reserves of £185.258m. Unusable reserves are not available to fund spend and in reality simply reflect technical adjustments required in the accounting statements to adhere to the Code. The main entries relate to charges for notional depreciation and changes to pension liabilities and assets. Most of the increase, £180.190m, is down to changes in the liability of the pension schemes in 2016/17.

**c. The Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Authority, at 31<sup>st</sup> 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 paragraph 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** – decreased by £7.845m. This was mainly due to the disposal of Toxteth Firefit Hub, -£4.531m, to Liverpool Mutual Homes; revaluation and impairment charges of -£5.937m; and additions in the year of +£2.623m.
- **Current Assets** – increased by £6.040m. The current strategy of building up reserves compounded by the re-phasing of planned capital spend and the receipt of grant monies in advance of expenditure has resulted in an increase in Short Term Investments, £0.985m, and an increase in Cash & Cash Equivalents, £5.945m. The remaining changes reflect a small reduction in short term debtors and inventory values.
- **Current Liabilities** – increased by £2.646m. A planned repayment of PWLB loans in 2016/17 resulted in a reduction in short term borrowing of -£1.000m. The remaining balance reflects grants and other income received in advance of expenditure of +£3.646m (for example: National Resilience Assurance and International Search & Rescue Team monies).
- **Long Term Liabilities** – increased by £178.425m;
  - Other long-term Creditors – A reduction of £0.335m. The reduction reflects contractual payments to the PFI contract for its 25 year life until 2038.
  - Provisions – A net decrease of £0.389m. The injury compensation provision (personal injuries sustained where the Authority is alleged to be at fault) is re-assessed at the end of each financial year. The provision for new or amended claims received in the year was reduced to £0.086m and the value of claims settled was £0.303m, a net decrease in the provision of £0.389m
  - Long-term borrowing reduced by £1.000m reflecting the fact that a loan of £1.000m will be repaid in the coming year.
  - Other long-term liabilities increase of £180.149m. Of this £0.041m is due to the reduction in the Authority's share of Merseyside County Council residual debt. The balance, £180.190m relates to the Defined Benefit Pension Scheme and Pension Account movements in the year. This reflects the movement in liability and funds in Firefighter and Local Government pension schemes. This change is offset by an increase in the Pensions Reserve (Unusable Reserves) of £108.190m. These accounts balance each other out and allow the inclusion of the pension liability in the balance sheet. / Unusable Reserves (see Note 22 in the Statement).
- **Usable Reserve** increase £2.382m – this is the net movement in reserves in the year; An increase in earmarked reserves of £3.610m

as a consequence of reserves created at the year-end, and a reduction of £1.228m in the capital grant unapplied reserve (grant received in advance of expenditure) as grant is applied to fund capital expenditure in the year. The general fund balance has remained the same at £2.000m.

- **Unusable Reserves** increase of £185.258m. As mentioned previously unusable reserves have been created to allow the technical aspects of accounting required by the Code to be reflected in the Statement of Accounts. Unusable reserves are not generally available to fund spend. The increase in the Pension Reserve of £180.190m to reflect changes in the liability of the pension schemes accounts for most of this increase. The other movements relate to the Capital Adjustment Account, £3.195m, (used to show various notional costs associated with capital expenditure to allow the accounts to be prepared on an IFRS basis, such as depreciation, gains and losses on Investment Properties and gains recognised on donated assets). The Revaluation Reserve has decreased by £1.318m due to the Land and Building revaluation and difference between fair value depreciation and historical cost depreciation. The balance relates to small movements on other accounts.

#### **d. 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. Notes 23 to 26 in the Statement of Accounts provide more for detail of specific movements in the year.

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 (for an analysis of investing activities see note 25 in the Statement). Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing, see note 26 in the Statement for details) to the Authority.

Overall total cash and cash equivalents (Cash equivalents are highly liquid investments that mature within a period of no more than three months and are readily convertible to known amounts of cash) have increased by £15.526m to £21.471m. This in part due to the increase in longer term investments as part of the strategy of building up reserves to provide time to re-engineer the Service in light of the financial challenge ahead. As per Note 17 in the Statement of Accounts, £8.622m of the closing balance relates to the disaggregation of the pension fund figures into a separate account and is the money owed to Merseyside Fire and Rescue Service from CLG for payments of pension liabilities. The Authority initially had a

bank overdraft of £0.070m as at the 31<sup>st</sup> March 2017 before taking account of this debtor.

11. Members are requested to approve the Statement of Accounts, attached as Appendix A, and authorise them for issue. If the Statement of Accounts have been authorised for issue the public will have access to the document via the Authority's website. A summary plain English statement of accounts is also available on the website.
12. International Audit Standards require a letter of representation from the Authority to the Auditors confirming that the information in the financial statements is accurate and that all material information has been disclosed. The signature of the Chair of this Committee (which is approving the Statement of Accounts) and the Treasurer are required on the letter. The proposed letter of representation is attached to this report as Appendix B.

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### **Equality and Diversity Implications**

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13. None directly related to this report.

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### **Staff Implications**

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14. None directly related to this report.

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### **Legal Implications**

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15. The Authority has a statutory duty pursuant to regulation 10 of the Accounts and Audit (England) Regulations 2015 to approve and sign-off for publication the Statement of Accounts for the previous year before the regulation deadline of 30<sup>th</sup> July in the current year with effect from the 2017/18 Statement of Accounts. However for 2016/17 the Authority has up to 30<sup>th</sup> September of the relevant current year to approve and sign-off for publication the Statement of Accounts.

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### **Financial Implications & Value for Money**

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16. The report confirms the 2016/17 outturn position is consistent with that previously reported.

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

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17. None directly related to this report.

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### **Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters***

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18. 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.

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## BACKGROUND PAPERS

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**CFO/049/17** “Revenue and Capital Outturn 2016-2017” Policy & Resources 27<sup>th</sup> July 2017.

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## GLOSSARY OF TERMS

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<b>CIES</b>	The Comprehensive Income and Expenditure Statement
<b>THE CODE</b>	Code of Practice on Local Authority Accounting
<b>MIRS</b>	Movement in Reserves Statement
<b>IFRS</b>	International Financial Reporting Standards
<b>PFI</b>	Private Finance Initiative