# Public Document Pack

LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 28 June 2017 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 PREVIOUS MEETING (Pages 1 - 10)

4. EXTERNAL AUDIT - UNDERSTANDING HOW THE COMMITTEE GAINS ASSURANCE FROM MANAGEMENT (Pages 11 - 16)

5. YEAR END TREASURY MANAGEMENT OUTTURN 2016/17 (Pages 17 - 26)

6. YEAR END CAPITAL OUTTURN 2016/17 (Pages 27 - 34)

7. YEAR END REVENUE OUTTURN 2016/17 (Pages 35 - 44)

8. STATEMENT OF ACCOUNTS 2016/17 (Pages 45 - 128)

9. FINANCIAL MONITORING 2017/18 (Pages 129 - 136)

10. WORKFORCE PLANNING (Pages 137 - 142)

11. DATE OF NEXT MEETING

Lancashire Fire & Rescue Service Headquarters, Garstang Road, Fulwood, Preston PR2 3LH
Switchboard: 01772 862545 Democratic Services: 01772 866720
General Enquiries: enquiries@lancsfirerescue.org.uk

The next scheduled meeting of the Committee has been agreed for 10:00 hours on 27 September 2017 in the Main Conference Room, at Lancashire Fire & Rescue Service Headquarters, Fulwood.

Further meetings are: scheduled for 29 November 2017
proposed for 21 March 2018 and 13 June 2018

12. 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.

13. 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 under the heading to the item.

PART 2

14. HIGH VALUE PROCUREMENT PROJECTS (Pages 143 - 148)

15. URGENT BUSINESS (PART 2)

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.

LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 29 March 2017, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

MINUTES

PRESENT:

Councillors

F De Molfetta (Chairman)
M Green
A Matthews
R Shewan
D Stansfield (for D O'Toole)
V Taylor

Officers

J Johnston, Deputy 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)
J Harney, Member Services Assistant (LFRS)

41/16 APOLOGIES FOR ABSENCE

Apologies were received from County Councillors T Aldridge, A Barnes, D O'Toole and Councillors F Jackson and T Williams.

42/16 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

43/16 MINUTES OF PREVIOUS MEETING

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

44/16 FINANCIAL MONITORING

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

Revenue Budget

The overall position as at the end of January showed an underspend of £1.6m, with a forecast breakeven position at year end, after allowing for the transfer of £2.3m into the capital funding reserve as reported at the February Combined Fire Authority meeting. The transfer to capital funding reserve would be met from forecast underspend as set out in the report, predominantly relating to pay, as well the following areas which were reported at the last Resources Committee, where a virement transferring the budget into the Non DFM budget heading had been actioned:

- Organisational development £0.3m;
- Retained Duty System Strengthening and Improving project £0.6m;
- ICT department staffing budget £0.1m; and
- Wholetime recruits budget £0.2m

The Committee was provided with detailed information regarding the position, along with the forecast outturn major variances within individual departments as summarised below: -

| Area | Over/(Under) spend at 31 Jan | Forecast Outturn | Reason |
|---|---|---|---|
| | £'000 | £'000 | |
| Property | (185) | (143) | The underspend related to spend against planned repairs and maintenance as property department capacity was almost fully occupied with the working on the current capital projects. It was expected that this would result in a similar level of underspend by year end. In addition it reflected previous year's investment in property assets. A full stock condition survey had been carried out, the results were expected before the end of March, which would indicate where and how much future investment may be required. The repairs and maintenance budget for 2017/18 had been reduced by £100k in anticipation of the expected results. |
| Service Delivery | (234) | (279) | The underspend reflected the continued reductions in spending across many budget headings, for which next year's budget had been reduced, the single most significant element of which was the ongoing underspend on smoke detectors and fire safety consumables as the new Home Fire Safety Check process continued to be embedded within the service.<br>Utilities were also forecast to be |

| | | | |
|---|---|---|---|
| | | | underspent, reflecting past and ongoing energy efficiency measures. Next year's budget had been adjusted to reflect the out-turn position. |
| Pay - wholetime | (409) | (422) | The majority of the underspend related to difference between budgeted staffing numbers and actual staffing number.<br>Personnel had continued to leave the Service without accruing full pension benefits, with a further 16 personnel doing this since the budget was set, and we anticipated a further 2 more between now and the year end. (This was not allowed for in the budget for 2016/17 as it was not clear whether this was related to changes to the pension schemes or not, however it was now apparent that this trend would continue and hence next year's budget had been amended to reflect this).<br>A further element of underspend related to a combination of the timing of costs of ad hoc payments such as overtime and public holidays, and the mix of personnel in each of the pension schemes. All of these had been reviewed and updated in next year's budget. |
| Pay - RDS | (350) | (369) | The underspend related to the shortfall in respect of hours of cover provided, which was higher than allowed for in the budget, reflecting the ongoing issues in terms of recruitment and retention. This was compounded by a greater number of RDS personnel still being in development than forecast, again reflecting turnover rates.<br>However we had carried out RDS recruitment exercises in November and March to alleviate the potential issue.<br>The Retained budget also included an additional £600k in relation to the Strengthening and Improving RDS project, to design an RDS pay scheme which resulted in improved recruitment, retention and availability. As reported to the CFA in February the change had been referred to the Fire Brigades Union regional/national council for |

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| | | | approval and hence implementation was currently on hold. |
| Pay – Support Staff | (220) | (283) | The underspend related to turnover of various specialist and administrative roles during the year, when we had assumed that as all previous staffing reviews had been implemented prior to the start of the year there would be minimal changes. This had been reflected in next year's budget by increasing assumed vacancies to 2.5%. |
| Non-DFM | 35 | 1,679 | The year-end position reflected the transfer of £2.3m revenue underspends into the capital funding reserve as referred to above. |

<u>Capital Budget</u>

The Capital Programme for 2016/17 stood at £8.823m. A review of the programme had been undertaken to identify progress against the schemes as set out below: -

| | Committed spend to Jan 17 £m | Forecast Slippage Into 1718 £m | |
|---|---|---|---|
| Pumping Appliances | 0.269 | (0.696) | Committed spend to date related to the purchase of 5 pumping appliances for the 2016/17 programme, which had been ordered and were currently in build; since the last report we were now aware that delivery of these had been delayed to during May 2017.<br>We were forecasting a £14k overspend on this as final contract prices were marginally higher than anticipated. This had been built into future capital budgets. |
| Other vehicles | 0.126 | (0.436) | Committed spend to date related to various support vehicles which had either been delivered or had been ordered.<br><br>The slippage related to:-<br>• the remaining planned support vehicles replacements, which were ordered and would be delivered in the new financial |

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|---|---|---|---|
| | | | <ul><li>year, or were being reviewed prior to replacement;</li><li>the replacement of 2 driver training vehicles (DTVs) for which specification options were currently being considered with a likely procurement date in the new financial year.</li></ul> |
| Operational Equipment/Future Firefighting | 0.523 | (0.425) | This £1m budget was set aside to meet the costs of innovations in firefighting equipment, and the spend to date and year end position reflected the purchase of various items, including:<ul><li>an Unmanned Aerial Vehicle (UAV) or drone, which was now operational;</li><li>the purchase of flood suits for all operational staff along with various items of flood rescue equipment;</li><li>the purchase of stabilisation struts for operational use during rescues involving crashed vehicles, or collapsed/damaged property;</li><li>We were currently regionally reviewing the potential use of body worn cameras for operational use for learning from incidents, and for staff protection in certain locations.</li></ul>In addition, the Fire Authority had given approval to purchase technical rescue jackets for non-fire related incidents, however this was unlikely to result in spend during the current financial year so would slip forwards to 2017/18. |
| Building Modifications | 2.149 | (2.975) | The majority of committed spend to date related to:<ul><li>the purchase and refurbishment of the property adjacent to Lancaster fire station in order to facilitate the redevelopment of the site;</li><li>stage payments for the refurbishment of Carnforth fire</li></ul> |

| | | | |
|---|---|---|---|
| | | | station which was completed in February; and<br>• stage payments for the build of the Multi-Compartment Fire Fighting prop at Training Centre.<br><br>The forecast slippage related to:-<br>• 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, for which the contract was awarded and works had commenced.<br>Discussions remained on-going with the Council in respect of the strip of land that we currently leased for car parking spaces to enhance the overall scheme.<br>• completion of the remaining items of capital works at the Training Centre site;<br>• the relocation of the Fleet workshop to Training Centre, with a final design being developed and considered alongside other proposed works on the Training Centre site included within the 2017/18 capital budget. |
| IT systems | 0.063 | (0.630) | Committed spend to date related to the final stages of the phased implementation of the replacement asset management system which began during the last financial year, and the upgrade of the Community Risk Management Information System (CFRMIS).<br><br>The slippage related to:-<br>• Initial costs of the national Emergency Services Mobile Communications Project (ESMCP) to replace the Airwave wide area radio system – with further |

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|---|---|---|---|
| | | | budgetary provision included in the 2017/18 capital budget;<br>• the replacement of the wide area network (WAN) to allow a solution to be in place when current service contracts were due to end during 2017/18, for which the specification was currently being drafted;<br>• The replacement of various systems, in line with the ICT asset management plan, however these were reviewed prior to starting the replacement process. |

Members were also provided details that set out the capital programme and the expenditure position against this, as reflected above. The costs to date would be met largely by revenue contributions, with capital grant funding the costs to date of Lancaster Redevelopment. Following discussions the Home Office had agreed that the underspend on the capital grant which related to the construction of Day Crewing Plus (DCP) accommodation at Skelmersdale, £45k, could be carried forward to offset increased costs at Lancaster.

Delivery against savings targets

The current position on savings identified during the budget setting process, was reported. The performance to date was ahead of target due to a combination of the underspend on salaries for the year to date, plus savings in respect of procurement activities during the same period. We had already exceeded our savings target for the financial year.

RESOLVED: - That:

i) the financial position be noted; and
ii) the virements to adjust for underspends previously identified to part fund the transfer to capital reserves at the end of the year be endorsed.

45/16 PENSION BOARD - FIREFIGHTERS' PENSION SCHEMES - UPDATE

As part of the Pension reforms emanating from Lord Hutton's review, Lancashire Combined Fire Authority (LCFA) established a local Pension Board in February 2015 to assist the Scheme Manager (LCFA delegated to the Director of People & Development) in securing compliance with the Firefighters' Pension Scheme regulations and associated legislation and guidance.

The Pension Board comprised two officers to represent the employer and two Union officials to represent the Pension members.

It was anticipated that membership would be reviewed once the extent of the Pensions Board activities became clear.

The report outlined that the National Scheme Advisory Board had not itself become fully established as the true workload had not materialised and that any revision or review of membership would not be fully informed.

It was proposed that the current arrangements continued until a meaningful workload was determined.

RESOLVED:- That the Committee endorsed continuation of the current arrangements; subject to this being considered further after another year's operation.

46/16 CODE OF CONDUCT UPDATE

The Director of People and Development reported since the Code of Conduct was approved by Members at the Resources Committee on 27 November 2015, (resolution 23/15 refers) it had now been updated to reflect the STRIVE (Service, Trust, Respect, Integrity, Valued & Empowered) behaviours adopted throughout the Service and following a request for clarification the requirement to declare a conviction or caution had been made explicit.

County Councillor Green felt that the Relationships section should include that LFRS employees should not be expressing their political opinions publically and that it should be clear that it would not be appropriate for any elected member appointed to the Combined Fire Authority to be employed by the Service.

The Director of People and Development confirmed that staff had recently received guidance on the use of Social Media. This set out that if they could be identified as a member of staff there were a number of activities they could not engage with which included being political. He agreed to consider amending the wording in light of these points.

RESOLVED: - That the Committee note and endorse the updated Code of Conduct; subject to any amendments arising from County Councillor Green's points.

47/16 EQUALITY, DIVERSITY AND INCLUSION POLICY

The Director of People and Development advised Members that an Equality, Diversity and Inclusion Policy had been developed which was part of Lancashire Fire and Rescue Service's (LFRS) drive to improve performance on equality issues.

The Policy clearly identified individual responsibilities and defined LFRS' commitments in terms of the following:

- Equality: Not treating everyone the same but about fairness, respect and giving people an equal and fair chance of opportunity to fulfill their potential.

- Diversity: Recognising, valuing and taking account of people's difference, backgrounds, knowledge, skills and experiences. In the context of this policy it also means encouraging and using difference to create a productive workforce, celebrate difference and recognising the contribution that every individual can make.

- Inclusion: Positively striving to meet the needs of different people and taking deliberate action to create an environment where everyone feels respected and able to achieve their full potential.

The Service should also be cognisant of Unconscious Bias. The Policy also set out LFRS' approach to monitoring and training. To further the development of the policy, training for staff was currently being refreshed and this would be made available for all staff to complete.

The Director of People and Development advised that he would bring to subsequent meetings annual reports on what has been achieved in the year including a high level action plan.

RESOLVED:- That the Committee note and endorse the Equality, Diversity and Inclusion Policy.

48/16 DATE OF NEXT MEETING

The next meeting of the Committee would be held on Wednesday 28 June 2017 at 1000 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

Further meeting dates were noted for 27 September 2017 and 29 November 2017.

49/16 URGENT BUSINESS

50/16 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.

51/16 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 and endorse the recommendations as outlined in the report.

52/16 REPORT ON TRANSACTION OF URGENT BUSINESS - DISPOSAL OF SURPLUS

LAND

(Paragraph 3)

It was reported for information that, in pursuance of the arrangements approved by the Authority, the following matters, which could not await the next meeting had been authorised by the appropriate Chief Officer following consultation with the Chairman and Vice-Chairman.

Approval to dispose of surplus land at Penwortham.

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

53/16 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 sick pay at half rate beyond the 6 month period specified in the National Joint Council for Local Authority Fire and Rescue Services.

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.

54/16 URGENT BUSINESS - INSURANCE RENEWAL APRIL 2017

(Paragraph 3)

The report set out the arrangements for the Authority's insurance programme.

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

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood

**LANCASHIRE COMBINED FIRE AUTHORITY**
**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**EXTERNAL AUDIT – UNDERSTANDING HOW THE RESOURCES COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**
**(Appendices 1 and 2 refer)**

Contact for further information:
Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

**Executive Summary**

In order to comply with International Auditing Standards, the External Auditors, Grant Thornton, are required to obtain an assurance as to how those charged with governance discharge their responsibilities in connection with oversight of the annual accounts process and financial reporting. The letter requesting this is attached as appendix 1.

A draft response has been prepared by the Chairman of the Resources Committee, which is attached as appendix 2. (It is worth noting that the Audit Committee has provided a similar response in connection with the risk of fraud and breaches of internal controls.)

**Decision Required**

The Committee is asked to approve the submission of the response.

**Information**

As stated in the Executive Summary.

**Financial Implications**

None

**Business Risk Implications**

The internal controls operated within the Authority are designed to minimise business risk in general and in particular the risk of fraud.

**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: | | |

Councillor F De Molfetta
Chair of the Resources Committee
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12 June 2017

Dear Councillor De Molfetta

**Lancashire Combined Fire Authority Financial Statements for the year end 31 March 2017. Understanding how the Resources Committee gains assurance from management**

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Resources Committee gains assurance over management processes and arrangements for producing the financial statements

I have written separately to the Chair of the Audit Committee in respect of the management processes in place to:

- identify and respond to risks of fraud in the organisation ( including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
- oversee management's process in identifying and responding to the risk of breaches of internal control
- communicate to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- How the Audit Committee gains assurance that all relevant laws and regulations have been complied with?
- Whether the audit committee are aware of any actual or potential litigation or claims that would affect the financial statements?

If you have any comments on the questions I have asked the Chair of the Audit Committee, please include these in your response.

Due to the role of the Resources Committee in reviewing the financial statements I would be grateful, therefore, if you could write to me with your responses to the following questions.

1 How does the Resources Committee oversee management's processes in relation to carrying out an assessment of the risk the financial statements may be materially misstated

due to fraud or error?

2 How has the Resources Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Please could you provide a response ahead of the Resources Committee on 29 March 2017 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Karen Murray
Director
For Grant Thornton UK LLP

T +44 (0)161 234 6364
E Karen.l.murray@uk.gt.com

Mrs K Murray
Director
Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB Date: 28 June 2017

Dear Mrs Murray

**LANCASHIRE COMBINED FIRE AUTHORITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 - UNDERSTANDING HOW THE RESOURCES COMMITTEE GAINS ASSURANCE FROM MANAGEMENT**

Further to your letter, I confirm the following.

*How does the Resources Committee oversee management's processes in relation to carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error?*

I believe that the Resources Committee adequately discharges its duties in respect of the above as it considers the following issues:-

- The financial position of the Authority is reviewed throughout the year
- The committee will consider the full set of accounts at its meeting in June. As part of this process it will review not only the accounts but the covering report which explains the links between the revenue and capital outturn reports thus ensuring the accounts are consistent with in-year reporting. In addition, it challenges the Treasurer as appropriate on these, and other, reports.
- Included within the accounts is the Annual Governance Statement, and the Committee takes note of the Audit Committees recommendations in connection with this, and in particular the overall conclusion on the system of internal controls operating within the Authority.
- The Committee also monitors progress against all contracts in excess of £50,000.
- All Committee reports are reviewed by the Clerk to the Authority and the Treasurer to the Authority to ensure compliance with legal and financial regulations.

I am not aware of any entries in the accounting records that I believe or suspect are false or misleading

*How has the Resources Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements*

The annual budget process sets a budget for the following year, as well as including draft budgets for the following 4 years. These demonstrate that the Authority is able to set realistic and achievable budgets in the medium term to continue to deliver services in line with its IRMP. In addition the Authority reviews the purpose and level of reserves on an annual basis to ensure that these are sufficient to meet future requirements Furthermore the annual budget presented to the Authority in February includes an assessment by the Treasurer of the robustness of the budget and the adequacy of reserves in the following year, as well as indicative figures for the following 4 years

The on-going review of the Authority's financial position throughout the year provides strong evidence of the on-going viability of the Authority from a financial perspective, demonstrating that the Authority has appropriate arrangements in place to manage within its annual budget.

Furthermore the annual audit letter considers the financial resilience of the Authority and states that the Authority has proper arrangements in place to secure financial resilience.

The Authority has not identified any events which cast any doubt on the Authority's ability to continue as a going concern.

Yours sincerely

F DeMolfetta
Chair of the Resources Committee
Lancashire Combined Fire Authority

**LANCASHIRE COMBINED FIRE AUTHORITY**
**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**YEAR END TREASURY MANAGEMENT OUTTURN 2016/17**
**(Appendix 1 refers)**

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

**Executive Summary**

The report sets out the Authority's borrowing and lending activities during 2016/17. All borrowing and investment activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2016/17, and are based on anticipated spending and interest rates prevailing at the time.

**Recommendation**

The Authority are asked to note and endorse the outturn position report

**Information**

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 receives regular updates on treasury management issues including a mid-year report and a final outturn report. Reports on treasury activity are discussed on a quarterly basis with Lancashire County Council Treasury Management Team and the Director of Corporate Services and the content of these reports is used as a basis for this report to the Committee.

**Economic Overview**

Treasury Management activity is influenced by the actual and forecast economic position. The economic situation in the year was largely dominated by the uncertainty about the short and medium term implications of the decision in June 2016 to leave the European Union. In response to the risk of reduced economic growth the Bank of England Monetary Policy Committee initiated substantial monetary policy easing at its August meeting. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy.

The year has seen steady economic growth although the final quarter is at a lower rate with the quarterly rates being:

| Quarter ended : | GDP growth (%) |
|---|---|
| June 2016 | 0.6 |
| September 2016 | 0.5 |
| December 2016 | 0.7 |
| March 2017 (provisional) | 0.2 |

Inflation remained low in the first half of 2016 but there has been signs of this increasing towards the end of the year with inflation as measured by RPIH being at 2.3% at March 2017. However, since the referendum vote the value of sterling has fallen and this is a significant factor behind the increase in inflation. The unemployment rate dropped to 4.7% in February its lowest level in 11 years.

