Fire Authority Governance Meeting – 28th September 2015

Audited Statement of Accounts 2014/2015 – Appendix B

International Financial Reporting Standards (IFRS) – Summary

Introduction

- Implemented from1st April 2010 (as instructed by the government) and represented a significant change in the way all local authorities present their Statement of Accounts.
- This year is the fifth set of accounts that are IFRS compliant (2010/2011 to 2014/2015).
- The changes to IFRS have made the accounts more technical and complex and as a result generally more difficult to understand.

Presentational Changes

Previous Format of Accounts	IFRS Format	Pages
Income & Expenditure Account (I&E) Statement of Recognised Gains and Losses (STRGL)	Now both included in the Comprehensive Income and expenditure Statement	28
Statement of Movement in General Fund Balance (SMiGFB)	Movement in Reserves Statement (MiRS) - (General Fund movement and all other reserves)	27
Balance Sheet (detailed)	Balance Sheet (simplified)	29
Cash Flow Statement (detailed)	Cash Flow Statement (simplified)	30
Notes to the Accounts (not prescribed and in any order)	Notes to the Accounts prescribed order and now includes the main Accounting Policies (much more complex)	32
Firefighters Pensions Fund Account / Net Assets Statement and notes	Firefighters Pensions Fund Account / Net Assets Statement and notes (no change)	80 – 82
Glossary of Terms	Glossary of Terms (no change)	83

Summary of main changes (means that the accounts are now much more complex and technical)

1. Accrual for Employee Benefits included.
2. Property Leases – Land / Buildings now separately valued in the accounts.

3. Definition of leases has changed – more operating leases becoming finance leases (on Balance Sheet when previously treated as revenue 'rental hire' expenditure).
4. Government grants recognised as income when they become receivable and the accounting treatment was changed.
5. Investment property more stringent criteria applied – must be solely held for capital appreciation / rental income purposes.
6. Assets held for sale - must be being actively marketed or sale is imminent – the Authority does not have any of these.
7. Componentisation of assets required to recognise different asset lives in the accounts – covered in more detail below.
8. Segmental reporting – new requirement, accounts more aligned to the financial reporting structure of the Authority.
9. Some major changes included that were already made in previous accounting years (e.g. Financial Instruments and PFI) which helped phase in the more complex IFRS requirements.

Pensions Accounting

IAS19 – further changes to the standard resulting in changes to the accounting treatment for financial years beginning on or after 1st January 2013. The main changes are:

- Expected Return on Assets replaced with an equivalent figure calculated using a discount rate as opposed to using a figure calculated on the expected return on asset assumptions.
- A more detailed breakdown of the pension fund assets. The values of the assets, broken down into different classes that distinguish between the nature and risk, now need to be disclosed. A further breakdown is also needed showing those assets which have a quoted market price and those which do not.
- Changes to the disclosures in relation to the Authority's pension schemes intended to make the presentation of the information is made easier for the user to understand.
- The pension deficit stands at £792.0m at 31.3.15 (compared to £740.8m at 31.3.14). The main reason for the variation is the value placed by the Actuary on re-measurement of the net defined benefit obligation (replaces actuarial gains/losses) in other words pension liabilities are assessed as being higher since the last valuation. More details are set out in notes 22 and 38 of the accounts, but in summary changes in the pension scheme resulting from the Hutton Review and the pension benefit changes in the new fire fighters scheme have also been incorporated into the figures.

Finance Officer Foreword
An essential summary guide to the accounts, which includes all of the key messages for information to the reader of the accounts, is included from the Director of Finance in her capacity as Section 151 Officer to the Authority (the Authority's Finance Officer) (Pages 6 to 15).

