MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	12 OCTOBER 2023	REPORT NO:	CFO/041/23
PRESENTING OFFICER	DIRECTOR OF FINANCE AND PROCUREMENT MIKE REA		
RESPONSIBLE OFFICER:	DIRECTOR OF FINANCE AND PROCUREMENT MIKE REA	REPORT AUTHOR:	DIRECTOR OF FINANCE AND PROCUREMENT MIKE REA
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	STATEMENT OF ACCOUNTS 2022/23 - APPROVAL OF AUDITED STATEMENTS		

APPENDICES:	APPENDIX A:	STATEMENT OF ACCOUNTS 2022/23
	APPENDIX B:	LETTER OF REPRESENTATION

Purpose of Report

1. To present to Members the draft audited 2022/23 Statement of Accounts for consideration. As Grant Thornton are in the process of finalising their audit work, but don't expect to change their unqualified opinion, that Members' agree to delegate to the Chair of the Audit Committee and Director of Finance & Procurement authority to sign-off the accounts and letter of representation, as soon as the Auditor has completed their work.

Recommendation

2. It is recommended that Members delegate authority to the Chair of the Audit Committee and Director of Finance & Procurement (as the s151 officer) to;

   a) amend, if required, and approve for publication the audited Statement of Accounts 2022/23, attached as Appendix A to this report; and

   b) amend, if required, and sign the letter of representation in relation to the 2022/23 accounts, attached as Appendix B.

Introduction and Background

3. The Authority's Auditor, Grant Thornton, is required to report on the Authority's financial statements (Statement of Accounts) and if in their opinion they;

   a. give a true and fair view of the financial position of the Authority's income and expenditure for the year; and

b. have been prepared in accordance with the relevant local authority accounting Code(s) and standards.

4. Once the statements have been audited, the 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 2022/23 Statement of Accounts, (and those for the next six years) the deadline has been extended to the 30th September, 2023. The 2022/23 **draft** audited Statement of Accounts are attached to this report as Appendix A, for Members' consideration.

5. Grant Thornton's draft "Audit Findings" report can be found elsewhere on today's Agenda, and it summarises the Auditor's findings to date in relation to the 2022/23 Statement of Accounts. The Audit Findings report confirms that based on their findings to date, the 2022/23 Statement of Accounts meet the criteria in a. and b. above, and Grant Thornton intend to issue an unqualified opinion on the statements. However, as the Auditor is still to receive some information from external partners (Merseyside Pension Fund) they are not in a position to complete the sign-off their audit opinion, although they are confident that the draft unqualified opinion will not change and the information within the statements will remain unchanged to that in the draft statements.

6. In order not to delay the publication of the financial statements, Members are asked to delegate power to the Chair of the Audit Committee and Director of Finance and Procurement (as s151 officer), to sign-off the final audited Statement of Accounts for publication. If any significant changes are required to the financial statements a report will be brought back to this Committee.

7. Note that Members considered the 2022/23 year-end **general fund outturn position** in report CFO/033/23, that was approved by the Policy and Resources Committee on 27th July 2023. That report identified net revenue expenditure in the year of £57.579m against a budget of £61.792m, and a resulting favourable variance of £4.213m (before any adjustments for year-end reserves). The report outlined that £0.924m was required to be carried forward as year-end earmarked reserves, leaving an actual saving in 2022/23 of £3.289m. Members approved the utilisation of this saving to increase the inflation reserve by £0.382m, (*to mitigate the risk around high inflationary pressures*), and, an increase in the capital reserve of £2.907m, (*to offset capital inflationary costs and reduce planned borrowing to free up debt servicing costs in the future*). Therefore, after taking these adjustments into account net expenditure in the year was consistent with the general fund budget. This report and the statement of accounts do not change the general fund outturn position.

8. 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 2022/23, as per paragraph 7, the Comprehensive Income and Expenditure Statement (CIES) indicates a net surplus of £6.064m 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 outturn position as reported in CFO/033/23, and, can be viewed as notional entries that are obligatory in order to adhere to the various local authority accounting Code(s) and regulations for preparing the financial statements within the Statement of Accounts.

9. In order to assist Members' understanding of the financial statements, the following paragraphs provide further background to the purpose and contents of the financial statements and the significant movements between 2021/22 and 2022/23.

Statement of Accounts;

10. The Statement of Accounts is a record of the Authority's financial activities for 2022/23 with comparative figures for 2021/22. 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.

11. On 1st April 2010 the Authority, along with all other Local Authorities, adopted International Financial Reporting Standards (IFRS). The accounts for 2022/23 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**

12. 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.

