

# Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 29 November 2022

## Statement of Accounts 2021/22 (Appendices 1 and 2 refer)

Contact for further information:

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### Executive Summary

This report presents the Statement of Accounts for the financial year ended 31 March 2022. This includes the Authority's 25% share of the North West Fire Control accounts.

### Recommendation

The Committee is asked to approve the Statement of Accounts as presented and authorise the Chair of the Committee to sign these.

### Information

The Combined Fire Authority's Statement of Accounts is attached as Appendix 2.

The following sections summarise the details contained within the core statements:-

### Narrative Report

This sets out the financial context in which the Combined Fire Authority operates and provides an overview of the financial year 2021/22 as well as details of future plans.

### 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 accrual's 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: -

	2021/22	2020/21	
Service Delivery	30,391	32,645	The cost-of-Service Delivery shows a decrease when compared with the previous year, due to the impact of the ISAS19 pension accounting adjustment which is partly offset by Prevention & Protection

			moving to the Service Delivery Directorate from the Strategy & Planning Directorate.
Strategy & Planning	10,928	12,415	The cost of Strategy & Planning shows a decrease when compared with the previous year, due to Prevention & Protection moving from the Strategy & Planning Directorate to the Service Delivery Directorate.
People & Development	1,920	1,611	The cost of People & Development is broadly comparable with last year.
Corporate Services	4,653	4,821	The cost of Corporate Services is broadly comparable with last year.
Fire Fighters Pensions	1,239	1,285	These 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	1,217	1,574	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.
Gain On Disposals of Fixed Assets	(3)	(17)	This relates to the sale of surplus vehicles.
Interest Payable	1,408	1,439	This heading includes the interest payable in respect of current loans, and the interest charges associated with the PFI scheme and finance leases, which are in line with the previous year's charges.
Pension Interest Cost and Expected Return on Assets	17,648	18,207	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	(206)	(253)	This is broadly comparable with last year.
Council Tax*	(33,160)	(31,055)	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.
Revenue Support Grant	(8,570)	(8,523)	The level of Revenue Support Grant allocated to the Authority by the Government
Non-Domestic Rates Redistribution*	(14,786)	(13,565)	Amounts raised through non-domestic rates, including the Authority's element of business rates collection fund surplus/deficit 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. The change between years reflects the changes in the collection fund for this.
Business rates S31 grant	(1,360)	(1,284)	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.
Business rates additional reliefs S31 grant	(1,101)	(1,925)	The balances relate to additional business rates relief funding
Local Taxation Income guarantee	(4)	(132)	This grant is allocated to the Authority by the Government and offset s losses in local taxation that are attributable to the pandemic.
Capital grant income	(253)	(253)	This grant is the Authority's 25% share of the capital grant received by NWFC.
Covid 19 S31 grant	-	(1,346)	This reflects the S31 grant received during 2020/21
Deficit On the Provision of Services	<b>9,962</b>	15,643	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 pension's schemes. As such this does not show the actual surplus when comparing spend against council tax.
(Surplus)/Deficit on Revaluation of Non-Current Assets	(10,610)	(2,523)	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	(13,400)	61,444	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	<b>(14,047)</b>	74,564	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 reported to Resources Committee, and the Total Comprehensive Income and Expenditure figure set out above:-

	£m
Revenue Outturn	(0.332)
NWFC Outturn	(0.073)
Accounting for pensions under IAS19	9.130

Revenue Contributions to Capital Outlay	(2.373)
Adjustments between accounting basis and funding basis under regulations	3.610
Deficit on the provision of services	<b>9.962</b>
Surplus on revaluation of non-current assets	(10.610)
Actuarial loss on pensions assets and liabilities	13.400
Total Comprehensive Income and Expenditure	<b>14.047</b>

### 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	36,979	(804,713)	(767,734)	
Deficit on the provision of service	(9,962)	-	(9,962)	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 into the actual revenue position set out in the Year End Revenue Outturn report.
Other Comprehensive Income and Expenditure	-	24,009	24,009	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	4,863	(4,863)		This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year