However, the year has seen significant volatility in the financial markets as a result of both the UK vote to leave the European Union and Donald Trump being elected as President of the USA. As a consequence of the uncertainty Gilt yields fell, Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA and the value of sterling fell. The impact of the negotiations to leave the European Union will be a source of on-going uncertainty.

**Interest Rate Environment**

Short term interest rates continue to be at historically very low levels. As referred to above in response to a potential reduction in economic growth the Bank of England reduced the base rate from 0.5% to 0.25% in August 2016; a level it remained at throughout the rest of the year. The expectation during the year was that interest rates would remain low for the rest of the financial year and beyond. This is still the case with Lancashire County Council's Treasury Management advisors, Arlingclose Treasury Consultants, not forecasting an increase up to June 2020.

**Cash Flow**

Cash flow predictions are made on a rolling basis in order to ensure that the Authority has sufficient funds to meet its day to day requirements and also inform investment and borrowing decisions.

Appendix 1 shows the actual cash flows over the last 12 months, split between fixed deposits and the call account.

Broadly speaking it can be seen that the cash flow projections are reasonably accurate. The cash flow position, along with the interest rate environment, form part of the regular discussions between the Director of Corporate Services and the Lancashire County Council Treasury Management Team, in order to inform future decisions on borrowing and investments.

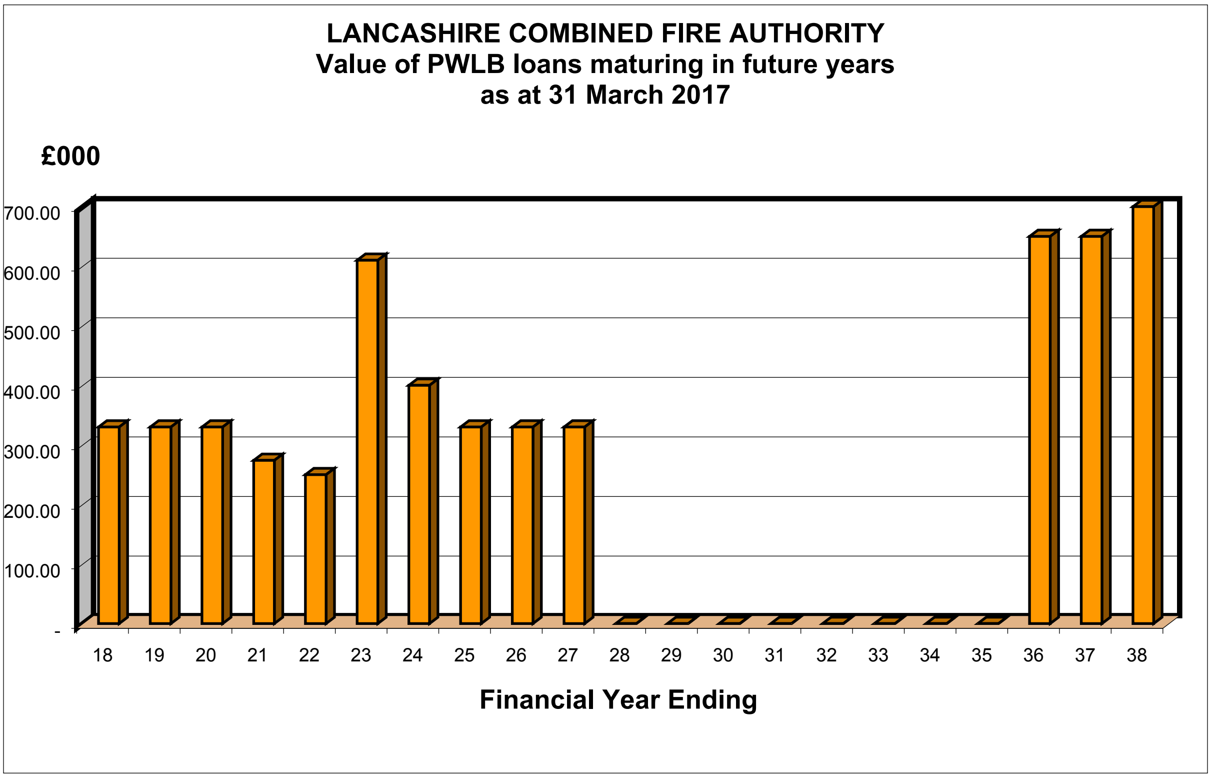
**Borrowing**

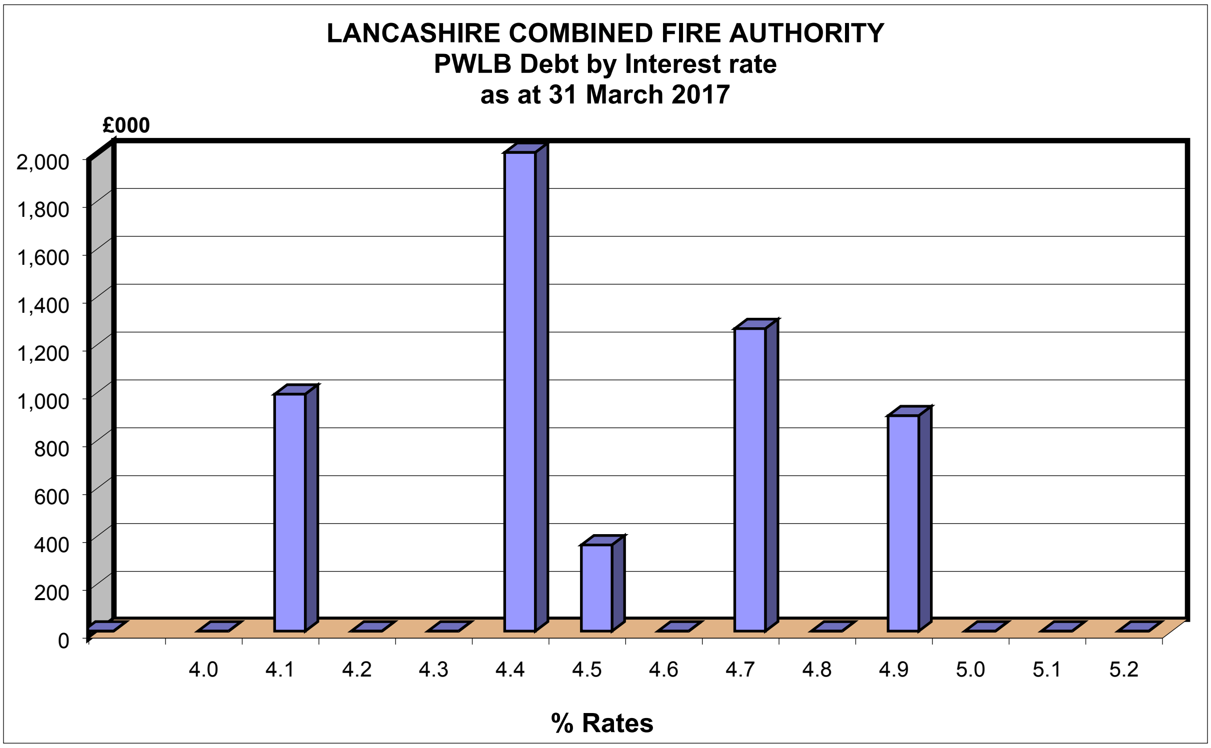
There has been no new borrowing undertaken in the year. This is in line with the continuation of the policy of using cash balances to fund capital expenditure which has resulted in no new borrowing being undertaken since 2007. In addition, the Fire Authority's has a policy to set aside monies in the form of statutory and voluntary Minimum Revenue Provisions (MRP) in order to reduce borrowing requirements and enable the repayment of debt as it matures. The estimated balance at 31/3/16 was £5.682m and therefore during the year a maturing debt of £0.250m was repaid.

An exercise was undertaken to see if it was cost effective to repay some of the other PWLB loans early but with the premium that would have been incurred this was not deemed to be cost effective. Therefore the borrowing position is:

| | 2016/17 |
|---|---|
| | £'000 |
| Borrowing at 31 March 2016 | 5,764 |
| Repayment of Maturing Debt | 250 |
| New Borrowing | - |
| Borrowing at 31 March 2017 | **5,514** |

The charts below show the current maturity profile and interest rate profile of the Authority's borrowings.






Total interest payable on PWLB borrowing amounts to £0.260m, which equates to an average interest rate of 4.55%.

**Investments**

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. Throughout the year when investing money the key aim was to strike an appropriate balance between risk and return.

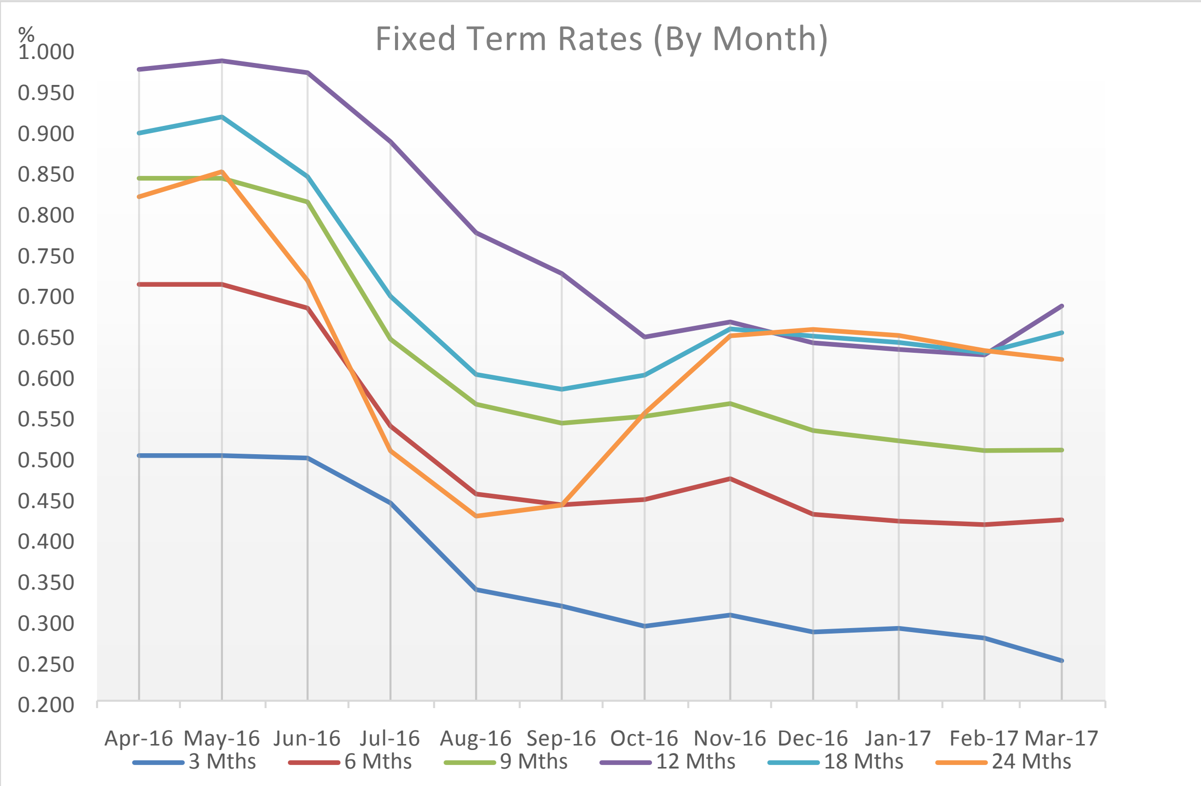
In order to reduce credit risk to the Authority, Lancashire County Council (credit rating by Moodys AA2) is the main counterparty for the Authority's investments via the operation of a call account. However the Treasury Management Strategy does include other high quality counterparties. In accordance with this policy, two long term investments are held with UK local authorities as outlined below:

| Start Date | End Date | Principal | Rate | Annual Interest |
|---|---|---|---|---|
| 30/6/14 | 28/6/19 | £5,000,000 | 2.4% | £120,000 |
| 31/7/14 | 31/7/17 | £5,000,000 | 1.6% | £80,000 |

The call account provided by Lancashire County Council paid the base rate throughout 2016/17. Each working day the balance on the Authority's current account is invested in this to ensure that the interest received on surplus balances is maximised. The average balance in this account during the year was £32.4m earning interest of £0.105m.

The overall interest earned during this period was £0.305m at a rate of 0.72% which compares favourably with the benchmark 7 day notice index which averages 0.36% over the same period.

The chart below shows the interest rates for different investment maturities available during the year. Although indicative of the rates available they might have been offered by lenders who do not meet the credit rating criteria of the Authority's policy.




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

Cash flow and interest rates continue to be monitored by the Director of Corporate Services and the County Council's treasury management team, and when rates are felt to be at appropriate levels further term deposits will be placed.

**Prudential Indicators**

In order to control and monitor the Authority's treasury management functions, a number of prudential indicators are determined against which performance may be measured. The revised indicators for 2016/17 are shown in the table over the page alongside the actual outturn position.

| | Revised | Actual |
|---|---|---|
| **Adoption of the CIPFA Code of Practice for Treasury Management** | Adopted | Adopted |
| **Authorised limit for external debt** | £000 | £000 |
| A prudent estimate of total external debt, which does not reflect the worst case scenario, but allows sufficient headroom for unusual cash movements | | |
| Borrowing | 7,800 | 5,514 |
| Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements | 15,400 | 14,651 |
| Total | 23,200 | 20,165 |
| **Operational boundary for external debt** | | |
| A prudent estimate of debt, but no provision for unusual cash movements.  It represents the estimated maximum external debt arising as a consequence of the Authority's current plans | | |
| Borrowing | 6,800 | 5,514 |
| Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements | 14,900 | 14,651 |
| Total | 21,700 | 20,165 |
| **Upper limit for fixed interest rate exposure** | | |
| Borrowing | 100% | 100% |
| Investments | 100% | 25.6% |
| **Upper limit for variable rate exposure** | | |
| Borrowing | 25% | Nil |
| Investments | 100% | 74.4% |
| **Upper limit for total principal sums invested for over 364 days** (per maturity date) | 25,000 | 5,000 |
| **Maturity structure of debt** | **Upper/ Lower Limits** | **Actual** |
| Under 12 months | 30%/nil | 5.98 |
| 12 months and within 24 months | 30%/nil | 5.98 |
| 24 months and within 5 years | 50%/nil | 15.49 |
| 5 years and within 10 years | 80%/nil | 36.27 |
| 10 years and above | 90%/nil | 36.27 |
| Historically the above maturity structure has proved to be sound. It aims to produce a stable debt structure over the longer-term whilst permitting the exploitation of favourable interest rates at the short end of the market if they arise. | | |

**Financial Implications**

The following table summarises the Financing costs for the Authority, comparing actual with budget:-

| | Revised Budget | Actual | Reason for variance |
|---|---|---|---|
| Interest Payable on PWLB loans | £0.263m | £0.260m | In line with revised budget |
| Interest Receivable on call account and fixed term investments | (£0.378m) | (£0.305m) | We have generated £73k less investment income than budgeted reflecting the reduction in the call account interest rate during quarter two following the reduction in the Bank of England base rate. |
| Minimum Revenue Provision re PWLB loans | £0.028m | £0.028m | In line with revised budget |
| Net financing income from Treasury Management activities* | (£0.087m) | (£0.017m) | |

*There are financing costs associated with vehicle finance leases and the PFI agreements, which are not included in the balances above as they are not the result of Treasury Management activities.

**Human Resource Implications**

None

**Equality and Diversity Implications**

None

**Business Risk Implications**

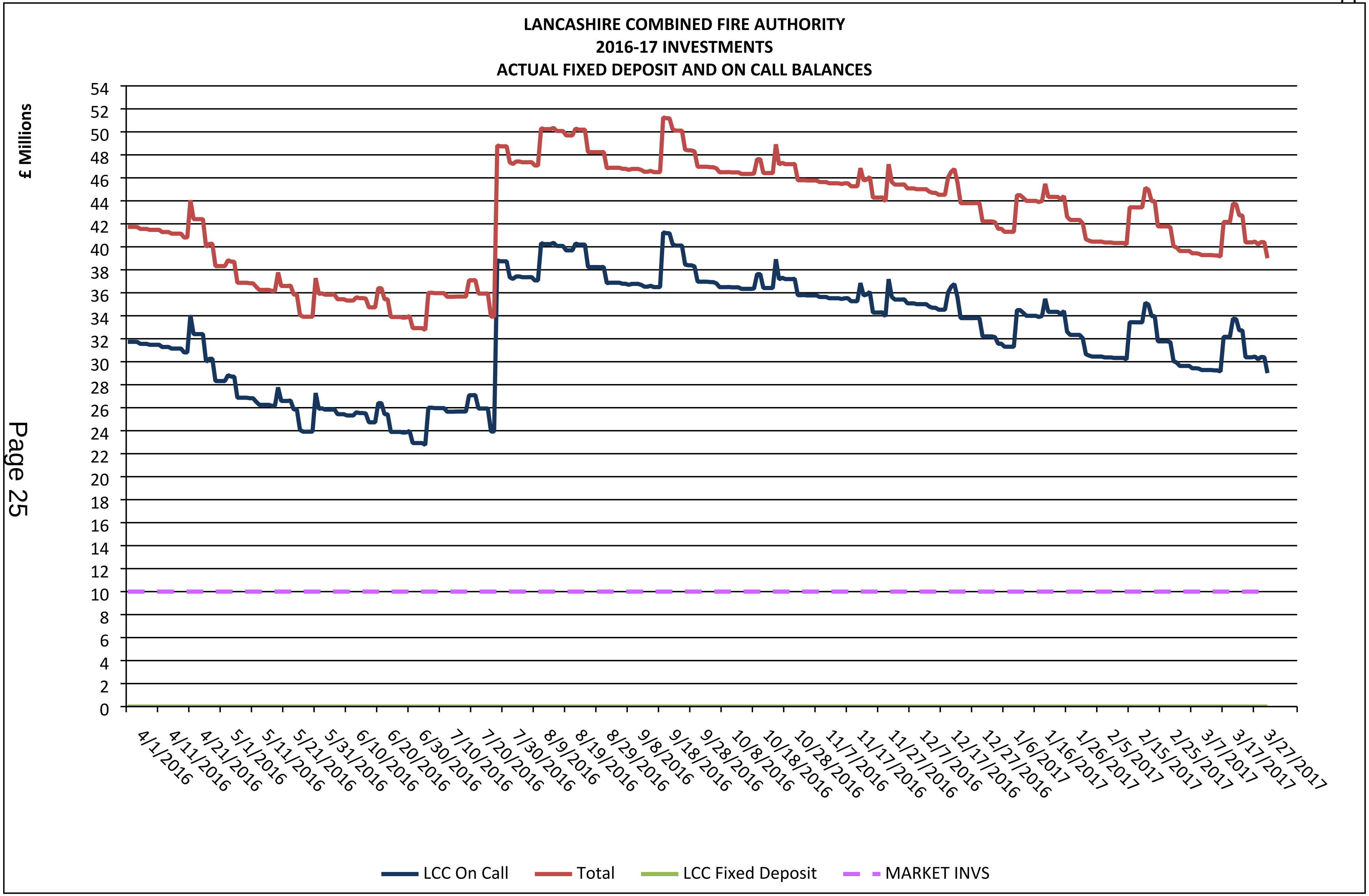
The Treasury Management Strategy is designed to maximise interest earned, minimise interest paid whilst maintaining an acceptable level of risk. The reviews of performance provide members with an assurance that this has been complied with.