13. 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 7 of this report outlined the 2022/23 General Fund position for the service).*

14. The analysis below identifies and briefly explains some of the largest movements between the figures in the formal statement of accounts for 2022/23 :-

15. **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 2022/23 (after taking into account the creation of reserves) this becomes net surplus of £6.064m on the CIES because of additional accounting transactions relating mainly to pensions but also depreciation and some other technical adjustments. The table overleaf 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 CIES Expenditure Statement £'000
	Net General Fund 2022/23 year-end position:	**Note**	-	-	-
1	**Net creation of earmarked reserves**	(a)	-	-	**10,710**
2	**Asset valuation / charges and capital funding adjustments**				
	Depreciation, impairment and revaluation adjustment	(b)	4,324		
	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	(c)	1,629		
	Asset disposal / write-offs / revaluation losses		(19)		
	MRP / interest adjustment	(f)	(3,923)		
	Capital Expenditure Funded from the Revenue Account (CERA)		(14,997)		
	Capital grants income		(6,320)	**(19,306)**	
3	**Pension related adjustments**	(d)			
	Pension contributions payable to pension fund (employer)		(9,933)		
	Pension contributions payable to pension fund (top-up grant)		(30,849)		
	Pension current service costs		15,024		
	Pension past service costs		-		
	Net interest on the defined benefit liability scheme		30,297	**4,539**	
4	**Other technical accounting adjustments**	(e)			
	Timing differences for premiums and discounts		23		
	Timing differences for council tax / NNDR		(1,920)		
	Timing differences for compensated absences		(110)	**(2,007)**	
	Total adjustments				**(16,774)**
	Surplus or deficit on provision of services				**(6,064)**

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.

16. **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 **£38.481m** in **usable reserves** as at 31.03.2023. Of this, the Authority held £15.692m 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 2022/23 the Authority's usable reserves were £22.789m, a net reduction of £10.710m on the 2022/23 opening balance. The decrease is due to planned draw-downs during the year for the new TDA scheme, to cover higher inflation on employee costs and historic collection fund adjustments. The committed reserves are required in order to carry forward funds from 2022/23 funds into 2023/24 to meet projects now re-phased into future years, or, to offset identified potential risks to the Authority's financial plan. The Authority General Reserve has remained at £3.000m or 5% of the gross budget throughout the year, and this 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 £340.030m - unusable reserves are not available to fund spend 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 reduction is down to changes in the liability of the pension schemes in 2022/23, £315.976m.

17. **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 £21.140m. This was mainly due to; a £6.335m net revaluation increase on Land and Buildings, and, additions in the year including assets under construction (mainly the new TDA/fire station) of £14.431m. The balance is made up of changes in depreciation / derecognition, and vehicle and equipment additions.

- **Current Assets** – reduced by £4.404m. The re-phasing of planned capital spend and the receipt of grant monies in advance of expenditure has resulted in a decrease in Short Term Investments of £5.755m and a £1.628m increase in Cash & Cash Equivalents. Short-term debtors have reduced minimally by £0.277m.

- **Current Liabilities** – reduced by £1.155m. A reduction in short-term creditors of £1.025m due to a decrease in various creditor accruals and grant prepayments (spend will be incurred in 2023/24). Short-term borrowing has reduced by £0.130m, and is made up of loans to be paid in the following year. – (PWLB movement of £0.165m and other loans £0.035m compared to 2021/22).

- **Long Term Liabilities** – reduced by £316.829m;

    - **Other long-term liabilities** – reduced by £316.016m. £315.976m 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 £315.976m. 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 £0.548m. 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 £0.265m. 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 has reduced by £0.102m, and the Business Rates Appeals provision was reduced by £0.163m (see note 20 in Statement of Accounts).

- **Usable Reserve** reduction of £5.310m – 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 increased by £5.400m 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 £22.789m, a net reduction of £10.710m on the 2022/23 opening balance. The reason for reduction in the Authority's earmarked reserves is outlined in paragraph 13 above, (funding of the new TDA/ fire station, collection fund adjustments and pay and energy inflation). These committed reserves are required in order to carry forward 2022/23 funds into 2023/24 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 £340.030m. 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 spend. A reduction in the Pension Reserve of £315.976m to reflect changes in the liability of the pension schemes accounts for the majority of the reduction in unusable reserves. The other movements relate to the Capital Adjustment Account of £15.626m, (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). A Revaluation Reserve adjustment of £6.420m due to the Land and Building revaluation and difference between fair value depreciation and historical cost depreciation. The Collection Fund Adjustment Account has reduced by £1.921m to reflect Collection Rates in the year. The balance relates to a net small reduction on other accounts of £0.087m.

18. **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 £6.688m to £8.387m. 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.

The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the Authority's strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required, rather than seek new long term borrowing.

19. **Members are requested to consider the Statement of Accounts, attached as Appendix A, and delegate authority to the Chair of the Audit Committee and Director of Finance and Procurement to authorise them for issue once Grant Thornton have completed their audit work.** If the Statement of Accounts have been authorised for issue the public will have access to the document via the Authority's website. A summary plain English statement of accounts is also available on the website.

20. 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 for Members' consideration. Once the audit work has been completed the letter will be signed by the Chair of the Audit Committee and Director of Finance and Procurement and sent to Grant Thornton.

Equality and Diversity Implications

21. None directly related to this report.

Staff Implications

22. None directly related to this report.

Legal Implications

23. The Authority has a statutory duty pursuant to regulation 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 September in the current year for the 2022/23 Statement of Accounts.

Financial Implications & Value for Money

24. The report confirms the 2022/23 outturn position is consistent with that previously reported.

Risk Management, Health & Safety, and Environmental Implications

25. 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.

26. 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/033/23 "Revenue and Capital Outturn 2022-2023" Policy & Resources 27th July 2023.

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