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LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 28 September 2016 in Main Conference Room, Service Headquarters, Fulwood commencing at 10.00 am.

IF YOU HAVE ANY QUERIES REGARDING THE AGENDA PAPERS OR REQUIRE ANY FURTHER INFORMATION PLEASE INITIALLY CONTACT DIANE BROOKS ON TELEPHONE NUMBER PRESTON (01772) 866720 AND SHE WILL BE PLEASED TO ASSIST.

AGENDA

PART 1 (open to press and public)

Chairman's Announcement – Openness of Local Government Bodies Regulations 2014
Any persons present at the meeting may photograph, film or record the proceedings, during the public part of the agenda. Any member of the press and public who objects to being photographed, filmed or recorded should let it be known to the Chairman who will then instruct that those persons are not photographed, filmed or recorded.

1. APOLOGIES FOR ABSENCE

2. DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

   Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.

3. MINUTES OF THE LAST MEETING HELD ON 29 JUNE 2016 (Pages 1 - 12)

4. REVISIONS TO THE STATEMENT OF ACCOUNTS 2015/16 (Pages 13 - 116)

5. FINANCIAL MONITORING 2016/17 (Pages 117 - 124)

6. SELF SUFFICIENT LOCAL GOVERNMENT - 100% BUSINESS RATES RETENTION (Pages 125 - 128)

7. DATE OF NEXT MEETING

   The next meeting of the Committee will be held on Wednesday 30 November 2016 at 10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

   Further meetings are: scheduled for: 29 March 2017 and 28 June 2017
   proposed for: 27 September 2017

8. URGENT BUSINESS

An item of business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency. Wherever possible, the Clerk should be given advance warning of any Member's intention to raise a matter under this heading.

9. EXCLUSION OF PRESS AND PUBLIC

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act 1972, they consider that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act 1972, indicated at the heading to the item.

PART 2

10. HIGH VALUE PROCUREMENT PROJECTS (Pages 129 - 134)

11. URGENT BUSINESS (PART 2) (Pages 135 - 136)

An item of business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency. Wherever possible, the Clerk should be given advance warning of any Members' intention to raise a matter under this heading.

LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 29 June 2016 in the Main Conference Room, Service Headquarters, Fulwood at 10.00 am.

MINUTES

PRESENT:

Councillors

F De Molfetta (Chairman)
A Barnes
M Green
F Jackson
D O'Toole
M Parkinson (for A Matthews)
N Penney (for T Aldridge)
R Shewan
V Taylor
T Williams

Officers

C Kenney – Chief Fire Officer (LFRS)
K Mattinson – Director of Corporate Services (LFRS)
B Warren – Director of People and Development (LFRS)
J Bowden – Head of Finance (LFRS)
D Brooks – Principal Member Services Officer (LFRS)

1/16 APOLOGIES FOR ABSENCE

Apologies were received from County Councillor T Aldridge and Councillor A Matthews.

2/16 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

3/16 MINUTES OF THE PREVIOUS MEETING

In response to a question raised by CC Barnes in relation to the recruitment item, the Director of People and Development confirmed that the recruitment process had begun and a significant level of interest had already been received.

RESOLVED: That the Minutes of the meeting held on the 30th March 2016 be confirmed as a correct record and signed by the Chairman.

4/16 EXTERNAL AUDIT - UNDERSTANDING HOW THE RESOURCES COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

In order to comply with International Auditing Standards, the External Auditors, Grant Thornton was required to obtain an assurance as to how those charged with governance discharged their responsibilities in connection with oversight of the annual accounts process and financial reporting. The letter requesting this was considered by Members. A draft response prepared by the Chairman of the Resources Committee was considered by Members. It was noted that the Audit Committee had provided a similar response in connection with the risk of fraud and breaches of internal controls.

RESOLVED: - That the Committee approve and endorse the submission of the response.

5/16 YEAR END TREASURY MANAGEMENT OUTTURN 2015/16

The report set out the Authority's borrowing and lending activities during 2015/16.

All borrowing and investment activities undertaken throughout the year were in accordance with the Treasury Management Strategy 2015/16, and were based on anticipated spending and interest rates prevailing at the time.

In accordance with the updated CIPFA Treasury Management code of practice and to strengthen Members' oversight of the Authority's treasury management activities, the Resources Committee received regular updates on treasury management issues including a mid-year report and a final outturn report. Reports on treasury activity were discussed on a quarterly basis with Lancashire County Council Treasury Management Team and the Director of Corporate Services and the content of these reports was used as a basis for this report to the Committee.

The Director of Corporate Services confirmed that the report had been written before the outcome of the referendum on the European Union which now meant more uncertainty regarding the economy. He reassured Members that interest rates would continue to be monitored.

Short term interest rates continued at very low levels since the Bank of England reduced the base rate to 0.5% in March 2009. Short-term investment levels available in the market remained below 0.6% through the year as illustrated in the report.

A revised forecast of interest rates, published recently by Lancashire County Council's treasury management advisors, Arlingclose Treasury Consultants was shown in the report.

The Authority's cash investments remained significantly in excess of borrowing requirements and hence the Authority had adopted a policy to set aside additional monies in the form of additional Minimum Revenue Provisions (MRP) in order to reduce borrowing requirements and enable the repayment of debt as it matured as well as reducing credit rate risk. This policy had seen overall debt reduce from £8.1m in 2009/10 to its current level of £5.8m. No new borrowing had been taken out in the year, and £0.25m of debt matured in the year.

During the year the Authority had made a charge to revenue to make provision to pay debt. This statutory minimum revenue charge was broadly 4% of previous capital expenditure funded from borrowing adjusted to take into account a shorter asset life of some assets. In 2015/16 the charge was £0.010m.

In addition, during the budget setting process for 2014/15 it was decided that an additional lump sum MRP payments would be made in order to set aside sufficient monies to provide scope to pay off debt in 5 years' time. This was reflected in an additional charge of £0.162m in 2015/16.

The negative borrowing requirement presented in the report would be carried forwards until 2018/19, when the Authority would hold £4.849m after repaying debt as it fell due. The balance was anticipated to match the level of debt outstanding at 31 March 2019. An annual review of the penalties due on early repayment was carried out and should they be considered favourable the Authority would consider whether to repay the debt.

Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield. The Authority's objective when investing money was to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of low investment returns.

Two long term investments were held with UK local authorities as outlined in the report. In addition, the Authority had access to the call account provided by Lancashire County Council which paid the base rate throughout 2015/16. Each working day the balance on the Authority's current account was invested in this to ensure that the interest received on surplus balances was maximised. The average balance in this account during the year was £43.187m accruing interest of £166k.

The overall interest earned during this period was £366k at a rate of 0.69% which compared favourably with the benchmark 7 day notice index which averaged 0.36% over the same period.

All the investments were made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Cash flow and interest rates continued to be monitored by the Director of Corporate Services and the County Council's Treasury Management team, and when rates were felt to be at appropriate levels, further term deposits would be placed.

In order to control and monitor the Authority's treasury management functions, a number of prudential indicators had been determined against which performance could be measured. The revised indicators for 2015/16 were presented alongside the actual outturn position.

RESOLVED: - That the Committee note and endorse the outturn position report.

6/16 YEAR END CAPITAL OUTTURN 2015/16

The report presented the year end position for the Authority's capital programme including how this had been financed, which showed total expenditure in year of

£4.031m compared with a total budget of £8.829m with a slippage requirement of £4.613m which resulted in an overall underspend of £0.185m.

The year end capital outturn position, set out in appendix 1 also showed how the programme had been financed in year, from a combination of capital grant (£0.5m), revenue contributions (£2.9m), capital reserves (£0..5m) and earmarked reserves (£0.1m). Over the next five years the capital reserves, available to fund future capital programmes outlined in the report now presented, would leave a balance of £2.8m in capital reserves as at 31/3/21.

Under the prudential framework, the Authority was required to identify various indicators to determine whether the approved capital programme was affordable, prudent and sustainable. The revised indicators, after allowing for the various changes to the capital programme, which were set out in the report confirmed that performance had been within approved limits.

The estimated impact on band D council tax of the revised capital programme compared to the actual outturn figures was considered by Members and it was noted that the net impact was zero.

The original approved capital programme for 2016/17 was £2.770m which excluded any estimated slippage from 2015/16. This had been amended to reflect the final level of slippage of £4.613m. A further adjustment of £0280m was required in order to meet the anticipated cost of the Fleet workshop and the Multi Compartment Fire prop, both of which were subject to separate tendering exercises. The final proposed capital programme for 2016/17 was £7.663m which was funded from capital grant, revenue contributions, capital reserves and the drawdown of the Service Training Centre Improvement Programme earmarked reserve. Full details of the programme and its funding were set out in Appendix 2 and considered by Members.

Revised prudential indicators for 2016/17 to 2018/19 showed that the revised programme remained affordable, prudent and sustainable.

The estimated impact of slippage on band D council tax was considered by Members and noted that there was no net impact in each of the 3 years.

RESOLVED: - That the Committee: -

i. Note the capital outturn position, the financing of capital expenditure 2015/16 and the prudential indicators, and
ii. Approve the revised capital programme, and the financing of this, for 2016/17.

7/16 YEAR END REVENUE OUTTURN 2015/16

The report set out the revenue outturn position, which fed into the Income and Expenditure Statement within the main Statement of Accounts and the impact of the revenue outturn position on the Authority's reserves.

The annual budget for the year had been amended to reflect the increased Section 31 grant due in respect of localised business rates. At the time of setting the precept/budget the Section 31 grant was based on estimated figures which were then updated once final numbers were known, and which this year had resulted in an additional £0.23m of Section 31 grant being received. The outturn position showed a net expenditure of £57.49m against an updated budget of £56.97m giving a total underspend for the financial year of £0.52m. It was noted that this position included additional costs associated with the December floods of £0.177m, offset by a Bellwin claim for funding of £0.063m.

As reported throughout the year, the Service had identified savings at the earliest possible opportunity following the completion of reviews, and therefore held vacancies in advance of planned future establishment reductions, utilising this underspend to pay off a further £3.2m against the LGPS deficit during the year. The final position within individual departments was set out in Appendix 1 with major variances summarised in the report.

The report identified total in-year efficiency savings of £5.2m compared with a target of £3.4m, performance exceeded the efficiency target, largely as a result of staffing savings made and procurement savings in respect of contracts let during the year.

The Authority held 3 specific revenue reserves: Devolved Financial Management, PFI Equalisation and Other Earmarked Reserves. The impact of the year end position on the reserves was set out in a table, as now presented and the following was noted: -

- Devolved Financial Management (DFM) reserves enabled budget holders to carry forward any surplus or deficit from one financial year to the next, giving greater flexibility in managing budgets thereby optimising the use of available financial resources and facilitating better value for money. The total DFM balance stood at £414k; full details by department were set out in Appendix 2;

- The PFI Equalisation Reserve was used to smooth out the annual net cost to the Authority of both PFI schemes and would be required to meet future contract payments. The reserve level was reviewed each year to ensure it was sufficient given changes in forecast inflation and interest rates. The reserves had been updated during the year, resulting in a revised balance of £3.4m;

- Other Earmarked Reserves were to fund a specific purpose. The report highlighted all the earmarked reserves, their value and specific purpose. The overall reserves level had increased to £5.7m;

In addition, the General Reserve carried forward all surpluses and deficits that arose in year and was designed to cover uncertainties in future years' budgets; to meet short-term loss of funding and to provide flexibility in terms of medium-term financial planning. As a precepting Authority any surpluses or deficits were transferred into/out of reserves in order to meet future potential commitments, and as such the balance of the deficit on the revenue budget, £0.5m had been drawn down from this reserve. After allowing for these the Authority now held a General Fund balance of £10.2m (18% of the net 2016/17 budget).

On an annual basis the Treasurer was required to report on the adequacy of reserves, given the risks faced by the Authority setting out the minimum (£3.0m) and maximum (£10.0m) level of reserves considered appropriate. Based on this position the current level of general reserves was slightly in excess of this, however the draft revenue and capital budgets for 2017/18 – 2019/20 included potential drawdowns in excess of £7m which would put this level of reserve at the bottom end of the target range.

RESOLVED: - That the Committee:-

i. Agree the virement in respect of Section 31 grant receivable;
ii. Note the outturn position on the 2015/16 revenue budget as presented;
iii. Agree the proposed transfer of £43k from the Devolved Financial Management Reserve;
iv. Agree the proposed transfer of £147k to the Private Finance Initiative Equalisation Reserve;
v. Agree the creation of a £1m earmarked reserve to fund potential penalties associated with the future repayment of Public Works Loan Board debt;
vi. Agree the proposed net transfer of £824k from Other Earmarked Reserves and the purpose of these;
vii. Note the decrease of £478k in the General Reserve.

8/16 STATEMENT OF ACCOUNTS 2015/16

The report presented the Authority's Statement of Accounts prepared in line with recommended accounting practice and subject to review by the Authority's external auditors, Grant Thornton. The review was scheduled to take place in June and July and a further report would be presented to the Audit Committee once this had been completed with the final Statement of Accounts re-presented to the Resources Committee for information.

The Statement would be signed by the Treasurer to certify that it presented a true and fair view of the financial position of the Authority as at 31 March 2016.

Under existing regulations the Chairman of the Committee approving the accounts had responsibility for signing and dating these. The aim of this requirement was to encourage audited bodies to produce timely accounts of a good quality and promote the concept of corporate governance.

The Statement of Accounts would be placed on deposit for public inspection in July 2016.

The Authority's Statement of Accounts set out the financial context in which it operated, and provided an overview of the financial year 2015/16. It reflected the position the Authority had 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 June. It set out the Auditor's opinion on the Statement of Accounts and was subject to the results of the outstanding audit work which would commence in June. It also set out the responsibilities of the Authority and the Treasurer in terms of the overall management of the Authority's finances and in terms of the production of the annual accounts. It included a statement that showed the movement in year on the different reserves held by the Authority which was analysed into usable and unusable reserves. It provided a statement that showed the accounting cost in year of providing services. The balance sheet showed the value of the assets and liabilities recognised by the Authority and the cash flow statement showed the changes in cash and cash equivalents of the Authority during the reporting period. The statement of accounts also included notes to the core financial statements.

RESOLVED: - That the Committee approve the Statement of Accounts.

9/16 FINANCIAL MONITORING

The report set out the current budget position in respect of the 2016/17 revenue and capital budgets and performance against efficiency targets.

Revenue Budget

The overall position as at the end of May showed an underspend of £0.274m. It was noted that it was too early in the financial year for any trends in expenditure to be evident and that the situation would be closely monitored as the year progressed. The Committee was provided with detailed information regarding the position within individual departments with major variances related to non-pay spend and variances on the pay budget summarised as follows: -

Area	Overspend/ (Under spend)	Reason
	£'000	
Fleet & Technical Services	69	The overspend related to the timing of committed spend against operational equipment, breathing apparatus and hydrant repairs, as goods and services were ordered for delivery later in the financial year, and therefore it was expected to reduce as the year progressed. These overspends were partially offset by underspends against vehicle repairs and maintenance and fuel, and the overall position would be monitored.
Property	(84)	The current underspend related to the timing of spend against planned repairs and maintenance as works were scheduled in for completion later in the financial year, rather than an anticipated forecast underspend at this stage.
Pay	(181)	In terms of the underspend to date, this was broken down as follows: • Wholetime pay (£51k underspend) related largely to the timing of costs of ad hoc payments such as overtime and public holidays, and would be monitored closely for the rest of the financial year. • Retained pay (£113k underspend) related to vacant hours of cover across many fire stations, plus timing of spend for retained training courses scheduled for later in the financial year. • Support staff pay (£18k underspend) related to various vacant posts for which recruitment was currently underway.

Capital Budget
The Capital Programme for 2016/17 stood at £7.663m, after allowing for slippage, as reported elsewhere on the agenda, however it was now necessary to bring forward the budget for the replacement of the wide area network (WAN) which had been approved for the next financial year as part of the five year capital programme, to allow the procurement process to start during 2016/17. This would be funded from capital reserves. In addition, in order to allow for operational crews to be fully trained on the new Aerial Ladder Platforms bought towards the end of the 2015/16 it was necessary to either extend the existing lease, which ran out on 28 June, or to purchase the vehicle. Following discussion with the Chairman it was agreed to purchase this for £20k, as opposed to paying £1.5k per month to lease it. Selling the vehicle once the training was completed at an anticipated price (based on market research) in excess of £15k was anticipated. Hence allowing for this purchasing, rather than extending the lease, represented better value for money. The cost would be met from a contribution from the revenue budget, and was reflected in the revised capital programme of £8.063m.

A review of the programme had been undertaken to identify progress against the schemes as set out in the report. Appendix 2 sets out the capital programme and the expenditure position against this, as reflected in the report. The costs to date would be met by both capital grant and revenue contributions.

Delivery against savings targets
The annual target stood at £2.5m. To date £0.3m of savings had been delivered. The performance to date was slightly ahead of target, a combination of the underspend on salaries for the first two months, plus savings in respect of procurement activities during the same period. It was anticipated that the efficiency target would be met for the financial year.

RESOLVED: - That the Committee note the financial position.

10/16 FOUR YEAR SETTLEMENTS

As part of the Local Government Finance Settlement the Secretary of State announced an offer of four year funding settlements for local authorities in return for publishing an efficiency plan. Members considered a letter from the Minister for Policing, Fire, Criminal Justice and Victims, that re-affirmed this offer and set out details of the requirements in order to apply for this.

In order to apply for the Four Year Funding Settlement the Authority would need to publish a robust, transparent and locally owned efficiency plan which should:-

- be published and easily accessible to the public on the Fire and Rescue Authority's website, clearly stating what it contains;
- include the full 4 year period to 2019-20, and be open and transparent about the benefits the plan would bring to both the Fire and Rescue Authority and the local community;
- demonstrate the level of cashable and non-cashable savings expected would be achieved through the Spending Review period, the timetable for delivery, key risks and mitigation strategies;
- include the approach to increasing collaboration, including with the Police and local public sector partners and in relation to procurement;

- demonstrate how more flexible working practices would be achieved, including more effective utilisation of retained firefighters;
- include a commitment to the publication of transparent performance information;
- include a clear strategy for the use of reserves; and
- include a commitment to publishing annual reports on the progress of the efficiency plan alongside the Fire and Rescue Authority's statutory assurance statement, enabling local people to scrutinise progress.

It was noted that this issue would be discussed at the July meeting of the National Fire Finance Network, following which a report would be presented to the full Authority in September in order to determine whether to apply for the four year settlement and to agree on a suitable efficiency plan. The deadline for an application is 14 October 2016.

