

**LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE**

Meeting to be held on 28 June 2017

**STATEMENT OF ACCOUNTS 2016/17
(Appendix 1 refers) (NOT ATTACHED)**

Contact for further information:

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Executive Summary

This report presents the Statement of Accounts of the Combined Fire Authority for the financial year ended 31 March 2017.

Recommendation

The Committee is asked to approve the Statement of Accounts.

Information

The Combined Fire Authority's Statement of Accounts is attached as Appendix 1. Whilst the Statement takes account of the information presented in the Year End Capital Outturn, Year End Treasury Management Outturn and Year End Revenue Outturn, as presented the Statement of Accounts itself is prepared in line with recommended accounting practice. However it must be borne in mind that this is not accounted for on the same basis as we account for council tax and hence does not tie in to the actual revenue position set out in the Year End Revenue Outturn report. Furthermore, this means that it is a very complicated document.

The Statement of Accounts is subject to review by the Authority's external auditors, Grant Thornton, which is scheduled to take place in June and July. A further report will be presented to the Audit Committee at a future meeting, once this is completed, with the final Statement of Accounts represented to Resources Committee for information.

The Statement has been signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2017.

Under existing regulations the Chair of the Committee approving the accounts has responsibility for signing and dating these. The aim of this requirement is to: -

- Encourage audited bodies to produce timely accounts of a good quality
- Promote the concept of corporate governance

The Statement of Accounts is placed on deposit for public inspection from Monday 19th June until Friday 21st July.

Overview of the Statement of Accounts

The content and format of the accounts is as prescribed in the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The following gives a brief explanation of the main components of the Accounts and the key issues within them: -

Narrative Report

Sets out the financial context in which the Combined Fire Authority operates, and provides an overview of the financial year 2016/17 as well as details of future plans.

Annual Governance Statement

This reflects the position the Authority has reached in connection with corporate governance, including internal controls and risk management, including a review of the effectiveness of these arrangements, as reported at the Audit Committee in June.

Auditors Report and Opinion

This sets out the Auditors opinion on the Statement of Accounts, and is subject to the results of the outstanding audit work which will commence in June.

Statement of Responsibilities

This sets out the responsibilities of the Authority and the Treasurer in terms the overall management of the Authorities finances and in terms of the production of the annual accounts.

Comprehensive Income & Expenditure Account

This statement shows the accounting cost in the year of providing services. It is a summary of the resources that have been generated and consumed in providing services and managing the Authority during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. The format of this statement has changed since last year end to reflect reporting to management during the year, and the comparative years figures have been restated to reflect this change (see Note 1 – Prior Period Adjustment, page 23).

The main points to note are: -

	2016/17	2015/16	
Service Delivery	22,775	26,605	The cost of Service Delivery shows reductions when compared with the previous year, largely the result of both the outcome of the Prevention and Protection Review which transferred 42 technical fire safety staff into the Strategy and Planning Directorate, plus underspends on the smoke detectors budget and the adjustment required in respect of pension liabilities under IAS 19.

Strategy & Planning	6,618	5,189	The cost of Strategy and Planning shows an increase when compared with the previous year, the effect of the transfer of the technical fire safety staff referred to above, in addition to the adjustment required in respect of pension liabilities under IAS 19.
People & Development	1,123	1,022	The cost of People and Development shows an increase when compared with the previous year, which is predominantly due to the adjustment required in respect of pension liabilities under IAS 19.
Corporate Services	3,162	3,561	The cost of Corporate Services shows reductions when compared with the previous year, largely as a result of reduced spend within the Property Department.
Fire Fighters Pensions	1,228	1,156	These costs are the ongoing pension costs relating to previous ill health or injury retirements, which have remained at a similar level to the previous year.
Overheads	6,953	4,429	This heading includes all capital financing charges, previous payments made in respect of the LGPS deficit, and depreciation and impairment charges made in respect of assets. The increase in Overheads largely relates to the increase in the amount of depreciation and impairment charged, which reflects the effect of previous revaluation gains.
Interest Payable	1,674	1,704	The level of interest payable in respect of current loans is £0.3m as shown in the Year End Treasury Management Outturn report. In addition to this interest charges associated with the PFI scheme and finance leases totalled £1.4m, in line with the previous years charges.
Pension Interest Cost And Expected Return On Assets	23,275	22,019	This relates to adjustments required under IAS 19 requirements, and is designed to show the expected increase in costs of the scheme less the expected increase in asset values. As the Fire-fighters pension scheme is unfunded there is no increase in asset value to offset the increase in scheme costs is resulting in a £23.3m charge to the Income and Expenditure Account.
Interest Receivable	(304)	(367)	The level of interest earned on investments has reduced to £0.3m, due to a 0.25% reduction in the call account interest rate at the start of August, as reflected in the Year End Treasury Management Outturn report.

