MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	**AUDIT COMMITTEE**		
DATE:	**26TH NOVEMBER 2020**	**REPORT NO:**	**CFO/062/20**
PRESENTING OFFICER	**IAN CUMMINS**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS DIRECTOR OF FINANCE**
OFFICERS CONSULTED:	**STRATEGIC LEADERSHIP TEAM**		
TITLE OF REPORT:	**STATEMENT OF ACCOUNTS 2019/20 - APPROVAL OF AUDITED STATEMENTS**		

APPENDICES:	**APPENDIX A:** **APPENDIX B:**	**STATEMENT OF ACCOUNTS 2019/20** **LETTER OF REPRESENTATION**

Purpose of Report

1. To present to members the audited 2019/20 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 2019/20 attached as Appendix A to this report may be authorised for issue, and
   b. approve the letter of representation in relation to the 2019/20 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 usually before 31st July of the following year, however for 2019/20 due to COVID19 and an amendment to the Regulations in force the deadline is 30th November 2020. The 2019/20 Statement of Accounts are attached to this report, Appendix A, for Members' consideration and approval.

4. Members have already considered the 2019/20 year-end general fund outturn position and movement on reserves within report CFO/004/20. That report identified net revenue expenditure in the year of £58.131m against a budget of £60.282m, resulting in a favourable variance of £2.151m before any adjustments for year-end reserves. The report identified that of this variance £0.650m was required to be carried forward as earmarked reserves, leaving an actual saving in 2019/20 of £1.501m. Members approved the utilisation of this saving to increase the minimum

revenue provision (MRP) to allow the early repayment of debt, and potentially releasing future debt servicing budget to re-invest back into front line services. Therefore, after taking these adjustments into account net expenditure in the year was consistent with the general fund budget.

5. The financial statements within the Statement of Accounts 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). So whilst there is a neutral net General Fund Account position in 2019/20, as per paragraph 4, the Comprehensive Income and Expenditure Statement (CIES) indicates a net spend of £4.535m for the year because of additional accounting transactions relating mainly to pensions but also depreciation and some other technical adjustments. These accounting entries do not impact on the approved revenue budget’s bottom line and may be viewed as notional entries that are obligatory in order to adhere to the various accounting requirements.

6. 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’s “Audit Findings” report can be found elsewhere on today’s Agenda, and it will summarise their findings in relation to the 2019/20 Statement of Accounts. However, **the outturn position on the revenue account, capital programme, and movement on reserves reported in CFO/037/18 has not changed**.

Statement of Accounts;

7. The Statement of Accounts is a record of the Authority’s financial activities for 2019/20 with comparative figures for 2018/19. 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.

8. On 1st April 2010 the Authority, along with all other Local Authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2019/20 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**

9. The Statement of Accounts must be prepared in accordance with the relevant accounting 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.

10. The Authority sets the 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 2019/20 General Fund position for the service).*

11. The analysis below identifies and briefly explains some of the largest movements between the figures in the formal statement of accounts for 2019/20 :-

12. **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 2019/20 (after taking into account the creation of reserves) this becomes net expenditure of £4.535m 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 2019/20 year-end position:	Note	-	-	-
1	**Net Creation of Earmarked Reserves**	(a)	-	-	**3,298**
2	**Asset Valuation / Charges and Capital Funding Adjustments**				
	Depreciation, Impairment and Revaluation adjustment	(b)	3,994		
	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	(c)	992		
	Asset Disposal / Write-offs / Revaluation losses		(1,763)		
	MRP / Interest adjustment	(f)	(8,545)		
	Capital Expenditure Funded from the Revenue Account (CERA)		(3,737)		
	Capital Grants Income		(700)	**(9,759)**	
3	**Pension related adjustments**	(d)			
	Pension Contributions payable to pension fund (employer)		(10,012)		
	Pension Contributions payable to pension fund (top-up grant)		(28,671)		
	Pension Current Service Costs		18,753		
	Pension Past Service Costs		1,969		
	Net Interest on the Defined Benefit Liability Scheme		28,853	**10,892**	
4	**Other technical accounting adjustments**	(e)			
	Timing Differences for Premiums and Discounts		-		
	Timing Differences for Council Tax / NNDR		213		
	Timing Differences for Compensated Absences		(109)	**104**	
	Total Adjustments				**1,237**
	Surplus or Deficit on Provision of Services				**4,535**

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, including the reversal of any prior year valuation losses and impairments.*

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. 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.