RESOLVED: - That the Committee note the letter and agree to a subsequent report being presented to the full Authority in September outlining options and including a draft efficiency plan.

11/16 DELEGATION OF PENSION FUNCTION

The Service currently contracted Lancashire County Council's (LCC) Pension Administration Services (Your Pension Service) for pension administrative services for the Firefighter Pension Schemes and separately was part of the LCC Local Authority Pension Scheme Fund.

"Your Pension Service" entered into a creation of an Asset and Liability Management Partnership with the London Pensions Fund Authority (LPFA) with effect from 1 April 2016. The stated aim of the partnership was to:

1. Create a large pool of assets of which more could be managed in-house at low cost, which was in keeping with the Government's stated aim of creating a smaller number of Local Government Pension Scheme "Wealth Funds".

2. Create a shared service that would provide an end to end service in the management of pension schemes dealing with all aspects of pension administration from processing data member communications and the payment of benefits.

The Pensions administration currently undertaken on behalf of Lancashire Fire and Rescue Service (LFRS) by "Your Pension Service" would be delivered by a company jointly owned by the Lancashire County Pension Fund and the LPFA. The company would be known as the Lancashire and London Pension Partnership (LLPP).

This changed arrangement altered the basis under which the service was performed which necessitated a new agreement and the discharge of function in accordance with the provisions of section 101 of the Local Government Act 1972.

LFRS was highly satisfied with the services it currently received.

LFRS' preferred option was for LCC to continue to discharge the pension administration function on behalf of LFRS. However, due to the potential legal ramifications, external legal advice was sought as to whether the proposed route was legal and appropriate and did not contravene EU procurement rules and could proceed as a "discharge of function".

Similar arrangements currently existed between LCC and both Cumbria County Council and Merseyside Fire & Rescue Service for their firefighter schemes. Cumbria County Council had already entered into a contract with LLPP, so joint advice was sought by Merseyside and ourselves. The advice confirmed the proposal was an acceptable method of delivery.

Following receipt of that advice additional changes had been incorporated into the documentation which could now be finalised. The alternative would be to re-tender the pension provision through a tendering exercise.

The proposed arrangement was already being utilised to enable Greater Manchester Fire and Rescue Service to administer our Payroll administration.

RESOLVED: - That the Committee note the report, approve the discharge of function and authorise the finalisation of the arrangement.

12/16 DATE AND TIME OF NEXT MEETING

The next scheduled meeting of the Committee would be held on Wednesday 28 September 2016 in the Main Conference Room, Service Headquarters, Fulwood, commencing at 1000 hours.

Further meeting dates were noted for 30 November 2016 and agreed for 29 March 2017 and 28 June 2017.

13/16 EXCLUSION OF PRESS AND PUBLIC

RESOLVED: - That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act 1972, indicated under the heading to the item.

14/16 HIGH VALUE PROCUREMENT PROJECTS
(Paragraph 3)

Members considered a report that provided an update on all contracts for one-off purchases valued in excess of £50,000 and high value procurement projects in excess of £100,000 including: new contract awards, progress of ongoing projects and details of new projects with an anticipated value exceeding £100,000.

RESOLVED: That the Committee note the recommendations as outlined in the report.

15/16 LANCASTER FIRE AND AMBULANCE STATION REDEVELOPMENT
(Paragraph 3)

As part of the High Value Procurement Projects Report, Members have had regular updates in connection with the redevelopment of Lancaster Fire Station. This report provided Members with a detailed update on the current position.

RESOLVED:- That the Committee note and endorse the report and the actions outlined within it.

16/16 DAY CREWING PLUS UPDATE
(Paragraphs 3 and 4)

This report provided Members with an update on recent national developments that could impact on the Authority and its employees.

RESOLVED:- That the Committee note the report.

17/16 REQUEST FOR EXTENSION OF PAID SICK LEAVE
(Paragraph 1)

The Director of People and Development presented a report to Members on the circumstances relating to a proposed extension of full sick pay.

RESOLVED: - That the Committee approve not to agree the request for the extension of full sick pay on the grounds that there were no exceptional circumstances.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood

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LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 28 September 2016

REVISIONS TO THE STATEMENT OF ACCOUNTS 2015/16
(Appendices 1 and 2 refer)

Contact for further information:
Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

This report presents the changes made during the audit of the Statement of Accounts of the Combined Fire Authority for the financial year ended 31 March 2016.

Recommendation

The Committee is asked to re-approve the revised Statement of Accounts.

Information

The Authority approved the draft Statement of Accounts for the financial year ended 31 March 2016 at the June meeting, prior to the audit being carried out by Grant Thornton.

The Statement of Accounts has now been updated to reflect two adjusted misstatements and one disclosure change identified during the audit (and the revised version is attached as Appendix 1).

The following extracts from Grant Thornton's Audit Findings report outlines the adjustments made (attached as Appendix 2) – Amendments to the draft accounts:

Adjusted Misstatement	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on General Fund £000
Fire Fighters Pension past service costs – Past service costs relating to an change in scheme valuation had been disclosed within non distributed costs in accordance with our actuaries valuation report. Following clarification received from the Government Actuaries Department during the audit, this was reclassified as an actuarial adjustment within Other Comprehensive Income & Expenditure – this change had no effect on the General Fund Balance	6,695	0	0
Property Plant & Equipment valuation - Land and Buildings assets which had not been revalued during the year have had a notional % uplift applied following discussions with our valuer during the audit, after further consideration was given to the increase in value for the assets which had been subject to a valuation.	0	1,457	0
Overall impact	0	0	0

For information, the pages which have changed (with a brief description of the change) are as follows:

- Explanatory Foreword:
- Reconciliation of revenue budget position to the Comprehensive Income and Expenditure Statement section (P4) – amended to reflect the amendment of £6.7m relating to the IAS19 Pensions adjustment and the additional £1.5m Land and Buildings notional revaluation uplift in the Movement in Reserves Statement and Comprehensive Income and Expenditure Statement
- Movement in Reserves (correction of IAS19 Pensions adjustment and the Land & Buildings adjustment)
- Comprehensive Income and Expenditure Statement (correction of IAS19 Pensions adjustment and the Land & Buildings adjustment)
- Balance Sheet (correction of the Land & Buildings adjustment, increased Property, Plant and Equipment, with corresponding increase in Revaluation Reserve)
- Cash Flow Statement (correction of IAS19 Pensions adjustment)
- Note 5 Related Parties Transactions (amended to include the amounts of council tax and business rates collected from one of our major precepting bodies)
- Note 6 Property, Plant & Equipment (increased revaluation gain in year on owned Land and Buildings)
- Note 8 Fair Value of Public Works Loan Board loan (recalculated in accordance with revised accounting requirements, reducing the FV by £0.5m)
- Note 15 Firefighters Pension Scheme (correction of IAS19 Pensions adjustment)
- Note 18 Unusable Reserves (correction of the Revaluation Reserve adjustment and the IAS19 Pensions adjustment)
- Note 23 Adjust net surplus/deficit on the provision of services for non cash movements (correction of IAS19 Pensions adjustment)
- Note 25 Segmental reporting note – Amounts reported for resource allocation decisions (correction of IAS19 Pensions adjustment)

The changes requested by Grant Thornton were made to the accounts, and the updated version of the Accounts is being presented to Audit Committee on 29 September for information, alongside the full Audit Findings Report.

The Treasurer to the Fire Authority and the Chair of Resources Committee are therefore required to re-approve the revised accounts by signing off the Balance Sheet.

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
Code and Guidance	February 2016	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	June-Sept 2016	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

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APPENDIX 1

Lancashire Fire and Rescue Service

STATEMENT OF ACCOUNTS

2015/16

LANCASHIRE COMBINED FIRE AUTHORITY

STATEMENT OF ACCOUNTS 2015/16

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NARRATIVE REPORT

The Lancashire Combined Fire Authority (CFA) (the Authority) was established as a free-standing body from 1 April 1998. It sets its own budget, holds its own reserves, raises its own council tax and receives funding direct from the Government and through business rates.

The Authority must prepare and publish a Statement of Accounts annually. Its purpose is to give electors, local taxpayers, Fire Authority Members, employees and other interested parties clear information about the Fire authority's finances.

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2015/16
- how these services were paid for
- what assets the Fire Authority owned at the end of the financial year, and
- what was owed, to and by, the Fire Authority at the end of the financial year.

This narrative report gives a guide to the most important matters included in the Statement of Accounts.

Contents of this Statement of Accounts

This Statement of Accounts covers the financial year ended on 31 March 2016 (referred to as 2015/16). It has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. The Statement contains:

Statement on Annual Governance Arrangements – Sets out the Authority's responsibilities with regard to the system of internal control and corporate governance.

Independent Auditor's Report – The Auditor's report to the CFA on the accounts for 2015/16, which are set out in the sections shown below.

Statement of Responsibilities for the Statement of Accounts – Sets out the responsibilities of the Authority and the Treasurer with regards to the statement of accounts.

Movement In Reserves Statement – This statement shows the movement in year on the different reserves held by the Fire Authority analysed between usable and other reserves. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Fire Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

Comprehensive Income & Expenditure Account - 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 taxation. The Fire Authority raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet – This shows information on the financial position of the Fire Authority as at the 31 March 2016, including the level of balances and reserves at the Fire Authority's disposal, its long term indebtedness and the value of the assets held by the Fire Authority.

Cash Flow Statement – This shows the cash and cash equivalent movements in and out of the Fire Authority due to transactions with third parties for revenue and capital purposes.

Fire Fighters Pension Fund Account – Shows the financial position of the fire fighters pension fund account, showing whether the Authority owes, or is owed, money by the Government in order to balance the account, together with details of its net assets.

Review of the Year

In 2015/16 we have continued to successfully deliver a balance of prevention, protection and emergency response services whilst targeting our resources based on a thorough risk assessment.

Emergency Cover Review changes have been completed with the creation of the USAR team and Day Crewing Plus at Bamber Bridge and Chorley, delivering a saving of £1.6m whilst maintaining response standards. Chorley Retained Duty System (RDS) team has also relocated to the new Chorley Fire Station. A new RDS team for Lancaster has been recruited and trained, and will go live in late 2016 replacing the existing second whole-time pump and delivering savings of £0.9m. Skelmersdale Fire Station will also move onto the Day Crewing Plus system at the start of the new financial year.

Responsibility for the Fire Service nationally has transferred to the Home Office. New legislation will enable a Police and Crime Commissioner to take over governance of a fire and rescue service if there is local support. At the present time there are no indications that this is the case in Lancashire. The legislation will also require us to consider collaboration with police and ambulance in developing and delivering activities. We already work collaboratively with many partners and are well respected by these partners and are supported by the public in these collaborations:-

- 2015/16 saw the implementation of gaining entry support to North West Ambulance Service across the county, removing some of the burden previously placed on Lancashire Constabulary to undertake this activity. So far, we've helped nearly 700 people get the medical assistance they needed more quickly – 80% within ten minutes of the call to us.
- It also saw the introduction of the first nationally approved community first responder scheme with North West Ambulance Service in Morecambe and Ormskirk, attending over 450 incidents and ensuring that the public get the quickest possible assistance to specific types of medical emergencies, thus improving survival rates.
- We have continued to explore opportunities to share sites with other public bodies, and are in the process of finalising plans for a joint Fire & Ambulance Station in Lancaster, which is part funded by Government grant. This will be the third station that we share with North West Ambulance Service, after Darwen and Preston Fire Stations. We are also reviewing options around Morecambe Fire Station. In addition we already share Preesall Fire Station with the Police and with Sure Start.

We have developed a new Home Fire Safety Check Service, with a new website, online risk assessment and automated visit booking system. The system screens out those who are at a lower risk of fire, providing them with a tailored on-line check service. This frees up crews to concentrate on making home visits to those most at risk and already we have seen a 13% increase in the number of visits we make to "high risk" people.

Successful campaigns included "dying for a dip" – a high-impact education package with hard hitting case studies to promote water safety and a campaign to highlight the dangers of loose clothing. Other key prevention activity included sharing the stage with the Wasted Lives team to introduce a new session, "Safe Drive: Stay Alive".

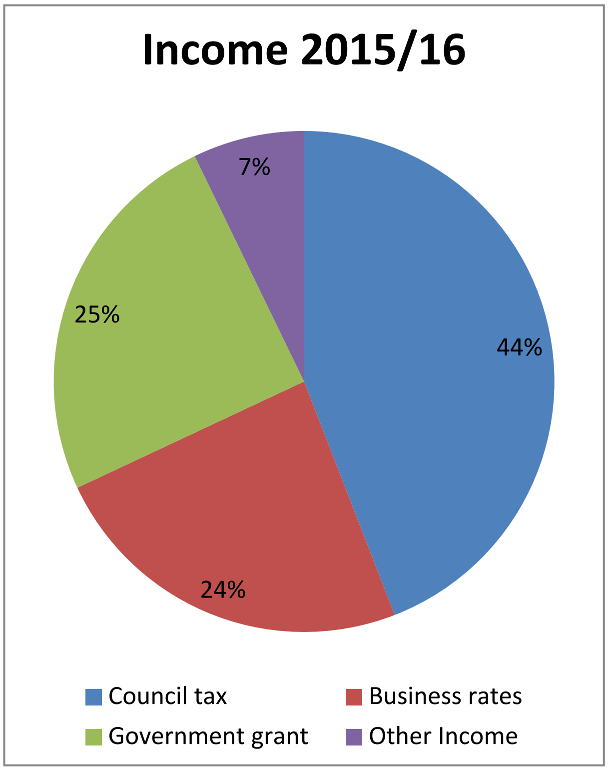
Non-financial performance has remained strong. Whilst activity has increased by 17%, partly attributable to the introduction of the gaining entry and first responder schemes highlighted above, and partly due to the extensive flooding that occurred over Christmas, it still remains low at less than 15,500 incidents. Overall casualty numbers fell from 59 to 53. The number of accidental dwelling fires also saw a marginal increase; however deliberate dwelling fires fell by over 20%. Further information relating to our non financial performance including emergency response times, numbers of fires and their severity can be found on our website at Performance Report 2015-16 (https://vimeo.com/172540630)

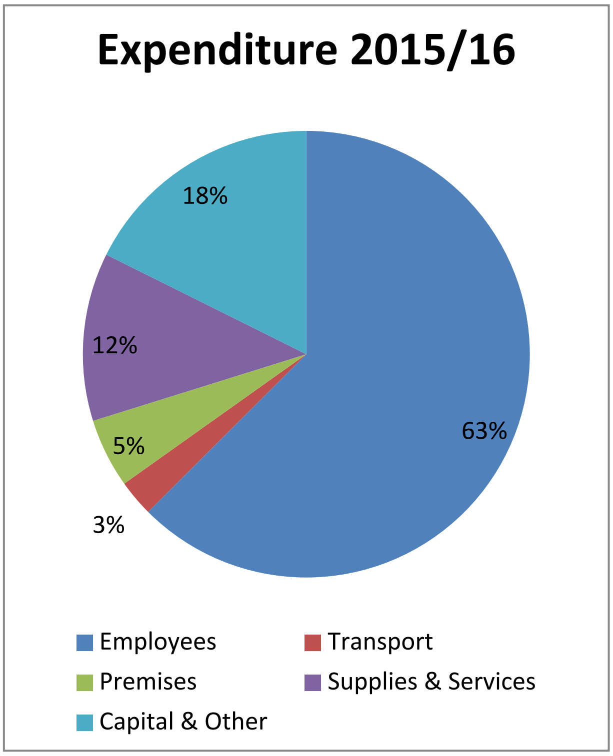
The 2015/16 Financial Overview

The Authority's spending is planned and controlled by an annual budget process, which leads to the setting of its budget requirement. Expenditure on the day-to-day running costs of the service is determined through the Revenue Budget and is recorded in the Comprehensive Income and Expenditure Statement.

In setting its budget the Authority continued to balance the need to invest in service improvements, with the need to deliver efficiency savings and set a balanced affordable budget. Government funding, excluding specific council tax freeze grant, fell by £2.9m. The Authority had to identify efficiencies of £3.4m in order to offset financial pressures in order to deliver an acceptable budget. This resulted in a gross revenue budget of £56.7m, a reduction of 2.7%. This resulted in a council tax of £64.86, an increase of 1.9%, which is just under £1.25 per week. Based on this the budget was considered affordable, prudent and sustainable, whilst ensuring that the Authority was able to deliver against its corporate priorities.(subsequent to this the Authority received an additional £0.2m of Section 31 grant relating to Business Rates, increasing its total budget, as set out below, to £57.0m.)

Actual net expenditure for the year was £57.4m. The following charts show a breakdown of where the monies we receive come from and how we spent this:





A summarised comparison of the Fire Authority's expenditure for the year compared with budget is set out below:

Spend/income type	Budget £000	Spend £000	(Under)/ over spend £000
Employees: pay costs	39,525	38,479	(1,046)
Other employee related costs	638	199	(439)
Premises	3,090	3,104	14
Transport	1,937	1,630	(307)
Supplies & services	7,743	7,535	(208)
Capital financing costs & other	8,009	10,917	2,908
Total Expenditure	60,942	61,864	923
Income	(3,972)	(4,417)	(445)
Budget requirement	56,970	57,448	478
Funded by:			
Council tax	(27,074)	(27,074)	-
Business rates	(14,686)	(14,686)	-
Government grant	(15,210)	(15,210)	-
	(56,970)	(56,970)	-
Net Overspend	-	478	478

The Authority maintained its process of targeting reductions in expenditure, including its on-going recruitment freeze in order to enhance its financial position to deal with on-going funding reductions, generating savings of £5.2m in year against an anticipated target of £3.4m. The net revenue position shows a large underspend on pay, as a result of staffing vacancies being held throughout the year pending forthcoming planned reductions in establishments. This is negated by an overspend against capital financing and other costs, which reflects the Authority's decision to make an additional voluntary payment of £3.2m to the Local Government Pension Fund to reduce future liabilities and hence reduce the overall cost of this scheme in future years.

The following reconciliation shows the comparison between the revenue budget position, as set out above, and the Total Comprehensive Income and Expenditure figure reported in the accounts on page 21.

