MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	25TH JULY 2019	REPORT NO:	CFO/043/19
PRESENTING OFFICER	AUTHORITY TREASURER: IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS DIRECTOR OF FINANCE
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2018/19 - AUTHORISATION FOR ISSUE		

APPENDICES:	APPENDIX A:	STATEMENT OF ACCOUNTS 2018/19
	APPENDIX B:	LETTER OF REPRESENTATION (DRAFT)

Purpose of Report

1. To present to members the audited 2018/19 Statement of Accounts for approval and request that they be authorised for issue.

Recommendation

2. That Members
    a. approve that the unaudited Statement of Accounts 2018/19 attached as Appendix A to this report may be authorised for issue, and
    b. note that the audit opinion will follow once the updated asset valuation has been completed and shared with the External Auditor,
    c. note the draft letter of representation in relation to the unaudited 2018/19 accounts, attached as Appendix B.
    d. once Audit have finalised their work an audited statement of accounts and letter of representation will come back to Members for approval.

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 31st July of the following year.

4. Members have already considered the 2018/19 year-end outturn position and movement on reserves within report CFO/037/19. That report identified net revenue expenditure in the year of £58.784m against a budget of £59.701, resulting in a favourable variance of £0.917m before any adjustments for year-end reserves. The report identified that of this variance £0.091m was required to be carried forward as earmarked reserves, leaving an actual saving in 2018/19 of £0.826m. At the Budget Authority meeting in February 2019, Members approved the utilisation of savings to

increase the minimum revenue provision (MRP) to allow the early repayment of debt. By repaying debt off early it is hoped that future debt servicing budget can be freed-up and re-invested back into front line services. The £0.826m has been used in 2018/19 to increase MRP. Therefore after taking these adjustments into account net expenditure in the year was consistent with the budget.

5. Following recent reviews of audit suppliers' audits the Finance Reporting Council (FRC) has made it clear that the auditor is expected to sufficiently and robustly challenge management's (and their expert's) assumptions and judgements used to support property, plant and equipment figures in organisations accounts. The Authority's current approach to verify property valuations is to carry out a full revaluation once every five years unless the appointed independent property valuer believes a material valuation change has occurred. For 2018/19 the Authority's valuer has, in his professional opinion, stated that he believes no material change in property valuations has arisen since the last full property valuation in 2014/15). Given Grant Thornton (GT) must ensure they reflect on the FRC directions to auditors, they have sought from the Authority's valuer detailed calculations and documented rationale from him to enable them to confirm the conclusion that the valuer has arrived at is based on reasonable assumptions. Unfortunately GT are of the opinion that based on the information presented to them there is not sufficient evidence to confirm there has not been a residual material movement in un-valued assets. The Authority's valuer believes the level of evidence required will only come about from a full property revaluation exercise.

6. If the Authority doesn't take action to carry out a full revaluation of its property, GT will have no choice but to issue a qualified opinion on the 2018/19 Statement of Accounts, due to the potential that the property values set out in the accounts are materially incorrect. GT can defer the issuing of their audit opinion until after the Authority has carried out a full property valuation that meets GT's information requirements. Therefore the Director of Finance has agreed to commission a full revaluation of the Authority's property valuations (as at 31.03.19) in order to provide the audit evidence required under the International Standards on Auditing, to GT.

7. As the statutory requirement is only that the Authority publishes its approved accounts by 31st July (2019) on its website, by approving this report Members will meet this requirement. However, if an audit opinion has not been obtained by this date the Authority must reference why that is in the form of a note on its website. The note will explain that the Authority is collating additional valuation information to support the valuation of property plant and equipment to allow the Auditor to complete the audit.

8. Once GT are content with the property valuation figures and any required amendments are input into the financial statements, GT will be in a position to issue an unqualified opinion at a later date.

9. Although the above would mean the Authority did not receive an audit opinion by 31st July it is the view of GT that what is of paramount importance is the quality of the accounts, which the proposed approach would seek to safeguard. Moreover, as the audit regime has now moved away from the previous Audit Commission contracts into the new framework operated by the Public Sector Audit Appointments Limited

(PSAA) on behalf of the sector, PSAA are committed to ensuring the quality of local authority accounts.