Amortisation of intangible assets	158	(158)		This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year
Statutory provision for the repayment of debt	(458)	458	-	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	(2,373)	2,373	-	This is the level of capital expenditure which has been funded from contributions from the 2021/22 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	9,130	(9,130)		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	(1,585)	1,585	-	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.
Net increase / decrease before transfers to earmarked reserves	(228)	14,275	14,047	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 capital funding reserves	(977)	977	-	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	(102)	(102)	-	This represents the movements on the Accumulated Absences Adjustment Account, which reflects the decrease in the amount of leave owing to staff at the year end.
Increase / Decrease in the year	(1,306)	15,351	14,047	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	<b>35,673</b>	<b>(789,359)</b>	<b>(753,686)</b>	These are the final reserve balances which are reflected in the balance sheet in the statement of accounts, and which tie into 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: -

	2021/22	2020/21	
<b>Long Term Assets</b>			
Property, Plant & Equipment	108,637	99,538	The value of property, plant & equipment has increased by £9m, due to the level of capital expenditure (£3m as shown in the Year End Capital Outturn report) and the net revaluation gains of £11m compared with depreciation charges of £5m.
Intangible assets	523	639	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	10,000	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.
<b>Current Assets</b>			
Inventories	257	279	The value of stock held has remained broadly in line with last year.
Short-Term Investments	10,000	5,000	The Authority holds two investments with Local Government bodies 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*	12,888	10,885	Debtors represent monies owed to the Authority on 31st March 2021. 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 main debt relates 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 due. The level of debtors at the year-end has increased reflecting the increase in both of these.
Cash & Cash Equivalents	17,896	22,603	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 reduction reflects the investment in fixed assets, the increase in

			debtors (referred to earlier) and a reduction in creditors (referred to below).
<b>Current Liabilities</b>			
Other Short-Term Liabilities	(492)	(452)	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*	(9,296)	(12,621)	This figure represents the amount of money we owe to other bodies at 31st March 2022. The overall balance has reduced mainly due to the payment of costs associated with the pensionability of allowances.
<b>Long Term Liabilities</b>			
Provisions*	(1,447)	(1,398)	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 Authorities share of billing authorities' business rates outstanding 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	(895,652)	(900,205)	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 £883m. This also includes liabilities covering the remainder of the contract associated with the two PFI contracts; <ul style="list-style-type: none"> <li>• PFF Lancashire Ltd for the provision of two fire stations,</li> <li>• Fire and Rescue NW Ltd for the provision of four fire stations within Lancashire, as part of the joint contract to provide sixteen stations across Lancashire, Cumbria and Merseyside.</li> </ul> In addition, this also includes liabilities relating to an outstanding finance lease.
<b>Total Assets Less Liabilities</b>	<b>(753,686)</b>	<b>(767,732)</b>	



<b>Financed By</b>			
<b>Usable Reserves:</b>			
Revenue Reserves	(16,278)	(17,233)	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 usage of Covid and Business Rate Relief grants, as referred to in the Year End Revenue Outturn report, and the Usable Reserves and Provisions Outturn report.
Capital Funding Reserve	(17,672)	(17,967)	This reserve holds £18.0m 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	(40)	(101)	The capital grant unapplied relates to the Authority's share of the NWFC end of year balances.
Usable Capital Receipts Reserve	(1,683)	(1,680)	This represents the proceeds from the sale of fixed assets which are used to finance capital investment. The increase in value representing the sale proceeds for vehicles, as referred to in the Year End Usable Reserves and Provisions Outturn reports.
<b>Unusable Reserves:</b>			
Revaluation Reserve	(56,221)	(47,400)	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	(39,469)	(38,893)	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	883,434	887,704	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	776	2,361	This account reflects the net effect of the adjustments required to show our share of each

Adjustment Account*			billing authority's council tax and business rates debtors and creditors at year end.
Accumulated Absences Adjustment Account	839	941	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. The reduction reflects the increase in leave taken
	<b>753,686</b>	767,732	

### 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:-

	2021/22	2020/21	
Net Cash Flows Arising from Operating Activities	1,162	3,388	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	(4,032)	(6,874)	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 expenditure on capital assets.
Financing Activities	(1,837)	(1,833)	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	<b>(4,707)</b>	(5,319)	This shows the movement in the net cash immediately available within the Authority in a call account with LCC.