**Environmental Impact**

None

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

| Paper | Date | Contact |
|---|---|---|
| Treasury Management Strategy 2016/17 | February 2016 | Keith Mattinson, Director of Corporate Services |
| SORP and Guidance | February 2017 | Keith Mattinson, Director of Corporate Services |
| Reason for inclusion in Part II, if appropriate: | | |


LANCASHIRE COMBINED FIRE AUTHORITY
2016-17 INVESTMENTS
ACTUAL FIXED DEPOSIT AND ON CALL BALANCES
£ Millions
54
52
50
48
46
44
42
40
38
36
34
32
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
4/1/2016
4/11/2016
4/21/2016
5/1/2016
5/11/2016
5/21/2016
5/31/2016
6/10/2016
6/20/2016
6/30/2016
7/10/2016
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12/7/2016
12/17/2016
12/27/2016
1/6/2017
1/16/2017
1/26/2017
2/5/2017
2/15/2017
2/25/2017
3/7/2017
3/17/2017
3/27/2017
LCC On Call
Total
LCC Fixed Deposit
MARKET INVS

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**LANCASHIRE COMBINED FIRE AUTHORITY**
**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**YEAR END CAPITAL OUTTURN 2016/17**
**(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 year end position for the Authority's capital programme, and how this has been financed;
- the impact of slippage from the 2016/17 capital programme into the 2017/18 programme.

**Recommendation**

The Authority is asked to:-

ii) note the capital outturn position, the financing of capital expenditure 2016/17 and the prudential indicators;
iii) approve the revised capital programme and financing of this for 2017/18.

**Information**

The year end position for the Authority's capital programme, and how this has been financed, is set out in Appendix 1, and summarised below.

The final outturn position was spend of £3.508m compared with total budget of £8.823m with a slippage requirement of £5.354m, resulting in an overall overspend of £0.039m. This position is broadly consistent with forecasts reported at the last meeting, which anticipated an outturn spend of £3.704m, slippage of £5.161m, and an overspend of £0.043m. As can be seen, the main change is a slight reduction in spend, which increases the slippage requirement – Members should note that slippage is simply a timing issue dependent on the progress of capital schemes, and not an indication of future underspends.

| Area of Spend | Actual Expend-iture £m | Slippage £m | (Under) / Over spend £m | Explanation |
|---|---|---|---|---|
| **Property, Plant and Equipment** | | | | |
| Pumping Appliances | 0.431 | (0.533) | 0.014 | The spend relates to the purchase of 5 pumping appliances for the 2016/17 programme, which were ordered in July 2016. We reported at the last meeting that delivery of these has been delayed to during June 2017, which was due to delays in |

| | | | | |
|---|---|---|---|---|
| | | | | external component deliveries and the subsequent effect on the build timeframes. We have been working with the contractor to prevent this occurring for future years build programmes.<br>The overspend is in line with expectations as final contract prices were marginally higher than anticipated. As reported previously, this has been built into future capital budgets. |
| Other Vehicles | 0.133 | (0.437) | 0.020 | The spend relates to the purchase of various operational support vehicles, such as cars and vans, which is in line with sums previously reported, and the £437k of slippage is required to enable the Authority to complete the procurements underway for vehicles delivered during May 2017, and in addition progress the purchase of two Driver Training Vehicles for which Fleet Services has been working with Training Centre to specify requirements before starting a procurement process during 2017/18. |
| Operational Equipment | 0.307 | (0.693) | - | As reported previously, spend relates to the purchase of various innovations in firefighting equipment, specifically: an Unmanned Aerial Vehicle (UAV) or drone, flood suits for all operational staff along with various items of flood rescue equipment, stabilisation struts for operational use during rescues involving crashed vehicles, or collapsed/damaged property.<br>The slippage relates to the regional procurement exercise for technical rescue jackets for non-fire related incidents which have now been ordered for delivery during 2017/18, and also allows for the potential to purchase body worn cameras for operational use for learning from incidents, and for staff protection in certain locations. |
| Buildings | 2.574 | (3.061) | 0.015 | In line with the previous report, expenditure in year relates to:<br>• the purchase and refurbishment of the property adjacent to Lancaster fire station in order to facilitate the redevelopment of the site;<br>• stage payments for the refurbishment of Carnforth fire station which was completed in February; and<br>• initial stage payments for the replacement water main, plus costs of the build of the Multi-Compartment Fire Fighting prop at Training Centre.<br>Slippage is largely consistent with the previous report, and relates to:<br>• continued works on Lancaster fire station for the new joint fire/ambulance station project, which was delayed by the decision in June |

| | | | | |
|---|---|---|---|---|
| | | | | 2016 to move away from the initial development partner and undergo our own procurement process to let a build contract, hence it was clear there would be significant slippage due to the timescales involved on such a large contract<br>• the balance of the re-development works at STC anticipated to take place in 17/18, i.e. the completion of the water main ongoing works and improvements in the overall landscaping of the site, i.e. car park areas and roadways<br>• replacement of Fleet workshop relocating to Training Centre<br>• The purchase of land adjacent to Preston Fire Station to enhance any future site development, which had previously been anticipated during 2016/17, but actually occurred in early June.<br>The net overspend of £0.015m (in line with forecasts) relates to expected contract variations in relation to Carnforth refurbishment, less underspends following the completion of the Barnoldswick refurbishment completed during the year. |
| **Total Property, Plant and Equipment** | **3.445** | **(4.724)** | **0.049** | |
| **Intangible Assets** | | | | |
| ICT Systems | 0.063 | (0.630) | (0.010) | The outturn position Spend during the year relates to:<br>• Final completion of the replacement asset management system modules<br>• the upgrade for the CFRMIS (Community Fire Risk Management Information System)<br><br>The slippage is attributable to:<br>• Potential replacement Incident Recording System/Management Information System, a review of which will be carried out during 2017/18<br>• 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 capital budget<br>• 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, for which the specification is currently being drafted.<br><br>The underspend relates to the budget which was not required for the CFRMIS replacement. |
| **Total Intangible Assets** | **0.063** | **(0.630)** | **(0.010)** | |
| **Grand Total** | **3.508** | **(5.354)** | **0.039** | |

Appendix 1 also shows how the programme has been financed in year, from a combination of capital grant (£2.0m), and revenue contributions (£1.5m).

Over the next five years the position in terms of capital reserves, available to fund future capital programmes will be as follows: -

| | **Capital Reserves £m** | **Capital Receipts £m** | **Total £m** |
|---|---|---|---|
| Balance 31/3/16 | 10.284 | 1.501 | 11.785 |
| Additions - RCCO per the capital programme | 3.530 | - | 3.530 |
| Transfer from revenue budget 2016/17 | 2.300 | - | 2.300 |
| Transfer from earmarked reserves 2016/17 | 2.053 | - | 2.053 |
| Less – RCCO utilised in 2016/17 | (1.534) | - | (1.534) |
| Balance 31/3/17 | 16.633 | 1.501 | 18.134 |
| Additions/utilisation in year | (7.219) | - | (7.219) |
| Balance 31/3/18 | 9.414 | 1.501 | 10.915 |
| Additions/utilisation in year | (4.951) | - | (4.951) |
| Balance 31/3/19 | 4.463 | 1.501 | 5.964 |
| Additions/utilisation in year | (3.334) | - | (3.334) |
| Balance 31/3/20 | 1.129 | 1.501 | 2.630 |
| Additions/utilisation in year | 0.328 | - | 0.328 |
| Balance 31/3/21 | 1.457 | 1.501 | 2.958 |
| Additions/utilisation in year | 0.045 | - | 0.045 |
| Balance 31/3/22 | 1.502 | 1.501 | 3.003 |

As can be seen the capital programme over the next five financial years will leave a balance of £3.0m in capital reserves.

Prudential Indicators 2016/17

Under the prudential framework the Authority is required to identify various indicators to determine whether the approved capital programme is affordable, prudent and sustainable.

The revised indicators, after allowing for the various changes to the capital programme, are shown in the following table, alongside the actual outturn figures, and these show that performance has been within approved limits.

| | Revised | Actual |
|---|---|---|
| Ratio of Financing Costs to Net Revenue Stream (this expresses net financing charges as a % of total net revenue spending) | (0.18%) | (0.04%) |
| Capital Expenditure (this is simply a measure of spend) | £8.823m | £3.508m |
| Capital Financing Requirement (this measures the authority's underlying need to borrow to fund its capital programmes) | nil | nil |

Impact of 2016/17 Capital Programme on Council Tax

The estimated impact on band D council tax of the revised capital programme compared to the actual outturn figures is as follows:

| | Revised | Actual |
|---|---|---|
| Gross Increases in Band D Council Tax | £14.80 | £3.67 |
| Estimated Government Support (RSG) | - | - |
| Increases in Band D Council Tax | £14.80 | £3.67 |
| Of which, due to the budgeted revenue contribution | £8.45 | £3.67 |
| Of which, due to utilisation of reserves | £6.35 | - |
| Net increases in Band D Council Tax | - | - |

As can be seen, there is no increase in council tax arising from the use of the revenue budget to fund capital expenditure, which was already allowed for in the overall council tax charged for 2016/17. Hence the net impact in terms of new council tax was zero.

The Impact of Slippage from the 2016/17 Capital Programme into the 2017/18 Programme

The original approved capital programme for 2017/18 was £8.179m, which excluded any estimated slippage from 2016/17. This has been amended to reflect the final level of slippage of £5.354m, outlined above, therefore the final proposed capital programme for 2017/18 is £13.534m, which is funded from capital grant, revenue contributions, capital reserves and earmarked reserves.

The revised programme and its funding are set out in appendix 2.

The following table sets out the revised prudential indicators for 2017/18-2019/20, showing that the revised programme remains affordable, prudent and sustainable, as follows: -

| | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|
| Ratio of Financing Costs to Net Revenue Stream. (the figures show that the revenue costs of the Authority's capital expenditure plans are still a very small part of the overall budget.) | 0.18% | 0.12% | 0.20% |
| Capital Expenditure | £13.534m | £6.701m | £5.084m |
| Capital Financing Requirement | - | - | - |

Impact of revised 2017/18 Capital Programme on Council Tax

The estimate of the impact of slippage would indicate the following increases in the band D council tax over the period:

| | 2017/18 Estimate | 2018/19 Estimate | 2019/20 Estimate |
|---|---|---|---|
| Gross Increases in Band D Council Tax | £28.59 | £15.72 | £11.81 |
| Estimated Government Support (RSG) | - | - | - |
| Increases in Band D Council Tax | £28.59 | £15.72 | £11.81 |
| Of which, due to the budgeted revenue contribution | £4.74 | £4.11 | £4.06 |
| Of which, due to utilisation of reserves | £23.85 | £11.61 | £7.74 |
| Net increases in Band D Council Tax | - | - | - |

As can be seen the increase in council tax arises from the budgeted drawdown from reserves, which has already been charged to the council tax in previous years, and the budgeted revenue contribution, which is already allowed for in the overall council tax charged for 2017/18. Hence there is no net impact in terms of new council tax in each of the three years.

**Financial Implications**
As outlined in the report

**Business Risk Implications**
The outturn report 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**
The environmental impact of decisions relating to the capital programme will be considered as part of the project planning process, and where possible we will look to minimise the environmental impact of this where it is considered practical and cost effective to do so.

**Equality and Diversity Implications**
The capital programme in respect of replacement/refurbishment of existing property will include some element of adaptations to ensure compliance with the Equality & Disability legislation.

**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: | | |

APPENDIX 1

## CAPITAL BUDGET 2016/17

| CAPITAL BUDGET 2016/17 | Revised Programme | Actual Expenditure | Variance to Date | Year End Forecast | Slippage | Estimated final Cost | Over/ (Under) Spend |
|---|---|---|---|---|---|---|---|
| **Vehicles** | | | | | | | |
| Pumping Appliance | 0.950 | 0.431 | (0.519) | 0.431 | (0.533) | 0.964 | 0.014 |
| Other Vehicles | 0.550 | 0.133 | (0.417) | 0.133 | (0.437) | 0.570 | 0.020 |
| | 1.500 | 0.564 | (0.936) | 0.564 | (0.970) | 1.534 | 0.034 |
| **Operational Equipment** | | | | | | | |
| Operational Equipment | 1.000 | 0.307 | (0.693) | 0.307 | (0.693) | 1.000 | - |
| | 1.000 | 0.307 | (0.693) | 0.307 | (0.693) | 1.000 | - |
| **Buildings Modifications** | | | | | | | |
| STC Redevelopment | 1.052 | 0.259 | (0.793) | 0.259 | (0.793) | 1.052 | - |
| Day Crewing Plus | 0.008 | 0.008 | 0.000 | 0.008 | 0.000 | 0.008 | - |
| Lancaster Replacement | 4.092 | 1.974 | (2.118) | 1.974 | (2.119) | 4.092 | 0.000 |
| Other works | 0.468 | 0.333 | (0.135) | 0.333 | (0.150) | 0.483 | 0.015 |
| | 5.620 | 2.574 | (3.046) | 2.574 | (3.061) | 5.635 | 0.015 |
| **ICT** | | | | | | | |
| IT Systems | 0.703 | 0.063 | (0.640) | 0.063 | (0.630) | 0.693 | (0.010) |
| | 0.703 | 0.063 | (0.640) | 0.063 | (0.630) | 0.693 | (0.010) |
| **Total Capital Requirement** | **8.823** | **3.508** | **(5.315)** | **3.508** | **(5.354)** | **8.862** | **0.039** |
| **Funding** | | | | | | | |
| Capital Grant | 2.640 | 1.974 | (0.666) | 1.974 | (0.666) | 2.640 | - |
| Revenue Contributions | 3.530 | 1.534 | (1.996) | 1.534 | (1.996) | 3.530 | - |
| Earmarked Reserves | 0.200 | - | (0.200) | - | (0.200) | 0.200 | - |
| Capital Reserves | 2.453 | - | (2.453) | - | (2.492) | 2.492 | 0.039 |
| **Total Capital Funding** | **8.823** | **3.508** | **(5.315)** | **3.508** | **(5.354)** | **8.862** | **0.039** |

## CAPITAL BUDGET 2017/18

| CAPITAL BUDGET 2017/18 | Original Programme | Slippage | Revised Programme |
|---|---|---|---|
| **Vehicles** | | | |
| Pumping Appliance | 1.195 | 0.533 | 1.728 |
| Other Vehicles | 0.464 | 0.437 | 0.901 |
| | 1.659 | 0.970 | 2.629 |
| **Operational Equipment** | | | |
| Operational Equipment | 0.420 | 0.693 | 1.113 |
| | 0.420 | 0.693 | 1.113 |
| **Buildings Modifications** | | | |
| STC Redevelopment | - | 0.793 | 0.793 |
| Lancaster Replacement | - | 2.119 | 2.119 |
| Other works | 4.750 | 0.150 | 4.900 |
| | 4.750 | 3.061 | 7.811 |
| **ICT** | | | |
| IT Systems | 1.350 | 0.630 | 1.980 |
| | 1.350 | 0.630 | 1.980 |
| **Total Capital Requirement** | **8.179** | **5.354** | **13.533** |
| **Funding** | | | |
| Capital Grant | 0.800 | 0.666 | 1.466 |
| Revenue Contributions | 2.000 | - | 2.000 |
| Earmarked Reserves | 0.049 | 0.200 | 0.249 |
| General reserves | 2.600 | - | 2.600 |
| Capital Reserves | 2.730 | 4.488 | 7.219 |
| **Total Capital Funding** | **8.179** | **5.354** | **13.533** |

**LANCASHIRE COMBINED FIRE AUTHORITY**
**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**YEAR END REVENUE OUTTURN 2016/17**
**(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 revenue outturn position, which feeds into the Income and Expenditure Statement within the main Statement of Accounts;
- the impact of the revenue outturn position on reserves;

**Recommendation**

The Committee is asked to:-

ii) agree the virement in respect of S31 grant receivable;
iii) note the outturn position on the 2016/17 revenue budget;
iiii) agree the proposed transfer of £14k to the DFM Reserve;
iiv) agree the proposed transfer of £97k to the PFI Equalisation Reserve;
iv) agree the proposed net transfer of £206k from Other Earmarked Reserves and the purpose of these;
ivi) note the increase of £258k in the General Reserve.

**Information**

The Revenue Outturn Position

The annual budget for the year has been amended to reflect a slight increase in the Section 31 grant due in respect of localised business rates for the preceding financial year, which has been subject to reconciliation by CLG. This has resulted in an additional £0.012m of Section 31 grant being received in 2016/17. The outturn position shows net expenditure of £55.556m against an updated budget of £55.623m, giving a total underspend for the financial year of £0.067m.

As reported throughout the year, the Service has identified savings at the earliest possible opportunity following the completion of reviews.

The final position within individual departments is largely consistent with that reported throughout the year, and specifically the forecast presented to the March Resources Committee. As previously reported, the majority of underspends during 2016/17 have again been reflected in 2017/18 budgets. The detailed final revenue position is set out in Appendix 1, with major variances being summarised below (note as reported throughout the year the variances shown relate to non-pay spend, with the variance on the pay budget being shown separately): -

| Area | Overspend / (Under spend) | Reason |
|---|---|---|
| | £'000 | |
| Procurement | (105) | The outturn largely relates to underspends on items of Pooled PPE which had been ordered, but which weren't delivered before the end of March. |
| Property | (200) | The majority of the outturn position reflects the underspends against property repairs and maintenance, in line with the anticipated outturn position, whilst the departmental capacity is fully utilised by ongoing capital projects. |
| Service Delivery | (325) | As reported previously, the underspend relates to a combination of:<br>• Smoke detectors underspent by £169k, in line with the anticipated outturn<br>• Utilities underspent by £45k, slightly more than the previous forecast<br>• The remainder relates to underspends across many budget headings, which have been factored into the 2017/18 budget. |
| Other Non DFM | 1,698 | As previously reported in outturn forecasts, the overspend position reflects the transfer into the Capital Funding Reserve, partially offset by budgets for the work streams below in relation to:<br>• RDS Strengthening & Improving<br>• Organisational Development<br>• Wholetime recruits<br>• ICT departmental staffing<br>Although work was progressed during the year on these work streams, as previously reported, the budgets weren't required in 2016/17. It should also be noted that the reversal of the earmarked reserve held to pay for RDS Bounty payments (see table on page 5) was credited to this budget.<br><br>In addition, we funded the following capital programme changes from additional revenue contributions in year:<br>• Fleet Workshop increased costs<br>• Lancaster rebuild increased costs<br>• Purchase of land at Preston |
| Pay | (961) | The outturn position is in line with the forecast as presented at March resources, reflecting the following significant underspends:<br>• Wholetime (£432k) due to early leavers since the 2016/17 budget was set in December 2015 |

| | | |
|---|---|---|
| | | • Retained (£345k) due to vacant hours of cover across many locations as previously reported<br>• Associate trainers (£96k overspent) reflecting usage of these to carry out training during the year, and in particular to create training capacity for the wholetime recruits course – additional trainer posts have been included in the 2017/18 budget<br>• Support Staff (£259k) due to vacant posts across several budget headings, as reported throughout the year |

<u>Delivery against savings targets</u>

The following table sets out the target level of efficiencies required in 2016/17 and performance against this target: -

| | Annual Target | Target at end of Mar |
|---|---|---|
| | £m | £m |
| Staffing, including Emergency Cover Review outcomes, Prevention & Protection Review outcomes, functional saving reviews plus management of vacancies | 1.512 | 2.474 |
| Reduction in capital financing charges | 0.284 | 0.284 |
| Reduction in service delivery non pay budgets including the smoke detector budgets | 0.145 | 0.313 |
| Removal of the contribution to Greater Manchester FRS in respect of their Urban Search And Rescue team | 0.122 | 0.122 |
| Reduction in Fleet repairs and maintenance and fuel budgets | 0.068 | 0.148 |
| Reduction in Property repairs and maintenance and utilities budgets | 0.034 | 0.177 |
| Procurement savings (these are savings on contract renewals, such as waste collection and stationery contracts) | - | 0.116 |
| Balance – cash limiting previously underspent non pay budgets | 0.337 | 0.337 |
| Total | 2.502 | 3.971 |

Performance exceeded the efficiency target, largely as a result of staffing savings made and Procurement savings in respect of contracts let during the year, which have been reported during the course of the year.