10. The issuing of an unqualified opinion by a later date carries minimal (potentially no) consequences, as the Authority can meet all legislative requirements by publishing the accounts by 31 July with a note in respect of the audit opinion which will be issued at a later date, and is a far better position to be in than a qualified opinion being issued. It is the view of GT and the Director of Finance that the quality of the audited accounts is far more important than the date on which the opinion is issued.

11. **The outturn position on the revenue account, capital programme, and movement on reserves reported in CFO/037/19 as outlined in paragraph 4, will not change as a result of the property revaluation**.

Statement of Accounts;

12. The Statement of Accounts is a record of the Authority's financial activities for 2018/19 with comparative figures for 2017/18. 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.

13. On 1st April 2010 the Authority, along with all other Local Authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2018/19 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**

14. 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.

15. The Authority sets it 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 2018/19 General Fund position for the service).*

16. The analysis below identifies and briefly explains some of the largest movements between the figures in the formal statement of accounts for 2018/19:-

17. **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 2018/19 (after taking into account the creation of reserves) this becomes net expenditure of £79.642m 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
	Net General Fund 2018/19 year-end position:	**Note**	0	0	0
1	**Net Creation of Earmarked Reserves**	(a)	-		**2,651**
2	**Asset Valuation / Charges and Capital Funding Adjustments**				
	Depreciation, Impairment and Revaluation adjustment	(b)	10,614	-	-
	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	(c)	830	-	-
	Asset Disposal / Write-offs / Revaluation losses		69	-	-
	MRP / Interest adjustment	(f)	(8,234)	-	-
	Capital Expenditure Funded from the Revenue Account (CERA)		(3,439)	-	-
	Capital Grants Income		(2,111)	**(2,271)**	-
3	**Pension related adjustments**	(d)			
	Pension Contributions payable to pension fund		(7,027)		
	Pension Current Service Costs		12,183		
	Pension Past Service Costs		46,041		
	Net Interest on the Defined Benefit Liability Scheme		27,923	**79,120**	
4	**Other technical accounting adjustments**	(e)			
	Timing Differences for Premiums and Discounts		14		
	Timing Differences for Council Tax / NNDR		58		
	Timing Differences for Compensated Absences		70	**142**	
	Total Adjustments				**76,991**
	Surplus or Deficit on Provision of Services				**79,642**

Notes to the table:

a) *Although the creation of earmarked reserves does not form part of the CIES they are included to ensure that the General Fund expenditure reconciles back to the CIES.*

b) *The depreciation and impairment charge reflects the notional consumption of assets during the year and the reduction in the valuation of new fire stations (Prescot and Saughall Massie).*

c) *REFCUS relates to the installation of free smoke alarms to households in Merseyside that under proper accounting practice should be defined as revenue but which statute allows the Authority to fund from capital.*

d) Pension costs in the CIES reflect IAS 19 and therefore include movements in the pension fund valuations and pension contributions received in the year. The McCloud ruling has added £46.041m to Past Service Costs. Note 40 in the Financial Statements provides further details of movements in the pension funds during the year.

e) The other technical accounting adjustment incorporates the adjustments made in relation to council tax indebtedness between the billing authorities and the Authority, and, the value of employee benefits accrued in the year but not taken (leave carried forward).

f) Statute requires that certain expenses are charged to the General Fund that are not considered to be proper accounting charges in accordance with the Code. These are therefore not shown in the CIES. The unitary charge payments associated with the PFI contract are shown as fully charged to revenue in the General Fund but in the CIES they are broken up into the relevant revenue, capital and interest notional elements. The removal of capital financing charges relates to costs associated with; interest payments on loans and the Minimum Revenue Provision (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA).

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.

18. **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 year-end report, CFO/037/19, identified an overall net reduction in reserves of £2.651m in 2018/19 from £27.715m to £25.064m. This includes the General Fund balance that remained unchanged at £2.000m and reflects the perceived levels of risk within the current financial plan. The MiRS figures are consistent with these figures but also include £4.856m of capital grants received from Government towards the station merger initiative and the replacement of national resilience assets that remain unapplied until the schemes are complete. If these capital grants are not applied the grant must be paid back to Government and are therefore excluded from the available reserves reported in the general fund outturn report. The total useable reserves as at 31st March 2019, reported within the MiRS is £29.920m (£25.064m + £4.856m).