Council Tax	(27,506)	(27,184)	Amounts raised through council tax, including the Authority's element of council tax collection fund surplus accumulated during the preceding year by the billing authorities. This amount reflects the total amount due, rather than simply the amount of cash received in year.
Revenue Support Grant	(13,218)	(15,210)	The level of Revenue Support Grant allocated to the Authority by the Government.
Non-Domestic Rates Redistribution	(15,050)	(13,739)	Amounts raised through non domestic rates, including the Authority's element of business rates collection fund surplus accumulated during the preceding year by the billing authorities, in addition to top up grant receivable from the Government as part of the localisation of business rates. This amount reflects the total amount due, rather than simply the amount of cash received in year.
Capital Grant Income	-	(3,002)	This shows the level of capital grants, received from the Government during the year.
Business rates S31 grant	(447)	(480)	This grant is allocated to the Authority by the Government, and relates to small business rates reliefs allowed by the Government as part of the localisation of business rates.
Deficit On The Provision Of Services	10,281	5,714	The overall deficit shows that expenditure incurred exceeded income generated over the last twelve months, and is measured in terms of the resources consumed and generated. However, this includes a number of accounting entries which do not impact on council tax levels, most notably those relating to the pensions schemes. As such this does not show the actual surplus when comparing spend against council tax.
(Surplus)/Deficit On Revaluation Of Non-Current Assets	(9,871)	(7,021)	This is a notional change in the value of fixed (non-current) assets, based on changes in market conditions etc. No actual change in value will be achieved until such time as the asset is disposed of.
Actuarial (Gains)/ Losses On Pensions Assets And Liabilities	114,465	(35,461)	This is a notional charge arising from the Actuary changing their assumptions on which future pensions liabilities are calculated, such as mortality rates, future interest rates, pay and pension increases, return on assets etc.

Total Comprehensive Income And Expenditure	This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation. As such in order to aid understanding the following table shows the comparison between the revenue budget position, as set out in the Year End Revenue Outturn report, and the Total Comprehensive Income And Expenditure figure.	
		£m
	Revenue Budget Position	(0.067)
	Transfer from earmarked reserve – DFM balances	(0.193)
	Increase in general fund balance – agrees to	(0.260)
	Movement In Reserves Statement	
	Accounting for pensions under IAS19	10.908
	Various other adjustments not affecting council tax	3.877
	Removal of transfers (to)/from earmarked reserves	(4.244)
	Deficit on the provision of services	10.281
	Surplus on revaluation of non-current assets	(9.871)
	Actuarial loss on pensions assets and liabilities	114.465
Total Comprehensive Income And Expenditure	114.875	

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into:-

- Usable Reserves - those that the Authority may use to provide services or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use
- Unusable Reserves – those include reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences 'between accounting basis and funding basis under regulations'.

The main points to note are:-

	2016/17	2015/16	
Balance at 1 April	10,186	10,664	
Total Comprehensive Income And Expenditure	(10,281)	(5,714)	This shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. However it must be borne in mind that this is not accounted for on the same basis as we account for council tax and hence does not tie in to the actual revenue position set out in the Year End Revenue Outturn report.

Charges for depreciation and impairment of non-current assets	6,209	3,538	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year.
Amortisation of intangible assets	131	134	This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year.
Disposal of assets	-	(84)	The charge in the previous year relates to the revaluation loss on disposal of Chorley Fire Station.
Capital grants applied	-	(3,002)	This shows the level of capital grants that have been utilised in the year, these were received from the Government last year, hence no charge against the General Fund Balance.
Provision for the repayment of debt	(331)	(485)	This is the charge made against the revenue budget to reduce future borrowing requirements, calculated in accordance with the methodology agreed as part of the Authorities Treasury Management Strategy 2016/17 and budget setting 2016/17.
Capital expenditure charged against General Fund Balance	(1,534)	(2,850)	This is the level of capital expenditure, both current and future years, which has been funded from contributions from the 2016/17 revenue budget, as agreed as part of the budget setting process and as shown in the Year End Capital Outturn report.
Amount by which the Code and the statutory pension costs differ	10,908	8,233	This shows the difference between the change in pension liability from one year to the next and the level of employer pension contributions and retirement benefits allowed for in the revenue budget/council tax calculation.
Amount by which collection fund income in the comprehensive income and expenditure statement is different from collection fund income calculated for the year in accordance with statutory requirements	(599)	356	This shows the difference in value between the amount due to be raised from council tax and business rates, as agreed as part of the budget setting process, and the amount collection authorities have actually collected on our behalf in the year, i.e. the difference between the assumed collection rate and the actual collection rate, the deficit in 2016/17 reflecting the fact that authorities have collected more business rates than anticipated.

