MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	27TH SEPTEMBER 2022	REPORT NO:	CFO/XXX/22
PRESENTING OFFICER	IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS DIRECTOR OF FINANCE AND PROCUREMENT
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2021/22 - APPROVAL OF AUDITED STATEMENTS		

APPENDICES:	APPENDIX A: APPENDIX B:	STATEMENT OF ACCOUNTS 2021/22 LETTER OF REPRESENTATION

Purpose of Report

1. To present to M~~m~~embers the audited 2021/22 Statement of Accounts for approval and request that they be authorised for issue.

Recommendation

2. It is recommended t~~T~~hat Members;

   a. approve that the unaudited Statement of Accounts 2021/22 attached as Appendix A to this report may be authorised for issue, and

   b. approve the letter of representation in relation to the 2021/22 accounts, attached as Appendix B.

Introduction and Background

3. ~~The~~ Merseyside Fire and Rescue Authority (‘Authority’) has a statutory duty to approve and sign-off for publication the Statement of Accounts for the previous year usually before 31st July of the following year. The Government has amended the relevant regulations so that for the 2021/22 Statement of Accounts the deadline has been extended to the 30th November 2022. The 2021/22 Statement of Accounts are attached to this report as Appendix A, for Members’ consideration and approval.

4. Members considered the 2021/22 year-end general fund outturn position in report CFO/036/22, that was approved by the Policy and Resources Committee on 28th July 2022. That report identified net revenue expenditure in the year of £57.047m against a budget of £59.250m, and a resulting favourable variance of £2.203m (before any

adjustments for year-end reserves). The report identified that £0.250m was required to be carried forward as earmarked reserves, leaving an actual saving in 2021/22 of £1.953m. Members approved the utilisation of this saving to increase the Inflation reserve to cover the expected increase in energy costs and potential higher pay settlements. Therefore, after taking these adjustments into account net expenditure in the year was consistent with the general fund budget.

5. The financial statements within the Statement of Accounts 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 the General Fund Account (taxation). So whilst there is a neutral net General Fund Account position in 2021/22, as per paragraph 4, the Comprehensive Income and Expenditure Statement (CIES) indicates a net surplus of £7.972m for the year because of additional accounting transactions relating mainly to pensions but also depreciation and some other technical adjustments. These accounting entries do not impact on the approved revenue budget’s bottom line and may be viewed as notional entries that are obligatory in order to adhere to the various accounting requirements.

6. 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’s “Audit Findings” report can be found elsewhere on today’s Agenda, and it will summarise their findings in relation to the 2021/22 Statement of Accounts. However, **the outturn position on the revenue account, capital programme, and movement on reserves reported to Policy & Resources Committee on 28th July 2022 (CFO/036/22) has not changed**.

Statement of Accounts;

7. The Statement of Accounts is a record of the Authority’s financial activities for 2021/22, with comparative figures for 2020/21. 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.

8. On 1st April 2010 the Authority, along with all other Local Authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2021/22 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;

- **The Comprehensive Income and Expenditure Statement (CIES)**
- **Movement in Reserves Statement (MiRS)**
- **The Balance Sheet, and**
- **The Cash Flow Statement**

9. The Statement of Accounts must be prepared in accordance with the relevant accounting 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.

10. The Authority sets the 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 taxpayers. (*Paragraph 4 of this report outlined the 2021/22 General Fund position for the service).*

11. The analysis below identifies and briefly explains some of the largest movements between the figures in the formal statement of accounts for 2021/22 :-

12. **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 2021/22 (after taking into account the creation of reserves) this becomes net surplus of £7.972m on the CIES because of additional accounting transactions relating mainly to pensions but also depreciation and some other technical adjustments. The table below outlines the reconciliation between the General Fund position and that in the CIES:

			Detailed Adjustments £'000	Total Adjustments per Expenditure and Funding Analysis £'000	Total Adjustments per Comprehensive Income and Expenditure Statement £'000
Net General Fund 2021/22 year-end position:		**Note**	-	-	-
1	**Net creation of earmarked reserves**	(a)	-	-	**(4,417)**
2	**Asset valuation / charges and capital funding adjustments**				
	Depreciation, impairment and revaluation adjustment	(b)	2,269		
	Revenue Expenditure Funded from Capital Under Statute	(c)	2,679		
	Asset disposal / write-offs / revaluation losses		58		
	MRP / interest adjustment	(f)	(2,344)		
	Capital Expenditure Funded from the Revenue Account		(2,140)		
	Capital grants income		(2,023)	**(1,501)**	
3	**Pension related adjustments**	(d)			
	Pension contributions payable to pension fund (employer)		(10,216)		
	Pension contributions payable to pension fund (top-up grant)		(31,269)		
	Pension current service costs		18,915		
	Pension past service costs		-		
	Net interest on the defined benefit liability scheme		23,075	**505**	
4	**Other technical accounting adjustments**	(e)			
	Timing differences for premiums and discounts		(333)		
	Timing differences for council tax / NNDR		(2,155)		
	Timing differences for compensated absences		(71)	**(2,559)**	
	Total adjustments				**(3,555)**
Surplus or deficit on provision of services					**(7,972)**

Notes to the table:

a) 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.

b) The depreciation and impairment charge reflects the notional consumption of assets during the year, including revaluation losses and the reversal of any prior year valuation losses and impairments.

c) 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.

d) 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.

e) 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). It also includes timing differences for premiums and discounts over the unexpired life of the loans refinanced.

f) 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. The removal of capital financing charges relates to costs associated with; interest payments on loans and the Minimum Revenue Provision (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA).

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.

13. **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).

The Statement identifies the Authority held **£43.791m** in **usable reserves** as at 31.03.2022. Of this, the Authority held £10.292m in reserves on behalf of the Home Office to fund the refresh of National Assurance assets, these funds are not available to the Authority and any unspent grant must be paid back to Government. Excluding the Home Office unapplied grant, at the end of 2021/22 the Authority's usable reserves were £33.499m, a net increase of £4.417m on the 2021/22 opening balance. The increase is due to a net increase in the Inflation Reserve of £2.519m, due to the expected increase in energy and pay costs in 2022/23; an increase in the Capital Investment Reserve to fund the new Training and Development Academy; and the balance relates to the remaining movement in other reserves in the year. These committed reserves are required in order to carry forward 2021/22 funds into

2022/23 to meet projects now re-phased into future years, or, to offset identified potential risks to the Authority's financial plan (such as higher than anticipated energy costs and pay awards). The Authority General Reserve has remained at £3.000m or 5% of the gross budget throughout the year. The General Reserve provides a relatively small cushion to enable the Authority to cover the risk of unexpected events within the year that lead to significant unplanned expenditure.

A reduction in **unusable reserves** of £18.947m - unusable reserves are not available to fund expenditure 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 is down to changes in the liability of the pension schemes in 2021/22, £8.905m.

14. **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** – increased by £7.919m. This was mainly due to a £6.200m net revaluation increase on Land and Buildings. Additions in the year, including assets under construction, increased asset values by £4.036m, but depreciation adjustments reduced values by £2.247m. A revaluation in intangible assets due to the net amortisation in the year reduced asset values by a further £0.071m.

- **Current Assets** – increased by £4.447m. 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 of £3.907m and a £6.683m increase in Cash & Cash Equivalents. Short-term debtors have reduced by £5.900m. This is due to a decrease in the Home Office firefighter pension debtor of £2.331m, reduction in receipt of a Home Office National Resilience Grant of £2.520m, reduction in expected Government grants for NNDR and Council Tax Collection Fund Deficit arising in 2021/22 of £1.542m, the balance of £0.493m relates to an increase in various smaller grants and debtors. The remaining movements reflect small changes in assets held for sale and other inventory values.

