MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**POLICY AND RESOURCES COMMITTEE**		
DATE:	**26TH JULY 2018**	**REPORT NO:**	**CFO/049/18**
PRESENTING OFFICER	**AUTHORITY TREASURER: IAN CUMMINS**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS TREASURER**
OFFICERS CONSULTED:	**STRATEGIC LEADERSHIP TEAM**		
TITLE OF REPORT:	**STATEMENT OF ACCOUNTS 2017/18 - AUTHORISATION FOR ISSUE**		

APPENDICES:	**APPENDIX A:**	**STATEMENT OF ACCOUNTS 2017/18**
	APPENDIX B:	**LETTER OF REPRESENTATION**

Purpose of Report

1. To present to members the audited 2017/18 Statement of Accounts for approval and request that they be authorised for issue.

Recommendation

2. That Members
   a. approve the audited Statement of Accounts 2017/18, attached as Appendix A to this report, and
   b. approve that the Statement of Accounts 2017/18 may be authorised for issue, and
   c. approve the letter of representation in relation to the 2017/18 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 31st July of the following year.

4. Members have already considered the 2017/18 year-end outturn position and movement on reserves within report CFO/048/18. That report identified net revenue expenditure in the year of £57.087m against a budget of £59.490, resulting in a favourable variance of £2.403m before any adjustments for year-end reserves. The report identified that of this variance £0.442m was required to be carried forward as earmarked reserves, leaving an actual saving in 2017/18 of £1.961m. Members approved the allocation of this one-off saving to increase the Capital Investment, Recruitment, and Inflation reserves in light of the planned future spend against these reserves.

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/048/18 as outlined above, has not changed**.

Statement of Accounts;

6. The Statement of Accounts is a record of the Authority's financial activities for 2017/18 with comparative figures for 2016/17. 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 1st April 2010 the Authority, along with all other Local Authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2017/18 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**

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 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 2017/18 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 2017/18:-

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 2017/18 (after taking into account the creation of reserves) this becomes net expenditure of £34.424m 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 2017/18 year-end position:		**Note**	0	0	0
1	**Net Creation of Earmarked Reserves**	(a)	-		**4,143**
2	**Asset Valuation / Charges and Capital Funding Adjustments**				
	Depreciation, Impairment and Revaluation adjustment	(b)	5,378	-	**-**
	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	(c)	658	-	**-**
	Asset Disposal / Write-offs / Revaluation losses		50	-	**-**
	MRP / Interest adjustment	(f)	(4,513)	-	**-**
	Capital Expenditure Funded from the Revenue Account (CERA)		(4,830)	-	**-**
	Capital Grants Income		(1,402)	**(4,659)**	**-**
3	**Pension related adjustments**	(d)			
	Pension Contributions payable to pension fund		(8,232)		
	Pension Current Service Costs		13,751		
	Pension Past Service Costs		720		
	Net Interest on the Defined Benefit Liability Scheme		29,131	**35,370**	
4	**Other technical accounting adjustments**	(e)			
	Timing Differences for Premiums and Discounts		16		
	Timing Differences for Council Tax / NNDR		(338)		
	Timing Differences for Compensated Absences		(108)	**(430)**	
Total Adjustments					**30,281**
Total Comprehensive Income and Expenditure Statement					**34,424**

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).

The year-end report, CFO/048/18, identified an overall net reduction in reserves of £4.143m in 2017/18 from £31.858m to £27.715m. 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 figure but also include the funds held in the capital grants unapplied account that are funds received from Government towards the station merger initiative but 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.

A reduction in unusable reserves of £8.994m - 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 reduction is down to changes in the liability of the pension schemes in 2017/18.

c. 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 £3.441m. This was mainly due to the completion of the new Prescot community fire station £7.400m and other additions less depreciation in year of £4.829m resulting in a net increase of £3.441m.

- **Current Assets** – increased by £1.432m. 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, £7.015m, and a reduction in Cash & Cash Equivalents, £6.337m. The remaining changes reflect a small increase in short term debtors, inventory values, and assets held for sale.

- **Current Liabilities** – increased by £5.052m. The balance mainly reflects grants and other income received in advance of expenditure, such as the Grant for National Resilience Assurance for 2018-19 was received in March 2017-18.

- **Long Term Liabilities** – reduced by £5.494m;
  - Other long-term Creditors – A reduction of £0.363m. This reduction relates to PFI contract payments to be paid in coming year.
  - Provisions – A net reduction of £0.222m. 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 £0.221m. The Business Rates Appeals provision was reduced by £0.001m (see note 20 in Statement of Accounts).
  - Long-term borrowing relates to Public Works Loan Board (PWLB) and has reduced by £0.500m reflecting the fact that a loan of £0.500m will be repaid in the coming year.
  - Other long-term liabilities reduction of £4.409m. Of this £0.041m is due to the reduction in the Authority's share of Merseyside County Council residual debt. The balance, £4.368m 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 £4.368m. 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).

- **Usable Reserve** reduction of £3.679m – this is the net movement in reserves in the year; A reduction in earmarked reserves of £4.143m as a consequence of reserves utilised in the year, and an increase of £0.464m 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** reduction of £8.994m. 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 decrease in the Pension Reserve of £4.369m 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, £5.334m, (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 increased by £1.140m 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 £0.431m.

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 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 £21.471m to £15.134m. This in part is due to the use of reserves to fund the new merger building strategy and the completion of Prescot Fire Station. As per Note 17 in the Statement of Accounts, £6.574m 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 £0.852m as at the 31st March 2018 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.

Equality and Diversity Implications

13. None directly related to this report.

Staff Implications

14. None directly related to this report.

Legal Implications

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 30th July in the current year with effect from the 2017/18 Statement of Accounts.

Financial Implications & Value for Money

16. The report confirms the 2017/18 outturn position is consistent with that previously reported.

Risk Management, Health & Safety, and Environmental Implications

17. None directly related to this report.

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

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.

BACKGROUND PAPERS

CFO/048/18 "Revenue and Capital Outturn 2017-2018" Policy & Resources 26th July 2018.

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