	£m
Revenue Budget Position	0.521
Transfer from earmarked reserve – DFM balances	(0.043)
Accounting for pensions under IAS19 (see Movement in Reserves Statement, page 19)	8.233
Various other adjustments not affecting council tax	(2.393)
Removal of transfers (to)/from earmarked reserves	(0.604)
Surplus on the provision of services (see Comprehensive Income and Expenditure Statement, page 21)	5.714
Surplus on revaluation of non-current assets	(7.021)
Actuarial loss on pensions assets and liabilities	(35.461)
Total Comprehensive Income And Expenditure (see Comprehensive Income and Expenditure Statement, page 21)	(42.482)

Whilst the Authority has utilised £0.5m of general fund balance it still holds £10.2m, which is broadly in line with the current target level identified by the Treasurer (a minimum of £3.0m and a maximum of £10.0m). This gives greater capacity to cope with funding cuts in the short term whilst appropriate efficiencies are made within the Service, and the on-going use of reserves is a key element of the Authority's future financial plans. It is worth noting that the latest medium term financial strategy, identified at the time of setting the 2016/17 budget, shows approx. £7m of reserves being used by March 2020 meaning that we will be approaching our minimum reserve level at that time.

The Authority also holds an additional £9.5m of earmarked revenue reserves and £11.8m of capital reserves and receipts. Again, the majority of these are utilised within the medium term financial strategy, reducing to a level of £6.2m and £2.9m respectively by the end of 2018/19.

The Authority has continued to invest in its asset base, with capital expenditure incurred in the year totalling £4m, as set out below:-

Capital Budget	Spend 1516 £m
Vehicles	
Pumping Appliances – completion of 5 Pumping Appliances from the 2014/15 capital programme, and completion of 5 Pumping Appliances in the 2015/16 programme.	1.6
Operational Support Vehicles – purchase of two aerial ladder platforms, in addition to various support vehicles, such as vans and cars	1.3
Buildings	
Training Centre site works, including replacement of the emergency generator, works to Lancaster House and work relating to on site training props	0.3
New accommodation at Skelmersdale and Bamber Bridge Fire Stations in order to facilitate the 'Day Crewing Plus' crewing system, to deliver long term efficiency savings	0.7
ICT	
Implementation of an asset management system, and purchase of a replacement training course and skills management system	0.1
Total	4.0

The service was successful in bidding for £3.0m of capital grant, provided by the government, in order to deliver longer term efficiency savings. This funded the conversion of Skelmersdale Fire Station onto the Day Crewing Plus system, as well as providing £2.4m of grant to contribute to the cost of redevelopment of Lancaster Fire Station in order to provide a joint Fire and Ambulance Station. However due to delays in identifying a suitable site work on this scheme did not occur in 2015/16 but is scheduled to commence in 2016/17. As part of this project the Authority purchased an adjacent property in May 2016.

The Balance Sheet shows that the Authorities Total Net Liabilities decreasing to £572m. However this reflects the Authorities compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme is partly funded the Fire-fighters Pension Scheme is unfunded, i.e. there are no assets from which future liabilities will be paid, and hence the Authority's overall pension liability of £672m is extremely large. If this liability was excluded the Authorities Total Net Assets would have increased to £98m.

Long term assets have increased in value to £90.0m, reflecting the expenditure incurred in year and the net outcome of revaluations. Included within this is the disposal of the old Chorley Fire Station site.

Long term borrowing has reduced to £5.6m, as maturing loans are paid off in line with the Treasury Management Strategy. Funds continue to be set aside to provide scope to repay debt in future years, utilising balances previously charged to revenue in the form of Minimum Revenue Provision (MRP), as well as this year's £0.2m additional voluntary MRP payment.

Future Financial Plans

The Government's drive to tackle the national funding deficit and the resultant impact of this on public spending continues to dominate the financial plans for the public sector as a whole. The 2016/17 Local Government Finance Settlements identified a reduction of £1.9m grant. At the same time the Government again indicated its intention to minimise council tax increases identifying a 2% threshold for increases above which the Authority would need to hold a local referendum (note a referendum is estimated to cost in excess of £1.5m).

The Authority has maintained its position of attempting to minimise the impact of funding cuts on council tax payers and has therefore agreed a savings programme which will deliver £2.5m of savings in 2016/17. These are partly offset by costs associated with the need to recommence recruitment in 2016/17 and with the additional investment proposed for various other areas, most notably the Retained Duty System. Overall these changes result in a revenue budget of £55.6m, a reduction of 2.0%. Based on this the budget limits the increase in council tax to 1.0%, giving a revised council tax of £65.50, an increase of £0.64.

As part of the Local Government Finance Settlement the Secretary of State announced an offer of four year funding settlements for local authorities in return for publishing an efficiency plan. The Authority is currently determining whether to apply for this.

Based on the four year indicative settlement funding will fall by 19%, £5.5m. We will continue to deliver a further £1.1m of savings (£3.6m over the four years). Despite this we will still be faced with a funding gap of up to £1.4m in 2019/20, and hence we will continue to utilise reserves and identify savings in order to deliver a balanced budget in the medium term.

Overall the Authority is well placed to meet the financial challenges that it faces in the medium term, and will continue to balance future council tax levels and the need for investment whilst maintaining effective service delivery.

In light of this the capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, new IT requirements and new operational equipment. This gives rise to a capital program of £20m over the next five years.

This includes the re-build of Preston Fire Station, and we will start to look at options for this in the new financial year although any building works are unlikely to start until the latter part of 2017/18.

We will continue to invest in our operational equipment to ensure that our staff have the best equipment available, and the programme includes funding for new equipment arising from the research and development project, as well as the replacement of our thermal imaging cameras, BA sets and telemetry and our cutting/extrication equipment over the next five years

This can be funded from a combination of revenue contributions, specific capital grant provided by the government, capital reserves and receipts and general reserves. As such the capital programme is affordable, sustainable and prudent.

The following significant financial risks have all been assessed and the Treasurer feels that these are adequately covered within the budget estimates or within the level of reserves currently held:-

- Further reductions in funding levels, over and above those included in the provisional four year figures included in the Local Government Finance Settlement;
- Reduction in funding via Business Rates retention scheme;
- Reduction in council tax funding due to changes in localisation of council tax support, reducing tax base and/or council tax referendum limits;
- Higher than anticipated inflation;
- Larger increases in future pensions costs/contributions,

- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements
- Increased cost of partnership arrangements
- Inadequacy of insurance arrangements
- Increasing capital financing charges due to higher interest rates, although clearly the risk of this is reduced due to the policy of paying off debt as it matures.

Accounting Changes

The accounts have been prepared in accordance with the requirements of the latest Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2015/16 (the Code).

STATEMENT ON ANNUAL GOVERNANCE ARRANGEMENTS BY THE CHAIRMAN OF THE COMBINED FIRE AUTHORITY, THE TREASURER TO THE COMBINED FIRE AUTHORITY AND THE CHIEF FIRE OFFICER

Scope of Responsibility

Lancashire Combined Fire Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. Included within the Code are the following core principles:-

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members and officers to be effective
6. Engaging with local people and other stakeholders to ensure robust public accountability

(A copy of the code, setting out the core and supporting principles, what the Authority commits itself to do and how it will do this can be found on our website at http://www.lancsfirerescue.org.uk/sites/lancs/Pages/ContentDocuments/Code-of-Corporate-Governance.pdf)

This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts an Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Authority for the year ended 31 March 2016 and up to the date of approval of the 2015/16 Statement of Accounts.

The Governance Framework

The Governance framework describes the key elements of the systems and processes that comprise the Authority's governance arrangements in accordance with the six principles of Corporate Governance included in our Code and include:-

- The Integrated Risk Management Plan sets out the strategic focus and medium term ambitions for the Authority including its objectives; how these will be achieved and measured; key projects and strategies to be developed out of the Plan and description of how we conduct our business. The current plan covering 2013-2017 was approved this year and can be found on our website at http://www.lancsfirerescue.org.uk/sites/lancs/Pages/ContentDocuments/Integrated%20Risk%20Management%20Plan.pdf

- Annual Service Plan, setting out Vision, Activities, Priorities and Values. The current plan covering 2016-17 was approved this year and can be found on our website at http://www.lancsfirerescue.org.uk/sites/lancs/Pages/ContentDocuments/Annual-Service-Plan.pdf

- A Communication Strategy and the Consultation Strategy;

- A comprehensive performance management framework, with the Performance Committee and Service Management Team receiving regular reports on performance against targets and any corrective action taken to address any variances. On an annual basis the Authority publishes an Annual Performance Report, setting out its overall performance against key performance indicators and including summary financial information;

- A Corporate Programme Board to provide oversight across 3 areas:-
    - Business Process Improvement Programme
    - Workforce Development Programme
    - Service Delivery Change Programme.

  All major projects and reviews follow similar format and report to Corporate Programme Board

- The Authority operates a Committee Structure aligned to strategic objectives, within agreed Terms of Reference, as follows:-
    - The Audit Committee - To advise on the adequacy and effectiveness of the Authority's Internal and External Audit Service and risk management arrangements, which operates in line with the core functions identified in CIPFAs Audit Committees – Practical Guidance for Local Authorities;
    - The Resources Committee - To consider reports and make decisions relating to financial, human resources and property related issues
    - The Planning Committee - To consider reports and make decisions relating to all aspect of planning arrangements, including consultation and communication arrangements
    - The Performance Committee - To consider reports and make recommendations on all aspects of performance management,
    - The Appeals Committee -To hear relevant appeals, grievances and complaints

- Clear management structure within the Service. The Executive Board, comprising the Chief Fire Officer (head of paid service), and 4 Executive Directors, is responsible for determining policy, monitoring performance and developing service plans in line with the Authority's overall strategic objectives and is assisted in this process by the Service Management Team;

- The Combination Scheme Order, Standing Orders, Terms of Reference of individual Committees, Scheme of Delegation and Financial Regulations establish overall arrangements for policy setting and decision making and the delegation of powers to members and officers;

- Comprehensive suite of strategies and policies in place and regularly reviewed

- Codes of Conduct for members and officers, and member/officer protocol, that set out clear expectations for standards of behaviour;

- Both the Monitoring Officer and Treasurer are involved in the Authority's decision making process, and ensure compliance with established policies, procedures, laws and regulations; All Authority reports are considered for human resource, financial, business risk, environmental and equality and diversity implications in order to identify key issues;

- The Treasurer's role and financial management arrangements align with requirements set out in CIPFAs Statement on the Role of the Chief Financial Officer in Local Government (2010);

- Well publicised arrangements for dealing with complaints and whistle-blowing, and for combating fraud and corruption;

- A Risk Management Strategy and framework which ensures that risks to the Service's objectives are identified and appropriately managed

- Comprehensive Business Continuity arrangements in place, and tested on a regular basis

- A Partnership Protocol which sets out arrangements for entering into partnerships;

- Compliance with data transparency requirements, including publication of all key documents, committee agenda and minutes, pay policy and publication scheme on the internet.

- Regular assessment of training & development needs of both members and officers, including appropriate appraisal system. Sufficient budget to meet relevant training requirements.

- Comprehensive service review process in place, comprising external views in the form of Peer Assessment/Operational Assurance review, External Audit reviews, Internal Audit reviews and internal reviews undertaken by our own staff. Ultimately these culminate in the production, and publication, of an Annual Assurance Statement.

Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Auditors annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

A statement of assurance has been discussed and approved by the Executive Board as to the effectiveness of the governance arrangements for which it is responsible, including the system of internal control. The statement of assurance covers all the principles set out in the Authority's Code of Corporate Governance. The statement of assurance reveals no areas of weakness in the Authority's corporate governance arrangements; the arrangements are in all cases at least adequate and in the majority of areas good.

In maintaining and reviewing the effectiveness of the Authority's governance arrangements the following have been considered:-

- The introduction of the Annual Service Plan, has provided greater clarity, both internally and externally, on our four priorities set out in the IRMP and describes what our ambitions are for each priority, as well as setting out the projects and actions that will be delivered, developed or reviewed during the coming year against each of our priorities.

- The introduction of the Corporate Programme Board arrangements has driven further improvements in terms of delivering our objectives and managing projects and reviews

- Revised Risk Management arrangements have bene implemented, focusing more on key risks and the link to Corporate Programme Boards and major projects.

- Business Continuity arrangements have been tested throughout the year, due to the major flooding that occurred in December, and area currently being updated to provide a more flexible response

- An updated Workforce Development Strategy has bene agreed

- The Audit Committee has undertaken a self-assessment exercise to ensure it discharges its requirements in an effective manner. This did not identify any significant weaknesses.

- Internal Audit services were provided by Lancashire County Council, who comply with CIPFA's Code of Internal Audit Practice. The service is designed to give assurance that the Authority maintains adequate systems of internal control and to make recommendations on ways to enhance these where felt necessary.

  As part of the 2015/16 audit plan the auditors undertook various reviews and gave the overall opinion that they can provide substantial assurance over the internal control environment, governance and risk management arrangements for 2015/16, and that there is a generally sound system of internal control, adequately designed to meet the objectives of Lancashire Combined Fire Authority and Lancashire Fire and Rescue Service and controls were generally applied consistently;

- Grant Thornton UK LLP provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Audit letter did not identify any significant weaknesses in internal control arrangement and provided the following audit conclusions in relation to 2014/15:
    - an unqualified opinion on the accounts which give a true and fair view of the Authority's financial position as at 31 March 2015 and its income and expenditure for the year

- an unqualified conclusion in respect of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified short form assurance statement on the Authority's Whole of Government Accounts submission

Last year's Annual Governance Statement identified the following areas for improvement:-

Area for Improvement	Action to date	Completed/ On-going
Develop revised Risk Management Strategy	New Risk Management Strategy agreed and implemented, incorporating removal of Directorate Risk Registers to reduce bureaucracy and reference to Corporate Programme Board process which includes a risk assessments for all major projects/reviews	Completed
The Services Information Management Strategy needs to be reviewed and updated to take account of changing requirements.	The Business process and Information programme Board has commissioned work on developing the underpinning policies and strategies needed to create the overarching Information Strategy:- • Knowledge Management Strategy. • Records Management Strategy. • Information Governance Strategy. • System Integration Strategy. • User Support Strategy. The Project has now completed work on an initial Information Strategy and a number of underpinning policies. There is a road map of work to be undertaken, and the initial phases of this work are now being undertaken	On-going
Improvements highlighted in the Services Operational and Organisational Assessment Improvement Plans need to be completed	All improvements have been completed.	Completed
The Workforce Development Strategy to be reviewed in light of changing age profile	An updated Workforce Development Strategy was agreed in March. Incorporating updated retirement profiles	Completed
Undertake a Governance review, including reviewing Terms of Reference for Committees, Standing Orders, Scheme of Delegation and Financial Regulations	This work remains outstanding	On-going
Undertake a new Audit Committee self-assessment based on latest CIPFA guidance (self-assessment undertaken in 2014/15 based on old guidance)	An updated self-assessment was agreed in March.	Completed
Review partnership engagement and opportunities	Following work streams being progressed:- • Safe and Well visits – identified 6 key	On-going

	areas that have been re-occurring themes to date; falls prevention, social isolation, diabetes, dementia, home security, healthy homes. • Information sharing work stream to consider LPRES (Lancashire Patient Record Exchange System); meeting to be progressed with suppliers, internal stakeholders and with other services • Fire Safety Model for social care work stream is progressing the development of a jointly owned action plan • Volunteer work stream is progressing with the use of volunteers in delivering Fire Cadets. • Group Manager has been seconded within Lancashire Constabulary to consider opportunities for joint working.	
Develop a more flexible way of ensuring the delivery of our business continuity arrangements	A new process has bene agreed. All departments have completed Business Impact Assessments and are finalising recovery plans. The strategic plan is near completion with input outstanding from tactical plans The tactical plan for the displacement of staff from SHQ is in development.	On-going
Deliver services digitally to the public using web technology	A new Internet site has bene introduced. The HFSC project has delivered services digitally to the public using web technology. Further work is required in order to agree other areas for development	On-going
Develop a staff engagement strategy and improvement action plan	A strategy and action plan was produced and has delivered a number of items e.g. Staff barometer, development of a strategic narrative, introduction of revised annual service plan with programme of team briefs. Further work required to look at reviewing staff recognition and developing staff sounding boards	On-going
Introduce a formal coaching and mentoring programme	Coaching & mentoring training rolling out to Supervisory Managers Managers in development have mentors appointed Coaching programme being developed	On-going

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

On the basis of the review of the sources of assurance set out in this statement, we are satisfied that Lancashire Combined Fire Authority and Lancashire Fire and Rescue Service has in place a satisfactory system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

Whilst no significant governance issues were identified, the review has highlighted a number of areas for further improvement, as well as the outstanding recommendation from last year's statement, referred to earlier:

- Deliver a new model for the assurance of service delivery activities and review our station audit process
- Review our operational debrief process and incident monitoring to increase learning form incidents and improve operational performance
- Review our appraisal system to better align individual tasking with organisational priorities and values
- Review progress against the Equality and Diversity National framework

We propose over the coming year to take steps to address the above matter to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

County Councillor F DeMolfetta, Chairman, Lancashire Combined Fire Authority
23 June 2016

C Kenny, Chief Fire Officer, Lancashire Fire and Rescue Service
23 June 2016

K Mattinson CPFA, Treasurer, Lancashire Combined Fire Authority
23 June 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COMBINED FIRE AUTHORITY

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of the financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Treasurer to the Fire Authority.

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Approve the Statement of Accounts.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this Statement of Accounts, the Treasurer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.

The Treasurer has also:

- Kept proper accounting records which were up-to-date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
29 June 2016

County Councillor F DeMolfetta
Chair of Resources Committee
29 June 2016

MOVEMENT IN RESERVES STATEMENT 2015/16

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 other reserves. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Comprehensive Income and Expenditure Statement for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.