13. **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).

Usable Reserves:- the year-end report, CFO/004/20, identified an overall net reduction in reserves of £3.297m in 2019/20 from £25.064m to £21.767m. This includes the General Fund balance of £3.000m and reflects the perceived levels of risk within the current financial plan. The MiRS figures are consistent with these figures but also include £3.590m 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 2020, reported within the MiRS is £25.357m (£21.767m + £3.590m).

A reduction in unusable reserves of £108.426m - 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 decrease is down to changes in the liability of the pension schemes in 2019/20, (£94.738m).

14. **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** – increased by £6.348m. This was mainly due to the revaluation of Land and Buildings, £3.001m, and the building of St Helens Fire Station, £4.629m. Other additions less depreciation and transfers to Assets Held for Sale resulted in in a net decrease of £1.282m

- **Current Assets** – increased by £2.428m. 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, £6.031m and a reduction in Cash & Cash Equivalents, £1.594m. A reduction in short-term debtors of £1.850m is due to a decrease in the Home Office firefighter pension debtor of £1.390m. The remaining changes reflect small changes in inventory values, and assets held for sale.

- **Current Liabilities** – increased by £0.630m. An increase in short-term creditors of £0.413m due to an increase in various creditor accruals and grant prepayments at 31st March 2020. And an increase in short-term borrowing of £0.217m due to increased loan repayments due in 2020/21 for PWLB.

- **Long Term Liabilities** – reduction of £95.717m;
    - Other long-term liabilities – reduced by £94.779m. £94.738m 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 a reduction in the Pensions Reserve (Unusable Reserves) of £94.738m. 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 £0.429m. This reduction relates to PFI contract payments to be paid in the coming year and moved to short term borrowing.
- Provisions – A net reduction of £0.059m. 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 by £0.089m. The Business Rates Appeals provision was increased by £0.030m (see note 20 in Statement of Accounts).
- Long-term borrowing relates to Public Works Loan Board (PWLB) and has reduced by £0.450m reflecting the fact that loans of £0.450m will be repaid in the coming year and moved to short-term borrowing.

- **Usable Reserve** reduction of £4.563m – this is the net movement in reserves in the year; A reduction in earmarked reserves of £4.297m as a consequence of reserves utilised in the year and the re-alignment of these reserves to increase the general fund reserve to £3.000m from £2.000m. Also a reduction of £1.266m in the capital grant unapplied reserve (grant received in advance of expenditure) as grant is applied to fund capital expenditure in the year.

- **Unusable Reserves** reduction of £108.426m. 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 reduction in the Pension Reserve of £94.738mm 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, £11.694m, (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 increased by £2.098m 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 £0.104m.

15. **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 the 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 £4.669m to £3.075m. 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.

16. 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.

17. 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. The proposed letter of representation is attached to this report as Appendix B.

Equality and Diversity Implications

18. None directly related to this report.

Staff Implications

19. None directly related to this report.

Legal Implications

20. The Authority has a statutory duty pursuant to regulation 10 of the Accounts and Audit (England) Regulations 2015 as amended by the the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 to approve and sign-off for publication the Statement of Accounts for the previous year before the regulation deadline of 30th November in the current year for the 2019/20 Statement of Accounts.

Financial Implications & Value for Money

21. The report confirms the 2019/20 outturn position is consistent with that previously reported.

Risk Management, Health & Safety, and Environmental Implications

22. None directly related to this report.

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

23. 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/004/20	"Revenue and Capital Outturn 2019-2020" Policy & Resources 30th July 2020.

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