### Signing of the Draft Statement of Accounts

The unaudited Statement of Accounts were signed by the Treasurer on 5 August 2022 to certify that they presented a true and fair view of the financial position of the Authority as at 31 March 2022.

Subsequent to that the full set of accounts were submitted for audit to Grant Thornton.

The Statement of Accounts has now been updated to reflect the changes identified during the audit (as per appendix 1 – extract from the Audit Findings Report – elsewhere on the agenda) and a revised statement of accounts is attached as appendix 2.

### **Approval and Signing of the Accounts**

As all changes requested by Grant Thornton have been made to the accounts the Treasurer to the Fire Authority and the Chair of the Audit Committee are therefore required to approve the revised accounts by signing off the Statement of Responsibilities (page 18) and the Balance Sheet (Page 22).

### **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: SORP and Guidance  
Date: March 2022  
Contact: Keith Mattinson, Director of Corporate Services

Paper: Final Account Working Papers  
Date: November 2022  
Contact: Keith Mattinson, Director of Corporate Services

Reason for inclusion in Part 2 if appropriate: N/A

## C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure and misclassification changes	Detail	Adjusted?
Net Liability Related to Local Government and Firefighters' Pensions Schemes (Note 15)	<p>Unfunded liabilities at 31 March 2022 were incorrectly shown as (£875,936k) due to a casting error and corrected to (£935,616k).</p> <p>Current service cost for unfunded liabilities 2021/22 uniformed firefighters were incorrectly included as £15,750k, and amended to £15,840k.</p> <p>Actuarial (gains) and losses 2021/22 uniformed firefighters were incorrectly included as £3,020k, amended to £2,023k.</p> <p>The Authority made a minor correction to the Reversal of net charges made to the deficit on provision of services in accordance with the code for 2021/22 uniformed firefighters from £9,500 to £9,590k.</p>	✓
Financial Instruments (Note 8)	<p>The Authority corrected the trade receivables at 31 March 22 (short term) from £4,112 to £3,003 to re-classify s31 business rates relief grants which were included.</p> <p>The Authority also made a minor correction to the trade payables at 31 March 22 (short term) from £5,202 to £5,210.</p>	✓
Major sources of estimation and uncertainty (note 26)	The Authority made some updates to the details within the disclosure.	✓
Accounting policies (Note 29)	The Authority made some minor changes to the details within accounting policies to ensure these were all relevant and complete.	✓

# C. Audit Adjustments

## Impact of adjusted misstatements

The following adjustments were identified by the Authority in the draft financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Trade debtors	0	Dr 210	0
Payments in advance		Cr (210)	
Invoices not raised at year end			
Sundry creditors	0	Dr 1,629	0.
Trade debtors		Cr (1,629)	
Reduction to debtor already raised			
Audit fee	Dr 13		Dr 13
Sundry creditors		Cr 13	
Minor additional fee adjustment			
<b>Overall impact</b>	<b>Dr £13</b>	<b>Cr £13</b>	<b>Dr £13</b>

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Creditors	0	Decrease 550	0	Not material
Provisions		Increase 550		
The Authority has included a creditor for ongoing pensionable allowance claims. These first arose in 2019/20 and are still subject to legal challenge and for which the outcome is uncertain.				
We recognise the prudence of including these but as the outcome is uncertain they should be held as a provision, rather than a creditor.				
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	