	General fund balance	Earmarked reserves	Capital funding reserve	Capital grant unapplied reserve	Capital receipts reserve	Total usable reserves	Unusable reserves	Total Authority reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2015 carried forwards	10,664	9,238	10,605	-	1,187	31,694	(640,438)	(608,744)
Movement in reserves during 2015/16								
Surplus/(Deficit) on provision of services	(5,714)	-	-	-	-	(5,714)	-	(5,714)
Other comprehensive income and expenditure	-	-	-	-	-	-	42,482	42,482
Total comprehensive income and expenditure	(5,714)	-	-	-	-	(5,714)	42,482	36,768
Adjustments between accounting basis and funding basis under regulations								
Charges for depreciation and impairment of non-current assets	3,538	-	-	-	-	3,538	(3,538)	-
Amortisation of intangible assets	134	-	-	-	-	134	(134)	-
Disposal of assets	(84)	-	-	-	314	230	(230)	-
Capital grants applied	(3,002)	-	-	2,479	-	(523)	523	-
Provision for the repayment of debt	(485)	-	-	-	-	(485)	485	-
Capital expenditure charged against General Fund Balance	(2,850)	-	-	-	-	(2,850)	2,850	-
Amount by which the Code and the statutory pension costs differ	8,233	-	-	-	-	8,233	(8,233)	-
Amount by which the Code and the statutory collection fund income differ	356	-	-	-	-	356	(356)	-
	5,840	-	-	2,479	314	8,633	(8,633)	-
Net increase/decrease before transfers to earmarked reserves	126	-	-	2,479	314	2,919	33,849	36,768
Transfers (to)/from earmarked reserves	(385)	280	-	-	-	(105)	105	-
Transfers (to)/from capital funding reserve	(231)	-	(321)	-	-	(552)	552	-
Transfers (to)/from accumulated absences adjustment account	11	-	-	-	-	11	(11)	-
Net tfr (to)/from earmarked reserves	(605)	280	(321)	-	-	(646)	646	-
Increase/(Decrease) in the year	(478)	280	(321)	2,479	314	2,274	34,494	36,768
Balance at 31 March 2016 carried forwards	10,186	9,518	10,284	2,479	1,501	33,968	(605,943)	(571,976)

MOVEMENT IN RESERVES STATEMENT 2014/15

	General fund balance £000	Earmarked reserves £000	Capital funding reserve £000	Capital receipts reserve £000	Total usable reserves £000	Unusable reserves £000	Total Authority reserves £000
Balance at 31 March 2014 carried forwards	10,482	8,764	9,240	1,187	29,673	(548,129)	(518,456)
Movement in reserves during 2014/15							
Surplus/(Deficit) on provision of services	(11,757)	-	-	-	(11,757)	-	(11,757)
Other comprehensive income and expenditure	-	-	-	-	-	(78,531)	(78,531)
Total comprehensive income and expenditure	(11,757)	-	-	-	(11,757)	(78,531)	(90,288)
Adjustments between accounting basis and funding basis under regulations							
Charges for depreciation and impairment of non-current assets	3,851	-	-	-	3,851	(3,851)	-
Amortisation of intangible assets	132	-	-	-	132	(132)	-
Capital grants applied	(2,127)	-	-	-	(2,127)	2,127	-
Provision for the repayment of debt	(2,284)	-	-	-	(2,284)	2,284	-
Capital expenditure charged against General Fund Balance	(243)	-	-	-	(243)	243	-
Amount by which the Code and the statutory pension costs differ	14,859	-	-	-	14,859	(14,859)	-
Amount by which the Code and the statutory collection fund income differ	(328)	-	-	-	(328)	328	-
	13,860	-	-	-	13,860	(13,860)	-
Net increase/decrease before transfers to earmarked reserves	2,103	-	-	-	2,103	(92,391)	(90,288)
Transfers (to)/from earmarked reserves	(474)	474	-	-	-	-	-
Transfers (to)/from capital funding reserve	(1,365)	-	1,365	-	-	-	-
Transfers (to)/from accumulated absences adjustment account	(82)	-	-	-	(82)	82	-
Net tfr (to)/from earmarked reserves	(1,921)	474	1,365	-	(82)	82	-
Increase/(Decrease) in the year	182	474	1,365	-	2,021	(92,309)	(90,288)
Balance at 31 March 2015 carried forwards	10,664	9,238	10,605	1,187	31,694	(640,438)	(608,744)

COMPREHENSIVE INCOME & EXPENDITURE ACCOUNT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Notes		2015/16 Gross Expenditure	2015/16 Gross Income	2015/16 Net Expenditure	2014/15 Gross Expenditure	2014/15 Gross Income	2014/15 Net Expenditure
	Continuing operations:	£000	£000	£000	£000	£000	£000
	Community Fire Safety	5,988	(748)	5,240	7,353	(698)	6,655
	Firefighting and Rescue Operations	39,595	(3,669)	35,926	40,328	(3,398)	36,930
	Emergency Planning	59	-	59	59	-	59
	Corporate and Democratic Core	588	-	588	531	-	531
	Non Distributed Costs	150	-	150	308	-	308
	Net Cost of Services	46,379	(4,417)	41,963	48,579	(4,096)	44,483
	Loss on disposal of non current assets			11			-
	Financing & investment income & expenditure						
8	Interest payable and similar charges			1,704			1,738
5	Pensions interest cost and expected return on pensions assets			22,019			26,700
8	Interest receivable and similar Income			(367)			(372)
	Taxation and non-specific grant income						
	Council tax			(27,184)			(26,260)
	Revenue Support Grant			(15,210)			(18,040)
	Non-domestic rates redistribution			(13,739)			(13,591)
	Capital grant income			(3,002)			(2,127)
	Business rates S31 grant			(480)			(469)
	Council tax freeze grant income			-			(305)
	Deficit/(Surplus) on the provision of services			5,714			11,757
	(Surplus)/Deficit on revaluation of non-current assets			(7,021)			(1,806)
	Actuarial (gains)/losses on pensions assets and liabilities			(35,461)			80,337
	Other comprehensive income & expenditure			(42,482)			78,531
	Total Comprehensive Income and Expenditure			**(36,768)**			**90,288**

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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. Reserves are reported in two categories, usable reserves are those that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example capital receipts may only be used to fund capital expenditure). The second category is unusable reserves, and includes 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 shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Notes		At 31 March 2016 £000	At 31 March 2015 £000
	Long Term Assets		
6	Property, Plant & Equipment	81,134	74,064
7	Intangible Assets	299	315
8	Long-Term Investments	10,000	10,000
		91,433	84,379
	Current Assets		
	Inventories	198	232
9	Short Term Debtors	8,533	9,039
10	Cash & Cash Equivalents	28,562	25,733
		37,293	35,004
	Current Liabilities		
8	Short Term Borrowing	(253)	(253)
8	Other Short Term Liabilities	(271)	(318)
11	Short Term Creditors	(6,185)	(6,042)
		(6,709)	(6,613)
	Long Term Liabilities		
12	Provisions	(2,129)	(1,901)
8	Long Term Borrowing	(5,580)	(5,830)
13	Other Long Term Liabilities	(686,284)	(713,782)
		(693,993)	(721,513)
	Net Liabilities	(571,976)	(608,744)
	Revenue Reserves	(19,704)	(19,902)
	Capital Funding Reserve	(10,284)	(10,605)
	Capital Grants Unapplied Account	(2,479)	-
	Usable Capital Receipts Reserve	(1,501)	(1,187)
16	**Usable Reserves:**	(33,968)	(31,694)
	Revaluation Reserve	(28,480)	(22,356)
	Capital Adjustment Account	(37,868)	(36,358)
	Pension Reserve	671,596	698,824
	Collection Fund Adjustment Account	(65)	(422)
	Accumulated Absences Adjustment Account	761	750
18	**Unusable Reserves:**	605,944	640,438
	Total Reserves	571,976	608,744

These Financial Statements replace the unaudited financial statements authorised at the meeting of Resources Committee of 29 June.

This Statement of Accounts is that upon which the Auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the Authority at 31 March 2016 and its income and expenditure for the year then ended.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
28 September 2016

County Councillor F DeMolfetta
Chair of the Resources Committee
28 September 2016

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 amounts of net cash flows arising from operating activities is an indicator of the extent to which the operations are funded by way of taxation and grant income or from the recipients of services provided by the Authority. 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.

Notes		2015/16		2014/15	
		£000	£000	£000	£000
	Net (deficit)/surplus on the provision of services		(5,714)		(11,757)
23	Adjustments to net (deficit)/surplus on the provision of services for non-cash movements		13,390		17,315
	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities		1,499		1,540
	Net cash flows from Operating Activities		**9,175**		**7,098**
	Investing activities				
6&7	Purchase of property plant and equipment & other capital spend	(4,279)		(2,299)	
8	Decrease/(Increase) in long term deposits	-		(9,825)	
8	Decrease/(Increase) in short term deposits	-		20	
24	Receipts from investing activities	136		129	
	Net cash flows from investing activities		(4,143)		(11,976)
	Financing activities				
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(318)		(289)	
	Repayment of long term borrowing	(250)		-	
24	Payments for financing activities	(1,635)		(1,669)	
	Net cash flows from financing activities		(2,203)		(1,958)
	Net increase/(decrease) in cash and cash equivalents		**2,829**		**(6,835)**
10	Cash and cash equivalents at the beginning of the reporting period		25,733		32,568
10	**Cash and cash equivalents at the end of the reporting period**		**28,562**		**25,733**

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom – 2015/16 and CIPFA's Service Reporting Code of Practice for 2015/16, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c Cash & cash equivalents

Cash is represented by cash in hand and deposits repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

d Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

e Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to cover these charges. However, it is required to make an annual contribution from revenue (Minimum Revenue Provision (MRP)) towards the reduction in its overall borrowing requirement equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance, or a minimum of 4%. In addition to the statutory MRP calculated, the Authority may also make voluntary MRP contributions in line with approved budgets and to reduce the ongoing borrowing requirement. Depreciation, impairment and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current financial year (the best estimate of future rates at the time of the accounts). The accrual is charged to the surplus or deficit on provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Firefighters Pension Scheme, administered by Lancashire County Council
- The Local Government Pension Scheme, administered by Lancashire County Council

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Firefighters' Scheme

Under IAS19 the future costs of retirement benefits have to be recognised in the accounts at the point at which the Authority becomes committed to paying them (the point when the benefits have been earned by the employee), even if the actual payment of benefits will be many years in the future.

This obligation to pay pensions benefits in the future is recognised as a liability in the Authority's Balance Sheet. In the service costs part of the Comprehensive Income and Expenditure Statement, transactions are recorded that indicate the change over the year in the pension liability. These are principally the future costs of pensions earned by Firefighters in service during the year. The transactions are not cash-based, but are actuarially-calculated amounts that reflect more closely the true changes in the scheme's long-term liabilities.

In calculating the liability for 2015/16, the actuary based the valuation on a roll forwards approach.

Top up grant received during the year from Department for Communities and Local Government (CLG) to cover the pension costs of the above scheme are recognized in the Comprehensive Income and Expenditure Statement via adjustments in respect of the actuarial valuation.

The Local Government Pension Scheme

The same basic principles apply to the local government scheme with the difference being that, because this is a funded scheme (i.e. is backed by a portfolio of investments in equities, property etc), there are transactions recorded in the revenue account to reflect changes in the expected return on these assets. Like the transactions referred to above, these too, are actuarially-calculated figures.

On the Balance Sheet, the liability to pay future pensions is balanced, although at the moment not fully, by the fund's investment assets.

In calculating the liability for 2015/16, the actuary based the valuation on a full individual by individual approach, and will allow for actual membership changes since the last full valuation at 31 March 2013.

In valuing the pension scheme assets for 2015/16, the actuaries used fair value basis for both derivatives and investments.

g Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. For all of the borrowings the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable plus accrued interest and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

h Financial Assets

The Authority holds only one type of financial asset, loans and receivables. These are it's cash investments and debtors - assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. For all of the investments that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable. The interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year under the terms of the deposit agreement.

i Government Grants & Contributions

Government grants and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached have been satisfied. When conditions have been satisfied, the grant is credited to the Non specific grant income line in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

j Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Cost of Services.

k Non Current Assets

Non current assets are included in the Balance Sheet at the estimated current value of the asset. They comprise:

- Property, plant & equipment - These are assets that have a physical substance which are used continuously to provide services or for administrative purposes.
- Intangible assets – Assets that do not have a physical substance but can be separately identified and controlled by the Authority (for example, software licenses). Spending on these assets is capitalised if the asset will bring benefit to the Authority for more than one financial year.

i) Recognition

All capital expenditure over the value of £10,000 on the acquisition or enhancement of non current assets is capitalised in the accounts on an accruals basis, in accordance with the relevant statute, with the exception of fleet vehicles, which are capitalised providing the cost is over £5,000 and the asset life is over 5 years.

ii) Measurement

Land and buildings are revalued on a rolling five year basis by a suitably qualified surveyor. As at 31 March 2016, Amcat Limited, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, carried out revaluations on the identified properties. All valuations are on the basis of depreciated replacement cost, with the exception of one property used as offices, valued at Existing Use Value, and one plot of land valued on an open market value basis.

All other Non current assets are valued at historic cost.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. The Revaluation Reserve was created with effect from 31 March 2007 with a zero opening balance. Gains arising before 1 April 2007 have been consolidated into the Capital Adjustment Account.

iii) Impairment

The Combined Fire Authority's non current assets are considered for impairment at the end of each year by appropriately qualified Property Consultants.

iv) Disposals

When an asset is disposed of the value of asset in the balance sheet is written off to the income and expenditure account as part of the gain or loss on disposal. Receipts from disposals are also credited to this, resulting in the netting off of receipts against the carrying value of the asset.

v) Depreciation

Depreciation is charged on those assets which have a finite useful life, in the year after acquisition:

- Intangible assets are assessed over their estimated useful life, 5 years.
- Land is assessed as having an infinite life, and therefore is not depreciated.
- Building assets are assessed for an appropriate property life by property professionals, in 10-year bands up to a maximum of 50 years.
- Equipment is depreciated over their estimated useful life, ranging from 5 to 20 years.
- Vehicles are depreciated over their estimated useful life, ranging from 5 to 15 years.

The charges are based on the opening net book value of assets at the start of the financial year and the estimated useful life of the asset, and are calculated in such a way as to give an equal charge to the revenue account in each of the years the asset is used.

vi) Componentisation

From 1 April 2010, the Authority is required to separately recognise, depreciate and de-recognise significant components of assets, where the significant component has a different useful life to the remainder of the asset. Assets with a carrying value of less than £500,000 will not be subject to componentisation rules, and a significant component is one of over 25% of the asset carrying value. Components will only be recognised on assets valued after 1 April 2010.

vii) <u>Derecognition</u>

Assets will be derecognised when no further economic benefits are expected from the asset's use or disposal – ie when the economic benefits inherent in the asset have been used up.

viii) <u>Non Current Assets Held for Sale</u>

When it becomes probable that the carrying value of an asset will be recovered principally from the sale of the asset rather than its continuing use, it is reclassified as an Asset Held for Sale. Depreciation is not charged on Assets Held for Sale.

l Heritage Assets

The Authority holds several heritage assets, in the form of fire memorabilia and two vintage vehicles. Where a heritage asset is identified, where it is possible to reasonably estimate the value, this should be reported in the Balance Sheet subject to the usual criteria for asset recognition in the policy above. If no value exists, and a valuation could not be practicably obtained, the asset will be disclosed in a note to the accounts.

m Capital Receipts

Capital receipts derived from the sale of non current assets, above £10,000 in value, are used to finance capital investment.

n Valuation of Inventories

The Authority holds inventories of fuel, general stores and uniforms and they are valued on the basis of average cost. IPSAS12 (International Public Sector Accounting Standard) allows for specialised stock items to be valued at the lower of cost and current replacement cost.

o Leases

Leases are classified as finance lease where the terms of the lease transfer substantially all the risks and rewards incidental to the ownership of the property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

p Finance Leases

Plant and equipment held under finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the plant and equipment – applied to write down the lease liability, and
- A finance charge (debited to the Interest payable and similar charges line in the Comprehensive Income and Expenditure Statement).

Plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

q Operating Leases

The annual lease rental payments under operating leases are charged direct to the Comprehensive Income and Expenditure Statement.

r Private Finance Initiative (PFI) and similar contracts

Current status

The Authority has two existing PFI arrangements:

- With PFF Lancashire for Hyndburn and Morecambe fire stations, which is a continuing commitment for 30 years from May 2003; and
- With Balfour Beatty Fire & Rescue NW to replace four fire stations in Lancashire as part of a wider scheme to replace 16 in total in conjunction with Merseyside Fire and Rescue Authority and Cumbria County Council. The contract will run for 25 years from the date of the final station being handed over during 2013/14.

Revenue transactions relating to the above schemes are explained in Note 14.

Accounting for PFI

PFI contracts are agreements to receive services, where responsibility for making available the non current assets to provide services passes to the PFI contractor. The PFI scheme is accounted for on a consistent basis to IFRIC 12.

Recognition of assets and liabilities

Fire stations provided under PFI contracts are recognised as non current assets of the Authority. A related liability is also recognised. The asset and liability are recognised when the asset is made available for use. The related liability is initially measured at the value of the related asset and subsequently calculated using the same actuarial method used for finance leases.

Once on the balance sheet the PFI assets will be treated in the same way as all other non current assets of the same type including depreciation, impairment and revaluation.

Minimum Revenue Provision (MRP)

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. The amounts of MRP are calculated in accordance with the appropriate regulations and statutory guidance. MRP is equal to that element of the unitary charge which is applied to repay the outstanding liability.

Unitary Payment

The unitary payment is a monthly charge payable to the PFI contractor in return for the services provided. This payment is analysed into elements for the fair value of services, capital and revenue lifecycle (planned maintenance), contingent lease rentals, the repayment of the outstanding liability and interest payable on the outstanding liability. The fair value of the services and the revenue lifecycle element are charged to the revenue account. The capital lifecycle element is charged to the non current assets and funded by a revenue contribution. The contingent lease rentals and interest payable are recorded in the “interest payable and similar charges” account outside the net cost of services but within net operating expenditure in the income and expenditure account.

Deductions from the Unitary Payment

The PFI contracts provide for deductions from the unitary payment in the case of sub standard performance or when the facilities are unavailable. Deductions for sub standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from the unavailability of the property are apportioned pro rata to the proportions of the service and property elements of the unitary payment:

- A reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then finance costs if contingent rents are insufficient; and
- A reduction in the price paid for services whilst services are not being provided accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the Authority's entitlement has been established and it is probable that the Authority will be able to make the deduction.

s PFI Equalisation Reserve

The Authority holds two PFI equalisation reserves for the purpose of smoothing out, within the revenue account, the annual net cost to the Authority of payments under PFI contracts:

- In 2003/04 the Authority established a PFI equalisation reserve for the PFI contract with PFF Lancashire Ltd. The contract relates to the provision and maintenance by PFF Lancashire Ltd of two fire stations at Morecambe and Hyndburn; and
- In 2011/12 the Authority created a new PFI equalisation reserve in relation to the Authority's share of the PFI contract with Balfour Beatty Fire & Rescue NW Ltd. The contract relates to the provision and maintenance of Blackburn, Burnley, Chorley, and Fleetwood fire stations.

