MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	28TH JULY 2016	REPORT NO:	CFO/062/16
PRESENTING OFFICER	AUTHORITY TREASURER: IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS TREASURER
OFFICERS CONSULTED:	STRATEGIC MANAGEMENT GROUP		
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2015/16 - AUTHORISATION FOR ISSUE		

APPENDICES:	APPENDIX A:	STATEMENT OF ACCOUNTS 2015/16
	APPENDIX B:	LETTER OF REPRESENTATION

Purpose of Report

1. To present to members the audited 2015/16 Statement of Accounts for approval and request that they be authorised for issue.

Recommendation

2. That Members
   a. approve the audited Statement of Accounts 2015/16, attached as Appendix A to this report, and
   b. approve that the Statement of Accounts 2015/16 may be authorised for issue, and
   c. approve the letter of representation in relation to the 2015/16 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 of the following year.

4. Members have already considered the 2015/16 year-end outturn position and movement on reserves within report CFO/061/16. That report identified net revenue expenditure in the year of £59.807m against a budget of £62.169, a favourable variance of £2.362m before any adjustments for year-end reserves. The report identified that of this variance £0.791m was required to be carried forward as earmarked reserves, leaving a real saving in 2015/16 of £1.571m. Members approved the allocation of this one-off saving of £1.571m 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/061/16 as outlined above, has not changed**.

<u>Statement of Accounts</u>;

6. The Statement of Accounts is a record of the Authority's financial activities for 2015/16 with comparative figures for 2014/15. 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 2015/16 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;

- **Movement in Reserves Statement (MiRS)**
- **The Comprehensive Income and Expenditure Statement (CIES)**
- **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 2015/16 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 2015/16:-

a 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 £2.263m. The year-end report, CFO/061/16, identified an overall net increase in reserves of £2.263m in 2015/16 compared to a planned reduction of £0.099m, an increase of £2.362m. The increase in reserves compared to that anticipated reflects the favourable 2015/16 year-end revenue position on the general fund and the proposal to utilise this to create additional year-end earmarked reserves of £2.362m, see analysis below:

						Variation to that Anticipated		
						Variance to anticipated movement (-£99k) to Actual (+£2,263k) =£2,362k	Explained By:	
	Opening Balance	Anticipated Closing Balance	Anticipated Movement in Reserves	Actual Closing Balance	Actual Movement 01.04.15 - 31.03.16		Year-End Earmarked Reserves	Net Underspend Increase in Capital Reserve
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Earmarked Reserves	23,985	23,886	-99	26,248	2,263	2,362	791	1,571

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 £97.755m. 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, £99.476m, is down to changes in the liability of the pension schemes in 2015/16.

b 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 2015/16 (after taking into account the creation of reserves) this becomes net expenditure of £104.057m 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 2015/16 year-end position:	-
1 Net creation of Earmarked Reserves**	(2,263)
2 Asset valuation / charges and Capital Funding Adjustments	
Revaluation losses	435
Charge for depreciation and impairment	4,733
Revaluation surplus Reversal	(151)
Impairment surplus Reversal	0
Surplus on revaluation of Fixed Assets	1,158
Other Operating Expenditure	10
Revenue expenditure funded from capital under statute (REFCUS)	733
Finance (interest on loans)	3,846
Capital Grants Income	(4,251)
3 Pension related adjustments	
Pension Costs calculated in accordance with IAS 19	14,717
Pension Contributions payable to pension fund	(7,825)
Pensions Interest Cost and expected return on pension assets	33,792
Non Distributable Costs (Pension Valuation Changes)	-
Reduction in value of the net defined pension liability	(140,160)
4 Other technical accounting adjustments	
Employee Compensated Absences Movement (leave/flexi c/fwd)	57
Council Tax Adjustment (accrual for under/over payments from collection fund)	76
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)	(2,040)
Remove Capital Financing – Debt Charges (Not reported in I&E Account)	(6,923)
Rounding adjustment	(1)
Total Comprehensive Income and Expenditure Statement	**(104,057)**

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 £4.733m reflects the notional consumption of assets during the year (a depreciation charge of £4.442m) and the reduction in the valuation of assets during the year (an impairment charge of £0.291m). A charge of £0.733m 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 £4.251m have been credited to the CIES in accordance with proper accounting practice.*

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 (£2.040m). The removal of capital financing charges relates to costs associated with; interest payments on loans of (£2.088m); the Minimum Revenue Provision of (£3.898m) (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA) of (£0.987m); and other costs totaling £0.050m (the saving associated with the early repayment of debt).*

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.

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 – decreased by £3.092m. This was due to the sale of Derby Road and depreciation charges in the year.

- Current Assets – increased by £7.354m. 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, £1.017m, and an increase in Cash & Cash Equivalents, £5.126m. The remaining increase in current assets reflects a small increase in debtors, inventory values, and assets held for sale.

- Current Liabilities – increased by £2.266m. A planned repayment of loans in 2016/17 has resulted in an increase in short term borrowing of £1.000m. Indebtedness between the Authority and the Merseyside Billing Authorities for cash collected for council tax and business rates compared with that paid over has increased short term creditors by £1.529m. The remaining balance reflects grants and other income received in advance of expenditure.

- Long Term Liabilities – decreased by £102.061m;
  - Other long-term Creditors – A reduction of £0.307m. The reduction reflects contractual payments to the PFI contract for its 25 year life until 2038.
  - Provisions – A net decrease of £0.237m. 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 £0.343m and the value of claims settled was £0.580m, a net decrease in the provision of £0.237m
  - Long-term borrowing reduced by £2.000m reflecting the fact that a loan of £2.000m will be repaid in the coming year.
  - Other long-term liabilities decrease of £99.517m. Of this £0.041m is due to the reduction in the Authority's share of Merseyside County Council residual debt. The balance, £99.476m 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 £99.476m. 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 £6.302m – this is the net movement in reserves in the year; An increase in earmarked reserves of £2.263m as a consequence of reserves created at the year-end, and an increase of £4.039m 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 £97.755m. 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 £99.476m to reflect changes in the liability of the pension schemes accounts for most of this reduction. The other movements relate to the Capital Adjustment Account, £0.237m, (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 £1.774m due to the Land and Building revaluation and difference between fair value depreciation and historical cost depreciation.

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 £5.126m to £15.526m. 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.

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. However for 2015/16 and 2016/17 the Authority has up to 30th September of the relevant current year.

Financial Implications & Value for Money

16. The report confirms the 2015/16 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/061/16 "Revenue and Capital Outturn 2015-2016" Policy & Resources 28th July 2016.

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