

**LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE**

Meeting to be held on 23 September 2020

**UNAUDITED STATEMENT OF ACCOUNTS 2019/20
(Appendix 1 refers) – NOT ATTACHED**

Contact for further information:

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Executive Summary

This report presents the Unaudited Statement of Accounts for the Combined Fire Authority for the financial year ended 31 March 2020.

Members should note that the Statement presented includes the Authority's 25% share of North West Fire Control Ltd draft year end position for 2019/20.

Members should also note that there will be a further pensions adjustment in respect of the recent HMT consultation on the McCloud/Sargeant remedy, estimated by our actuaries to reduce the Firefighters pension scheme liabilities by up to 1% (up to £8.1m).

Recommendation

The Committee is asked note and endorse the Unaudited Statement of Accounts.

Information

The Statement of Accounts take account of the information presented in the Year End Revenue Outturn, Year End Capital Outturn, Year End Treasury Management Outturn and Year End Usable Reserves and Provisions Outturn reports, and are attached as Appendix 1. However it must be borne in mind that they are prepared in line with recommended accounting practice and this is not accounted for on the same basis as we account for council tax. As such this means they do not match the details in the Outturn reports, and hence the following sections provide an overview of each statement and a reconciliation between Outturn reports and the Core Financial statements where appropriate.

Members should also note that the Statement presented includes the Authority's 25% share of North West Fire Control Ltd draft year end position for 2019/20.

Members should also note that there will be a further pensions adjustment in respect of the recent HMT consultation on the McCloud/Sargeant remedy, estimated by our actuaries to reduce the Firefighters pension scheme liabilities by up to 1% (up to £8.1m). Once our actuaries have completed the additional analysis, any changes required will be built into the final version of the Statement of Accounts.

Narrative Report

This sets out the financial context in which the Combined Fire Authority operates, and provides an overview of the financial year 2019/20 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 July.

Auditors Report and Opinion

This will set out the Auditors opinion on the Statement of Accounts, and will be included on completion of the audit which commenced in August.

Statement of Responsibilities

This sets out the responsibilities of the Authority and the Treasurer in terms the overall management of the Authority's 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 main points to note are: -

	2019/20	2018/19	
Service Delivery	34,771	27,673	The cost of Service Delivery shows an increase when compared with the previous year, attributable to both the increased Fire Fighters pension employer's contribution costs (which is offset by additional grant shown within Overheads), and the effect of the adjustment required in respect of pension liabilities under IAS 19.
Strategy & Planning	8,684	7,680	The cost of Strategy & Planning shows an increase when compared with the previous year, attributable to both the increased Fire Fighters pension employer's contribution costs (which is offset by additional grant shown within Overheads), and the effect of the adjustment required in respect of pension liabilities under IAS 19.
People & Development	1,633	1,604	The cost of People & Development is broadly comparable with last year.
Corporate Services	5,040	4,212	The cost of Corporate Services shows an increase when compared with the previous year, attributable to both the centralisation of utility costs within the Property department, and the effect of the adjustment required in respect of pension liabilities under IAS 19.