An annual revenue contribution in lieu of interest will be made to the reserve. The reserve balance will be reviewed each year at which time the amount of any revenue contribution to or from the reserve will be determined.

t Provisions

The Authority has the power to establish provisions for any liabilities of uncertain timing or amount that have been incurred. Details of the Authority's provisions are given in note 12 to the Balance Sheet.

u Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged against the net cost of services in that year in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirements and employee benefits and do not represent usable resources for the Authority.

v Contingent liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

w VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

x Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in note 20 of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

y Accounting Standards issued but not yet adopted

For 2015/16 the following accounting policy changes that need to be reported relate to:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010-2014:
  - IFRS 3 Business Combinations: Accounting for contingent consideration in a business combination
  - IFRS 5 Non-current Assets Held for Sale: Disposal method changes
  - IFRS 7 Financial Instruments: Changes to disclosures on servicing contracts
  - IFRS 13 Fair Value Measurement: Short term receivables and payables
  - IAS 24 Related Party Disclosures: Clarification regarding key management personnel
- Amendments to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (clarification of acceptable methods of depreciation and amortisation)
- Amendments to IFRS 1 Presentation of Financial Statements (Disclosure Initiative – changes to the format of the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, introduction of the Expenditure and Funding Analysis)
- Changes to the format of the Pension Fund Account and Net Assets Statement

These standards will be incorporated into the Statement of Accounts as required by the Code.

z Critical judgements in applying accounting policies

In applying the accounting policies set out above, the Authority has had to make certain judgements about transactions involving future events. The critical judgement made in the Statement of Accounts are:

- NW FireControl Ltd – The annual accounts are assessed each year for materiality to determine whether consolidation into the Lancashire Fire and Rescue Service Accounts is required, on both quantitative and qualitative grounds. After carrying out the assessment, our judgement is that consolidation is not required for the 2015/16 accounts.

2 Fire Authority Costs

In 2015/16 Fire Authority costs amounted to £0.279m (2014/15: £0.266m), analysed as follows:

	2015/16	2014/15
	£000	£000
Members allowances/expenses	124	121
Statutory officers	105	102
Statutory reports/publications	2	1
Subscriptions	11	11
Others	37	31
	279	266

3 Employees Emoluments

Details of the Authority's employees, out of an estimated 1,097 full-time equivalent, who have received pay and benefits of more than £50,000 are:

	2015/16	2014/15
	No.	No.
£70,000 - £74,999	-	1
£65,000 - £69,999	2	1
£60,000 - £64,999	6	7
£55,000 - £59,999	12	2
£50,000 - £54,999	22	26
	42	37

The above table excludes Senior Officers, who are disclosed individually in the tables in the following tables.

Senior Officers Remuneration

During the year, Senior Officers received remuneration packages as detailed below – these employees are also excluded from the table above.

Post holder information (post title and name) **2015/16**	Salary	Allowances (estimated based on 2014/15 figures)	Total Remuneration excluding pension contributions	Pension contributions accrued at the standard employer rate for all senior officers	Total Remuneration including pension contributions
Chief Fire Officer – Chris Kenny	154,389	1,159	155,548	33,503	189,051
Director of Service Delivery – Justin Johnston	128,731	3,347	132,078	18,409	150,487
Director of Strategy & Planning – David Russel	121,280	3,222	124,502	17,343	141,845
Director of People & Development – Robert Warren	98,664	-	98,664	12,629	111,293
Director of Corporate Services – Keith Mattinson	98,664	157	98,821	12,629	111,450
	601,728	7,885	609,613	94,513	704,126

Post holder information (post title and name) **2014/15 – Restated***	Salary	Allowances Restated*	Total Remuneration excluding pension contributions	Pension contributions accrued at the standard employer rate for all senior officers	Total Remuneration including pension contributions
Chief Fire Officer – Chris Kenny	150,000	1,145	151,145	31,950	183,095
Director of Service Delivery – Justin Johnston	123,131	4,183	127,314	26,227	153,541
Director of Strategy & Planning – David Russel	116,009	3,384	119,393	24,710	144,103
Director of People & Development – Robert Warren	97,687	-	97,687	12,504	110,191
Director of Corporate Services – Keith Mattinson	97,687	157	97,844	12,504	110,348
	584,514	8,869	593,383	107,895	701,278

* The 2014/15 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2014/15 Statement of Accounts.

Exit Packages

The number of exit packages with a total cost per band and total cost of voluntary redundancies are set out in the table below:

	2015/16		2014/15	
Exit package cost band (including special payments)	Number of departures agreed	Total cost of exit packages in each band £000	Number of departures agreed	Total cost of exit packages in each band £000
£0 - £20,000	3	10	10	77
£20,001 - £40,000	-	-	2	59
£40,001 - £60,000	1	51	1	49
£60,001 - £80,000	-	-	-	-
£80,001 - £100,000	-	-	-	-
£120,001 - £140,000	-	-	-	-
	4	61	13	185

4 External Auditors Fees

In 2015/16, the Fire Authority paid a total of £0.031m to its external auditors, Grant Thornton (2014/15: £0.041m), as follows:

	2015/16 £000	2014/15 £000
Audit fees – Grant Thornton	31	41

5 Related Parties Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority. Consideration must be given to materiality from both the viewpoint of the Authority and the related party.

Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills).

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in note 2. As required under Section 81 of the Local Government Act 2000, members' outside interests are recorded in a formal register and the Code of Conduct operated by the Authority requires members to declare any related interests they have, and to take no part in meetings or decisions on issues concerning those related interests.

In addition, a survey of the related party interests of members and their immediate family members was carried out in preparing the Statement of Accounts. This survey showed that members have outside interests in bodies that have transactions with the Authority, such as:

- roles as members of Lancashire County Council, the district and unitary authorities;
- roles with voluntary organisations;

In none of these cases is there evidence either of control of one party by the other, or of any related material transaction which would require disclosure in this note.

Officers

In 2015/16 one Senior Officer declared a family relationship with a Senior Officer in one of our major precepting authorities. Although there are significant transactions between the two parties in relation to business rates (£0.465m received from the precepting authority), and council tax (£2.144m received from the precepting authority), the administration of these is strictly defined by a statutory framework.

6 Property, Plant & Equipment

Details on policies can be seen in Note 1, Accounting Policies.

Movements during the Year

The table below summarises the movements in Property, Plant and Equipment during the year. Land and buildings, vehicles, plant, furniture and equipment are all disclosed at their net current value. All additions (i.e. new expenditure) are shown at cost.

Movements in Property, Plant and Equipment analysed into their different categories for 2015/16 are:

Movement during the year	Other Land & Buildings	Vehicles, Plant & Equipment	Surplus Assets	Assets Held for Sale	Total Property, Plant & Equipment
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2015	66,993	19,450	16	-	86,459
Additions	863	3,049	-	-	3,912
Disposals	-	(281)	-	(325)	(606)
Reclassifications	(325)	-	-	325	-
Revaluations	5,648	-	4	-	5,652
As at 31 March 2016	73,179	22,218	20	-	95,417
Depreciation and impairments					
At 1 April 2015	(1,847)	(10,548)	-	-	(12,395)
Depreciation charge for 2015/16	(1,628)	(1,480)	-	-	(3,108)
Impairment losses recognised in the Revaluation Reserve	(217)	-	-	-	(217)
Impairment losses recognised in the Deficit on the Provision of Services	(431)	-	-	-	(431)
Disposals	-	281	-	-	281
Revaluations	1,586	-	-	-	1,586
As at 31 March 2016	(2,537)	(11,747)	-	-	(14,284)
Balance sheet at 31 March 2016	70,642	10,471	20	-	81,134
Balance sheet at 31 March 2015	65,146	8,902	16	-	74,064
Nature of asset holding					
Owned	47,769	10,387	20	-	58,176
Finance lease	380	84	-	-	464
PFI	22,493	-	-	-	22,493
	70,642	10,471	20	-	81,133

On 31 March 2016 the Authority undertook a revaluation review on approximately one fifth of its land and buildings, and in addition carried out an indexation exercise on the remainder, which resulted in a net revaluation gain of £6.590m (2014/15: net gain of £1.267m).

The comparative figures detailing the movement during 2014/15:

Movement during the year	Other Land & Buildings	Vehicles, Plant & Equipment	Surplus Assets	Total Property, Plant & Equipment
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2014	65,624	19,613	16	85,253
Additions	1,412	938	-	2,350
Disposals	-	(1,101)	-	(1,101)
Derecognition - other	(2,800)	-	-	(2,800)
Revaluations	2,757	-	-	2,757
As at 31 March 2015	66,993	19,450	16	86,459
Depreciation and impairments				
At 1 April 2014	(1,452)	(10,044)	-	(11,496)
Depreciation charge for 2014/15	(1,707)	(1,605)	-	(3,312)
Impairment losses recognised in the Revaluation Reserve	(951)	-	-	(951)
Impairment losses recognised in the Deficit on the Provision of Services	(539)	-	-	(539)
Disposals	-	1,101	-	1,101
Derecognition - other	2,800	-	-	2,800
As at 31 March 2015	(1,847)	(10,548)	-	(12,395)
Balance sheet at 31 March 2015	65,146	8,902	16	74,064
Balance sheet at 31 March 2014	64,172	9,569	16	73,757
Nature of asset holding				
Owned	43,394	8,757	16	52,167
Finance lease	380	145	-	525
PFI	21,372	-	-	21,372
	65,146	8,902	16	74,064

Heritage Assets

The Authority holds several heritage assets, in the form of both fire memorabilia such as antique fire extinguishers, and also two vintage fire appliances. Due to the nature of these assets, it is not possible to market test the value of these, therefore they are not included in the Property, Plant and Equipment note.

Capital Expenditure

The total capital expenditure in 2015/16 is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2015/16 £000	2014/15 £000
Opening Capital Financing Requirement	15,722	18,006
Capital investment:		
Property, Plant & Equipment	3,912	2,350
Intangible assets	118	19
Sources of Finance:		
Government Grant	(523)	(2,127)
Capital Reserves	(552)	-
Earmarked Reserves	(105)	-
Revenue contributions to capital	(2,850)	(243)
MRP	(485)	(2,284)
Closing Capital Financing Requirement	15,237	15,722
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow (supported by Government financial assistance)	(485)	(2,284)
	(485)	(2,284)

Details of Assets Held

The number of main assets held by the Authority are shown below:

	2015/16	2014/15
Headquarters	1	1
Fire Stations (including Area Headquarters)	39	40
Training School	1	1
Fire houses	1	1

Capital Commitments

Capital projects often take several years to complete, which means that the Authority is committed to capital expenditure in following years arising from contracts entered into at the Balance Sheet date, but on which all or part of the capital work has yet to be undertaken. The estimated capital expenditure committed at 31 March 2016 is £1.453m (2014/15: £1.594m).

7 Intangible Assets

The Authority accounts for its software as intangible assets. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority.

Movement during	2015/16 £000	2014/15 £000
Cost or valuation		
At 1 April	1,272	1,253
Additions	118	19
As at 31 March	1,391	1,272
Amortisation & impairment		
At 1 April	(958)	(826)
Amortisation charge for the year	(134)	(132)
As at 31 March	(1,092)	(958)
Balance sheet at 31 March	299	314
Balance sheet at 1 April	314	427

8 Financial Instruments

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long-Term		Current	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
<u>Investments</u>				
Loans and receivables	10,000	10,000	-	-
<u>Debtors</u>				
Financial assets carried at contract amounts	-	-	473	847
<u>Borrowings</u>				
PWLB Borrowings at amortised cost	5,580	5,830	253	253
<u>Other Long Term Liabilities</u>				
PFI and finance lease liabilities	14,688	14,958	271	318
<u>Creditors</u>				
Financial liabilities carried at amortised cost	-	-	2,229	3,075

Income, Expense, Gains and Losses

	Financial assets: Loans and receivables			
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
Interest expense	1,704	1,738	-	-
Total expense in Deficit on the Provision of Services	1,704	1,738	-	-
Interest income	-	-	(367)	(372)
Total income in Deficit on the Provision of Services	-	-	(367)	(372)
Net gain/(loss) for the year	1,704	1,738	(367)	(372)

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term creditors, are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2016 of 4.10% to 4.88% for loans from the PWLB
- This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.

The fair values calculated are as follows:

	31 March 2016		31 March 2015	
	Amortised Cost £000	Fair Value £000	Amortised Cost £000	Fair Value £000
Loans from the Public Works Loan Board	5,834	6,913	6,083	7,741
Cash deposits invested and classed as loans and receivables	-	-	-	-
PFI Liabilities	14,782	14,728	15,024	16,112

Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2016 is £5.764 million (2014/15: £6.014m) and it is due for repayment as shown in the following table:

	2015/16	2014/15
	£000	£000
Within one year	250	250
Within two to five years	1,264	1,240
Within six to ten years	1,920	1,864
Over 10 years	2,330	2,660
	5,764	6,014

9 Debtors

	2015/16	2014/15
	£000	£000
Central government bodies	226	178
Other local authorities	4,285	3,277
Public corporations	330	92
Other entities and individuals	3,692	5,492
	8,533	9,039

10 Cash & Cash Equivalents

The balance of cash & cash equivalents is made up of the following elements:

	2015/16	2014/15
	£000	£000
Cash held by the Authority	46	43
Bank current accounts	28,516	25,690
	28,562	25,733

Cash investments are balances placed with Lancashire Country Council. Interest on these balances is paid to the Authority. The investments have an amortised cost at 31 March 2016 equal to their nominal value.

11 Creditors

	2015/16	2014/15
	£000	£000
Central government bodies	865	759
Other local authorities	3,108	2,307
Other entities and individuals	2,212	2,976
	6,185	6,042

12 Provisions

The Authority has the power to establish provisions for any liabilities of uncertain timing or amount that have been incurred.

The Authority has established an Insurance Liabilities Provision to meet liabilities, the precise cost of which is uncertain, but which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits.

The Authority has also established a provision to meet the potential costs associated with Retained Firefighters' claims (under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000) concerning employment terms and eligibility to be part of the Firefighters' Pension Scheme, which is subject to negotiation at a national level. The remainder of claimants are expected to be resolved during the new financial year.

The Authority has also recognised a provision in relation to its share of the Business Rates Collection Fund outstanding appeals, which is calculated and provided by billing authorities based on their assumptions of outstanding appeal success rates.

The balances set aside, together with the movement on the provisions, is shown below:

	Insurance Liabilities		Part time workers		Business rates appeals		Total	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April	1,156	1,155	25	26	720	249	1,901	1,430
Amounts utilised	(37)	(49)	(3)	(1)	-	-	(40)	(50)
Unused amounts reversed	(371)	(356)	-	-	-	-	(371)	(356)
Additional provision	399	406	-	-	240	471	639	877
Balance at 31 March	1,147	1,156	22	25	960	720	2,129	1,901

13 Other Long Term Liabilities

Other long term liabilities comprise the following:

	2015/16	2014/15
	£000	£000
Finance Lease Liability	89	91
PFI Liability (see note 14)	14,519	14,782
PFI Contractor Loan (see note 14)	80	85
Pension Liability (see note 15)	671,596	698,824
	686,284	713,782

14 PFI Schemes

The Authority operates two PFI schemes with separate Private Sector Partners (PSP), details of which are as follows:

PFF Lancashire Ltd

The Authority signed a contract in May 2002 with a Private Sector Partner (PSP), a consortium known as PFF Lancashire Limited, under the Government's Private Finance Initiative, for two fire stations at Morecambe and Hyndburn.

Under the contract the Authority pays an annual unitary charge to PFF Lancashire for serviced accommodation over the life of the 30-year contract, commencing in 2003/04. The buildings and any plant installed in them at the end of the contract will be transferred to the Authority for nil consideration. The estimated capital value of the scheme at the point of financial close was £3.500m.

Under the contract PFF Lancashire Ltd made a contribution of £0.150m towards the development costs, which is repaid through the annual unitary charge on the life of the 30-year contract commencing in 2005/06. In accordance with recommended accounting practice, the reimbursement has been classed as a loan and the liability reflected as such in the Authority's accounts. At 31 March 2016 the outstanding loan was £0.085m (2014/15: £0.090m).

Balfour Beatty Fire and Rescue NW Ltd

The Authority is also involved in a second PFI project, with Merseyside Fire and Rescue Authority and Cumbria County Council to deliver 16 new fire stations, 4 of which will be in Lancashire. Contracts were signed with Balfour Beatty Fire and Rescue NW Ltd in February 2011, with phased construction beginning in 2011/12 and completing in 2013/14.

Under the contract the Authority pays an annual unitary charge to Balfour Beatty Fire and Rescue NW Ltd for serviced accommodation over the life of the contract, which runs for 25 years from initial handover of each station commencing in March 2011/12 for the Authority. The buildings and any plant installed in them at the end of the contract will be transferred to the Authority for nil consideration. The estimated capital value of the total scheme at the point of financial close was £47.886m, and for the Authority was £12.161m.

All PFI Schemes

All PFI stations are recognised on the Authority's Balance Sheet from the date of initial handover. Movements in their value over the year are detailed in the analysis of the movement on Property, Plant & Equipment balance in note 6.

Payments made under the contracts are performance related, so deductions are made if parts of the building are not available or if service performance (including maintenance) falls below an agreed standard. The Authority makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year, but is otherwise fixed. In addition, the Authority receives Government Grant to offset some of these costs.

Payments remaining to be made under both PFI contracts, and Government Subsidies to be received at 31 March 2016 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000	Government Subsidy £000
Payable in 1 year	630	264	1,406	2,300	1,734
Payable within 2-5 years	2,690	1,317	5,399	9,406	6,935
Payable within 6-10 years	3,800	2,439	6,198	12,437	8,668
Payable within 11-15 years	4,357	3,926	4,806	13,089	8,668
Payable within 16-20 years	3,823	4,521	2,822	11,166	7,201
Payable within 21-25 years	1,624	2,316	544	4,484	2,868
Total	16,924	14,783	21,175	52,882	36,074

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable over the life of the contract. The liability outstanding to pay the contractor for capital expenditure incurred is as follows:

	2015/16 £000	2014/15 £000
Balance outstanding at the start of the year	15,024	15,240
Capital expenditure incurred in the year	-	-
Payments during the year	(242)	(216)
Balance outstanding at year end	14,782	15,024

15 Net Liability Related to Local Government and Firefighters' Pensions Schemes Pensions

During the year the Authority made contributions to the cost of pensions for all employees (except for those who chose not to be members of the scheme) as required by statute.