An increase in unusable reserves of £76.640m - 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 is down to changes in the liability of the pension schemes in 2018/19, (£78.958m).

19. **The Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Authority, at 31st 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** – reduced by £3.380m. This was mainly due to the revaluation of the new Prescot and Saughall Massie fire stations (£4.927m) as they are required to be valued on a depreciated replacement cost basis, as are all fire stations, rather than the actual cost of the build. Other additions less depreciation and transfers in year of £1.547m resulted in a net decrease of £3.380m. Long term asset values may change once the new property valuation review has been completed.

- **Current Assets** – reduced by £4.242m. The current treasury management strategy reflects the expectation that the overall structure of interest rates whereby short term rates are lower than long term rates means it is more sensible to reduce investments and borrow for short periods and possibly at variable rates when required, rather than seek new long term borrowing. This has resulted in a reduction in Short Term Investments, £4.970m, and a reduction in Cash & Cash Equivalents, £3.891mm. Short-term debtors have increased by £4.638m due to increase in the Home Office firefighter pension debtor of £3.936m. The remaining changes reflect a small changes in inventory values, and assets held for sale.

- **Current Liabilities** – reduced by £6.607m. A reduction in short-term creditors of £5.695m due to the Home Office, unlike in 2017/18, not pre-paying the National Resilience Assurance Team grant for 2019/20 in 2018/19 (£6.091m). A reduction in short-term borrowing of £0.912m due to a reduction in loans being repaid in the following year relative to the 2017/18 statement.

- **Long Term Liabilities** – increased by £78.465m;
  - Other long-term liabilities – Increased by £78.917m. £78.958m 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 £78.958m. These accounts balance each other out and allow the inclusion of the pension liability in the balance sheet and Unusable Reserves (see Note 22 in the Statement of Accounts).
  - Long-term creditors – reduced by £0.394m. This reduction relates to PFI contract payments to be paid in the coming year and moved to short term borrowing.
  - Provisions – A net increase of £0.207m. 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 increased reduced by £0.124m. The Business Rates Appeals provision was increased by £0.083m (see note 20 in Statement of Accounts).

- Long-term borrowing relates to Public Works Loan Board (PWLB) and has reduced by £0.265m reflecting the fact that a loan of £0.265m will be repaid in the coming year and moved to short-term borrowing.

- **Usable Reserve** reduction of £2.840m – this is the net movement in reserves in the year; A reduction in earmarked reserves of £2.651m as a consequence of reserves utilised in the year, and £0.189m 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 £76.640m. 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 £78.958m 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, £(£4.099m), (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 the sale of properties and gains recognised on donated assets). The Revaluation Reserve has reduced by £1.638m 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 of £0.143m.

20. **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 of Accounts). 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 decreased from £8.560m to £4.669m. This in part is due to the current treasury management strategy that the overall structure of interest rates whereby short term rates are lower than long term rates means it is more sensible to reduce investments and borrow for short periods rather than seek new long term borrowing.

21. 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, and an note will be included on the site explaining why the Audit work is still ongoing. A summary plain English statement of accounts is also available on the website.

22. 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 Director of Finance are required on the letter. However, the letter remains in draft form until the audit has been completed by GT. The proposed draft letter of representation is attached to this report as Appendix B, for Members information only at this point.

Equality and Diversity Implications

23. None directly related to this report.

Staff Implications

24. None directly related to this report.

Legal Implications

25. 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 31st July in the current year with effect from the 2018/19 Statement of Accounts.

Financial Implications & Value for Money

26. The report confirms the 2018/19 outturn position is consistent with that previously reported.

Risk Management, Health & Safety, and Environmental Implications

27. None directly related to this report.

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

28. 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

CFO/037/19	“Revenue and Capital Outturn 2018-2019” Policy & Resources 25th July 2019.

GLOSSARY OF TERMS

CIES	The Comprehensive Income and Expenditure Statement
THE CODE	Code of Practice on Local Authority Accounting
MIRS	Movement in Reserves Statement
IFRS	International Financial Reporting Standards
PFI	Private Finance Initiative
FRC	Financial Reporting Council – direct statutory powers in relation to audit regulations and responsible for the UK’s Corporate Governance and Stewardship Codes