Net increase/decrease before transfers to earmarked reserves	4,503	126	This shows the statutory General Fund Balance change in year before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.
Transfers (to)/from earmarked reserves	10	(385)	These represents the transfers to specific earmarked reserves referred to in the Year End Revenue Outturn report.
Transfers (to)/from capital funding reserves	(4,296)	(231)	These represents the transfers to the capital funding reserve referred to in the Year End Revenue Outturn report and to the capital funding reserve referred to in the Year End Capital Outturn report.
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	43	11	This represents the movements on the Accumulated Absences Adjustment Account, which reflects the increase in the amount of leave owing to staff as at year end.

Increase/Decrease in the year	This is the net change to reserves, comprising the Surplus/Deficit on provision of services, less any adjustments for items which don't affect council tax and any transfers to/from earmarked reserves. The following table sets out the changes from the surplus of the revenue outturn report to the figure reported here		
		2016/17 £m	2015/16 £m
	Revenue Budget Position	0.067	(0.521)
	Transfer from earmarked reserves & DFM balances	0.193	0.043
	Surplus/(Deficit) on provision of services	0.260	(0.478)
	The movement on earmarked reserves ties in to the Year End Revenue Outturn report.		
		2016/17 £m	2015/16 £m
	Transfer from earmarked reserves	(1,870)	0.323
	Transfer from earmarked reserve – DFM balances	(0.193)	(0.043)
		(2.063)	0.280
	The net increase on the capital funding reserves (£6.349m), and the net decrease in capital grant unapplied (£1.974m) agree to the Year End Capital Outturn report.		

Balance at 31 March carried forwards	10,446	10,186	These are the final reserve balances which are reflected in the balance sheet in the statement of accounts, and which tie in to the values shown in the Year End Revenue and Capital Outturn reports.
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Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

The main points to note are: -

	2016/17	2015/16	
Long Term Assets			
Property, Plant & Equipment	88,223	81,134	The value of property, plant & equipment has increased by £7.1m, due to the level of capital expenditure (£3.5m as shown in the Year End Capital Outturn report) and the net revaluation gains of £8.4m compared with depreciation charges of £4.7m.
Intangible assets	228	299	Intangible assets are assets which do not have a physical form, such as software, which are broadly in line with last year, representing the level of capital expenditure less amortisation of these assets, reflecting their use.
Long Term Investments	10,000	10,000	The Authority holds two investments with Local Government bodies which are classed as long term investments, ie over 3 months in duration.
Current Assets			
Assets Held for Sale	21	-	The book value of the surplus plot of land at Penwortham, which has since been sold.
Inventories	206	198	The value of stock held has remained broadly in line with last year.
Short-Term Debtors	10,746	8,533	Debtors represent monies owed to the Authority on 31st March 2017. In order to improve cash flow this figure should be as low as possible, however it is inevitable that there will always be a balance on this due to the timing of invoices and the debt recovery process. The level of debtors at the year-end has increased by £2.2m, the majority of which reflects the increase in the amount owed to the Authority by the FF pension fund in the form of top up grant due during July 2017.

Cash & Cash Equivalents	29,061	28,562	This represents the cash book balance at the year end, which is held in a call account by Lancashire County Council (LCC) as shown in the Year End Treasury Management Outturn report.
Current Liabilities			
Short-Term Borrowing	(333)	(253)	This shows the borrowing and interest due to be repaid within the next 12 months, which simply reflects the maturity dates of loans previously taken out.
Other Short-Term Liabilities	(335)	(271)	This relates to short term liabilities in respect of the Authorities PFI contracts with PFF Lancashire Ltd and Balfour Beatty Fire and Rescue NW Ltd and in addition the short term element of finance leases.
Short-Term Creditors	(6,376)	(6,185)	This figure represents the amount of money we owe to other bodies at 31st March 2017. The overall balance is broadly in line with last year.
Long Term Liabilities			
Provisions	(1,763)	(2,129)	This shows the outstanding provisions, relating to the potential cost of outstanding insurance claims, which will have to be met by the Authority in future years, the remaining balance of the potential costs associated with Retained Fire-fighters' claims (under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000) concerning employment terms, and also the Authorities share of billing authorities business rates outstanding appeals.
Long-Term Borrowing	(5,243)	(5,580)	The Authority has £5.2m of borrowing which is due for repayment between 1 April 2018 and 30 June 2037 which has historically been used to fund capital investment, as referred to in the Year End Treasury Management Outturn report. The balance on this account relates to accrued interest owed at the end of the financial year, which will be paid in line with agreed payment dates.
Other Long-Term Liabilities	(811,285)	(686,284)	This majority of this relates to adjustments required under IAS 19, and shows the extent to which the authorities liability to pay pension benefits in the future exceeds the value of assets held. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £797m.