The Impact of the Revenue Outturn Position on Reserves

The Authority holds 3 specific earmarked reserves plus the general reserve and the impact of the year-end position on these are set out in the following table: -

| | Earmarked Reserves | | | | General Reserve | Total Reserve |
|---|---|---|---|---|---|---|
| | DFM Reserve | PFI Reserves | Other Earmarked Reserve | Total Earmarked Reserves | | |
| | £m | £m | £m | £m | £m | £m |
| Balances at 31/3/16 | 0.414 | 3.440 | 5.664 | 9.518 | 10.186 | 19.704 |
| Specific funds transferred to/(from) Earmarked Reserves | - | 0.097 | (1.965) | (1.868) | - | (1.868) |
| In-Year Revenue Outturn | 0.014 | - | (0.206) | (0.193) | 0.260 | 0.067 |
| **Balances at 31/3/17** | **0.426** | **3.537** | **3.493** | **7.457** | **10.446** | **17.903** |

Devolved Financial Management (DFM)

This reserve enables 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 principles of DFM are that any overspends and 50% of any underspends are carried forward into the new financial year, subject to a £25k maximum, other than where a specific business case could be made. The remaining 50% of any underspend is transferred to the authority's general reserve.

As a result of the above the DFM balance now stands at £426k, full details of which are set out in Appendix 2.

PFI Equalisation Reserve

This is used to smooth out the annual net cost to the Authority of both PFI schemes, and will be required to meet future contract payments. The level of reserves required is reviewed each year to ensure that it is sufficient given changes in forecast inflation and interest rates. The reserves have been updated during the year, resulting in a revised balance of £3.5m.

Other Earmarked Reserves

The reserve covers all funds, which have been identified for a specific purpose. The overall reserves level decreased from £5.7m to £3.5m.

The following table sets out the year end position in respect of each earmarked reserve, as at 31 March 2017:-

| | Balance at 31 March 2016 | Transfer 2016/17 | Balance at 31 March 2017 | |
|---|---|---|---|---|
| | £m | £m | £m | |
| New Dimensions Funding | 0.384 | - | 0.384 | To fund further training/ expenditure in respect of the New Dimensions and the USAR team in future years. |
| Retained Bounties | 0.078 | (0.078) | - | Following the introduction of the New Fire-fighters Pension Scheme in April 2006 all accrued liabilities in respect of retained bounties were frozen at that point in time, with the amounts being set aside in this earmarked reserve. As these bounties become payable the reserve is used to offset the revenue cost of this, with the final payment due in 2016/17 and any unused balance being reversed. |
| Insurance Aggregate Stop Loss (ASL) | 1.408 | 0.092 | 1.500 | The Authority's revised insurance arrangements from April 2016 reduced the aggregate stop loss (ASL) on the combined liability policy by £0.250m, hence current insurance policies have a combined ASL of £0.670m (the self-insured loss liability for vehicles standing at £0.254m and the combined insurance liability standing at £0.416m). As such the reserve, combined with amounts within the revenue budget, provides sufficient cover to meet 3 years' worth of the maximum possible claims, i.e. the ASL. |
| Training Centre | 0.221 | (0.168) | 0.053 | This reserve was utilised to fund site improvement works in 2016/17, and the balance will be used to fund the remaining works in 2017/18. |
| ICT | 0.148 | (0.027) | 0.121 | This reserve will be used on future ICT projects in order to deliver improved ways of working and facilitate ongoing efficiency savings. |
| Youth Engagement Scheme | 0.038 | 0.037 | 0.075 | This reserve reflects the anticipated cost of running the existing number of Fire Cadets units for three years. |
| Equipment | 0.090 | - | 0.090 | This reserve has been created to smooth the timing effects of replacing equipment, and meet large one off purchases that would otherwise directly impact the revenue budget and lead to large fluctuations in revenue budgets each year. |

| | | | | |
|---|---|---|---|---|
| Restructuring | 2.053 | (2.053) | - | This reserve was created to fund costs associated with any future restructuring programme following the completion and implementation of several ongoing and planned reviews, as well as providing scope to fund invest-to-save initiatives which provide opportunities for on-going savings. The approved capital budget 2017/18-2021/22 included the transfer of this into the Capital Funding Reserve. |
| Princes Trust | 0.184 | (0.012) | 0.172 | This reserve is used to balance short term funding timing differences and also to mitigate the risk of loss of funding and enable short term continuation of team activities, whilst alternative funding is found. |
| PWLB Loan repayment penalty | 1.000 | - | 1.000 | This reserve was created to meet the potential penalty costs associated with repayment of the PWLB loans. This is a notional amount as any penalties incurred will depend on both forecast interest rates and the remaining time to maturity, hence the actual penalty will be considered as part of the decision to repay the loans in due course, with any such decision being considered as part of future Treasury Management Strategy. |
| CFS Booklet | 0.011 | (0.011) | - | This reserve related to external funding from a variety of sources that was fully utilised during 2016/17 to fund the provision booklets that assists in delivering multi agency advice to farmers whilst facilitating the gathering of site specific risk information for operational purposes. |
| Bequest | 0.049 | - | 0.049 | During 2015/16 the Authority unexpectedly received a share of an estate, and despite attempts we have been unable to identify a connection to the Authority, hence we have set aside this monies to fund a future improvement. |
| ESMCP Ringfenced Funding | - | 0.049 | 0.049 | As part of the Emergency Services Mobile Communication Programme (ESMCP), transitional funding was made available to fund costs associated with the transition to the new national arrangements, with any funds not spent in 2016/17 being carried forwards for use in future years. |
| | **5.664** | **(2.171)** | **3.493** | |

General Reserve

This reserve carries forward all surpluses and deficits that arise in year. As members are aware it is designed to cover uncertainties in current and 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 are transferred into/out of reserves in order to meet future potential commitments, and as such the balance of the surplus on the revenue budget, £0.26m, has been transferred into this reserve. After allowing for these the Authority now holds a General fund balance of £10.4m.

As Members are aware, on an annual basis the Treasurer is required to report on the adequacy of reserves given the risks faced by the Authority, setting out the minimum (£2.8m) and maximum (£10.0m) level of reserves which are considered appropriate. Based on the position set out above the current level of general reserves is slightly in excess of this. However the draft revenue and capital budgets for 2017/18-2020/21 include potential drawdowns of around £7m, which would put this level of reserve towards the bottom end of our target range.

**Financial Implications**

As outlined in the report

**Business Risk Implications**

The outturn report enables stakeholders to monitor how the Authority has performed financially in the year

**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 |
|---|---|---|
| | | |
| Reason for inclusion in Part II, if appropriate: | | |

**Appendix 1**

| BUDGET MONITORING STATEMENT Mar 2017 | Total Budget | Actual Spend to Mar 2017 | Variance O/Spend (U/Spend) | Variance Pay | Variance Non-Pay | Transfer (to)/from DFM reserves | Transfer (to)/from Earmarked reserves | Transfer (to)/from General reserves |
|---|---|---|---|---|---|---|---|---|
| **DFM Expenditure** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Service Delivery** | | | | | | | | |
| Service Delivery | 31,347 | 30,059 | (1,287) | (962) | (325) | - | - | (1,287) |
| Prince's Trust Volunteers Scheme | - | 37 | 37 | - | 37 | 25 | 12 | - |
| Training & Operational Review | 2,745 | 2,919 | 174 | 112 | 62 | 7 | 167 | - |
| Control | 1,092 | 1,093 | 0 | - | 0 | - | - | 0 |
| Special Projects | 18 | 22 | 4 | 2 | 2 | 24 | - | (20) |
| **Strategy & Planning** | | | | | | | | |
| Service Development | 3,673 | 3,496 | (177) | (94) | (83) | - | - | (177) |
| Fleet & Technical Services | 2,358 | 2,305 | (53) | 27 | (80) | (15) | - | (38) |
| Information Technology | 2,169 | 2,194 | 25 | (3) | 28 | (2) | 27 | - |
| **People & Development** | | | | | | | | |
| Human Resources | 505 | 494 | (11) | (30) | 19 | - | - | (11) |
| Occupational Health Unit | 221 | 185 | (36) | 41 | (77) | (18) | - | (18) |
| Corporate Communications | 285 | 272 | (14) | 3 | (17) | - | - | (14) |
| Safety Health & Environment | 169 | 161 | (8) | 6 | (14) | - | - | (8) |
| **Corporate Services** | | | | | | | | |
| Executive Board | 998 | 981 | (17) | 8 | (25) | - | - | (17) |
| Central Admin Office | 427 | 386 | (41) | (44) | 3 | (2) | - | (39) |
| Finance | 142 | 141 | (1) | (2) | 1 | (1) | - | (1) |
| Procurement | 741 | 611 | (130) | (24) | (105) | (8) | - | (121) |
| Property | 1,460 | 1,255 | (205) | (5) | (200) | (25) | - | (180) |
| External Funding | - | 2 | 2 | 2 | 0 | 2 | - | - |
| **TOTAL DFM EXPENDITURE** | 48,350 | 46,613 | (1,737) | (963) | (774) | (14) | 206 | (1,930) |
| | | | | | | | | |
| **Non DFM Expenditure** | | | | | | | | |
| Pensions Expenditure | 1,257 | 1,228 | (30) | - | (30) | - | - | (30) |
| Other Non-DFM Expenditure | 6,016 | 7,716 | 1,700 | 2 | 1,698 | - | - | 1,700 |
| **NON-DFM EXPENDITURE** | 7,274 | 8,944 | 1,670 | 2 | 1,669 | - | - | 1,670 |
| | | | | | | | | |
| **TOTAL BUDGET** | **55,623** | **55,556** | **(67)** | **(961)** | **895** | **(14)** | **206** | **(260)** |

Appendix 2

| | DFM Balance B/Fwd | DFM Adjustment | Tfr from earmarked | DFM Journal | Utilised in year | DFM Balance C/Fwd |
|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Service Delivery** | | | | | | |
| Service Delivery | (150) | - | - | - | - | (150) |
| Prince's Trust Volunteers Scheme | (25) | 37 | (12) | 25 | - | - |
| Training & Operational Review | (7) | 174 | (167) | 7 | - | - |
| Control | - | - | - | - | - | - |
| Special Projects | (31) | 24 | - | 24 | 1 | (6) |
| **Strategy & Planning** | | | | | | |
| Service Development | (25) | - | - | - | - | (25) |
| Fleet & Technical Services | (10) | (15) | - | (15) | - | (25) |
| Information Technology | 2 | 25 | (27) | (2) | - | - |
| **People & Development** | | | | | | |
| Human Resources | (25) | - | - | - | - | (25) |
| Occupational Health Unit | (5) | (18) | - | (18) | - | (23) |
| Corporate Communications | (25) | - | - | - | - | (25) |
| Safety Health & Environment | (25) | - | - | - | - | (25) |
| **Corporate Services** | | | | | | |
| Executive Board | (25) | - | - | - | - | (25) |
| Central Admin Office | (23) | (2) | - | (2) | - | (25) |
| Finance | (10) | (1) | - | (1) | - | (11) |
| Procurement | (17) | (8) | - | (8) | - | (25) |
| Property | - | (25) | - | (25) | - | (25) |
| External Funding | (14) | 2 | - | 2 | - | (11) |
| **TOTAL DFM EXPENDITURE** | (414) | 193 | (206) | (14) | 1 | (426) |
| | | | | | | |
| **Non DFM Expenditure** | | | | | | |
| Pensions Expenditure | - | - | - | - | - | - |
| Other Non-DFM Expenditure | - | - | - | - | - | - |
| **NON-DFM EXPENDITURE** | - | - | - | - | - | - |
| | | | | | | |
| **TOTAL BUDGET** | **(414)** | **193** | **(206)** | **(14)** | **1** | **(426)** |

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**LANCASHIRE COMBINED FIRE AUTHORITY**
**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**STATEMENT OF ACCOUNTS 2016/17**
**(Appendix 1 refers)**

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

**Executive Summary**

This report presents the Statement of Accounts of the Combined Fire Authority for the financial year ended 31 March 2017.

**Recommendation**

The Committee is asked to approve the Statement of Accounts.

**Information**

The Combined Fire Authority's Statement of Accounts is attached as Appendix 1. Whilst the Statement takes account of the information presented in the Year End Capital Outturn, Year End Treasury Management Outturn and Year End Revenue Outturn, as presented the Statement of Accounts itself is prepared in line with recommended accounting practice. However it must be borne in mind that this is not accounted for on the same basis as we account for council tax and hence does not tie in to the actual revenue position set out in the Year End Revenue Outturn report. Furthermore, this means that it is a very complicated document.

The Statement of Accounts is subject to review by the Authority's external auditors, Grant Thornton, which is scheduled to take place in June and July. A further report will be presented to the Audit Committee at a future meeting, once this is completed, with the final Statement of Accounts represented to Resources Committee for information.

The Statement has been signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2017.

Under existing regulations the Chair of the Committee approving the accounts has responsibility for signing and dating these. The aim of this requirement is to: -

- Encourage audited bodies to produce timely accounts of a good quality
- Promote the concept of corporate governance

The Statement of Accounts is placed on deposit for public inspection from Monday 19th June until Friday 21st July.

**Overview of the Statement of Accounts**

The content and format of the accounts is as prescribed in the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The following gives a brief explanation of the main components of the Accounts and the key issues within them: -

Narrative Report
Sets out the financial context in which the Combined Fire Authority operates, and provides an overview of the financial year 2016/17 as well as details of future plans.

Annual Governance Statement
This reflects the position the Authority has 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.

Auditors Report and Opinion
This sets out the Auditors opinion on the Statement of Accounts, and is subject to the results of the outstanding audit work which will commence in June.

Statement of Responsibilities
This sets out the responsibilities of the Authority and the Treasurer in terms the overall management of the Authorities finances and in terms of the production of the annual accounts.

Comprehensive Income & Expenditure Account
This statement shows the accounting cost in the year of providing services. It is a summary of the resources that have been generated and consumed in providing services and managing the Authority during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. The format of this statement has changed since last year end to reflect reporting to management during the year, and the comparative years figures have been restated to reflect this change (see Note 1 – Prior Period Adjustment, page 23).

The main points to note are: -

| | 2016/17 | 2015/16 | |
|---|---|---|---|
| Service Delivery | 22,775 | 26,605 | The cost of Service Delivery shows reductions when compared with the previous year, largely the result of both the outcome of the Prevention and Protection Review which transferred 42 technical fire safety staff into the Strategy and Planning Directorate, plus underspends on the smoke detectors budget and the adjustment required in respect of pension liabilities under IAS 19. |

| | | | |
|---|---|---|---|
| Strategy & Planning | 6,618 | 5,189 | The cost of Strategy and Planning shows an increase when compared with the previous year, the effect of the transfer of the technical fire safety staff referred to above, in addition to the adjustment required in respect of pension liabilities under IAS 19. |
| People & Development | 1,123 | 1,022 | The cost of People and Development shows an increase when compared with the previous year, which is predominantly due to the adjustment required in respect of pension liabilities under IAS 19. |
| Corporate Services | 3,162 | 3,561 | The cost of Corporate Services shows reductions when compared with the previous year, largely as a result of reduced spend within the Property Department. |
| Fire Fighters Pensions | 1,228 | 1,156 | These costs are the ongoing pension costs relating to previous ill health or injury retirements, which have remained at a similar level to the previous year. |
| Overheads | 6,953 | 4,429 | This heading includes all capital financing charges, previous payments made in respect of the LGPS deficit, and depreciation and impairment charges made in respect of assets. The increase in Overheads largely relates to the increase in the amount of depreciation and impairment charged, which reflects the effect of previous revaluation gains. |
| Interest Payable | 1,674 | 1,704 | The level of interest payable in respect of current loans is £0.3m as shown in the Year End Treasury Management Outturn report. In addition to this interest charges associated with the PFI scheme and finance leases totalled £1.4m, in line with the previous years charges. |
| Pension Interest Cost And Expected Return On Assets | 23,275 | 22,019 | This relates to adjustments required under IAS 19 requirements, and is designed to show the expected increase in costs of the scheme less the expected increase in asset values. As the Fire-fighters pension scheme is unfunded there is no increase in asset value to offset the increase in scheme costs is resulting in a £23.3m charge to the Income and Expenditure Account. |
| Interest Receivable | (304) | (367) | The level of interest earned on investments has reduced to £0.3m, due to a 0.25% reduction in the call account interest rate at the start of August, as reflected in the Year End Treasury Management Outturn report. |

| | | | |
|---|---|---|---|
| Council Tax | (27,506) | (27,184) | Amounts raised through council tax, including the Authority's element of council tax collection fund surplus accumulated during the preceding year by the billing authorities. This amount reflects the total amount due, rather than simply the amount of cash received in year. |
| Revenue Support Grant | (13,218) | (15,210) | The level of Revenue Support Grant allocated to the Authority by the Government. |
| Non-Domestic Rates Redistribution | (15,050) | (13,739) | Amounts raised through non domestic rates, including the Authority's element of business rates collection fund surplus accumulated during the preceding year by the billing authorities, in addition to top up grant receivable from the Government as part of the localisation of business rates. This amount reflects the total amount due, rather than simply the amount of cash received in year. |
| Capital Grant Income | - | (3,002) | This shows the level of capital grants, received from the Government during the year. |
| Business rates S31 grant | (447) | (480) | This grant is allocated to the Authority by the Government, and relates to small business rates reliefs allowed by the Government as part of the localisation of business rates. |
| Deficit On The Provision Of Services | 10,281 | 5,714 | The overall deficit shows that expenditure incurred exceeded income generated over the last twelve months, and is measured in terms of the resources consumed and generated. However, this includes a number of accounting entries which do not impact on council tax levels, most notably those relating to the pensions schemes. As such this does not show the actual surplus when comparing spend against council tax. |
| (Surplus)/Deficit On Revaluation Of Non-Current Assets | (9,871) | (7,021) | This is a notional change in the value of fixed (non-current) assets, based on changes in market conditions etc. No actual change in value will be achieved until such time as the asset is disposed of. |
| Actuarial (Gains)/ Losses On Pensions Assets And Liabilities | 114,465 | (35,461) | This is a notional charge arising from the Actuary changing their assumptions on which future pensions liabilities are calculated, such as mortality rates, future interest rates, pay and pension increases, return on assets etc. |

<table>
<tr>
<td>Total Comprehensive Income And Expenditure</td>
<td>This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation. As such in order to aid understanding the following table shows the comparison between the revenue budget position, as set out in the Year End Revenue Outturn report, and the Total Comprehensive Income And Expenditure figure.
<table>
<tr><td></td><td>£m</td></tr>
<tr><td>Revenue Budget Position</td><td>(0.067)</td></tr>
<tr><td>Transfer from earmarked reserve – DFM balances</td><td>(0.193)</td></tr>
<tr><td>Increase in general fund balance – agrees to Movement In Reserves Statement</td><td>(0.260)</td></tr>
<tr><td>Accounting for pensions under IAS19</td><td>10.908</td></tr>
<tr><td>Various other adjustments not affecting council tax</td><td>3.877</td></tr>
<tr><td>Removal of transfers (to)/from earmarked reserves</td><td>(4.244)</td></tr>
<tr><td>Deficit on the provision of services</td><td>10.281</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Surplus on revaluation of non-current assets</td><td>(9.871)</td></tr>
<tr><td>Actuarial loss on pensions assets and liabilities</td><td>114.465</td></tr>
<tr><td>Total Comprehensive Income And Expenditure</td><td>114.875</td></tr>
</table>
</td>
</tr>
</table>

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into:-

- Usable Reserves - those that the Authority may use to provide services or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use
- Unusable Reserves – those include reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences 'between accounting basis and funding basis under regulations'.