Key messages:

- The 2015/2016 budget was approved at £51.858m set against a reduction in the Government's Revenue Spending Power of £2.486m (4.72%). However, the Authority performed well during the year and, not only managed its budget for 2014/2015 on less government funding, but also achieved a very positive out-turn position with a net contribution of £0.011m to the General Fund slightly less than the £0.024m anticipated at out-turn.
- A full list of the in year budget variations are detailed on page 8. The highlights are that IRMP actions continued to produce significant in year savings, more firemen retired than expected mainly due to the impact of the current industrial action, and the Authority made efficiency savings through budget reviews and careful and effective budget management. These and other planned use of reserves combined so that £0.300m was transferred to the Community Safety Reserve, a provision for pension top grant of £1.893m was made and the need to use £2m of reserves to balance the budget was not required. In summary an excellent achievement. These savings are important as it means reserves will be available in future years when they will probably be needed.
- IRMP savings of £1.730m for 2015/2016 have been identified from the proposed implementation of: Phase 2 of the Response Review and full implementation of the Catering Review, Cleaning Review and bringing Control in house.
- A further two reviews from the IRMP 2013-2016 are still to be implemented by the Authority (trading company and mobilising review now in-house) and two further IRMP actions were also agreed in year (IRMP 2014-2017) in respect of a further organisational review and joint working with key partners (collaboration). Depending on the outcomes of these reviews, the Authority may still have to develop further initiatives, especially if the funding cuts continue to 2019/2020.
- The revised budget gap into 2018/2019 shows that the Authority's decision to earmark reserves of £6.0m to help support the budget over the medium term until IRMP actions are implemented, is necessary on a continuing basis and as a prudent measure.
- The Chancellor of the new Conservative Government has already indicated that public sector cuts may be higher in 2016/2017 and 2017/2018 than previously planned. The Authority is therefore assessing how its current actions set out in the Integrated Risk Management Plan (IRMP) 2013-2016 can help to address the significant potential funding gap. Depending on the savings realised, further IRMP actions may need to be developed if government funding reductions continue. The Authority will know more in the coming months once the Spending Review in Autumn has been released.

- Members agreed to increase Council Tax by 1.99% in 2015/2016 to generate additional income of £0.396m which will be embedded in the precept income for future years. The Fire Authority still continues to have one of the lowest Precept levels for all Metropolitan Fire Authorities in the country.
- Against the funding cuts, the Authority still has scope for capital developments helping to drive through revenue efficiencies and to improve its overall facilities and infrastructure. The capital spend in 2014/2015 was £3.601m financed through a combination of grant funding, earmarked reserves and revenue contributions. Slippage of £2.162m, reported at out-turn, has been carried forward into 2015/2016. The Capital Programme for 2015/2016 has been agreed at £5.302m. This will increase to £7.640m (including the 14/15 slippage) with priority given to capital schemes that will assist in reducing future service revenue costs.
- The Authority continues to perform well and is well managed as set out in the summary on page 13. This can be gauged from its' healthy Balance Sheet (page 29) which compares well in comparison to most other Fire Authorities. The Balance Sheet shows a negative net worth of £730m, but excluding the pensions deficit of £792m which it is dealing with on annual basis, the Authority has a positive net worth of £62m. This includes assets of over £65m and cash reserves of £34m.
- This position will be helpful in the next few years with reserves available to bridge budget gaps temporarily whilst IRMP actions are being implemented and efficiencies achieved.
- The financial outlook for the Authority remains very challenging for the next few years, but on a positive note the Authority has a strong balance sheet, continues to be very well managed, and has an excellent track record of delivering IRMP actions / efficiencies. It is considered financially resilient and continues to plan its services in the light of its detailed risk assessments and available resources. This position however does depend on the scale of future cuts to be met and the possible impact on the front line service.

Handout

The handout (based on a CIPFA document 'IFRS – How to tell the story'), along with the draft accounts, sets out more details of the way IFRS has impacted on the accounting statements. The Authority's figures are used so that it helps with understanding the format of the accounts and the key messages they now provide.

For information the handout includes a Question and Answer sheet on IFRS to help explain the format of the accounts.