MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	23 SEPTEMBER 2014	REPORT NO:	CFO/096/14
PRESENTING OFFICER	DEPUTY CHIEF EXECUTIVE KIERAN TIMMINS		
RESPONSIBLE OFFICER:	KIERAN TIMMINS	REPORT AUTHOR:	IAN CUMMINS HEAD OF FINANCE
OFFICERS CONSULTED:	STRATEGIC MANAGEMENT GROUP		
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2013/14 - AUTHORISATION FOR ISSUE		

APPENDICES:	APPENDIX A: STATEMENT OF ACCOUNTS 2014/15 APPENDIX B: LETTER OF REPRESENTATION

Purpose of Report

1. To present to members the audited 2013/14 Statement of Accounts for approval and request they be authorised for issue.

Recommendation

2. That Members
   a. approve the audited Statement of Accounts 2013/14, attached as Appendix A to this report, and
   b. approve that the Statement of Accounts 2013/14 may be authorised for issue, and
   c. approve the letter of representation in relation to the 2013/14 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 30th September.

4. Members have already approved the 2013/14 year-end outturn position and movement on reserves when they considered report CFO/079/14 at the Authority meeting on 24th July 2014. That report identified net revenue expenditure in the year of £64.414m against a budget of £66.721, a favourable variance of £2.307m. The report identified that of this variance £0.955m was required to be carried forward as earmarked reserves leaving a real saving in 2013/14 of £1.352m. Member's approved the allocation of this one-off saving of £1.352m to increase the Capital Investment Reserve in light of the planned station merger and investment strategy.

5. At the time of writing this report Grant Thornton 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, elsewhere on today's agenda, and this 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/079/14 has not changed**.

Statement of Accounts;

6. The Statement of Accounts is a record of the Authority's financial activities for 2013/14 with comparative figures for 2012/13. 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 1st April 2010 the Authority, along with all other local authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2013/14 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. It therefore includes such expenses as depreciation and amounts to reflect pension costs.

   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 2013/14 General Fund position for the service)*

7. The analysis below identifies and briefly explains some of the largest movements between the figures in the formal statement of accounts for 2013/14:-

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 £0.235m. The year-end report, CFO/079/14, identified an overall net increase in reserves of £0.235m in 2013/14 compared to a planned reduction of £2.072m, an increase of £2.307m. The increase in reserves compared to that anticipated reflects the favourable 2013/14 year-end revenue position on the general fund and the proposal to utilise this to create additional year-end earmarked reserves of £2.307m, see analysis below:

	Opening Balance	Anticpated Closing Balance	Actual Closing Balance	Variation to that Anticpated		
				Total	Explaind By;	
					Specific Projects continuing into Yr 2	Year-End Saving - Increase in Capital Investment Res.
	£'000	£'000	£'000	£'000	£'000	£'000
Total Earmarked Reserves	23,082	21,010	23,317	2,307	955	1,352

The General Fund balance remained at £2.894m throughout the year and reflects the perceived levels of risk within the current financial plan.

A reduction in unusable reserves of £41.827m. 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, £34.107m, is down to changes in the liability of the pension schemes in 2013/14.

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 2013/14 (after taking into account the creation of reserves) this becomes net expenditure of (£41.847m) on the CIES because of additional accounting transactions relating mainly to pensions but also depreciation and some other technical adjustments. The Foreword in the Statement of Accounts contains a reconciliation statement between the General Fund position and that in the CIES, (see overleaf);