- **Current Liabilities** – reduced by £1.173m. An increase in short-term creditors of £2.341m due to an increase in various creditor accruals and grant prepayments (spend will be incurred in 2022/23). Short-term borrowing has reduced by £3.031m, and is made up of loans to be paid in the following year. – (PWLB movement of £2.835m and other loans £0.196m compared to 2020/21). The bank overdraft has also reduced by £0.483m.

- **Long Term Liabilities** – reduced by £9.734m;
  - Other long-term liabilities – reduced by £8.946m. £8.905m 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. Note that this change is offset by a contra increase in the Pensions Reserve (Unusable Reserves) of £8.905m. These accounts balance each other out and allow the inclusion of the pension liability in the balance sheet and Unusable Reserves (see Note 22 in the Statement of Accounts).
  - Long-term creditors – reduced by £0.506m. This reduction relates to PFI contract payments to be paid in the coming year and moved to short term borrowing.
  - Provisions – A net reduction of £0.117m. 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. The provision for new or amended claims received in the year was increased by £0.012m, but the Business Rates Appeals provision was reduced by £0.129m (see note 20 in Statement of Accounts).
  - Long-term borrowing relates to Public Works Loan Board (PWLB) and has reduced by £0.165m reflecting the fact that loans of £0.165m will be repaid in the coming year and moved to short-term borrowing.

- **Usable Reserve** increase of £4.326m – this is the net movement in reserves in the year. The unapplied capital grant held by the Authority on behalf of the Home Office to fund the refresh of National Assurance assets is carried forward as a reserve. The value of the Home Office reserve reduced by £0.091m in the year, but these funds are not available to the Authority and any unspent grant must be paid back to Government. The Authority's usable reserves were £33.499m, a net increase of £4.417m on the 2021/22 opening balance. The increase is due to a net increase in the Inflation Reserve of £2.519m, due to the expected increase in energy and pay costs in 2022/23; an increase in the Capital Investment Reserve to fund the new Training and Development Academy; and the balance relates to the remaining movement in other reserves in the year. These committed reserves are required in order to carry forward 2021/22 funds into 2022/23 to meet projects now re-phased into future years, or, to offset identified potential risks to the Authority's financial plan (such as higher than anticipated energy costs and pay awards).

- **Unusable Reserves** reduction of £18.947m. 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 expenditure. A reduction in the Pension Reserve of £8.905m to reflect changes in the liability of the pension schemes accounts for a lot of this increase. The other movements relate to the Capital Adjustment Account increase of £2.186m, (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 the sale of properties and gains recognised on donated assets). The Revaluation Reserve has increased by £5.297m due to the Land and Building revaluation and difference between fair value depreciation and historical cost depreciation. The Collection Fund Adjustment Account has reduced in year to reflect Collection Rates of £2.155m. The balance relates to small movements on other accounts of £0.404m.

15. **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 of Accounts). 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 from -£0.478m to £6.688m. This in part is due to the current treasury management strategy that sets specific criteria for investments (security and liquidity) and therefore cash may be held over the short term while suitable longer term investment opportunities are identified. Also, the overall structure of interest rates whereby short term rates are lower than long term rates means it is more sensible to reduce investments and borrow for short periods rather than seek new long term borrowing.

16. 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.

17. 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 Director of Finance and Procurement are required on the letter. The proposed letter of representation is attached to this report as Appendix B.

Equality and Diversity Implications

18. None directly related to this report.

Staff Implications

19. None directly related to this report.

Legal Implications

20. 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 November in the current year for the 2021/22 Statement of Accounts.

Financial Implications & Value for Money

21. The report confirms the 2021/22 outturn position is consistent with that previously reported.

Risk Management, Health & Safety, and Environmental Implications

22. None directly related to this report.

Contribution to Our Vision: To be the best Fire & Rescue Service in the UK.

Our Purpose: Here to serve, Here to protect, Here to keep you safe.

23. 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/036/22	"Revenue and Capital Outturn 2021-2022" Policy & Resources 28th July 2022.

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
FRC	Financial Reporting Council – direct statutory powers in relation to audit regulations and responsible for the UK's Corporate Governance and Stewardship Codes