Fire Fighters Pensions	1,283	1,242	These are the ongoing pension costs relating to previous ill health or injury retirements, which have remained at a broadly similar level to the previous year.
Overheads	4,746	37,643	This heading includes all capital financing charges, refunds made in respect of the LGPS surplus, and depreciation and impairment charges made in respect of assets. The reduction is attributable to changes associated with the adjustment required in respect of pension liabilities under IAS 19 during 2018/19.
Gain on Disposals of Fixed Assets	(14)	(68)	This relates to the sale of surplus vehicles.
Interest Payable	1,461	1,479	This heading includes interest payable in respect of loans and interest charges associated with the PFI schemes and finance leases, in line with the previous year's charges.
Pension Interest Cost and Expected Return on Assets	21,150	20,276	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 pensions' scheme is unfunded there is no increase in asset value to offset the increase in scheme costs resulting in the charge to the Income and Expenditure Account.
Interest Receivable	(332)	(358)	The level of interest earned on investments has reduced in line with base rate changes during the year. Several fixed term investments matured during the year, which has increased the call account balance, held at very low interest rates.
Taxation on North West Fire Control	-	1	The Authority's 25% share of any tax payable by North West Fire Control.
Council Tax	(30,724)	(29,440)	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	-	(9,262)	The level of Revenue Support Grant allocated to the Authority by the Government. Due to the participation in the Lancashire Business Rates 75% Pool in 2019/20 all Revenue Support grant was replaced by retained Business Rates.
Non-Domestic Rates Redistribution	(23,930)	(15,405)	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. The increase reflects the Authority's participation in the Lancashire Business Rates Pool, and the replacement of Revenue Support grant with Business Rates.
Capital Grant Income	(417)	(563)	The Authority's 25% share of North West Fire Controls capital grants for the year.
Business rates S31 grant	(1,654)	(946)	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	21,699	45,769	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. The 2018/19 balance includes £33m pensions adjustment to reflect the ongoing McCloud remedy.
(Surplus)/Deficit on Revaluation of Non-Current Assets	(4,140)	(4,539)	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	(68,755)	19,884	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, for both the Firefighters and Local Government pension schemes. The majority of the gains in 19/20 reflect the reduction in previous assumptions regarding future pay and pensions increases in the fire fighters' scheme, with the previous year assuming larger pay and pensions increases than the year before. Note the 19/20 amount will change following revised assumptions around the McCloud/Sargeant remedy, as reported above.
Total Comprehensive Income and Expenditure	(51,196)	61,114	This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation.

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 set out above: -

	£m
Revenue Outturn	0.248
Earmarked reserves utilised/provided for in year	0.038
Accounting for pensions under IAS19	20.661
Revenue Contributions to Capital Outlay	(2.000)
Adjustments between accounting basis and funding basis under regulations	2.752
Deficit on the provision of services	21.699
Surplus on revaluation of non-current assets	(4.140)
Actuarial loss on pensions assets and liabilities	(68,755)
Total Comprehensive Income and Expenditure	(51.196)

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 in respect of are:-

	Usable Reserves	Unusable Reserves	Total Reserves	
Balance at 1 April	36,017	(782,770)	(746,754)	
Deficit on the provision of service	(21,699)	-	(21,699)	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. As set out earlier it 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.
Other Comprehensive Income and Expenditure	-	72,895	72,895	This relates to the surplus on revaluation of non-current assets and the actuarial loss on pensions assets and liabilities

Charges for depreciation and impairment of non-current assets	4,059	(4,059)	-	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year
Amortisation of intangible assets	135	(135)	-	This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year
Amount by which the Code and the statutory pension costs differ	20,661	(20,661)	-	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	(93)	93	-	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 surplus in 2019/20 reflecting the fact that authorities have collected less than anticipated.
Provision for the repayment of debt	(576)	576	-	This is the charge made against the revenue budget to reduce future borrowing requirements, and includes an element relating to debt associated with PFI and finance leases
Capital expenditure charged against General Fund Balance	(2,000)	2,000	-	This is the level of capital expenditure which has been funded from contributions from the 2019/20 revenue budget, as agreed as part of the budget setting process and as shown in the Year End Capital Outturn report.
Net increase / decrease before transfers to earmarked reserves	488	50,709	51,196	This shows the Usable Reserves Balance change in year before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.

Transfers (to)/from earmarked reserves to unusable reserves	-	-	-	There were no transfers from earmarked reserves into unusable reserves during either year.
Transfers (to)/from capital funding reserves to unusable reserves	(860)	860	-	These represents the transfers from the capital funding reserve referred to in the Year End Capital Outturn report and the Year End Usable Reserves and Provisions report.
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	47	(47)	-	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	(325)	51,521	51,196	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 and ties into the overall change in Usable reserves included in the Year End Usable Reserves and Provisions Outturn report
Balance at 31 March	35,692	(731,249)	(695,557)	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 Usable Reserves and Provisions Outturn report.