	Expenditure £000
Net General Fund 2013/14 year-end position:	-
1 Net creation of Earmarked Reserves**	(235)
2 Asset valuation / charges and Capital Funding Adjustments	
Charge for depreciation and impairment	4,443
Other Operating Expenditure	0
Revenue expenditure funded from capital under statute (REFCUS)	619
Finance (interest on loans)	3,773
Capital Grants Income	(5,449)
3 Pension related adjustments	
Pension Costs calculated in accordance with IAS 19	16,834
Pension Contributions payable to pension fund	(9,210)
Pensions Interest Cost and expected return on pension assets	42,787
Non Distributable Costs (Pension Valuation Changes)	43
Reduction in value of the net defined pension liability	(84,561)
4 Other technical accounting adjustments	
Employee Compensated Absences Movement (leave/flexi c/fwd)	(208)
Council Tax Adjustment (accrual for under/over payments from collection fund)	(303)
5 Reversal of statute charges in the General Fund but not CIES	
Agency Services PFI Unitary Charge – Debt charges (Not reported in I&E Account)	(1,759)
Remove Capital Financing – Debt Charges (Not reported in I&E Account)	(8,621)
Total Comprehensive Income and Expenditure Statement	**(41,847)**

Notes to the table:

1. ***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.*

2. *The depreciation and impairment charge of £4.443m reflects the notional consumption of assets during the year (a depreciation charge of £4.242m) and the reduction in the valuation of assets during the year (an impairment charge of £0.201m). A charge of £0.619m for 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. Capital grants of £5.449m have been credited to the CIES in accordance with proper accounting practice, however for statutory purposes the financing of capital expenditure from these grants must be included within the Authority's capital programme.*

3. *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.*

4. *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).*

5. *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, £1,759m. The removal of capital financing charges relates to costs associated with; interest payments on loans of £2.169m; the Minimum Revenue Provision of £3.178m (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA) of £3.327m; and the saving associated with the early repayment of debt, -£0.053m.*

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.

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 £13.248m. The final three PFI stations came onto the Authority's balance sheet in the year, £8.935m, in addition to the construction value of the Joint Control Room as at 31.03.14 which was £6.147m. After taking into account smaller capital purchases and the depreciation charge in the year long term assets increased in value by £13.248m.

- Current Assets – increased by £1.806m. 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, £2.972m, and reduction in Cash & Cash Equivalents, -£1.440m (reduction in short term investments). The remaining increase in current assets reflects a small increase in debtors and inventory values

- Other long-term Creditors – An increase of £8.685m. The increase reflects the completion of the PFI stations and the related contractual commitment to the PFI contract for its 25 year life until 2038.

- Provisions – A net increase of £0.424m. 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. Additional provision for new or amended claims received in the year equated to £0.605m and the value of claims settled was £0.181m, a net increase in the provision of £0.424m

- Long-term borrowing reduced by £1.475m reflecting the fact that a loan of £1.475m is due to be repaid within the coming 12 months.

- Other long-term liabilities reduction of £34.147m. Of this £0.040m is due to the reduction in the Authority's share of Merseyside County Council residual debt. The balance, £34.107m 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 £34.107m. 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 £0.020m – this is the net movement in reserves in the year; An increase in earmarked reserves of £0.235m as a consequence of reserves created at the year-end, and a reduction of £0.215m 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 £41.827m. 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 £34.107m to reflect changes in the liability of the pension schemes accounts for most of this reduction. The other significant movement relates to the Capital Adjustment Account, -£7.656m, (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 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 reduced by £1.440m to £13.279m. 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.

8. Members are required to approve the Statement of Accounts, attached as Appendix A, 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. A summary plain English statement of accounts is also available on the website.

9. 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 (DCE) are required on the letter. The proposed letter of representation is attached to this report as Appendix B.

Equality and Diversity Implications

10. None directly related to this report.

Staff Implications

11. None directly related to this report.

Legal Implications

12. The Authority has a statutory duty pursuant to regulation 8 of the Accounts and Audit (England) Regulations 2011 to approve and sign-off for publication the Statement of Accounts for the previous year before the regulation deadline of 30th September in the current year.

Financial Implications & Value for Money

13. The report confirms the 2013/14 outturn position is consistent with that previously reported.

Risk Management, Health & Safety, and Environmental Implications

14. None directly related to this report.

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

15. 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/079/14 "Revenue and Capital Outturn 2013-2014" Authority 24th July 2014.

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