The main points to note are:-

| | 2016/17 | 2015/16 | |
|---|---|---|---|
| Balance at 1 April | 10,186 | 10,664 | |
| Total Comprehensive Income And Expenditure | (10,281) | (5,714) | This shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. However it must be borne in mind that this is not accounted for on the same basis as we account for council tax and hence does not tie in to the actual revenue position set out in the Year End Revenue Outturn report. |

| | | | |
|---|---|---|---|
| Charges for depreciation and impairment of non-current assets | 6,209 | 3,538 | This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year. |
| Amortisation of intangible assets | 131 | 134 | This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year. |
| Disposal of assets | - | (84) | The charge in the previous year relates to the revaluation loss on disposal of Chorley Fire Station. |
| Capital grants applied | - | (3,002) | This shows the level of capital grants that have been utilised in the year, these were received from the Government last year, hence no charge against the General Fund Balance. |
| Provision for the repayment of debt | (331) | (485) | This is the charge made against the revenue budget to reduce future borrowing requirements, calculated in accordance with the methodology agreed as part of the Authorities Treasury Management Strategy 2016/17 and budget setting 2016/17. |
| Capital expenditure charged against General Fund Balance | (1,534) | (2,850) | This is the level of capital expenditure, both current and future years, which has been funded from contributions from the 2016/17 revenue budget, as agreed as part of the budget setting process and as shown in the Year End Capital Outturn report. |
| Amount by which the Code and the statutory pension costs differ | 10,908 | 8,233 | This shows the difference between the change in pension liability from one year to the next and the level of employer pension contributions and retirement benefits allowed for in the revenue budget/council tax calculation. |
| Amount by which collection fund income in the comprehensive income and expenditure statement is different from collection fund income calculated for the year in accordance with statutory requirements | (599) | 356 | This shows the difference in value between the amount due to be raised from council tax and business rates, as agreed as part of the budget setting process, and the amount collection authorities have actually collected on our behalf in the year, i.e. the difference between the assumed collection rate and the actual collection rate, the deficit in 2016/17 reflecting the fact that authorities have collected more business rates than anticipated. |

| | | | |
|---|---|---|---|
| Net increase/decrease before transfers to earmarked reserves | 4,503 | 126 | This shows the statutory General Fund Balance change in year before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority. |
| Transfers (to)/from earmarked reserves | 10 | (385) | These represents the transfers to specific earmarked reserves referred to in the Year End Revenue Outturn report. |
| Transfers (to)/from capital funding reserves | (4,296) | (231) | These represents the transfers to the capital funding reserve referred to in the Year End Revenue Outturn report and to the capital funding reserve referred to in the Year End Capital Outturn report. |
| Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 43 | 11 | This represents the movements on the Accumulated Absences Adjustment Account, which reflects the increase in the amount of leave owing to staff as at year end. |

| | |
|---|---|
| Increase/Decrease in the year | This is the net change to reserves, comprising the Surplus/Deficit on provision of services, less any adjustments for items which don't affect council tax and any transfers to/from earmarked reserves. The following table sets out the changes from the surplus of the revenue outturn report to the figure reported here |

| | 2016/17 £m | 2015/16 £m |
|---|---|---|
| Revenue Budget Position | 0.067 | (0.521) |
| Transfer from earmarked reserves & DFM balances | 0.193 | 0.043 |
| Surplus/(Deficit) on provision of services | 0.260 | (0.478) |

The movement on earmarked reserves ties in to the Year End Revenue Outturn report.

| | 2016/17 £m | 2015/16 £m |
|---|---|---|
| Transfer from earmarked reserves | (1,870) | 0.323 |
| Transfer from earmarked reserve – DFM balances | (0.193) | (0.043) |
| | (2.063) | 0.280 |

The net increase on the capital funding reserves (£6.349m), and the net decrease in capital grant unapplied (£1.974m) agree to the Year End Capital Outturn report.

| | | | |
|---|---|---|---|
| Balance at 31 March carried forwards | 10,446 | 10,186 | These are the final reserve balances which are reflected in the balance sheet in the statement of accounts, and which tie in to the values shown in the Year End Revenue and Capital Outturn reports. |

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

The main points to note are: -

| | 2016/17 | 2015/16 | |
|---|---|---|---|
| **Long Term Assets** | | | |
| Property, Plant & Equipment | 88,223 | 81,134 | The value of property, plant & equipment has increased by £7.1m, due to the level of capital expenditure (£3.5m as shown in the Year End Capital Outturn report) and the net revaluation gains of £8.4m compared with depreciation charges of £4.7m. |
| Intangible assets | 228 | 299 | Intangible assets are assets which do not have a physical form, such as software, which are broadly in line with last year, representing the level of capital expenditure less amortisation of these assets, reflecting their use. |
| Long Term Investments | 10,000 | 10,000 | The Authority holds two investments with Local Government bodies which are classed as long term investments, ie over 3 months in duration. |
| **Current Assets** | | | |
| Assets Held for Sale | 21 | - | The book value of the surplus plot of land at Penwortham, which has since been sold. |
| Inventories | 206 | 198 | The value of stock held has remained broadly in line with last year. |
| Short-Term Debtors | 10,746 | 8,533 | Debtors represent monies owed to the Authority on 31st March 2017. In order to improve cash flow this figure should be as low as possible, however it is inevitable that there will always be a balance on this due to the timing of invoices and the debt recovery process.<br>The level of debtors at the year-end has increased by £2.2m, the majority of which reflects the increase in the amount owed to the Authority by the FF pension fund in the form of top up grant due during July 2017. |

| | | | |
|---|---|---|---|
| Cash & Cash Equivalents | 29,061 | 28,562 | This represents the cash book balance at the year end, which is held in a call account by Lancashire County Council (LCC) as shown in the Year End Treasury Management Outturn report. |
| **Current Liabilities** | | | |
| Short-Term Borrowing | (333) | (253) | This shows the borrowing and interest due to be repaid within the next 12 months, which simply reflects the maturity dates of loans previously taken out. |
| Other Short-Term Liabilities | (335) | (271) | This relates to short term liabilities in respect of the Authorities PFI contracts with PFF Lancashire Ltd and Balfour Beatty Fire and Rescue NW Ltd and in addition the short term element of finance leases. |
| Short-Term Creditors | (6,376) | (6,185) | This figure represents the amount of money we owe to other bodies at 31st March 2017. The overall balance is broadly in line with last year. |
| **Long Term Liabilities** | | | |
| Provisions | (1,763) | (2,129) | This shows the outstanding provisions, relating to the potential cost of outstanding insurance claims, which will have to be met by the Authority in future years, the remaining balance of the potential costs associated with Retained Fire-fighters' claims (under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000) concerning employment terms, and also the Authorities share of billing authorities business rates outstanding appeals. |
| Long-Term Borrowing | (5,243) | (5,580) | The Authority has £5.2m of borrowing which is due for repayment between 1 April 2018 and 30 June 2037 which has historically been used to fund capital investment, as referred to in the Year End Treasury Management Outturn report. The balance on this account relates to accrued interest owed at the end of the financial year, which will be paid in line with agreed payment dates. |
| Other Long-Term Liabilities | (811,285) | (686,284) | This majority of this relates to adjustments required under IAS 19, and shows the extent to which the authorities liability to pay pension benefits in the future exceeds the value of assets held. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £797m. |

| | | | |
|---|---|---|---|
| | | | This also includes liabilities covering the remainder of the contract associated with the two PFI contracts;<br>• PFF Lancashire Ltd for the provision of two fire stations,<br>• Balfour Beatty Fire and Rescue for the provision of four fire stations within Lancashire, as part of the joint contract to provide sixteen stations across Lancashire, Cumbria and Merseyside.<br>In addition, this also includes liabilities relating to an outstanding finance lease. |

| | | | |
|---|---|---|---|
| **Financed By** | | | |
| **Usable Reserves:** | | | |
| Revenue Reserves | (17,901) | (19,704) | This is the level of reserves, £17.9m, that the Authority currently holds which can be utilised to offset future revenue expenditure, subject to the need to maintaining a prudent level of reserves and any statutory limitations on their use. It includes the general reserves as well as any earmarked reserves as referred to in the Year End Revenue Outturn report. |
| Capital Funding Reserve | (16,633) | (10,284) | This reserve holds £16.6m of balances to fund future capital expenditure. |
| Capital Grant Unapplied | (505) | (2,479) | This reserve holds the remaining balance of the unspent capital grant received in 2015/16, which will be spent during 2017/18. |
| Usable Capital Receipts Reserve | (1,501) | (1,501) | This represents the proceeds from the sale of fixed assets which are used to finance capital investment. To class as capital receipts the value of the sale must exceed £10,000. |
| **Unusable Reserves:** | | | |
| Revaluation Reserve | (36,957) | (28,480) | This account holds unrealised revaluation gains, or losses, from holding fixed assets, as such any revaluations that have taken place since 1 April 2007 are reflected in this reserve. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend. |
| Capital Adjustment Account | (36,762) | (37,868) | The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend. |

| | | | |
|---|---|---|---|
| Pensions Reserve | 796,969 | 671,596 | This relates to adjustments required under IAS 19, and is a notional reserve required in order to offset the net liability of the Authority in respect of the pension schemes. |
| Collection Fund Adjustment Account | (664) | (65) | This account reflects the net effect of the adjustments required to show our share of each billing authority's council tax and business rates debtors and creditors at year end, in our case this shows a surplus of £664k. |
| Accumulated Absences Adjustment Account | 804 | 761 | This account represents the value of leave accrued at the year end, but which has not yet been taken, and hence has been carried forward into the new financial year. However given that the leave year for Fire Fighters runs from January to December leave entitlement is calculated on a pro-rata basis which can distort the overall position. |

Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The main points to note are:-

| | 2016/17 | 2015/16 | |
|---|---|---|---|
| Net Cash Flows Arising From Operating Activities | 5,750 | 9,175 | This shows the level of net cash generated by revenue activities, i.e. the level of income received in the form of grant, council tax etc, offset by payments made in respect of employee costs and non pay costs etc. |
| Investing Activities | (3,081) | (4,143) | This shows the cash outflows which have been made for resources that are intended to contribute to the Authority's future service delivery, such as £3.5m of expenditure on capital assets, which are referred to in the Year End Capital Outturn report. |
| Financing Activities | (2,170) | (2,203) | This shows cash flows relating to borrowing activities, in our case £0.3m, which equates to the repayment of borrowing in respect of PFI and finance lease arrangements, but which is included in the overall charges against the revenue budget in respect of these assets, and in addition the actual level of interest payments made during the year. |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at the end of the reporting period | 29,061 | 28,562 | This shows the net cash immediately available within the Authority in a call account with LCC. The increase in value of £0.5m is less than the previous years' net increase. |

Notes To The Core Financial Statements
These provide more detailed notes to the figures contained within the core financial statements of the accounts.

Note 2 to the accounts, the Expenditure and Funding Analysis (on pages 24 to 27) provides a link between the statement of accounts Comprehensive Income and Expenditure Statement and the financial monitoring reports presented to Resources throughout the year.

Included within this section are the Accounting Policies (note 29) that have been adopted by the Authority and used in order to produce the set of accounts, and indicates compliance with relevant codes of practice.

As in previous years the accounts have been prepared taking account of International Accounting Standard (IAS) 19, which requires all future costs of retirement benefits to be recognised in the accounts in the year in which they are earned by the employee, regardless of when they will be paid. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £797m. However, it should be noted that this requirement is a technical accounting requirement and does not impact on the authority's income or expenditure funded from its cash resources, or on the council tax payers of Lancashire.

Fire Fighters Pension Fund
This statement on page 64 sets out the income and expenditure attributable to the fire fighters pension fund, showing that the CLG owes the Authority a further £4.3m in order to balance the account to nil, and reflects the changes to pensions funding arrangements.

Glossary of Terms
Provides an explanation of the main accounting terms used in the Statement of Accounts.

**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 |
|---|---|---|
| SORP and Guidance | February 2017 | Keith Mattinson, Director of Corporate Services |
| Final Account Working Papers | May 2017 | 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

# 2016/17

# LANCASHIRE COMBINED FIRE AUTHORITY

## STATEMENT OF ACCOUNTS 2016/17

### CONTENTS

## 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 2016/17
- 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 2017 (referred to as 2016/17). 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 2016/17. 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.

**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.

**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.

**Balance Sheet** – This shows information on the financial position of the Fire Authority as at the 31 March 2017, 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 2016/17 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.

The new RDS team for Lancaster went live in October 2016 replacing the existing second whole-time pump and delivering savings of £0.9m. Skelmersdale Fire Station also moved onto the Day Crewing Plus system at the start of the new financial year, taking the total to 11 stations operating this crewing system.

We have invested in innovative firefighting equipment during the year, for example we have introduced an Unmanned Aerial Vehicle (UAV or Drone) for use during operational incidents, we have introduced a new type of vehicle, the AT Stinger which has increased capability to deal with fires in roof spaces more effectively. In addition, following on from the December 2015 flooding incidents, we have issued all operational staff with flood suits and various flood rescue equipment items.

We are further developing the Home Fire Safety Check Service, and are currently piloting 'Safe and Well' visits to aid vulnerable people referred to us via our partner agencies where there is an increased risk of a poor outcome should a fire in the home occur. This initiative is part of an agreed attempt by NHS England, Public Health England, Local Government Association and Chief Fire Officers Association to design a fire contribution that is complimentary to the wider health agenda nationally.

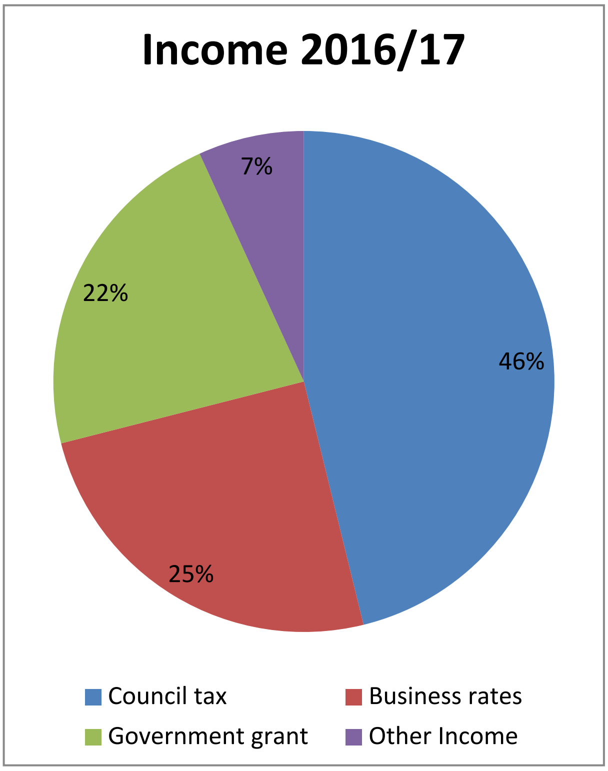
Non-financial performance has remained strong. Activity has decreased by 1.7%, and remains low at less than 15,200 incidents. Overall casualty numbers increased slightly from 49 to 51. The number of accidental dwelling fires saw an almost 10% decrease; however deliberate dwelling fires saw a marginal increase. 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 Link to video to be updated once it's available

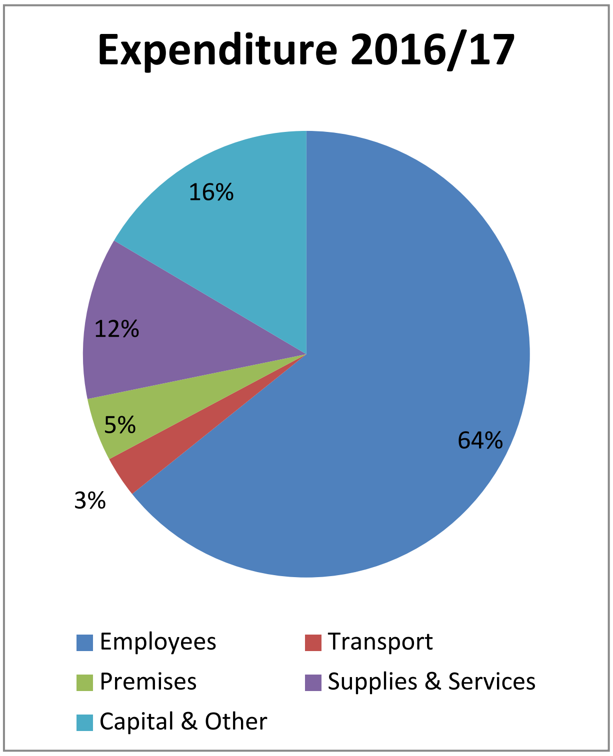
## The 2016/17 Financial Overview

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 fell by £1.9m. The Authority had to identify efficiencies of £2.5m in order to offset financial pressures in order to deliver an acceptable budget. This resulted in a gross revenue budget of £55.6m, a reduction of 2%. This resulted in a council tax of £65.50, an increase of 1%, which is just under £1.26 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.

Actual net expenditure for the year was £55.4m. 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 | 38,997 | 38,035 | (962) |
| Other employee related costs | 107 | 147 | 40 |
| Premises | 3,040 | 2,719 | (321) |
| Transport | 1,944 | 1,770 | (174) |
| Supplies & services | 7,525 | 6,965 | (560) |
| Capital financing costs & other | 8,104 | 9,808 | 1,703 |
| Total Expenditure | 59,717 | 59,443 | (274) |
| Income | (4,094) | (4,079) | 14 |
| Budget requirement | 55,624 | 55,364 | (260) |
| | | | |
| Funded by: | | | |
| Council tax | (27,565) | (27,565) | (0) |
| Business rates | (14,840) | (14,840) | (0) |
| Government grant | (13,219) | (13,219) | 0 |
| | (55,624) | (55,624) | (0) |
| | | | |
| Net Overspend | - | (260) | (260) |

The Authority maintained its process of targeting reductions in expenditure, in order to enhance its financial position to deal with on-going funding reductions, generating savings of £4.0m in year against an anticipated target of £2.5m. The net revenue position shows a large underspend on pay, as a result of staffing vacancies being held throughout the year pending the removal of one wholetime appliance at Lancaster in October.  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 £2.3m into the Capital Funding Reserve to reduce future pressures against the capital programme.

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 18.

| | £m |
|---|---|
| Revenue Budget Position | (0.067) |
| Transfer from earmarked reserves – Earmarked and DFM transfers | (0.193) |
| Accounting for pensions under IAS19 (see Movement in Reserves Statement, page 19) | 10.908 |
| Various other adjustments not affecting council tax | 3.877 |
| Removal of transfers (to)/from earmarked reserves | (4.244) |
| Surplus on the provision of services (see Comprehensive Income and Expenditure Statement, page 18) | 10.281 |
| Surplus on revaluation of non-current assets | (9.871) |
| Actuarial loss on pensions assets and liabilities | 114.465 |
| Total Comprehensive Income And Expenditure (see Comprehensive Income and Expenditure Statement, page 18) | 114.875 |

The Authority has increased the general fund balance by £0.3m to £10.4m, 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 anticipated 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 2017/18 budget, shows approx. £7m of reserves being used by March 2021 meaning that we will be approaching our minimum reserve level at that time.

The Authority also holds an additional £7.5m of earmarked revenue reserves and £18.1m of capital reserves and receipts. Again, the majority of these are utilised within the medium term financial strategy, reducing to a level of £5.6m and £2.6m respectively by the end of 2019/20.

The Authority has continued to invest in its asset base, with capital expenditure incurred in the year totalling £3.5m, as set out below:-

| Capital Budget | Spend 1617 £m |
|---|---|
| Vehicles | |
| Pumping Appliances – stage payments for 5 Pumping Appliances from the 2016/17 capital programme | 0.4 |
| Operational Support Vehicles – purchase of various support vehicles, such as vans and cars | 0.1 |
| Operational Equipment | |
| Purchase of various innovations in firefighting equipment, including and Unmanned Aerial Vehicle (UAV or Drone), flood suits for all operational staff, and stabilisation struts for use on rescues from collapsed/damaged property or vehicles involved in RTC's | 0.3 |
| Buildings | |
| Training Centre site works, including work relating to on site training props and initial stage payments for the replacement water main | 0.3 |
| Refurbishment of Carnforth Fire Station | 0.3 |
| Purchase and initial stage payments on the refurbishment of the property adjacent to Lancaster Fire Station, in order to make way for the new joint Fire/Ambulance Station project | 2.0 |
| ICT | |
| Purchase of a replacement Community Fire Risk Management Information System | 0.1 |
| Total | 3.5 |

The service was previously successful in bidding for £2.4m of capital grant, provided by the government, in order to deliver longer term efficiency savings. This is contributing to the cost of redeveloping Lancaster Fire Station in order to provide a joint Fire and Ambulance Station.