The Authority participates in two pension schemes:

i) Uniformed Firefighters are covered by an unfunded, defined benefit scheme, meaning that there are no investment assets built up to meet the pensions liabilities and that cash has to be generated by the Authority to meet actual pensions payments as they fall due.

ii) Other staff pensions are provided from the Lancashire County Pension Fund. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with the investment assets.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance Fund via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Comprehensive Income & Expenditure Statement				
Cost of Services:				
• Current service cost	1,080	842	10,504	9,886
• Administrative expenses	17	17	-	-
• Past service cost	60	375	-	-
	1,157	1,234	10,504	9,886
Financing and Investment Income and Expenditure:				
• Interest cost	1,650	1,826	21,657	26,356
• Interest on scheme assets	(1,288)	(1,482)	-	-
	362	344	21,657	26,356
Total post employment benefit charged to the deficit on provision of services	**1,519**	**1,578**	**32,161**	**36,242**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
• Actuarial (gains) and losses	(3,640)	4,832	(31,821)	75,505
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**(2,121)**	**6,410**	**340**	**111,747**
Movement in reserves statement				
• Reversal of net charges made to the deficit on provision of services in accordance with the code	6,164	(3,315)	21,064	(91,881)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to the scheme	(4,043)	(3,095)	-	-
Retirement benefits payable to pensioners	-	-	(21,404)	(19,866)
	-	-	-	-

The change in the net pensions liability is analysed into seven components:

Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past service cost/(gain) – the increase/(decrease) in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited/(credited) to the deficit on the provision of services in the Comprehensive Income and Expenditure Statement.

Interest on liabilities – the expected increase in the present value of liabilities during the year as they move one year closer to being paid.

Interest on assets – the average rate of return expected on the investment assets held by the pension scheme.

Actuarial (gains) and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – (credited)/debited to the pensions reserve.

Employers' contributions – the payments made into the pension scheme by the Authority during the year in respect of current employees.

Retirement benefits payable to pensioners – the net payments made in respect of the Firefighter pension scheme. Note, the fund also received a top up grant of £14.099m (2014/15: £14.615m) in addition to these, which can be seen in the Firefighters Pension Fund Account on page 64.

A full set of audited accounts for the Lancashire County Pension Fund, together with information relating to membership, actuarial and investment policy and investment performance, are published in the 'Lancashire County Pension Fund Annual Report', available from the administering authority, Lancashire County Council, on request.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
Opening balance at 1 April	(50,503)	(41,224)	(687,420)	(595,539)
Current service cost	(1,080)	(842)	(10,504)	(9,886)
Interest on liabilities	(1,650)	(1,826)	(21,657)	(26,356)
Contributions by scheme participants	(276)	(281)	(3,562)	(3,222)
Remeasurements (liabilities):				
Experience (gain)/loss	-	-	-	27,377
Gain/(Loss) on financial assumptions	3,046	(7,511)	31,821	(102,882)
Gain/(Loss) on demographic assumptions	-	-	-	-
Benefits/transfers paid	1,256	1,556	24,966	23,088
Past service cost	(60)	(375)	-	-
Closing balance at 31 March	(49,267)	(50,503)	(666,356)	(687,420)

Reconciliation of the fair value of the scheme assets:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
Opening balance at 1 April	39,099	33,135	-	-
Interest on scheme assets	1,288	1,482	-	-
Remeasurements (assets)	594	2,679	-	-
Administrative expenses	(17)	(17)	-	-
Employer contributions	4,043	3,095	21,404	19,866
Contributions by scheme participants	276	281	3,562	3,222
Benefits paid	(1,256)	(1,556)	(24,966)	(23,088)
Closing balance at 31 March	44,027	39,099	-	-

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the Balance Sheet date. Expected returns on equity investments reflect long term rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £1.883m (2014/15: gain of £4.161m). The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 is a gain of £0.163m (2014/15: gain of £0.199m).

Scheme history

	2015/16	2014/15	2013/14	2012/13	2011/12
	£000	£000	£000	£000	£000
Present value of liabilities:					
Local Government Pension Scheme (LGPS)	(49,267)	(50,503)	(41,224)	(46,193)	(38,157)
Firefighters Pension Scheme	(666,356)	(687,420)	(595,539)	(596,655)	(515,542)
Fair value of assets in LGPS	44,027	39,099	33,135	32,097	27,178
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(5,240)	(11,404)	(8,089)	(14,096)	(10,979)
Firefighters Pension Scheme	(666,356)	(687,420)	(595,539)	(596,655)	(515,542)
Total	(671,596)	(698,824)	(603,628)	(610,751)	(526,521)

The liabilities show the underlying commitments that the Authority has in the long-term to pay post employment benefits. The total liability of both schemes, £671.596m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £573.433m (2014/15: £608.744m). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

- The deficit on the Local Government Pensions scheme will be made good by additional contributions, as assessed by the scheme actuary, throughout the agreed deficit recovery period, which is currently set at 19 years. In addition, during 2014/15 and 2015/16 the Authority made additional payments of £2m and £3.2m respectively to offset the deficit, shown within the employer contributions of £3.095m and £4.043m in the table above and on page 44. This should reduce future deficit recovery payments after the next valuation.
- Finance is only required to be raised to cover fire fighter pensions when the pensions are actually paid.

Estimated contributions expected to be paid by the Authority into each scheme during the next financial year:

	Local Government Pension Scheme	Firefighters' Pension Scheme	Total
	£000	£000	£000
Estimated contributions	798	4,062	4,860

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Firefighters' Scheme and the Local Government Fund liabilities have been assessed by Mercer Resource Consulting Ltd, an independent firm of actuaries. Estimates for the LGPS are based on a full valuation as at 31 March 2016. Estimates for the Firefighters pension scheme are based on a 'roll forward approach' which updates the last full valuation on 31 March 2015, taking account of any significant changes since this.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.0	22.9	23.2	23.1
Women	25.6	25.4	25.8	25.6
Longevity at 65 for future pensioners:				
Men	25.2	25.1	25.7	25.6
Women	27.9	27.8	28.2	28.1
Rate of CPI inflation	2.00%	2.00%	2.00%	2.00%
Rate of increase in salaries	3.50%	3.70%	3.50%	3.70%
Rate of increase in pensions	2.00%	2.00%	2.00%	2.00%
Rate for discounting scheme liabilities	3.60%	3.30%	3.50%	3.20%
Take up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%

The Firefighters' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Quoted in active market	Assets at 31 March 2016		Assets at 31 March 2015	
		Fair Value £000	%	Fair Value £000	%
Equities	Y	15,132	34.4	13,458	34.4
Bonds	Y	1,782	4.0	1,770	4.5
Property	N	4,232	9.6	3,682	9.4
Cash/Liquidity	N	1,514	3.4	1,894	4.8
Other	N	21,367	48.5	18,295	46.8
		44,027	100.0	39,099	100.0

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2015/16 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2016:

Local Government Pensions Scheme (LGPS):	2015/16	2014/15	2013/14	2012/13 Restated	2011/12
	%	%	%	%	%
Experience Gains and losses on assets	1.3	6.9	(2.0)	8.9	(4.7)
Gains and losses on liabilities	(6.2)	14.9	(18.5)	11.8	-

Firefighters Pension Scheme:	2015/16	2014/15	2013/14	2012/13 Restated	2011/12
	%	%	%	%	%
Experience Gains and losses on assets	-	-	-	-	-
Gains and losses on liabilities	(4.8)	11.0	(3.3)	10.1	-

Total of LGPS and Fire Pension Schemes:	2015/16	2014/15	2013/14	2012/13 Restated	2011/12
	%	%	%	%	%
Experience Gains and losses on assets	1.3	6.9	(2.0)	8.9	(4.7)
Gains and losses on liabilities	(4.9)	11.2	(4.2)	10.2	-

16 Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statements, on pages 19 and 20.

	2015/16		2014/15	
	£000	£000	£000	£000
Revenue Reserves:				
General Fund		(10,186)		(10,664)
DFM Schemes	(414)		(457)	
Other Earmarked Reserves	(5,664)		(5,488)	
PFI Equalisation	(3,440)		(3,293)	
Total Earmarked Reserves		(9,518)		(9,238)
Total Revenue Reserves		(19,704)		(19,902)
Capital Reserves:				
Capital Funding Reserve		(10,284)		(10,605)
Capital Grants Unapplied		(2,479)		-
Usable Capital Receipts		(1,501)		(1,187)
Total Usable Reserves		(33,968)		(31,694)

17 Transfers (to)/from Earmarked Reserves

	Balance at 31.3.14	Transfers in 2014/15	Transfers out 2014/15	Balance at 31.3.15	Transfers in 2015/16	Transfers out 2015/16	Balance at 31.3.16
General fund	(10,482)	(182)	-	(10,664)	-	478	(10,186)
DFM Schemes	(731)	(9)	283	(457)	(11)	54	(414)
Other Earmarked Reserves	(4,952)	(1,016)	480	(5,488)	(1,286)	1,110	(5,664)
PFI Equalisation Accounts	(3,081)	(212)	-	(3,293)	(147)	-	(3,440)
Total Earmarked Reserves	(8,764)	(1,237)	763	(9,238)	(1,444)	1,164	(9,518)
Capital funding reserve	(9,240)	(1,365)	-	(10,605)	(232)	553	(10,284)
Capital grants unapplied	-	-	-	-	(2,479)	-	(2,479)
Usable capital receipts	(1,187)	-	-	(1,187)	(314)	-	(1,501)
Total Usable Reserves	(29,673)	(2,784)	763	(31,694)	(4,469)	2,195	(33,968)

18 Unusable Reserves

The total Unusable Reserves are shown in the Movement in Reserves Statement, and details of each reserve and the movements are shown in the following tables:

	2015/16 £000	2014/15 £000
Revaluation Reserve	(28,480)	(22,356)
Capital Adjustment Account	(37,868)	(36,358)
Pensions Reserve	671,596	698,824
Collection Fund Adjustment Account	(65)	(422)
Accumulated Absences Adjustment Account	761	750
Total Unusable Reserves	605,944	640,438

Revaluation Reserve

	2015/16 £000	2014/15 £000
Balance at 1 April	(22,356)	(21,470)
Upward revaluation of assets	(7,238)	(2,757)
Downward revaluation of assets and impairment losses not charged to Net cost of Services	122	952
Difference between fair value depreciation and historical cost depreciation	897	919
Amount written off to the Capital Adjustment Account	95	-
	(28,480)	(22,356)

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition under statutory provisions. The account is debited with the cost of acquisition as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition.

In addition, the account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

	2015/16		2014/15	
	£000	£000	£000	£000
Balance at 1 April		(36,358)		(34,768)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
• Charges for depreciation and impairment of non-current assets	2,210		2,393	
• Revaluation losses on Property, Plant & Equipment	431		539	
• Amortisation of intangible assets	134		132	
		2,775		3,064
Disposal of assets via the Comprehensive Income & Expenditure Statement		325		-
Adjusting amounts written out of the Revaluation Reserve		(95)		-
Net amount written out of the cost of non-current assets consumed in the year		3,005		3,064
Capital financing applied in the year:				
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(523)		(2,127)	
• Statutory provision for financing of capital investment charged against General Fund	(323)		(399)	
• Voluntary provision for financing of capital investment charged against General Fund	(162)		(1,885)	
• Use of capital reserves to fund expenditure	(552)		-	
• Use of earmarked reserves to fund expenditure	(105)		-	
• Capital expenditure charged to General Fund Balance	(2,850)		- (243)	
		(4,515)		(4,654)
Balance as at 31 March		(37,868)		(36,358)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The reserve relates to both the LGPS and Firefighters pension schemes, and the large negative value of the reserve reflects the unfunded nature of the Firefighters pension scheme.

	2015/16	2014/15
	£000	£000
Balance at 1 April	698,824	603,628
Actuarial (gains) or losses on pensions assets and liabilities	(35,461)	80,337
Reversal of items relating to retirement benefits debited or credited to Net Cost of Services in the Comprehensive Income & Expenditure Statement	22,096	27,092
Employers pension contributions and direct payments to pensioners payable in the year	(13,863)	(12,233)
	671,596	698,824

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund.

	Council Tax		Business Rates		Total	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000	£000	£000
Balance at 1 April	(682)	(255)	260	161	(422)	(93)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(110)	(427)	-	-	(110)	(427)
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	-	-	467	99	467	99
Balance at 31 March	(792)	(682)	727	260	(65)	(422)

Accumulated Absences Adjustment Account

The Accumulated Absences Adjustment Account manages the differences arising from the recognition of accrued employee costs in the Comprehensive Income and Expenditure Statement compared with the statutory arrangements for paying across amounts to the General Fund.

	2015/16	2014/15
	£000	£000
Balance at 1 April	750	832
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	11	(82)
Balance at 31 March	761	750

19 Contingent Liability

Municipal Mutual Insurance

Municipal Mutual Insurance provided insurance to Lancashire County Council until the company ceased to underwrite in 1992. A scheme of arrangement was entered into by MMI with its creditors under the terms of which claims relating to the period of insurance continue to be paid out but, if a trigger point is reached where MMI has insufficient assets to pay remaining claims, a clawback of a proportion of claims paid since 30 September 1993 could occur to cover the outstanding claims. During the period in question, fire and rescue services were provided as part of Lancashire County Council, prior to the creation of Lancashire Combined Fire Authority as an independent body from 1 April 1998.

The position of the company has been reviewed on an ongoing basis to ascertain the likelihood of the trigger point being reached. Up until the Annual Reports & Accounts of the Company for the year ended 30 June 2011, the Directors of MMI were hopeful of achieving a solvent run-off of the Company with all claims costs (past or future) being met in full by MMI providing they received a successful Supreme Court judgement in early 2012. However, following the loss of the appeal in the Supreme Court, a solvent run-off became no longer likely, and the scheme of arrangement was triggered by the Directors on 13 November 2012.

However, it is currently unclear whether Lancashire Combined Fire Authority accepted liability for any future costs associated with insurance claims on disaggregation, and hence would potentially be liable for a share of the clawback, nor is it possible to estimate the amount of this contingent liability, therefore nothing has been included in the accounts.

Norman v Cheshire Fire & Rescue Service

As a result of the “Norman vs Cheshire” case there is a possibility that some allowances paid to staff working certain duty systems maybe pensionable. It is not yet clear if this ruling applies to our staff, nor how the calculation would be made, however there is a potential cost which may arise in the future if it is found that this ruling does apply. No allowance has been made in the accounts for this potential cost.

Firefighters Pension Scheme Contributions Holiday

Following a recent challenge, the Department for Communities and Local Government (DCLG) have agreed that members of the firefighter 1992 pension scheme employed before age 20 who served over 30 years before reaching the age of 50 may receive a refund of contributions. The guidance on how to calculate this will be published following the completion of a consultation during Summer 2016, with amendments to the relevant pensions regulations expected in Autumn 2016. It is anticipated that these additional costs to the Firefighters Pension Scheme will be met by additional government grant, meaning there is no overall cost to the Authority. On this basis, therefore, we are unable to include an estimate of the costs within the Fire-Fighters Pension Fund Statement.

Firefighters Pension Scheme Transitional protection arrangements

In July 2015, the FBU launched a collective legal challenge against the Government over the transitional protections under the new pension arrangements, which came into force on 1st April 2015. Their claim relates to alleged age, sex and race discrimination and possible equal pay complaints. Although there is presently no indication that this claim will be successful, the Firefighters Pension Scheme would meet any additional costs, rather than them being an additional cost to the Authority.

20 Post Balance Sheet Events

As at the date the Treasurer signed the accounts, 29 June 2016, there were no post balance sheet events to report.

21 Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

Risk management is carried out by Lancashire County Council's Treasury Management Team, under policies approved by the Authority in the annual Treasury Management Strategy. The strategy provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which states that any investment counterparty must have a minimum actual or implied credit rating of AA- in order to be eligible. The Authority will also have regard to recent banking reform legislation which provides for creditor 'bail-in' rather than state 'bail-out' of banks should the bank fail. The effect of this legislation is that a local authority is likely to lose a higher proportion of any assets caught up in a credit event than almost any other type of institution. Credit risk control therefore means that unsecured bank deposits are, unless for very short duration, not suitable as an investment instrument in the future.

In the context of credit risk, trade debtors are treated as financial instruments.

Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.032m of the £0.080m balance is past due date for payment. On a prudent basis the Authority has created a provision for bad debts to cover any potential loss arising from this, which currently stands at £0.025m and which is considered sufficient for this purpose.

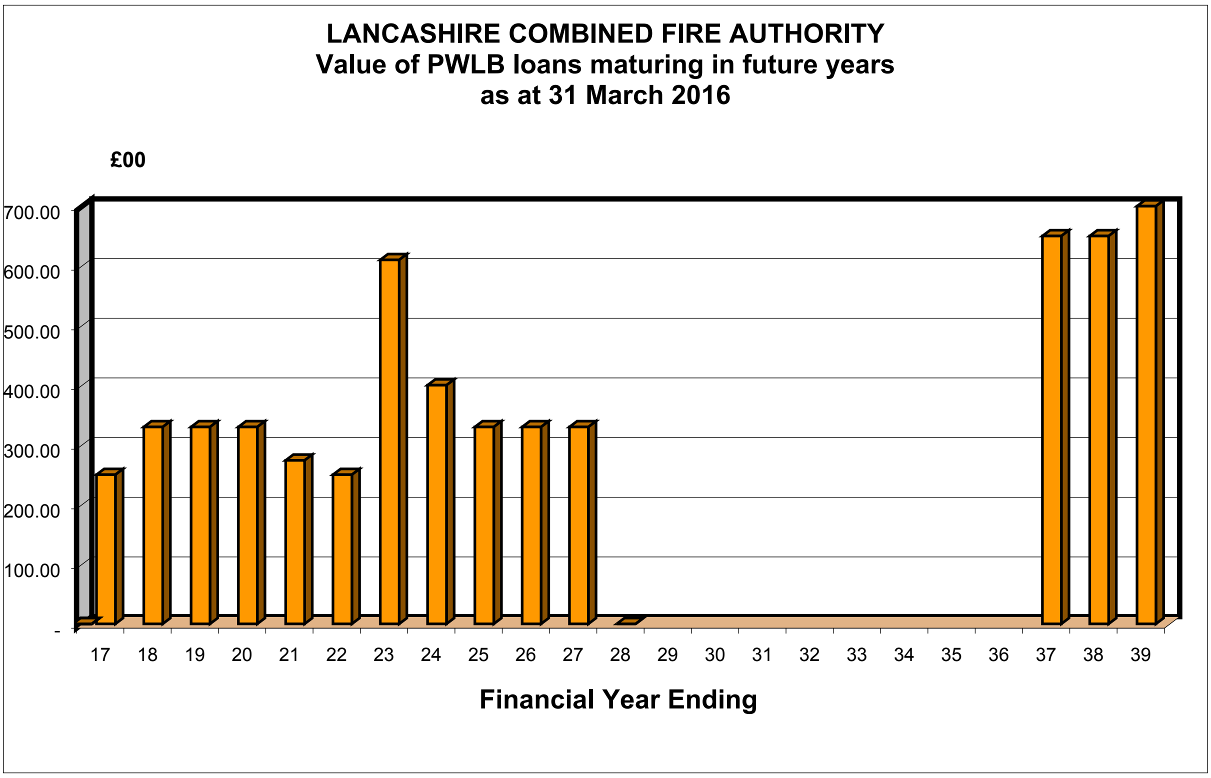
The past due amount can be analysed by age as follows:

	2015/16 £000	2014/15 £000
0 to 30 days	48	80
31 to 60 days	4	57
61 to 90 days	2	2
91 to 180 days	10	-
Over 180 days	16	6
	80	145

Liquidity Risk

The Authority has a comprehensive cash flow management system (administered by Lancashire County Council's Treasury Management Team) that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from Lancashire County Council at current market rates. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. In managing our financial liabilities, we seek to achieve a maturity pattern of our borrowings which will ensure that there are no heavy concentrations of maturities in any one year.