			<p>This also includes liabilities covering the remainder of the contract associated with the two PFI contracts;</p> <ul style="list-style-type: none"> • PFF Lancashire Ltd for the provision of two fire stations, • Balfour Beatty Fire and Rescue for the provision of four fire stations within Lancashire, as part of the joint contract to provide sixteen stations across Lancashire, Cumbria and Merseyside. <p>In addition, this also includes liabilities relating to an outstanding finance lease.</p>
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Financed By			
Usable Reserves:			
Revenue Reserves	(17,901)	(19,704)	This is the level of reserves, £17.9m, that the Authority currently holds which can be utilised to offset future revenue expenditure, subject to the need to maintaining a prudent level of reserves and any statutory limitations on their use. It includes the general reserves as well as any earmarked reserves as referred to in the Year End Revenue Outturn report.
Capital Funding Reserve	(16,633)	(10,284)	This reserve holds £16.6m of balances to fund future capital expenditure.
Capital Grant Unapplied	(505)	(2,479)	This reserve holds the remaining balance of the unspent capital grant received in 2015/16, which will be spent during 2017/18.
Usable Capital Receipts Reserve	(1,501)	(1,501)	This represents the proceeds from the sale of fixed assets which are used to finance capital investment. To class as capital receipts the value of the sale must exceed £10,000.
Unusable Reserves:			
Revaluation Reserve	(36,957)	(28,480)	This account holds unrealised revaluation gains, or losses, from holding fixed assets, as such any revaluations that have taken place since 1 April 2007 are reflected in this reserve. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.
Capital Adjustment Account	(36,762)	(37,868)	The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.

Pensions Reserve	796,969	671,596	This relates to adjustments required under IAS 19, and is a notional reserve required in order to offset the net liability of the Authority in respect of the pension schemes.
Collection Fund Adjustment Account	(664)	(65)	This account reflects the net effect of the adjustments required to show our share of each billing authority's council tax and business rates debtors and creditors at year end, in our case this shows a surplus of £664k.
Accumulated Absences Adjustment Account	804	761	This account represents the value of leave accrued at the year end, but which has not yet been taken, and hence has been carried forward into the new financial year. However given that the leave year for Fire Fighters runs from January to December leave entitlement is calculated on a pro-rata basis which can distort the overall position.

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 main points to note are:-

	2016/17	2015/16	
Net Cash Flows Arising From Operating Activities	5,750	9,175	This shows the level of net cash generated by revenue activities, i.e. the level of income received in the form of grant, council tax etc, offset by payments made in respect of employee costs and non pay costs etc.
Investing Activities	(3,081)	(4,143)	This shows the cash outflows which have been made for resources that are intended to contribute to the Authority's future service delivery, such as £3.5m of expenditure on capital assets, which are referred to in the Year End Capital Outturn report.
Financing Activities	(2,170)	(2,203)	This shows cash flows relating to borrowing activities, in our case £0.3m, which equates to the repayment of borrowing in respect of PFI and finance lease arrangements, but which is included in the overall charges against the revenue budget in respect of these assets, and in addition the actual level of interest payments made during the year.

Cash and cash equivalents at the end of the reporting period	29,061	28,562	This shows the net cash immediately available within the Authority in a call account with LCC. The increase in value of £0.5m is less than the previous years' net increase.
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Notes To The Core Financial Statements

These provide more detailed notes to the figures contained within the core financial statements of the accounts.

Note 2 to the accounts, the Expenditure and Funding Analysis (on pages 24 to 27) provides a link between the statement of accounts Comprehensive Income and Expenditure Statement and the financial monitoring reports presented to Resources throughout the year.

Included within this section are the Accounting Policies (note 29) that have been adopted by the Authority and used in order to produce the set of accounts, and indicates compliance with relevant codes of practice.

As in previous years the accounts have been prepared taking account of International Accounting Standard (IAS) 19, which requires all future costs of retirement benefits to be recognised in the accounts in the year in which they are earned by the employee, regardless of when they will be paid. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £797m. However, it should be noted that this requirement is a technical accounting requirement and does not impact on the authority's income or expenditure funded from its cash resources, or on the council tax payers of Lancashire.

Fire Fighters Pension Fund

This statement on page 64 sets out the income and expenditure attributable to the fire fighters pension fund, showing that the CLG owes the Authority a further £4.3m in order to balance the account to nil, and reflects the changes to pensions funding arrangements.

Glossary of Terms

Provides an explanation of the main accounting terms used in the Statement of Accounts.

Financial Implications

As outlined in the report

Business Risk Implications

The Statement of Accounts sets out how the Authority has performed financially in the year, and as such is a key means of stakeholders monitoring the Authority and assessing how it is performing.

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
SORP and Guidance	February 2017	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	May 2017	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