The Balance Sheet shows that the Authorities Total Net Liabilities increasing to £687m. 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 £797m is extremely large. If this liability was excluded the Authorities Total Net Assets would have increased to £110m.

Long term assets have increased in value to £98.5m, reflecting the expenditure incurred in year and the net outcome of revaluations.

Long term borrowing has reduced to £5.2m, 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 £0.03m additional voluntary MRP payment.

**Future Financial Plans**

The Government's continued 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 2017/18 Local Government Finance Settlements identified a reduction of £2.3m 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 £1.6m of savings in 2017/18. Overall these changes result in a revenue budget of £53.9m, a reduction of 3.0%. Based on this the Authority was able to freeze council tax at £65.50.

As part of the Local Government Finance Settlement for 2016/17 the Secretary of State announced an offer of four year funding settlements for local authorities in return for publishing an efficiency plan. The Authority was successful in applying for this.

Based on the four year indicative settlement funding for the period 2016-17 to 2019/20 will fall by 19%, or £5.5m. We will continue to deliver a further £0.2m of savings during 2018/19 and 2019/20 (£4.3m over the four year settlement). Despite this we will still be faced with a funding gap of up to £2.4m 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 £23m 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 2017/18 although any building works are unlikely to start until the early part of 2018/19.

We have also identified investment in two Training Assets on service delivery locations, in order to maximise the efficiency and consistency of staff training, in particular Retained Duty System staff, which will be scoped prior to the start of any procurement exercise.

We will continue to invest in our operational equipment to ensure that our staff have the best equipment available, and the programme includes continued funding for new equipment arising from the research and development project, as well as the replacement of our thermal imaging cameras, Breathing Apparatus sets and telemetry, our cutting/extrication equipment, defibrillators and light portable pumps 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;
- Increase in costs associated with national projects eg ESMCP (Emergency Services Mobile Communications Project);
- Slowdown in “leaver rates” resulting in increasing staff numbers;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements;

**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 2016/17 (the Code). The Code includes the following changes:

- Changes to the format of the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, the introduction of the Expenditure and Funding Analysis, and subsequent removal of the former segmental reporting note
- Changes to the format of the Pension Fund Account and Net Assets Statement

**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 an updated 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. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it
6. Managing risks and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting, and audit to deliver effective 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 2017 and up to the date of approval of the 2016/17 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 (IRMP) describes our aims, priorities, equality objectives and values, setting out our ambitions and how we will deliver them in the medium term. The current plan covering 2017-2022 was approved this year and can be found on our website at http://www.lancsfirerescue.org.uk/sites/lancs/Pages/ContentDocuments/Integrated-Risk-Management-Plan.pdf

- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan covering 2017/18 was approved this year and can be found on our website at http://www.lancsfirerescue.org.uk/sites/lancs/Pages/ContentDocuments/Annual-Service-Plan-2017-18.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;

- 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 framework to review potential partnership arrangements utilising set criteria prior to entering into such arrangements;

- 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 Integrated Risk Management Plan has been updated and agreed, covering the five year period 2017-2022.

- A revised Annual Service Plan has been agreed for 2017/18, providing clarity, both internally and externally, on our 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.

- Business Continuity arrangements have been updated and tested.

- A new Code of Corporate Governance has been agreed, based CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

- A revised code of conduct has been implemented.

- A framework has been developed to review potential partnership arrangements utilising the following criteria: Will it make Lancashire Safer?
    - Will undertaking the activity potentially damage our brand?
    - Does it fit with the public image of the FRS?
    - Will it detract from our ability to undertake other operational or preventative functions, if so to what extent?
    - Is there a significant negative financial impact?
    - Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc.)?

- An Operational Assurance Team has been implemented, providing a programme of service wide station assurance visits to identify areas for improvement and track these through to completion, thus enhancing operational preparedness, operational response and operational learning.

- A revised performance appraisal system, incorporating values, has been implemented for all staff

- 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 2016/17 audit plan the auditors undertook various reviews and gave the overall opinion that they can "*provide substantial assurance over the framework of governance, risk management and control for 2016/17"* and *"that there is a generally sound system of internal control, adequately designed to meet the objectives of Lancashire Combined Fire Authority and controls were generally applied consistently*."

- Grant Thornton 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 2015/16:
    - Financial statements – "*We gave an unqualified opinion on the Authority's financial statements*"
    - Value for money conclusion – "*We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year*"

Last year's Annual Governance Statement identified a number of areas for improvement, and progress against these are set out below:-

| Area for Improvement | Action to date | Completed/ On-going | Owner |
|---|---|---|---|
| The Services Information Management Strategy needs to be reviewed and updated to take account of changing requirements. | Information Management Strategy and a number of underpinning policies agreed.<br>A road map of work to be undertaken has been produced based around 3 key themes which set the direction of travel for the Service.<br>• Governance<br>• Quality<br>• Delivery<br>A number of projects have been commenced and remain in progress, such as:<br>• Governance: data protection & governance, partnership data management and privacy impact assessment<br>• Quality: records management, information archive, CFRMIS data matching.<br>• Delivery: SharePoint 2016, self-service GIS and active directory | On-going | Head of Service Development |
| Undertake a Governance review, including Committee Terms of Reference, Standing Orders, Scheme of Delegation and Financial Regulations | Work has started considering future requirements, which includes a review of current terms of reference for Committees. Standing Orders, Scheme of Delegation and Financial Regulations are all reviewed on a regular basis to ensure they remain fit for purpose. | On-going | Clerk |
| Review partnership engagement and opportunities | A framework has been developed to review potential partnership arrangements utilising the following criteria:<br>• Will it make Lancashire Safer?<br>• Will undertaking the activity potentially damage our brand?<br>• Does it fit with the public image of the FRS?<br>• Will it detract from our ability to undertake other operational or preventative functions, if so to what extent?<br>• Is there a significant negative financial impact?<br>• Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc)?<br>In terms of specific work streams previously reported the following update is provided:-<br>• Safe and Well visits – identified 6 key areas that have been re-occurring themes to date; falls prevention, social isolation, diabetes, dementia, home security, healthy homes.<br>A pilot commenced Dec 2nd 2016 involving operational crews and Community Safety Advisors across the county. Initial feedback from both staff delivering and recipients within local communities is positive. Developing an automated referral process and evaluating the model (with the support of the NFCC) are currently key work streams.<br>• Information sharing work stream to consider LPRES (Lancashire Patient Record Exchange System); meeting to be progressed with suppliers, internal stakeholders and with other services.<br>Development through the CFOA Strategic Health Group opens up access to the Exeter Data set (a live database of all GP patient registrations across Lancashire and South | On-going | Head of Service Delivery |

| | | | |
|---|---|---|---|
| | Cumbria.) and Information Sharing Agreements developed with Unitary Authorities, are viewed as key enablers in improving outcomes for vulnerable people.<br>• Fire Safety Model for social care work stream is progressing the development of a jointly owned action plan. The implementation of a revised Domiciliary Care contract, commissioned via Lancashire County Council, and how LFRS continue to strengthen the working relationships (specifically in terms of the provision of training) with those care providers meeting the contract specification, being a significant work-stream for 2017/18.<br>• Volunteer work stream is embedded with the use of volunteers in delivering Fire Cadets. | | |
| Develop a more flexible way of ensuring the delivery of our business continuity arrangements | A new process has been agreed. All departments have completed Business Impact Assessments and Recovery Plans. The Strategic Business Continuity Plan has been updated. | Completed | Head of Service Development |
| Deliver services digitally to the public using web technology | The new website and digital delivery of the home fire safety check service has been embedded.<br>The site now incorporates an on-line recruitment platform which digitises the process of applying for a role at LFRS. This will be further extended during the year.<br>The Service has further invested in a community engagement platform "in the Know" which is used to warn and inform the public of risks and emergencies | Completed | Head of Corporate Comms |
| 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.<br>Review of staff recognition and development of staff sounding boards was undertaken and is currently on hold pending recruitment of additional resources. | On-going | Head of Corporate Comms |
| Introduce a formal coaching and mentoring programme | Coaching & mentoring training rolled out to Supervisory Managers and now forms part of the ILM L3 Supervisory Management Development Programme<br>Managers in development have mentors appointed<br>Coaching skills Service Order & Associated Training complete to allow all managers to utilise coaching skills. | Completed | Head of Training and Operational Review |
| Deliver a new model for the assurance of service delivery activities and review our station audit process<br><br>Review our operational debrief process and incident monitoring to increase learning from incidents and improve operational performance | An Operational Assurance Team (OAT) has been implemented following a re-structuring of Service Delivery Manager roles on Areas.<br>The Team is based at STC alongside our Training Managers. This will optimise Operational Preparedness, Operational Response, and Operational Learning by reporting findings from Station Visits, Incident Monitoring and Debriefs to a new Operational Assurance Group.<br>The new methodology will meet recent national guidance and will also include a clear information flow in and out of National and Multi-Agency Learning.<br>A draft Operational Assurance Framework service order has been completed, focusing on 3 key areas of<br>• operational preparedness<br>• operational response<br>• operational learning.<br>A programme of service wide station assurance visits is underway to identify areas for improvement and track these through to completion.<br>Incident ground monitoring by a competent group of flexi duty officers is in place as are arrangements to strengthen learning | Completed | Head of Service Delivery & Head of Training and Operational Review |

| | | | |
|---|---|---|---|
| | from local and national incidents. | | |
| Review our appraisal system to better align individual tasking with organisational priorities and values | Revised Performance appraisal incorporating values updated and implemented | Completed | Head of Human Resources |
| Review progress against the Equality and Diversity National framework | Equality and diversity policy implemented. Focus has been the establishment of Equality Objectives, development of Equality and Diversity annual report to demonstrate progress against the public sector equality duty. | Completed | Head of Human Resources |

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 following new areas for improvement, and outstanding recommendations from last year's statement, are listed below:

- The Services Information Management Strategy needs to be reviewed and updated to take account of changing requirements.
- Undertake a Governance review, including Committee Terms of Reference, Standing Orders, Scheme of Delegation and Financial Regulations
- Review partnership engagement and opportunities, including develop strategic alliance with Lancashire Constabulary
- Implement revised staff induction programme
- Implement Leadership Conference
- Complete review of staff recognition

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
28 June 2017

C Kenny, Chief Fire Officer, Lancashire Fire and Rescue Service
28 June 2017

K Mattinson CPFA, Treasurer, Lancashire Combined Fire Authority
28 June 2017

**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 2017.

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
28 June 2017

County Councillor F DeMolfetta
Chair of Resources Committee
28 June 2017

## 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 both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

| Notes | | 2016/17 | | | 2015/16 Restated | | |
|---|---|---|---|---|---|---|---|
| | | Gross Expenditure | Gross Income | Net Expenditure | Gross Expenditure | Gross Income | Net Expenditure |
| | Continuing operations: | £000 | £000 | £000 | £000 | £000 | £000 |
| 1 | Service Delivery | 24,594 | (1,819) | 22,775 | 28,479 | (1,874) | 26,605 |
| 1 | Strategy and Planning | 7,021 | (403) | 6,618 | 5,488 | (299) | 5,189 |
| 1 | People and Development | 1,123 | - | 1,123 | 1,022 | - | 1,022 |
| 1 | Corporate Services | 3,219 | (57) | 3,162 | 3,622 | (62) | 3,561 |
| 1 | Fire-fighters Pensions | 1,232 | (4) | 1,228 | 1,158 | (2) | 1,156 |
| 1 | Overheads | 8,749 | (1,796) | 6,953 | 6,609 | (2,181) | 4,429 |
| | Net Cost of Services | 45,938 | (4,079) | 41,859 | 46,379 | (4,417) | 41,963 |
| | Loss on disposal of non current assets | | | - | | | 11 |
| | Financing & investment income & expenditure | | | | | | |
| 9 | Interest payable and similar charges | | | 1,674 | | | 1,704 |
| 16 | Pensions interest cost and expected return on pensions assets | | | 23,275 | | | 22,019 |
| 9 | Interest receivable and similar Income | | | (304) | | | (367) |
| | Taxation and non-specific grant income | | | | | | |
| | Council tax | | | (27,506) | | | (27,184) |
| | Revenue Support Grant | | | (13,218) | | | (15,210) |
| | Non-domestic rates redistribution | | | (15,050) | | | (13,739) |
| | Capital grant income | | | - | | | (3,002) |
| | Business rates S31 grant | | | (447) | | | (480) |
| | Deficit/(Surplus) on the provision of services | | | 10,281 | | | 5,714 |
| | (Surplus)/Deficit on revaluation of non-current assets | | | (9,871) | | | (7,021) |
| | Actuarial (gains)/losses on pensions assets and liabilities | | | 114,465 | | | (35,461) |
| | Other comprehensive income & expenditure | | | 104,594 | | | (42,482) |
| | Total Comprehensive Income and Expenditure | | | **114,875** | | | **(36,768)** |

## MOVEMENT IN RESERVES STATEMENT 2016/17

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 | Earmarked reserves | Total General Fund Balance | 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 | £000 |
| Balance at 31 March 2016 carried forwards | 10,186 | 9,518 | 19,704 | 10,284 | 2,479 | 1,501 | 33,968 | (605,943) | (571,976) |
| Movement in reserves during 2016/17 | | | | | | | | | |
| Surplus/(Deficit) on provision of services | (10,281) | - | (10,281) | - | - | - | (10,281) | - | (10,281) |
| Other comprehensive income and expenditure | - | - | - | - | - | - | - | (104,594) | (104,594) |
| Total comprehensive income and expenditure | (10,281) | - | (10,281) | - | - | - | (10,281) | (104,594) | (114,875) |
| Adjustments between accounting basis and funding basis under regulations | | | | | | | | | |
| Charges for depreciation and impairment of non-current assets | 6,209 | - | 6,209 | - | - | - | 6,209 | (6,209) | - |
| Amortisation of intangible assets | 131 | - | 131 | - | - | - | 131 | (131) | - |
| Capital grants applied | - | - | - | - | (1,974) | - | (1,974) | 1,974 | - |
| Provision for the repayment of debt | (331) | - | (331) | - | - | - | (331) | 331 | - |
| Capital expenditure charged against General Fund Balance | (1,534) | - | (1,534) | - | - | - | (1,534) | 1,534 | - |
| Amount by which the Code and the statutory pension costs differ | 10,908 | - | 10,908 | - | - | - | 10,908 | (10,908) | - |
| Amount by which the Code and the statutory collection fund income differ | (599) | - | (599) | - | - | - | (599) | 599 | - |
| | 14,785 | - | 14,785 | - | (1,974) | - | 12,811 | (12,811) | - |
| Net increase/decrease before transfers to earmarked reserves | 4,503 | - | 4,503 | - | (1,974) | - | 2,529 | (117,404) | (114,875) |
| Transfers (to)/from earmarked reserves | 10 | (10) | - | - | - | - | - | - | - |
| Transfers (to)/from capital funding reserve | (4,296) | (2,053) | (6,349) | 6,349 | - | - | - | - | - |
| Transfers (to)/from accumulated absences adjustment account | 43 | - | 43 | - | - | - | 43 | (43) | - |
| Net tfr (to)/from earmarked reserves | (4,244) | (2,063) | (6,306) | 6,349 | - | - | 43 | (43) | - |
| Increase/(Decrease) in the year | 260 | (2,063) | (1,803) | 6,349 | (1,974) | - | 2,572 | (117,447) | (114,875) |
| Balance at 31 March 2017 carried forwards | 10,446 | 7,455 | 17,901 | 16,633 | 505 | 1,501 | 36,540 | (723,390) | (686,850) |

## MOVEMENT IN RESERVES STATEMENT 2015/16

| | General fund | Earmarked reserves | Total General Fund Balance | 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 | £000 |
| Balance at 31 March 2015 carried forwards | 10,664 | 9,238 | 19,902 | 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) | - | (5,714) |
| Other comprehensive income and expenditure | - | - | - | - | - | - | - | 42,482 | 42,482 |
| Total comprehensive income and expenditure | (5,714) | - | (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 | (3,538) | - |
| Amortisation of intangible assets | 134 | - | 134 | - | - | - | 134 | (134) | - |
| Disposal of assets | (84) | - | (84) | - | - | 314 | 230 | (230) | - |
| Capital grants applied | (3,002) | - | (3,002) | - | 2,479 | - | (523) | 523 | - |
| Provision for the repayment of debt | (485) | - | (485) | - | - | - | (485) | 485 | - |
| Capital expenditure charged against General Fund Balance | (2,850) | - | (2,850) | - | - | - | (2,850) | 2,850 | - |
| Amount by which the Code and the statutory pension costs differ | 8,233 | - | 8,233 | - | - | - | 8,233 | (8,233) | - |
| Amount by which the Code and the statutory collection fund income differ | 356 | - | 356 | - | - | - | 356 | (356) | - |
| | 5,840 | - | 5,840 | - | 2,479 | 314 | 8,633 | (8,633) | - |
| Net increase/decrease before transfers to earmarked reserves | 126 | - | 126 | - | 2,479 | 314 | 2,919 | 33,849 | 36,768 |
| Transfers (to)/from earmarked reserves | (385) | 280 | (105) | - | - | - | (105) | 105 | - |
| Transfers (to)/from capital funding reserve | (231) | - | (231) | (321) | - | - | (552) | 552 | - |
| Transfers (to)/from accumulated absences adjustment account | 11 | - | 11 | - | - | - | 11 | (11) | - |
| Net tfr (to)/from earmarked reserves | (605) | 280 | (325) | (321) | - | - | (646) | 646 | - |
| Increase/(Decrease) in the year | (478) | 280 | (198) | (321) | 2,479 | 314 | 2,274 | 34,494 | 36,768 |
| Balance at 31 March 2016 carried forwards | 10,186 | 9,518 | 19,704 | 10,284 | 2,479 | 1,501 | 33,968 | (605,943) | (571,976) |

## 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 2017<br>£000 | At 31 March 2016<br>£000 |
|---|---|---|---|
| | **Long Term Assets** | | |
| 7 | Property, Plant & Equipment | 88,223 | 81,134 |
| 8 | Intangible Assets | 228 | 299 |
| 9 | Long-Term Investments | 10,000 | 10,000 |
| | | 98,451 | 91,433 |
| | **Current Assets** | | |
| | Assets Held for Sale | 21 | - |
| | Inventories | 206 | 198 |
| 10 | Short Term Debtors | 10,746 | 8,533 |
| 11 | Cash & Cash Equivalents | 29,061 | 28,562 |
| | | 40,034 | 37,293 |
| | **Current Liabilities** | | |
| 9 | Short Term Borrowing | (333) | (253) |
| 9 | Other Short Term Liabilities | (335) | (271) |
| 12 | Short Term Creditors | (6,376) | (6,185) |
| | | (7,044) | (6,709) |
| | **Long Term Liabilities** | | |
| 13 | Provisions | (1,763) | (2,129) |
| 9 | Long Term Borrowing | (5,243) | (5,580) |
| 14 | Other Long Term Liabilities | (811,285) | (686,284) |
| | | (818,291) | (693,993) |
| | **Net Liabilities** | (686,850) | (571,976) |
| | Revenue Reserves | (17,901) | (19,704) |
| | Capital Funding Reserve | (16,633) | (10,284) |
| | Capital Grants Unapplied Account | (505) | (2,479) |
| | Usable Capital Receipts Reserve | (1,501) | (1,501) |
| 17 | **Usable Reserves:** | (36,540) | (33,968) |
| | Revaluation Reserve | (36,957) | (28,480) |
| | Capital Adjustment Account | (36,762) | (37,868) |
| | Pension Reserve | 796,969 | 671,596 |
| | Collection Fund Adjustment Account | (664) | (65) |
| | Accumulated Absences Adjustment Account | 804 | 761 |
| 19 | **Unusable Reserves:** | 723,390 | 605,944 |
| | **Total Reserves** | 686,850 | 571,976 |