The maturity profile of our debt is shown in the table below. This illustrates the spread of maturities into the future and how we have avoided the need for too much debt to be replaced in any one year.



Market risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rate movements would have the following effects:

- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall

- Investments at variable rates – the interest income credited to the deficit on the provision of services will rise

We hold fixed rate financial liabilities (borrowings) and variable rate financial assets (investments).

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate loans would not impact on the Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Instead, the effect of changes in market interest rates is to change the fair value of the liabilities reported in the notes to the balance sheet. Fair values represent the amount due if debt is repaid before its maturity date. When the loans finally mature, they will be repayable at their nominal values.

Our financial assets are the cash deposits placed in a call account with Lancashire County Council. Interest received on them is linked to the base rate. Each working day the balance on the Authority's Call Account is invested to ensure that the interest received on surplus balances is maximised. The average balance within this account throughout the year was £33.1 million and, with no change in that level of balances, a 1% increase in the market rate of interest, if sustained over the whole year would give rise to additional interest earned of £331,000 and a 1% fall would give a reduction of the same amount.

22 Local Authority Controlled Company – NW Fire Control Limited

NW Fire Control Limited is a company limited by guarantee with the responsibility for Fire and Rescue Service mobilisation for the North West region. The Company has four members which are Cheshire, Cumbria, Greater Manchester and Lancashire Fire & Rescue Authorities (FRAs). The liability of each member in the event of the company being wound up is limited and shall not exceed £1. Each member of the company has the right to appoint 2 directors, who are Councillors appointed to their respective FRAs. All directors have equal voting rights.

During May 2014 all four services transferred their Control Room functions into the regionalised service provided by NW Fire Control Ltd. The cost of the service is charged out to the four FRAs on an agreed pro rata basis agreed by a Service Level Agreement. The implementation phase continued to be funded by a section 31 grant from the Department for Communities and Local Government plus an ongoing grant to fund 66% of the lease costs for the building. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required. There have also been contributions to the project from the four fire authorities.

A detailed assessment for Group Accounting requirements has taken place during 2015/16 in respect of NW Fire Control Ltd. This is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

It has been determined that the company is governed by Joint Control due to the fact that unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement.

However on the basis of materiality it has been determined that Group Accounts are not required for the financial year 2015/16 having considered both qualitative and quantitative factors, including the following:

- The 25% share of assets, liabilities, income and expenditure are not material against the balances of LFRS
- Exclusion of the values would not affect the true and fair concept of the financial statements
- The joint control centre was set up to generate savings for the FRAs not because they could not provide the service.
- There are no concerns regarding commercial risk
- No assets have been transferred from the FRAs to NW Fire Control Ltd
- The inclusion of Company figures into Group Accounting would not add value to the reader of the Statement of Accounts

Below shows the key Information from the Draft Financial Statements of NW Fire Control Ltd:

Key Information	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Total assets less Current Liabilities	239	217
Net assets*	(822)	(2,202)
(Loss)/Profits Before Taxation	(240)	2
(Loss) After Taxation	(246)	(5)
Debtor Balance (LFRS)	278	-
Creditor Balance (LFRS)	-	11
Invoices raised by NW Fire Control to LFRS	1,050	755
Invoices raised by LFRS to NW Fire Control	34	62

*Net assets includes the future pension liabilities under FRS17 reported by the Cheshire Pension Fund actuaries.
All figures are shown net of VAT.
Invoices are raised quarterly in advance for the service to the Fire Authorities, the advance invoices in respect of Quarter 1 2016/17 are included in the above figures.
Transactions between LFRS and NW Fire Control Ltd include Invoices Raised by NW Fire Control to LFRS for the Control Room service and use of facilities in the building.
Invoices raised by LFRS to NW Fire Control Ltd include charges for staff seconded to NW Fire Control.
The Company's Financial Statements can be obtained from Companies House with the deadline for submission as 31/12/2016 for the final audited 2015/16 accounts.

23 Adjust net surplus/(deficit) on the provision of services for non cash movements

	2015/16	2014/15
	£000	£000
Depreciation	3,107	3,312
Impairment & downwards valuations	431	539
Amortisation	134	132
Increase/(decrease) in provisions	228	471
Increase/(decrease) in creditors	391	(1,170)
(Increase)/decrease in debtors	507	(873)
(Increase)/decrease in stock	34	46
Movement in pension liability	8,233	14,859
Net book value of fixed assets sold	325	-
	13,390	17,315

24 Adjust for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities

	2015/16	2014/15
	£000	£000
Interest received	136	129
Interest paid	(1,635)	(1,669)

Interest paid includes interest payments in respect of both finance leases and PFI schemes (see accounting policy note 1, sections p and r)

25 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the Financial Statements. In particular:

- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to Fire fighting and Fire Safety.

The income and expenditure of the Authority's principal cost area - fire fighting and fire safety recorded in the budget reports for the year is as follows:

	Fire Fighting and Fire Safety Analysis	
	2015/16	2014/15
	£000	£000
Fees, charges & other service income	(4,405)	(4,550)
Interest and investment income	(16)	(21)
Employee expenses	32,291	35,762
Other service expenses	5,370	5,584
Interest payable	1,420	1,434
Capital charges	187	244
Transfer to/(from) reserves	144	(138)
Total expenditure	39,413	42,885
Net expenditure	34,992	38,314

Reconciliation of Fire Fighting and Fire Safety Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of fire fighting and fire safety income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2015/16	2014/15
	£000	£000
Net expenditure in the Fire Fighting and Fire Safety Analysis	34,992	38,314
Net expenditure of support services not included in the Analysis	(34,515)	(38,496)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	5,588	12,404
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(351)	(465)
Cost of Services in the Comprehensive Income and Expenditure Statement	**5,714**	**11,757**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of fire fighting and fire safety income and expenditure relate to a subjective analysis of the (Surplus)/Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

					2015/16
	Fire fighting and fire safety Analysis £000	Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Total £000
Fees, charges and other service income	(4,405)	(12)	-	-	(4,417)
Interest and investment income	(16)	(351)	-	-	(367)
Income from council tax	-	(27,541)	357	-	(27,184)
Government grants	-	(29,429)	(3,002)	-	(32,431)
Total Income	(4,421)	(57,333)	(2,645)	-	(64,399)
Employee expenses	32,291	10,319	8,233	-	50,843
Other service expenses	5,370	8,524	-	-	13,894
Depreciation, amortisation and impairment	-	3,672	-	-	3,672
Interest payments	1,420	284	-	-	1,704
Mitigation of depreciation, amortisation and impairment	-	(3,588)	-	3,588	-
Capital charges	187	3,148	-	(3,335)	-
Transfers to/(from) reserves	144	460	-	(604)	-
Total Expenditure	39,413	22,818	8,233	(351)	70,113
Surplus on the provision of services	34,992	(34,515)	5,588	(351)	5,714

2014/15

	Fire fighting and fire safety Analysis £000	Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Total £000
Fees, charges and other service income	(4,550)	454	-	-	(4,096)
Interest and investment income	(21)	(351)	-	-	(372)
Income from council tax	-	(25,931)	(328)	-	(26,260)
Government grants	-	(32,405)	(2,127)	-	(34,532)
Total Income	(4,571)	(58,233)	(2,455)	-	(65,260)
Employee expenses	35,762	7,307	14,859	-	57,927
Other service expenses	5,584	7,785	-	-	13,369
Depreciation, amortisation and impairment	-	3,983	-	-	3,983
Interest payments	1,434	304	-	-	1,738
Mitigation of depreciation, amortisation and impairment	-	(3,983)	-	3,983	-
Capital charges	244	3,648	-	(3,892)	-
Transfers to/(from) reserves	(138)	694	-	(556)	-
Total Expenditure	42,885	19,737	14,859	(465)	77,017
Surplus on the provision of services	38,314	(38,496)	12,404	(465)	11,757

26 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.1m for every year that useful lives had to be reduced.
Fair Value Measurements	When the fair values of financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using the Discounted Cash Flow (DCF) model.	The Authority uses the DCF model to measure the fair value of its PFI liabilities. Fair value is calculated using the bond yield rates against the annual net cash flows. It is estimated that a 1% decrease in the discount rate would increase the fair value by £1.5m.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured as follows: A 0.1% increase in these assumptions has the following effect on the net pension liability: • Discount rate – decrease of £13.3m • Inflation rate – increase of £13.6m • Pay growth – increase of £3.1m A 1 year increase in life expectancy will increase the net pension liability by £14.8m.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

FIREFIGHTERS' PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

Fund Account	2015/16 Total £000	2014/15 Total £000
Income to the fund		
Contributions receivable:		
- from employer		
- normal contributions	(4,086)	(4,478)
- other contributions	(186)	(203)
- from members	(3,594)	(3,216)
Transfers in:		
- individual transfers from other schemes	(17)	-
Total Income to the Fund	**(7,883)**	**(7,897)**
Spending by the fund		
Benefits payable:		
- Pension payments	17,492	16,535
- Commutations of pensions and lump-sum retirement benefits	6,634	4,721
Transfers out:		
- individual transfers out to other schemes	197	1,256
Total Spending by the fund	**24,323**	**22,512**
Net amount receivable for the year before top up grant receivable from central government	**16,440**	**14,615**
Top up grant receivable from central government	(16,440)	(14,615)
Net amount receivable for the year	**-**	**-**

Net Assets Statement	2015/16 £000	2014/15 £000
Net current assets and liabilities:		
- pensions top up grant receivable from central government	(3,377)	(4,752)
- other current assets and liabilities (other than liabilities and other than benefits in the future)	3,377	4,752
Net current assets at the end of the year	**-**	**-**

Firefighters Pension Fund Notes

The four firefighters pension schemes (1992 scheme, 2006 scheme, special members of the 2006 scheme and 2015 scheme) are unfunded defined benefits schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet the actual pension payments as they fall due. The Authority makes employers contributions into the schemes and the balance of funding required after pension payments are made is received from central government.

The above statement shows the financial position of the total fire fighters pension fund account, showing that as at 31 March 2016 the Authority is owed £3.377m (2014/15: £4.752m) by the CLG in order to balance the account. The fund statements do not take account of liabilities after the period end, the Authority's long term pension obligations can be found in the Authority's main statements, and also note 15 to the accounts. The fund was established under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The statement was prepared according to International Financial Reporting Standards (IFRS).

The note has been prepared in line with general accounting policies set in Note 1 – accounting policies, in particular section f.

<u>Contribution Rates</u>
Under the firefighters pension regulations the contribution rates during 2015/16 were as follows:

- for the 1992 scheme were circa 35.9% on average of pensionable pay (21.7% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2006 scheme were circa 22.3% on average of pensionable pay (11.9% for employers and between 9.4% and 10.9% for employees dependent on salary)
- for special members of the 2006 scheme were circa 35.9% of pensionable pay (21.7% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2015 scheme were circa 26.5% on average of pensionable pay (14.3% for employers and between 10% and 14.5% for employees dependent on salary)

These contribution levels are set nationally by the CLG, and are subject to triennial revaluations by the Government Actuary's Department. One ill health retirement was recognised during 2015/16, and five in 2014/15.

<u>Benefits Paid</u>
Pensions are paid to retired officers, their survivors and others who are eligible for benefits under new and existing pension schemes.

<u>Communities and Local Government (CLG) Grant</u>
There are no investment assets and the fund is balanced to zero each year by receipt of a top up grant from the CLG, if contributions are insufficient to meet the cost of pension payments, or by paying over any surplus grant.

<u>Future Liabilities</u>
The firefighters pension fund financial statements do not take account of liabilities to pay pensions and other benefits after the period end, however details of the firefighters pension fund long term pension obligations are recognised in the Authorities financial statements, details can be found in note 15.

GLOSSARY OF TERMS

Accrual
A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the Balance Sheet date.

Amortised cost
Amortised cost is a valuation basis for financial instruments that, in the case of this Authority's assets and liabilities, is equal to their nominal value plus any interest accrued to the balance sheet date.

Budget
A statement which reflects the Authority's policies in financial terms and which quantifies its plans for spending over a specified period. The Revenue Budget (i.e. spending other than capital expenditure) is normally finalised and approved in January prior to the commencement of the financial year.

Capital Expenditure
Payments made for the acquisition or provision of assets which will be of relatively long-term value to the Authority e.g. land, buildings and equipment. Also referred to as capital spending, capital outlay, or capital payments. The resulting capital assets are referred to as "fixed assets".

Capital Receipts
Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e. to repay existing loan debt, or to finance new capital expenditure in proportions determined by the Government. Any receipts which have not yet been utilised as described are referred to as "capital receipts unapplied".

Comprehensive Income & Expenditure Statement
An account which records an authority's day to day expenditure and income on items such as salaries and wages, running costs of services and the financing charges in respect of capital expenditure.

Creditors
Amounts owed by the Authority for work done, goods received, or services rendered but for which payment had not been made at the date of the Balance Sheet.

Debtors
Sums of money due to the Authority in the relevant financial year but not received at the Balance Sheet date.

Fair Value
Fair value is a valuation basis for financial instruments that represents the amount at which the instruments could be exchanged in an open market transaction. If no market for a specific instrument exists, fair value can be estimated by a technique that is based on a comparison of the interest rate on the instrument with interest rates on similar instruments that are available in financial markets.

Financial Instrument
A financial liability or asset such as a borrowing or an investment.

Financial Year
The period of twelve months for which the accounts are comprised. For Fire Authorities the financial year (or accounting period as it is also known) commences on 1 April and finishes on the 31 March of the following year.

Financing Charges
Annual charges to the Authority's Comprehensive Income and Expenditure Statement to cover the interest on and the repayment of, loans raised for capital expenditure. Annual lease rental payments are also included.

Premiums and Discounts
Premiums are payable and discounts receivable when loans are repaid to the Public Works Loan Board (PWLB) in advance of their contracted maturity date. The premium or discount is calculated with reference to the interest rate on the loan being repaid and the interest rate for similar new loans on the repayment date.

Public Works Loan Board (PWLB)
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Revenue Contribution to Capital Outlay
The financing of capital expenditure by a direct contribution from revenue account, rather than by means of loan or other forms of finance.

Revenue Expenditure
The day-to-day expenditure of the Authority, which is charged to the Comprehensive Income & Expenditure Statement, comprising mainly salaries and wages, running costs, and financing charges.

Appendix 2

The Audit Findings
for Lancashire Combined Fire Authority

Year ended 31 March 2016

September 2016

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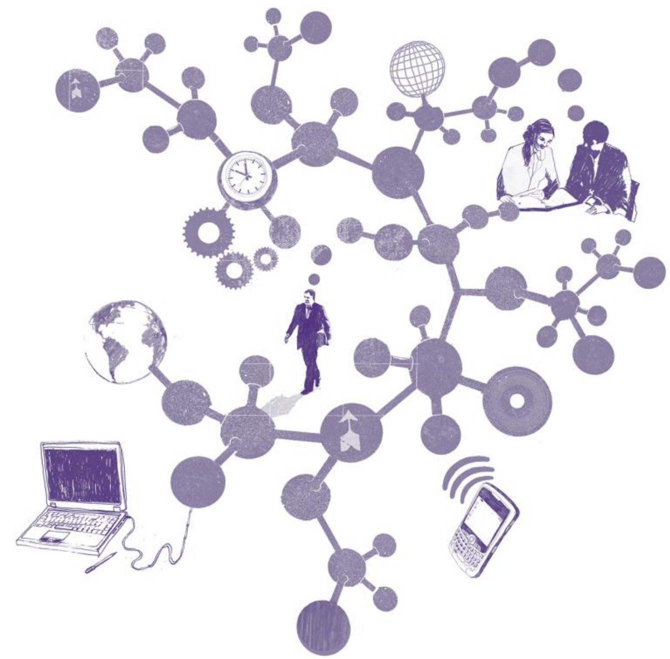

Grant Thornton

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29 September 2016

Dear Members of the Audit Committee

Audit Findings for Lancashire Combined Fire Authority for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Lancashire Combined Fire Authority, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Karen Murray

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4. Fees, non-audit services and independence	24
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Appendix

A Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Lancashire Combined Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 31 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Authority's reported general fund balance. However, the draft financial statements for the year ended 31 March 2016 recorded net expenditure of £48,658k at the net cost of services; the audited financial statements show net expenditure of £41,963k. This change is primarily driven by changes made to the classification of pension costs incorrectly classified as non distributed costs. We have also agreed a number of adjustments to improve the presentation of and disclosure in the financial statements.