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: -

	2019/20	2018/19	
Long Term Assets			
Property, Plant & Equipment	99,214	96,700	The value of property, plant & equipment has increased by £2.5m, due to the level of capital expenditure (£2.4m as shown in the Year End Capital Outturn report) and the net revaluation gains of £4.0m compared with depreciation charges of £3.9m.
Intangible assets	859	343	Intangible assets are assets which do not have a physical form, such as software, the reduction in value reflecting the level of amortisation of these assets, representing their usage in year.
Long Term Investments	5,000	5,000	The Authority holds one investment with Local Government bodies which is classed as long-term investments, i.e. over 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Current Assets			
Inventories	237	239	The value of stock held has remained in line with last year.
Short-Term Investments	5,000	15,000	The Authority holds one investment with Local Government bodies (three in the previous year) which are classed as short-term investments, i.e. under 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Short-Term Debtors	8,801	9,737	Debtors represent monies owed to the Authority on 31st March 2020. 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 remained broadly consistent, with the main debt relating to Council Tax, Business Rates (which represent our share of debts that billing authorities hold) and amounts owed to the Authority by the FF pension fund in the form of top up grant paid during July 2020.
Cash & Cash Equivalents	27,992	14,841	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. The increase reflects the maturity of several short-term investments during the year.

Current Liabilities			
Other Short-Term Liabilities	(417)	(384)	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	(8,420)	(6,265)	This figure represents the amount of money we owe to other bodies at 31st March 2020. The majority of the increase reflects the receipt of £1.3m grant relating to business rates relief due in 2020/21 during March 2020.
Long Term Liabilities			
Provisions	(1,580)	(1,282)	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 Authority's share of billing authorities' business rates outstanding appeals. The increase relates to amounts set aside by billing authority's in relation to our share of their Business Rates appeals.
Long-Term Borrowing	(2,000)	(2,000)	This represents the amount of long-term debt that the Authority holds which does not mature within the next 12 months. The balance of £2.0m is due to mature between 2035-2037.
Other Long-Term Liabilities	(830,173)	(878,683)	This majority of this relates to adjustments required under IAS 19, and shows the extent to which the authority's 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 £817m. This also includes liabilities covering the remainder of the contract associated with the two PFI contracts; <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.

			In addition, this also includes liabilities relating to an outstanding finance lease. Note the 1920 pensions liability will change following revised assumptions around the McCloud/Sargeant remedy, as reported above.
Total Assets Less Liabilities	(695,557)	(746,754)	

Financed By			
Usable Reserves:			
Revenue Reserves	(16,008)	(16,370)	This is the level of reserves 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. The reduction in year represents the revenue budget deficit for the year, as referred to in the Year End Revenue Outturn report, and the Usable Reserves and Provisions Outturn report.
Capital Funding Reserve	(17,583)	(17,393)	This reserve holds £17.6m of balances to fund future capital expenditure, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.
Capital Grant Unapplied	(438)	(605)	The capital grant unapplied relates to the Authority's share of the NWFC end of year balances.
Usable Capital Receipts Reserve	(1,663)	(1,649)	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. The increase in value representing the sale proceeds vehicles, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.
Unusable Reserves:			
Revaluation Reserve	(46,444)	(43,925)	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	(39,325)	(38,641)	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.
Collection Fund Adjustment Account	(589)	(496)	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 deficit of £589k.
Accumulated Absences Adjustment Account	811	764	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.
Pensions Reserve	816,796	864,889	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. Note the 19/20 reserve balance will change following revised assumptions around the McCloud/Sargeant remedy, as reported above.
	695,557	746,754	

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:-

	2019/20	2018/19	
Net Cash Flows Arising From Operating Activities	7,786	5,238	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	7,116	(17,377)	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 £10m returning from short term deposit, and £2.4m of expenditure on capital assets.
Financing Activities	(1,822)	(1,789)	This relates to the repayment of long term debt, including that associated with PFI and finance leases.

Net increase/(decrease) in cash and cash equivalents	13,080	(13,928)	This shows the movement in the net cash immediately available within the Authority in a call account with LCC. This shows a significant reduction in year, reflecting the short term investments placed during the year, and ties in to the figure included in the Treasury Management Outturn report
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Signing of the Statement of Accounts

The unaudited Statement of Accounts 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 2020.

This will be subject to review by the Authority's external auditors, Grant Thornton, which is scheduled to take place in August and September. A further report will be presented to the Audit Committee in November, following inclusion of revised IAS19 pensions adjustments and completion of the external audit. At this meeting the Chair of the Audit Committee will be asked to sign the final statement of accounts, as well as the Treasurer.

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 2020	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	July 2020	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		