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 2017 and its income and expenditure for the year then ended.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
28 June 2017

County Councillor F DeMolfetta
Chair of the Resources Committee
28 June 2017

## 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 | | 2016/17 | | 2015/16 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| | Net (deficit)/surplus on the provision of services | | (10,281) | | (5,714) |
| 24 | Adjustments to net (deficit)/surplus on the provision of services for non-cash movements | | 14,538 | | 13,390 |
| | Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities | | 1,493 | | 1,499 |
| | **Net cash flows from Operating Activities** | | **5,750** | | **9,175** |
| | Investing activities | | | | |
| 7&8 | Purchase of property plant and equipment & other capital spend | (3,200) | | (4,279) | |
| 25 | Receipts from investing activities | 119 | | 136 | |
| | Net cash flows from investing activities | | (3,081) | | (4,143) |
| | Financing activities | | | | |
| | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (308) | | (318) | |
| | Repayment of long term borrowing | (250) | | (250) | |
| 25 | Payments for financing activities | (1,612) | | (1,635) | |
| | Net cash flows from financing activities | | (2,170) | | (2,203) |
| | **Net increase/(decrease) in cash and cash equivalents** | | **499** | | **2,829** |
| 11 | Cash and cash equivalents at the beginning of the reporting period | | 28,562 | | 25,733 |
| 11 | **Cash and cash equivalents at the end of the reporting period** | | **29,061** | | **28,562** |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1 Prior Period Adjustment

Expenditure on services and income relating to those services is classified in the Comprehensive Income and Expenditure Statement in accordance with the CIPFA Code of Local Authority Accounting in the UK. The 2016/17 Code requires that authorities present expenditure and income on services on the basis of its reportable segments. These reportable segments are based on the authority's internal management reporting structure. This is a change from the previous requirement to present expenditure and income in accordance with the Service Expenditure Code of Practice (SERCOP). This note shows how the net expenditure and income has been restated.



| | As reported in the Comprehensive Income and Expenditure Statement 2015/16 £000 | Adjustments between SERCOP classifications and internal reporting classifications* £000 | As restated Comprehensive Income and Expenditure Statement 2015/16 £000 | |
|---|---|---|---|---|
| **Gross Expenditure** | | | | |
| SERCOP service line: | | | | Directorate: |
| Community Fire Safety | 5,988 | (5,988) | - | - |
| Firefighting and Rescue Operations | 39,595 | (11,116) | 28,479 | Service Delivery |
| Emergency Planning | 59 | 5,429 | 5,488 | Strategy and Planning |
| - | - | 1,022 | 1,022 | People and Development |
| - | - | 3,622 | 3,622 | Corporate Services |
| - | - | 1,158 | 1,158 | Firefighters Pensions |
| Corporate and Democratic Core | 588 | 6,021 | 6,609 | Overheads |
| Non Distributed Costs | 150 | (150) | - | - |
| **Gross Expenditure** | **46,379** | - | **46,379** | |
| | | | | |
| **Gross Income** | | | | |
| SERCOP service line: | | | | Directorate: |
| Community Fire Safety | (748) | 748 | - | - |
| Firefighting and Rescue Operations | (3,669) | 1,795 | (1,874) | Service Delivery |
| Emergency Planning | - | (299) | (299) | Strategy and Planning |
| - | - | - | - | People and Development |
| - | - | (62) | (62) | Corporate Services |
| - | - | (2) | (2) | Firefighters Pensions |
| Corporate and Democratic Core | - | (2,181) | (2,181) | Overheads |
| Non Distributed Costs | - | - | - | - |
| **Gross Income** | **(4,417)** | **-** | **(4,417)** | |

| | As reported in the Comprehensive Income and Expenditure Statement 2015/16 £000 | Adjustments between SERCOP classifications and internal reporting classifications* £000 | As restated Comprehensive Income and Expenditure Statement 2015/16 £000 | |
|---|---|---|---|---|
| **Net Expenditure** | | | | |
| SERCOP service line: | | | | Directorate: |
| Community Fire Safety | 5,240 | (5,240) | - | - |
| Firefighting and Rescue Operations | 35,926 | (9,321) | 26,605 | Service Delivery |
| Emergency Planning | 59 | 5,131 | 5,189 | Strategy and Planning |
| - | - | 1,022 | 1,022 | People and Development |
| - | - | 3,561 | 3,561 | Corporate Services |
| - | - | 1,156 | 1,156 | Firefighters Pensions |
| Corporate and Democratic Core | 588 | 3,841 | 4,429 | Overheads |
| Non Distributed Costs | 150 | (150) | - | - |
| **Net Expenditure** | **41,963** | **-** | **41,963** | |

* The adjustments between SERCOP classifications and internal reporting classifications are largely the removal of cost allocations from Corporate Services and Overheads, plus the combination of Community Fire Safety and Firefighting and Rescue Operations into Service Delivery.



## 2 Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Authority (ie Government grants, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Authority's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| **2016/17** | As reported for resource management £000 | Adjustment to arrive at the amount chargeable to the General Fund (note 2a) £000 | Net chargeable to the General Fund £000 | Adjustments between the Funding and Accounting basis (note 2a) £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 |
|---|---|---|---|---|---|
| Service Delivery | 34,130 | - | 34,130 | (11,354) | 22,775 |
| Strategy and Planning | 7,950 | - | 7,950 | (1,332) | 6,618 |
| People and Development | 1,112 | - | 1,112 | 11 | 1,123 |
| Corporate Services | 3,376 | - | 3,376 | (215) | 3,162 |
| Firefighters Pensions | 1,228 | - | 1,228 | - | 1,228 |
| Overheads | 7,760 | (193) | 7,568 | (615) | 6,953 |
| **Net cost of Services** | 55,557 | (193) | 55,364 | **(13,505)** | **41,859** |
| Other income and expenditure | (55,623) | - | (55,623) | 24,046 | (31,577) |
| **Surplus on provision of services** | (67) | (193) | (260) | **10,541** | **10,281** |
| Opening General Fund balance | | | (10,186) | | |
| Less: Deficit on provision of services | | | (260) | | |
| Closing General Fund balance | | | (10,445) | | |

| **2015/16** | As reported for resource management £000 | Adjustment to arrive at the amount chargeable to the General Fund (note 2a) £000 | Net chargeable to the General Fund £000 | Adjustments between the Funding and Accounting basis (note 2a) £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 |
|---|---|---|---|---|---|
| Service Delivery | 36,865 | - | 36,865 | (10,259) | 26,605 |
| Strategy and Planning | 6,026 | - | 6,026 | (836) | 5,189 |
| People and Development | 1,083 | - | 1,083 | (60) | 1,022 |
| Corporate Services | 3,742 | - | 3,742 | (182) | 3,561 |
| Firefighters Pensions | 1,156 | - | 1,156 | - | 1,156 |
| Overheads | 8,619 | (43) | 8,576 | (4,148) | 4,429 |
| **Net cost of Services** | **57,491** | **(43)** | **57,448** | **(15,485)** | **41,963** |
| Other income and expenditure | (56,969) | - | (56,969) | 20,721 | (36,249) |
| **Deficit on provision of services** | **521** | **(43)** | **478** | **5,236** | **5,714** |
| Opening General Fund balance | | | (10,664) | | |
| Less: Deficit on provision of services | | | 478 | | |
| Closing General Fund balance | | | (10,186) | | |

## 2a Note to the Expenditure and Funding Analysis

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts **2016/17** | Transfer to/(from) Earmarked Reserves £000 | **Total to arrive at amount charged to the General Fund £000** | Adjustments for Capital Purposes (1) £000 | Net change for Pensions Adjustments (2) £000 | Other Differences (3) £000 | **Total adjustment between funding and accounting basis £000** |
|---|---|---|---|---|---|---|
| Service Delivery | - | **-** | - | (11,368) | 14 | **(11,354)** |
| Strategy and Planning | - | **-** | - | (1,309) | (24) | **(1,332)** |
| People and Development | - | **-** | - | 11 | - | **11** |
| Corporate Services | - | **-** | - | (215) | - | **(215)** |
| Firefighters Pensions | - | **-** | - | - | - | **-** |
| Overheads | (193) | **(193)** | 222 | 514 | (1,350) | **(615)** |
| **Net cost of Services** | **(193)** | **(193)** | **222** | **(12,367)** | **(1,360)** | **(13,505)** |
| Other income and expenditure | - | **-** | - | 23,275 | 771 | **24,046** |
| **Total** | **(193)** | **(193)** | **222** | **10,908** | **(589)** | **10,541** |



| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts **2015/16** | Transfer to/(from) Earmarked Reserves £000 | **Total to arrive at amount charged to the General Fund £000** | Adjustments for Capital Purposes (1) £000 | Net change for Pensions Adjustments (2) £000 | Other Differences (note 3) £000 | **Total adjustment between funding and accounting basis £000** |
|---|---|---|---|---|---|---|
| Service Delivery | - | **-** | - | (10,459) | 200 | **(10,259)** |
| Strategy and Planning | - | **-** | - | (605) | (232) | **(836)** |
| People and Development | - | **-** | - | (60) | - | **(60)** |
| Corporate Services | - | **-** | - | (182) | - | **(182)** |
| Firefighters Pensions | - | **-** | - | - | - | **-** |
| Overheads | (43) | **(43)** | 254 | (2,480) | (1,921) | **(4,148)** |
| **Net cost of Services** | **(43)** | **(43)** | **254** | **(13,786)** | **(1,953)** | **(15,485)** |
| Other income and expenditure | - | **-** | (2,992) | 22,019 | 1,693 | **20,721** |
| **Total** | **(43)** | **(43)** | **(2,738)** | **8,233** | **(260)** | **5,236** |

Note 1 – Adjustments for capital purposes – this column adds in depreciation, impairments and revaluation gains and losses. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written off. MRP is deducted because it is not chargeable under generally accepted accounting practices. Adjustments are also made to recognise capital grant income.
Note 2 – Pensions Adjustments - This shows which lines have been affected by the removal of pension contributions and replaced with IAS19 debits and credits.
Note 3 – Other Differences - This column adjusts for timing differences on the amounts chargeable for Business Rates and Council Tax under Statute and the Code.

## 3 Fire Authority Costs

In 2016/17 Fire Authority costs amounted to £0.260m (2015/16 Restated: £0.267m), analysed as follows:

| | 2016/17 | 2015/16 Restated* |
|---|---|---|
| | £000 | £000 |
| Members allowances/expenses | 126 | 124 |
| Statutory officers | 95 | 93 |
| Statutory reports/publications | 1 | 2 |
| Subscriptions | 13 | 11 |
| Others | 25 | 37 |
| | 260 | 267 |

* The 2016/17 note has been restated to remove overhead apportionment in accordance with the changes to reporting requirements on the Comprehensive Income and Expenditure Statement.

## 4 Employees Emoluments

Details of the Authority's employees, out of an estimated 1,046 full-time equivalent, who have received pay and benefits of more than £50,000 are:

| | 2016/17 | 2015/16 |
|---|---|---|
| | No. | No. |
| £70,000 - £74,999 | 2 | - |
| £65,000 - £69,999 | 1 | 2 |
| £60,000 - £64,999 | 6 | 6 |
| £55,000 - £59,999 | 10 | 12 |
| £50,000 - £54,999 | 27 | 22 |
| | 46 | 42 |

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)** **2016/17** | Salary | Allowances (estimated based on 2015/16 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 | 155,704 | 1,593 | 157,297 | 33,788 | 191,084 |
| Director of Service Delivery – Justin Johnston | 132,349 | 1,793 | 134,141 | 18,926 | 153,067 |
| Director of Strategy & Planning – David Russel | 124,563 | 1,648 | 126,211 | 17,813 | 144,023 |
| Director of People & Development – Robert Warren | 99,651 | - | 99,651 | 12,755 | 112,406 |
| Director of Corporate Services – Keith Mattinson | 99,651 | 146 | 99,797 | 12,755 | 112,552 |
| | 611,917 | 5,180 | 617,097 | 96,037 | 713,133 |

| **Post holder information (post title and name)** **2015/16 – 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 | 154,389 | 1,862 | 156,251 | 33,503 | 189,754 |
| Director of Service Delivery – Justin Johnston | 128,731 | 1,554 | 130,285 | 18,409 | 148,694 |
| Director of Strategy & Planning – David Russel | 121,280 | 1,717 | 122,996 | 17,343 | 140,339 |
| Director of People & Development – Robert Warren | 98,664 | - | 98,664 | 12,629 | 111,293 |
| Director of Corporate Services – Keith Mattinson | 98,664 | 146 | 98,811 | 12,629 | 111,440 |
| | 601,728 | 5,279 | 607,008 | 94,513 | 701,520 |

* The 2015/16 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2015/16 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:

| Exit package cost band (including special payments) | 2016/17 Number of departures agreed | 2016/17 Total cost of exit packages in each band £000 | 2015/16 Number of departures agreed | 2015/16 Total cost of exit packages in each band £000 |
|---|---|---|---|---|
| £0 - £20,000 | 1 | 7 | 3 | 10 |
| £20,001 - £40,000 | - | - | - | - |
| £40,001 - £60,000 | - | - | 1 | 51 |
| £60,001 - £80,000 | - | - | - | - |
| £80,001 - £100,000 | - | - | - | - |
| £120,001 - £140,000 | - | - | - | - |
| | 1 | 7 | 4 | 61 |

## 5 External Auditors Fees

In 2016/17, the Fire Authority paid a total of £0.031m to its external auditors, Grant Thornton (2015/16: £0.031m), as follows:

| | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| Audit fees – Grant Thornton | 31 | 31 |

## 6 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 2016/17 is shown in note 3. 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 2016/17 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 (£0.468m received from the precepting authority, 2015/16: £0.465m), and council tax (£2.184m received from the precepting authority, 2015/16 £2.144m), the administration of these is strictly defined by a statutory framework.

## 7 Property, Plant & Equipment

Details on policies can be seen in Note 29, 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 2016/17 are:

| **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 2016 | 73,179 | 22,218 | 20 | 95,417 |
| Additions | 2,574 | 871 | - | 3,445 |
| Disposals | - | (1,592) | - | (1,592) |
| Impairment losses recognised in the Revaluation Reserve | (2,175) | - | - | (2,175) |
| Impairment losses recognised in the Deficit on the Provision of Services | (1,236) | (238) | - | (1,474) |
| Reclassifications | - | - | (21) | (21) |
| Revaluations | 6,524 | - | 1 | 6,525 |
| As at 31 March 2017 | 78,866 | 21,259 | - | 100,125 |
| | | | | |
| **Depreciation and impairments** | | | | |
| At 1 April 2016 | (2,537) | (11,747) | - | (14,284) |
| Depreciation charge for 2016/17 | (3,134) | (1,598) | - | (4,732) |
| Disposals | - | 1,592 | - | 1,592 |
| Revaluations | 5,522 | - | - | 5,522 |
| As at 31 March 2017 | (149) | (11,753) | - | (11,902) |
| | | | | |
| Balance sheet at 31 March 2017 | 78,717 | 9,506 | - | 88,223 |
| | | | | |
| Balance sheet at 31 March 2016 | 70,642 | 10,471 | 20 | 81,134 |
| | | | | |
| **Nature of asset holding** | | | | |
| Owned | 52,727 | 9,458 | - | 62,185 |
| Finance lease | 380 | 48 | - | 428 |
| PFI | 25,610 | - | - | 25,610 |
| | 78,717 | 9,506 | - | 88,223 |

On 31 March 2017 the Authority undertook a full revaluation review on approximately one fifth of its land and buildings, and in addition carried out a desktop revaluation exercise on the remainder, which resulted in a net revaluation gain of £8.398m (2015/16: net gain of £6.590m).

The comparative figures detailing the movement during 2015/16:

| 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 |

## 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 2016/17 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.

| | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| Opening Capital Financing Requirement | 15,237 | 15,722 |
| Capital investment: | | |
| Property, Plant & Equipment | 3,445 | 3,912 |
| Intangible assets | 63 | 118 |
| Sources of Finance: | | |
| Government Grant | (1,974) | (523) |
| Capital Reserves | - | (552) |
| Earmarked Reserves | - | (105) |
| Revenue contributions to capital | (1,534) | (2,850) |
| MRP | (331) | (485) |
| Closing Capital Financing Requirement | 14,906 | 15,237 |
| Explanation of movements in year | | |
| (Decrease)/Increase in underlying need to borrow (supported by Government financial assistance) | (331) | (485) |
| | (331) | (485) |

**Details of Assets Held**

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

| | 2016/17 | 2015/16 |
|---|---|---|
| Headquarters | 1 | 1 |
| Fire Stations (including Area Headquarters) | 39 | 39 |
| 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 2017 is £3.959m (2015/16: £1.453m).

## 8 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** | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| **Cost or valuation** | | |
| At 1 April | 1,391 | 1,272 |
| Additions | 60 | 118 |
| As at 31 March | 1,451 | 1,391 |
| | | |
| **Amortisation & impairment** | | |
| At 1 April | (1,092) | (958) |
| Amortisation charge for the year | (131) | (134) |
| As at 31 March | (1,223) | (1,092) |
| | | |
| Balance sheet at 31 March 2017 | 228 | 299 |
| | | |
| Balance sheet at 31 March 2016 | 299 | 314 |

## 9 Financial Instruments

### Categories of Financial Instruments

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

| | Long-Term | | Current | |
|---|---|---|---|---|
| | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| | £000 | £000 | £000 | £000 |
| Investments | | | | |
| Loans and receivables | 10,000 | 10,000 | - | - |
| Debtors | | | | |
| Financial assets carried at contract amounts | - | - | 51 | 56 |
| Borrowings | | | | |
| PWLB Borrowings at amortised cost | 5,243 | 5,580 | 333 | 253 |
| Other Long Term Liabilities | | | | |
| PFI and finance lease liabilities | 14,316 | 14,688 | 335 | 271 |
| Creditors | | | | |
| Financial liabilities carried at amortised cost | - | - | 2,639 | 2,229 |

**Income, Expense, Gains and Losses**

| | | | Financial assets: Loans and receivables | |
|---|---|---|---|---|
| | 2016/17 £000 | 2015/16 £000 | 2016/17 £000 | 2015/16 £000 |
| Interest expense | 1,674 | 1,704 | - | - |
| Total expense in Deficit on the Provision of Services | 1,674 | 1,704 | - | - |
| Interest income | - | - | (304) | (367) |
| Total income in Deficit on the Provision of Services | - | - | (304) | (367) |
| Net gain/(loss) for the year | 1,674 | 1,704 | (304) | (367) |

**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 2017 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 2017 | | 31 March 2016 | |
|---|---|---|---|---|
| | Amortised Cost £000 | Fair Value £000 | Amortised Cost £000 | Fair Value £000 |
| Loans from the Public Works Loan Board | 5,577 | 7,301 | 5,834 | 6,913 |
| Cash deposits invested and classed as loans and receivables | - | - | - | - |
| PFI Liabilities | 14,519 | 15,483 | 14,782 | 14,728 |

Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2017 is £5.514 million (2015/16: £5.764m) and it is due for repayment as shown in the following table:

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Within one year | 330 | 250 |
| Within two to five years | 1,184 | 1,264 |
| Within six to ten years | 2,000 | 1,920 |
| Over 10 years | 2,000 | 2,330 |
| | 5,514 | 5,764 |

## 10 Debtors

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Central government bodies | 202 | 226 |
| Other local authorities | 3,918 | 4,285 |
| Public corporations | 241 | 330 |
| Other entities and individuals | 6,385 | 3,692 |
| | 10,745 | 8,533 |

## 11 Cash & Cash Equivalents

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

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Cash held by the Authority | 46 | 46 |
| Call account balance | 29,015 | 28,516 |
| | 29,061 | 28,562 |

The call account balance is placed with Lancashire Country Council. Interest on these balances is paid to the Authority. The investments have an amortised cost at 31 March 2017 equal to their nominal value.