The key message arising from our audit of the Authority's financial statements is that overall the accounts prepared were of good quality which were supported by high quality working papers.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act

The way forward

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £970k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £48k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we would expect the disclosures in the accounts to be correct. These remain the same as reported in our audit plan

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Combined Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	• review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Valuation of pension fund net liability** The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Review of the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in respect of the pension fund liability. Within non distributed costs there was an element of the pension valuation which related to a change in valuation rather than an amendment to the scheme. This has been amended within the classification within the Comprehensive Income and Expenditure Statement and has no overall effect on the general fund balance.
4.	**Valuation of property, plant and equipment** The Authority revalues its property assets on a rolling basis over a five year period. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	• Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Confirming the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	Upon review of the assets which had been revalued in the year it was identified that there had been a significant change in the value of your asset base. Management reviewed the assets that had not been valued in the year, and following discussions with your valuer agreed a percentage indexation to apply to the rest of your assets. This has been amended in the accounts.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Reconciled your payroll costs to the general ledger • Undertaken a trend analysis to identify if there are any variances which needed further explanation • Tested a sample of payments made to employees	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Tested a sample of payments made in the year • Tested new year payments to confirm they have been included in the correct financial year.	Our audit work has not identified any significant issues in relation to the risk identified
Firefighters Pensions Benefit Payments	Benefits improperly computed/ claims liability understated Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Tested a sample of benefits coming into payment to confirm correctly calculated.	Our audit work has not identified any significant issues in relation to the risk identified

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Authority's policy for revenue recognition is as follows: • Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular: • Where income and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.	The policy is disclosed in line with the requirements of the CIPFA code. Our testing of income found that the Council recognises income in line with its accounting policy.	●
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions	We have reviewed the estimates and judgements made in the accounts with no matters arising.	●

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Corporate Services, as151 officer has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	●
Other accounting policies		We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years.	●

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Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Authority.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your bank and to confirm your investments. This permission was granted and the requests were sent. These requests were returned with positive confirmation.
6.	**Disclosures**	• Our review found no material omissions in the financial statements

Other communication requirements continued

	Issue	Commentary
7.	**Matters on which we report by exception**	We have not identified any issues we would be required to report by exception in the following areas • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Authority acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. We do not have to undertake any detailed work as the Authority does not exceed the threshold.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out above.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on General Fund £000
1	Within non distributed costs there was an element of the pension valuation related to a change in valuation rather than an amendment to the scheme. This is an amendment to the classification within the Comprehensive Income and Expenditure Statement and has no overall effect on the general fund balance.	6,695	0	0
2	In line with the CIPFA code, management need to review the value of the property plant and equipment on a regular basis. Upon review of the assets which had been revalued in the year it was identified that there had been a significant change in the value of your property assets Management reviewed the assets that had not been valued in the year, and following discussions with your valuer agreed a percentage indexation to apply to the rest of your assets. This has been amended in the accounts.	0	1,457	0
	Overall impact	**0**	**0**	**0**

Misclassifications 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Amendment to the fair value	6,913	Note 8 financial instruments	The method by which fair value can be calculated has changed in the 2015/16 CIPFA Code. The Authority have amended their disclosure to comply with the Code. This is a change to the fair value disclosure in the accounts only.

Section 3: Value for Money

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01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified no significant risks. We communicated this to you in our Audit Plan dated 31 March 2016.

We considered risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the identifying whether there were any significant risks to our VfM that we identified in the Authority's arrangements. We reported to you in our audit plan that we had identified no risks at that stage.

We ensured that we updated our review of your arrangements to ensure that there were no additional risks identified

Our work included reviewing key documents and discussing issues with your officers.

Informed decision making

You have sound arrangements in place to support your decision making. Budget information is taken to the Authority on an annual basis. The reporting and the updating of the medium term financial plan means that the Authority is maintaining a sound financial position.

The Authority's risk management process includes the regular reporting of the risk register to the Audit Committee. The register is well developed and kept up to date with the key strategic risks to the Authority, considered and updated regularly. Changes in risks are clearly explained to members and scrutinised by the Audit Committee.

The risk register considers the key risks to, mitigations and actions by the Authority around staff and appliance deployment.

Resource deployment

The Authority recognises the importance of staff as its key resource. It has recently refreshed its workforce strategy and reported this to the Authority. As a result, there has been planned recruitment of firefighters. Efforts continue to support and recruit retained firefighters.

In setting the 2016/17 budget, decisions were made based on the best estimates of the likely funding settlement. The budget was then updated once the final settlement was confirmed. This revised budget identified that the net budget position is £27.6m which is an improvement of circa £1.1m on the position that had originally been forecast by the Authority. This provides the Authority with greater financial resilience as it seeks to deliver savings across the service.

Working with partners

The Authority has a good track record of working with partners and has continued this in 2015/16. The Authority understands those areas where it can best deliver in partnership with other organisations. Key relationships include the Prince's Trust and other "blue light" services. The Authority has been proactive in piloting both co-responding and shared premises with North West Ambulance Service with the aim of maintaining public safety and reducing costs.

The Authority is also a key partner in the control centre with Greater Manchester, Cheshire and Cumbria Fire services. This is now fully operational and provides a control function across the north west footprint.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Authority audit	30,739	30,739
Total audit fees (excluding VAT)	**30,739**	**30,739**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix

Appendix B: Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COMBINED FIRE AUTHORITY

We have audited the financial statements of Lancashire Combined Fire Authority (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer's is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer's; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
we issue a report in the public interest under section 24 of the Act; or
we make a written recommendation to the Authority under section 24 of the Act; or
we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Karen Murray

Karen Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

29 September 2016

Grant Thornton

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LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 28 September 2016

FINANCIAL MONITORING 2016/17
(Appendices 1 and 2 refer)

Contact for further information:
Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

The report sets out the current budget position in respect of the 2016/17 revenue and capital budgets and performance against savings targets.

Recommendation

The Committee is requested to:

- Endorse the creation of up to an additional four Emergency Services Mobile Communications Project (ESMSP) roles within the Information Technology department budget
- Note the financial position.

Information

Revenue Budget
The overall position as at the end of August shows an under spend of £0.933m. We continue to monitor variances for emerging savings opportunities which may be reflected in the forthcoming budget setting process. We are currently working on year end forecasts, these will be reported to the next meeting in November.

The position within individual departments is set out in Appendix 1, with major variances relating to non-pay spend and variances on the pay budget being shown separately in the table below: -

Area	Overspend/ (Under spend)	Reason
	£'000	
Fleet & Technical Services	32	The overspend relates to the timing of committed spend against breathing apparatus, operational equipment and breathing apparatus, as goods and services are ordered for delivery later in the financial year, and hydrant repair commitments.
Property	(157)	The underspend relates to spend against planned repairs and maintenance as property department capacity is almost fully occupied with the working on the current capital projects. It is likely that this will result in a similar level of underspend by year end which will be reported in November.

IT	28	The current overspend predominantly relates to the timing of annual software licences paid during the first part of the year, which will reduce as the year continues. In addition, the national Emergency Services Mobile Communications Project (ESMCP) to replace the Airwave mobilising radio system is now underway, and as such LFRS has been allocated government funding to create up to 4 fixed term project roles to facilitate our transition to the replacement system in due course. The Committee is asked to endorse the creation of these posts for this purpose.
Service Delivery	(98)	The underspend reflects the continued reductions in spending across many budget headings, for which next year's budget will be adjusted, and the single most significant element of which is the ongoing underspend on smoke detectors as the new Home Fire Safety Check process continues to be embedded within the service.
Pay	(648)	In terms of the underspend to date, this is broken down as follows: • Wholetime pay (£278k underspend) relates to a combination of the timing of costs of ad hoc payments such as overtime and public holidays, which will be monitored closely for the rest of the financial year. and the differences between the expected staffing numbers versus the actual staff in post. In addition, following retirements to the end of August and 5 personnel leaving without accruing full pension benefits, there are 20 vacant posts which will continue to create underspends until the Lancaster wholetime pump is removed on 1 October. The wholetime budget allows for the recruitment of up to 30 staff in the second half of the year, to make up the anticipated shortfall in staff as retirements continue. This recruitment exercise has been open to existing Retained Duty System (RDS) staff only. • Retained pay (£220k underspend) relates to vacant hours of cover across many fire stations, plus timing of spend for retained training courses scheduled for later in the financial year. The current Wholetime recruitment could potentially create further reductions in hours of cover dependent on the number of RDS appointed and their subsequent ability to carry out dual roles.

		Note the Retained pay budget also includes an additional £600k in relation to the Strengthening and Improving RDS project, which is phased in at the end of the year pending identification and approval of specific requirements in due course. • Support staff pay (£150k underspend) relates to various vacant posts, for which recruitment is currently underway, including posts relating to the additional £100k budget added into ICT to create additional capacity.

Capital Budget
The Capital Programme for 2016/17 stands at £8.063m as approved at the last Resources Committee.

A review of the programme has been undertaken to identify progress against the schemes as set out below: -

	Committed spend to Aug 16 £m	
Pumping Appliances	0.964	Committed spend to date relates to the purchase of 5 pumping appliances for the 2016/17 programme, which have been ordered and are currently in build, we anticipate will be delivered by March 2017.
Other vehicles	0.130	Committed spend to date relates to various support vehicles from the 2015/16 and 2016/17 capital programmes which have either been delivered or have been ordered. The balance of the budget relates to:- • the remaining planned support vehicles replacements, which are being reviewed prior to replacement; • the replacement of 2 driver training vehicles (DTVs) for which specification options are currently being considered.
Operational Equipment/Future Firefighting	0.118	This £1m budget was set aside to meet the costs of innovations in firefighting equipment, and the spend to date reflects the purchase of an Unmanned Aerial Vehicle (UAV) or drone, which is now operational, and the costs of trialling a new vehicle type to use as a water tower. In addition, the initial purchase costs of flood suits will shortly be charged against this budget.

Building Modifications	1.527	The majority of committed spend to date relates to the purchase of the property adjacent to Lancaster fire station in order to facilitate the redevelopment of the site. The balance of the budget relates to:- • the remainder of the budget for the provision of a replacement for Lancaster Fire Station, incorporating a joint Fire & Ambulance facility, following the purchase of the adjacent site, we are expecting tender responses back during October; • completion of the remaining items of capital works at the Training Centre site in order to make the site fit for purpose for the next five years, in addition the budget allows for the relocation of the Fleet workshop to Training Centre.
IT systems	0.012	Committed spend to date relates to the final stages of the phased implementation of the replacement asset management system begun during the last financial year. The balance of the budget relates to:- • Initial costs of the national Emergency Services Mobile Communications Project (ESMCP) to replace the Airwave wide area radio system – with further budgetary provision included in the 2017/18 draft capital programme; • the replacement of the wide area network (WAN) to allow a solution to be in place when current service contracts are due to end during 2017/18; • The replacement of various systems, in line with the ICT asset management plan, however these are reviewed prior to starting the replacement process. •

Appendix 2 sets out the capital programme and the expenditure position against this, as reflected above. The costs to date will be met largely by revenue contributions, with capital grant funding the costs to date of Lancaster Redevelopment.

Delivery against savings targets

The following table sets out the savings targets identified during the budget setting process, hence removed from the 2016/17 budget, and performance to date against this target: -

	Annual Target	Target at end of Aug	Savings at end of Aug
	£m	£m	£m
Staffing, including Emergency Cover Review outcomes, Prevention & Protection Review outcomes, functional saving reviews plus management of vacancies	1.512	0.431	1.080
Reduction in capital financing charges	0.284	0.118	0.118
Reduction in service delivery non pay budgets including the smoke detector budgets	0.145	0.060	0.129
Removal of the contribution to Greater Manchester FRS in respect of their Urban Search And Rescue team	0.122	0.051	0.051
Reduction in Fleet repairs and maintenance and fuel budgets	0.068	0.029	(0.007)
Reduction in Property repairs and maintenance and utilities budgets	0.034	0.014	0.155
Procurement savings (these are savings on contract renewals, such as waste collection and stationery contracts)	-	-	0.065
Balance – cash limiting previously underspent non pay budgets	0.337	0.140	0.140
Total	2.502	0.844	1.730

The performance to date is ahead of target, a combination of the underspend on salaries for the first five months, plus savings in respect of procurement activities during the same period. It is anticipated that we will meet our efficiency target for the financial year.

Financial Implications

As outlined in the report

Business Risk Implications

None

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**
None		
Reason for inclusion in Part II, if appropriate:		

BUDGET MONITORING STATEMENT

Aug 2016

DFM Expenditure	**Total Budget** £000	**Budgeted Spend to Aug 2016** £000	**Actual Spend to Aug 2016** £000	**Variance O/Spend (U/Spend)** £000	**Variance Pay** £000	**Variance Non-Pay** £000
Training & Operational Review	3,227	1,301	1,242	(60)	(26)	(34)
Fleet & Technical Services	2,362	1,130	1,166	36	3	32
Executive Board	1,000	418	422	3	3	-
Corporate Communications	284	127	113	(13)	2	(15)
Human Resources	501	228	220	(8)	(2)	(6)
Occupational Health Unit	234	92	72	(20)	16	(36)
Central Admin Office	427	177	167	(10)	(13)	3
Finance	142	60	58	(1)	(1)	-
Procurement	743	293	280	(12)	(17)	5
Property	1,419	629	472	(157)	-	(157)
Safety Health & Environment	157	65	69	4	4	-
Prince's Trust Volunteers Scheme	-	62	75	13	-	13
Service Development	3,769	1,635	1,561	(74)	(33)	(42)
Control	1,092	546	546	-	-	-
Information Technology	2,264	923	910	(13)	(41)	28
Service Delivery	32,004	13,601	12,958	(643)	(546)	(98)
External Funding	-	15	17	2	-	2
Special Projects	6	3	6	4	1	2
TOTAL DFM EXPENDITURE	49,632	21,305	20,355	(950)	(649)	(301)
Non DFM Expenditure						
Pensions Expenditure	1,257	621	612	(9)	-	(9)
Other Non-DFM Expenditure	4,722	1,007	1,032	26	1	25
NON-DFM EXPENDITURE	5,980	1,628	1,644	17	1	16
TOTAL BUDGET	55,611	22,933	21,999	(933)	(648)	(285)

APPENDIX 2

CAPITAL BUDGET 2016/17	Revised Programme	Projected to Date	Actual Expenditure	Variance to Date
Vehicles				
Pumping Appliance	0.950	0.950	0.964	0.014
Other Vehicles	0.550	0.150	0.130	(0.020)
	1.500	1.100	1.094	(0.006)
Operational Equipment				
Operational Equipment	1.000	0.120	0.118	(0.002)
	1.000	0.120	0.118	(0.002)
Buildings Modifications				
STC Redevelopment	0.852	0.000	(0.000)	(0.000)
Day Crewing Plus	0.008	0.008	0.008	0.000
Lancaster Replacement	3.692	1.495	1.493	(0.002)
Other works	0.308	0.025	0.025	0.000
	4.860	1.528	1.527	(0.001)
ICT				
IT Systems	0.703	0.013	0.012	(0.001)
	0.703	0.013	0.012	(0.001)
Total Capital Requirement	**8.063**	**2.762**	**2.751**	**(0.011)**
Funding				
Capital Grant	2.640	1.495	1.493	(0.002)
Revenue Contributions	2.770	1.267	1.258	(0.009)
Earmarked Reserves	0.200	0.000	0.000	0.000
Capital Reserves	2.453	0.000	0.000	0.000
Total Capital Funding	**8.063**	**2.762**	**2.751**	**(0.011)**

LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE
Meeting to be held on 28 September 2016

SELF SUFFICIENT LOCAL GOVERNMENT: 100% BUSINESS RATES RETENTION

Contact for further information:
Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

The Government has previously announced its proposals to move to 100% retention of local business rates. In line with this principle it has now published a consultation document seeking views as to how a new system might work.

At the same time it has also published a second consultation document "Fair Funding Review: Call for Evidence on Needs and Redistribution"

Both consultations include very detailed questions as to how a system should work and the majority of questions are not of particular relevance to ourselves. However the key question from Fire Authority perspective is "Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?"

The consultation closes on 26 September; hence a response has been agreed with the Chairman and Vice-Chairman of Resources Committee, as set out below.

Recommendation

The Committee is asked to note the report, and endorse the response to the consultation document agreed by the Chairman and Vice-Chairman of Resources.

Background

The current business rates retention scheme was introduced in 2013. Within the current scheme 50% of local business rates are retained in theory providing a strong incentive for local authorities to grow business rates in their area and thereby generate additional funding.

The main points of the current scheme are as follows:-

- The scheme is based on each authority being funded by the retention of a proportionate share of local business rates, subject to a tariff/top up system.
- Under the scheme a proportion of any change in the authorities proportionate share of business rates are retained locally, therefore if business rates grow locally funding will increase but if business rates reduce funding will also reduce.

- The tariff or top up system is based on the historic comparison between baseline funding and the level of each authority's proportionate share of business rates. A tariff authority is where forecasted business rates exceed baseline funding and the difference is paid into a central pool as a tariff. A top-up authority is where forecasted business rates are less than baseline funding and the shortfall is paid from the central pool as a top-up. Tariffs and top ups will be uprated annually by RPI.
- There is a safety net to provide protection to those authorities who suffer a disproportionately high reduction in business rates. Conversely there will be a levy system so that any authority which generates excessive business rate growth will make a contribution to a levy fund, and this will be used to fund the safety net.
- The system is subject to periodic resets, to ensure that funding remains relative to requirement.
- From a Fire Authority perspective our proportionate share of local business rate is 2% of the 50% which is retained locally (i.e. 1% of the total), hence we are a top up authority, meaning that our baseline funding exceeds our proportionate share of business rate and therefore the government provides protection in the form of a top up grant.

In 2016/17 our local retained business rates is £4.7m (less than 10% of our total budget) and our top up grant is £9.7m.

A move to 100% retention of business rates will have little impact on the position as we would still be a top up authority requiring specific government grant to maintain funding levels. Furthermore the proposal will still retain a safety net and periodic resets.

It is also worth noting that within the draft 4 year settlement business rate income is assumed to grow by 2.0% in 2017/18, 3.0% in 2018/19 and 3.2% in 2019/20, which is significantly higher growth than we have seen within Lancashire over the last 3 years, which averaged just 1.2%.

At the time of the initial consultation in 2012 we argued that Fire Authorities should not be included in the scheme as they had very little, if any, impact on business rates. We do not believe this position has changed significantly and therefore still feel that we should be excluded from this system and should be funded from specific grant similar to the Police.

Furthermore, as business rates in Lancashire have historically grown by less than the national average then removing us from this should in theory provide greater funding in future years, assuming that any grant funding is linked to national indices. It should also improve funding, certainty reducing the risk to future funding should a large business pull out of the area, such as British Aerospace, or should a major business be successful in winning an appeal against their rating value.

A response has been agreed with the Chairman and Vice-Chairman of Resources as follows: -

Lancashire Combined Fire Authority believe that fire funding should be moved from the business rates retention scheme as Fire Authorities have very little, if any, impact on business rates a point that we argued when the scheme was first proposed.

Having moved to the Home Office we believe that funding which is more akin to Police Grant would be appropriate for the Fire Service, hence removing some of the uncertainties over which we have no control, such as ratings appeals, loss of major business etc.

We also believe that this process will simplify our administrative arrangements negating some of the complex accounting requirements surrounding the scheme and the reliance on billing authorities to provide information to feed into our budget setting process.

From a Lancashire perspective we do not believe there is any significant disadvantage to moving away from the current scheme.

Financial Implications

None specifically from this report. However the final agreed scheme may have a significant impact on the Authority which will be reported in due course.

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

None from the report but again this will be updated once final schemes are developed

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	**Date**	**Contact**
Self Sufficient Local Government:100% Business Rates Retention	July 2016	Keith Mattinson
Fair Funding Review: Call For Evidence On Needs And Redistribution	July 2016	Keith Mattinson
Reason for inclusion in Part II, if appropriate:		

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