## 12 Creditors

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Central government bodies | 1,066 | 865 |
| Other local authorities | 2,571 | 3,108 |
| Other entities and individuals | 2,739 | 2,212 |
| | 6,376 | 6,185 |

## 13 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April | 1,147 | 1,156 | 22 | 25 | 960 | 720 | 2,129 | 1,901 |
| Amounts utilised | (20) | (37) | (1) | (3) | - | - | (21) | (40) |
| Unused amounts reversed | (347) | (371) | - | - | - | - | (347) | (371) |
| Additional provision | 349 | 399 | - | - | (347) | 240 | 2 | 639 |
| Balance at 31 March | 1,129 | 1,147 | 21 | 22 | 613 | 960 | 1,763 | 2,129 |

## 14 Other Long Term Liabilities

Other long term liabilities comprise the following:

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Finance Lease Liability | 10 | 89 |
| PFI Liability (see note 15) | 14,231 | 14,519 |
| PFI Contractor Loan (see note 15) | 75 | 80 |
| Pension Liability (see note 16) | 796,969 | 671,596 |
| | 811,285 | 686,284 |

## 15 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 2017 the outstanding loan was £0.080m (2015/16: £0.085m).

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 7.

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 2017 are as follows:

| | Payment for Services £000 | Reimbursement of Capital Expenditure £000 | Interest £000 | Total £000 | Government Subsidy £000 |
|---|---|---|---|---|---|
| Payable in 1 year | 658 | 288 | 1,397 | 2,343 | 1,734 |
| Payable within 2-5 years | 2,816 | 1,436 | 5,386 | 9,639 | 6,935 |
| Payable within 6-10 years | 3,980 | 2,650 | 6,056 | 12,687 | 8,668 |
| Payable within 11-15 years | 4,566 | 4,285 | 4,485 | 13,336 | 8,668 |
| Payable within 16-20 years | 3,651 | 4,531 | 2,412 | 10,595 | 6,719 |
| Payable within 21-25 years | 982 | 1,328 | 246 | 2,555 | 1,617 |
| Total | 16,653 | 14,519 | 19,983 | 51,154 | 34,340 |

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:

| | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| Balance outstanding at the start of the year | 14,782 | 15,024 |
| Payments during the year | (263) | (242) |
| Balance outstanding at year end | 14,519 | 14,782 |

## 16 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 | |
|---|---|---|---|---|
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| | £000 | £000 | £000 | £000 |
| Comprehensive Income & Expenditure Statement | | | | |
| Cost of Services: | | | | |
| • Current service cost | 951 | 1,080 | 8,450 | 10,504 |
| • Administrative expenses | 22 | 17 | - | - |
| • Past service cost | - | 60 | 450 | - |
| | 973 | 1,157 | 8,900 | 10,504 |
| Financing and Investment Income and Expenditure: | | | | |
| • Interest cost | 1,761 | 1,650 | 23,100 | 21,657 |
| • Interest on scheme assets | (1,586) | (1,288) | - | - |
| | 175 | 362 | 23,100 | 21,657 |
| **Total post employment benefit charged to the deficit on provision of services** | **1,148** | **1,519** | **32,000** | **32,161** |
| **Other post employment benefit charged to the Comprehensive Income and Expenditure Statement** | | | | |
| • Actuarial (gains) and losses | 2,535 | (3,640) | 111,930 | (31,821) |
| **Total post employment benefit charged to the Comprehensive Income and Expenditure Statement** | **3,683** | **(2,121)** | **143,930** | **340** |
| **Movement in reserves statement** | | | | |
| • Reversal of net charges made to the deficit on provision of services in accordance with the code | (2,873) | 6,164 | (122,500) | 21,064 |
| **Actual amount charged against the General Fund Balance for pensions in the year:** | | | | |
| Employers' contributions payable to the scheme | (810) | (4,043) | | - |
| Retirement benefits payable to pensioners | - | - | (21,430) | (21,404) |
| | - | - | - | - |

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 £15.827m (2015/16: £14.223m) 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 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| | £000 | £000 | £000 | £000 |
| Opening balance at 1 April | (49,267) | (50,503) | (666,356) | (687,420) |
| Current service cost | (951) | (1,080) | (8,450) | (10,504) |
| Interest on liabilities | (1,761) | (1,650) | (23,100) | (21,657) |
| Contributions by scheme participants | (292) | (276) | (2,880) | (3,562) |
| Remeasurements (liabilities): | | | | |
| Experience (gain)/loss | 3,930 | - | 22,650 | - |
| Gain/(Loss) on financial assumptions | (13,275) | 3,046 | (144,600) | 31,821 |
| Gain/(Loss) on demographic assumptions | 368 | - | 10,020 | - |
| Benefits/transfers paid | 1,024 | 1,256 | 24,310 | 24,966 |
| Past service cost | - | (60) | (450) | - |
| Closing balance at 31 March | (60,224) | (49,267) | (788,856) | (666,356) |

Reconciliation of the fair value of the scheme assets:

| | Funded Liabilities: Local Government Pension Scheme | | Unfunded Liabilities: Uniformed Firefighters' Pension Scheme | |
|---|---|---|---|---|
| | 31 March 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| | £000 | £000 | £000 | £000 |
| Opening balance at 1 April | 44,027 | 39,099 | - | - |
| Interest on scheme assets | 1,586 | 1,288 | - | - |
| Remeasurements (assets) | 6,442 | 594 | - | - |
| Administrative expenses | (22) | (17) | - | - |
| Employer contributions | 810 | 4,043 | 21,430 | 21,404 |
| Contributions by scheme participants | 292 | 276 | 2,880 | 3,562 |
| Benefits paid | (1,024) | (1,256) | (24,310) | (24,966) |
| Closing balance at 31 March | 52,111 | 44,027 | - | - |

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 £8.558m (2015/16: gain of £1.883m). The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2017 is a gain of £0.278m (2015/16: cumulative gain of £0.163m).

**Scheme history**

| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Present value of liabilities: | | | | | |
| Local Government Pension Scheme (LGPS) | (60,224) | (49,267) | (50,503) | (41,224) | (46,193) |
| Firefighters Pension Scheme | (788,856) | (666,356) | (687,420) | (595,539) | (596,655) |
| Fair value of assets in LGPS | 52,111 | 44,027 | 39,099 | 33,135 | 32,097 |
| | | | | | |
| Surplus/(Deficit) in the scheme: | | | | | |
| Local Government Pension Scheme (LGPS) | (8,113) | (5,240) | (11,404) | (8,089) | (14,096) |
| Firefighters Pension Scheme | (788,856) | (666,356) | (687,420) | (595,539) | (596,655) |
| Total | (796,969) | (671,596) | (698,824) | (603,628) | (610,751) |

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, £796.969m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £686.850m (2015/16: £571.976m). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

- Any surplus/deficit on the Local Government Pensions scheme will be recovered by annual repayments from/to the fund, as assessed by the scheme actuary, throughout the agreed surplus recovery period. Although the year end deficit above shows an £8m deficit, the latest actuarial valuation was actually a surplus of £4.3m as at 31 March 2016, which is being recovered by annual receipts of £0.3m from the pension fund.
- 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 | 644 | 3,934 | 4,265 |

*LGPS contributions shown are gross of the surplus recovery referred above.

**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.

The Firefighters' Scheme has been assessed by GAD (the Government Actuarial Department), an independent firm of actuaries. 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 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 'roll forward approach' which updates the last full valuation as at 31 March 2016, 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 2017 | 31 March 2016 | 31 March 2017 | 31 March 2016 |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men | 22.6 | 23.0 | 22.4 | 23.2 |
| Women | 25.2 | 25.6 | 22.4 | 25.8 |
| Longevity at 65 for future pensioners: | | | | |
| Men | 24.9 | 25.2 | 24.7 | 25.7 |
| Women | 27.9 | 27.9 | 24.7 | 28.2 |
| Rate of CPI inflation | 2.30% | 2.00% | 2.35% | 2.00% |
| Rate of increase in salaries | 3.80% | 3.50% | 4.35% | 3.50% |
| Rate of increase in pensions | 2.30% | 2.00% | 2.35% | 2.00% |
| Rate for discounting scheme liabilities | 2.5% | 3.60% | 2.65% | 3.50% |
| 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 2017 | | Assets at 31 March 2016 | |
|---|---|---|---|---|---|
| | | Fair Value £000 | % | Fair Value £000 | % |
| Equities | Y | - | - | 15,132 | 34.4 |
| Bonds | Y | 1,887 | 3.6 | 1,782 | 4.0 |
| Property | N | 4,591 | 8.8 | 4,232 | 9.6 |
| Cash/Liquidity | N | 541 | 1.0 | 1,514 | 3.4 |
| Other | N | 45,092 | 86.5 | 21,367 | 48.5 |
| | | 52,111 | 100.0 | 44,027 | 100.0 |

**History of experience gains and losses**

The actuarial gains and losses identified as movements on the Pension Reserve in 2016/17 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2017:

| **Local Government Pensions Scheme (LGPS):** | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % | 2012/13 Restated % |
|---|---|---|---|---|---|
| Experience Gains and losses on assets | 12.4 | 1.3 | 6.9 | (2.0) | 8.9 |
| Gains and losses on liabilities | 14.9 | (6.2) | 14.9 | (18.5) | 11.8 |

| **Firefighters Pension Scheme:** | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % | 2012/13 Restated % |
|---|---|---|---|---|---|
| Experience Gains and losses on assets | - | - | - | - | - |
| Gains and losses on liabilities | 14.4 | (4.8) | 11.0 | (3.3) | 10.1 |

| **Total of LGPS and Fire Pension Schemes:** | 2016/17 % | 2015/16 % | 2014/15 % | 2013/14 % | 2012/13 Restated % |
|---|---|---|---|---|---|
| Experience Gains and losses on assets | 12.4 | 1.3 | 6.9 | (2.0) | 8.9 |
| Gains and losses on liabilities | 14.4 | (4.9) | 11.2 | (4.2) | 10.2 |

## 17 Usable Reserves

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

| | 2016/17 | | 2015/16 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Revenue Reserves: | | | | |
| General Fund | | (10,445) | | (10,186) |
| | | | | |
| DFM Schemes | (426) | | (414) | |
| Other Earmarked Reserves | (3,493) | | (5,664) | |
| PFI Equalisation | (3,537) | | (3,440) | |
| Total Earmarked Reserves | | (4,456) | | (9,518) |
| | | | | |
| Total Revenue Reserves | | (17,901) | | (19,704) |
| | | | | |
| Capital Reserves: | | | | |
| Capital Funding Reserve | | (16,633) | | (10,284) |
| Capital Grants Unapplied | | (505) | | (2,479) |
| Usable Capital Receipts | | (1,501) | | (1,501) |
| | | | | |
| Total Usable Reserves | | (36,540) | | (33,968) |

## 18 Transfers (to)/from Earmarked Reserves

| | Balance at 31.3.15 | Transfers in 2015/16 | Transfers out 2015/16 | Balance at 31.3.16 | Transfers in 2016/17 | Transfers out 2016/17 | Balance at 31.3.17 |
|---|---|---|---|---|---|---|---|
| General fund | (10,664) | - | 478 | (10,186) | (260) | - | (10,445) |
| DFM Schemes | (457) | (11) | 54 | (414) | (71) | 59 | 426 |
| Other Earmarked Reserves | (5,488) | (1,286) | 1,110 | (5,664) | (178) | 2,349 | (3,493) |
| PFI Equalisation Accounts | (3,293) | (147) | - | (3,440) | (125) | 28 | (3,537) |
| Total Earmarked Reserves | (9,238) | (1,444) | 1,164 | (9,518) | (374) | 2,436 | (7,456) |
| Capital funding reserve | (10,605) | (232) | 553 | (10,284) | (6,349) | - | (16,633) |
| Capital grants unapplied | - | (2,479) | - | (2,479) | - | 1,974 | (505) |
| Usable capital receipts | (1,187) | (314) | - | (1,501) | - | - | (1,501) |
| Total Usable Reserves | (31,694) | (4,469) | 2,195 | (33,968) | (6,983) | 4,410 | 36,540 |

## 19 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:

| | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| Revaluation Reserve | (36,957) | (28,480) |
| Capital Adjustment Account | (36,762) | (37,868) |
| Pensions Reserve | 796,969 | 671,596 |
| Collection Fund Adjustment Account | (664) | (65) |
| Accumulated Absences Adjustment Account | 804 | 761 |
| Total Unusable Reserves | 723,390 | 605,944 |

### Revaluation Reserve

| | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| Balance at 1 April | (28,480) | (22,356) |
| Upward revaluation of assets | (12,047) | (7,238) |
| Downward revaluation of assets and impairment losses not charged to Net cost of Services | 2,175 | 122 |
| Difference between fair value depreciation and historical cost depreciation | 1,395 | 897 |
| Amount written off to the Capital Adjustment Account | - | 95 |
| | (36,957) | (28,480) |

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.

| | 2016/17 | | 2015/16 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balance at 1 April | | (37,868) | | (36,358) |
| 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 | 3,337 | | 2,210 | |
| • Revaluation losses on Property, Plant & Equipment | 1,477 | | 431 | |
| • Amortisation of intangible assets | 132 | | 134 | |
| | | 4,945 | | 2,775 |
| 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 | | 4,945 | | 3,005 |
| 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 | (1,974) | | (523) | |
| • Statutory provision for financing of capital investment charged against General Fund | (303) | | (323) | |
| • Voluntary provision for financing of capital investment charged against General Fund | (28) | | (162) | |
| • Use of capital reserves to fund expenditure | - | | (552) | |
| • Use of earmarked reserves to fund expenditure | - | | (105) | |
| • Capital expenditure charged to General Fund Balance | (1,534) | | (2,850) | |
| | | (3,839) | | (4,515) |
| Balance as at 31 March | | (36,762) | | (37,868) |

**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.

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | 671,596 | 698,824 |
| Actuarial (gains) or losses on pensions assets and liabilities | 114,465 | (35,461) |
| Reversal of items relating to retirement benefits debited or credited to Net Cost of Services in the Comprehensive Income & Expenditure Statement | 23,787 | 22,096 |
| Employers pension contributions and direct payments to pensioners payable in the year | (12,789) | (13,863) |
| | 796,969 | 671,596 |

**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 | |
|---|---|---|---|---|---|---|
| | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April | (792) | (682) | 727 | 260 | (65) | (422) |
| 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 | 58 | (110) | - | - | 58 | (110) |
| 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 | - | - | (657) | 467 | (657) | 467 |
| Balance at 31 March | (734) | (792) | 70 | 727 | (664) | (65) |

**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.

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | 761 | 750 |
| Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 43 | 11 |
| Balance at 31 March | 804 | 761 |

## 20 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 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. This challenge was not upheld by the Employment Tribunal, however the FBU lodged an appeal which is being progressed. Although there is presently no indication that this appeal will be successful, the Firefighters Pension Scheme would meet any additional costs, rather than them being an additional cost to the Authority.

## 21 Post Balance Sheet Events

As at the date the Treasurer signed the accounts, 28 June 2017, there were no post balance sheet events to report.

## 22 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 £0.029m of the £0.069m 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 £0.021m and which is considered sufficient for this purpose.

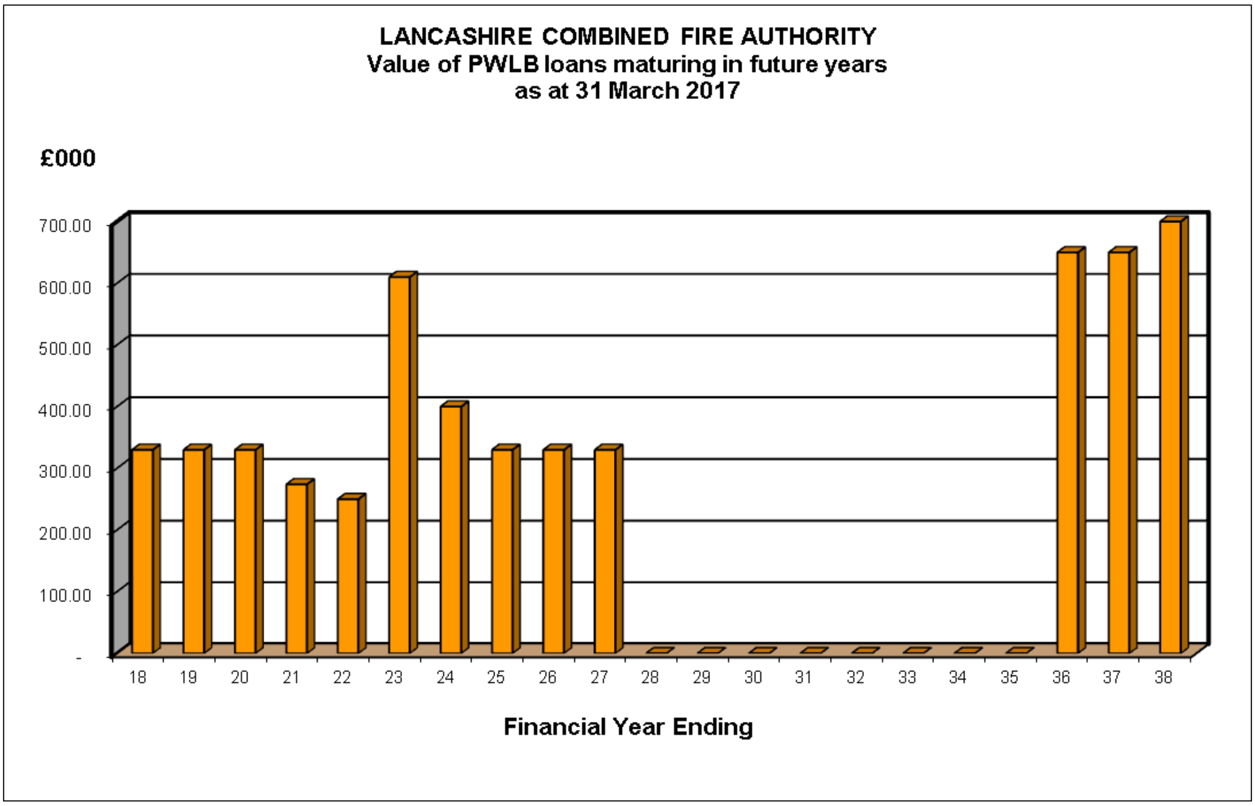
The past due amount can be analysed by age as follows:

| | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| 0 to 30 days | 40 | 48 |
| 31 to 60 days | 4 | 4 |
| 61 to 90 days | 2 | 2 |
| 91 to 180 days | 13 | 10 |
| Over 180 days | 10 | 16 |
| | 69 | 80 |

**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 £32.4 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 £324,000 and a 1% fall would give a reduction of the same amount.

**23 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. From 8th May 2017 Greater Manchester Fire and Rescue Service transferred into the Greater Manchester Combined Authority and the ownership of NW Fire Control Ltd therefore also transfers.

A detailed assessment for Group Accounting requirements has taken place during 2016/17 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 2016/17 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 2017 £000 | Year ended 31 March 2016 £000 |
|---|---|---|
| Total assets less Current Liabilities | 263 | 239 |
| Net assets* | (2,831) | (822) |
| (Loss)/Profits Before Taxation | (99) | (240) |
| (Loss) After Taxation | (105) | (246) |
| Debtor Balance (LFRS) | 287 | 278 |
| Creditor Balance (LFRS) | - | - |
| Invoices raised by NW Fire Control to LFRS | 1,093 | 1,050 |
| Invoices raised by LFRS to NW Fire Control | - | 34 |

*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 2017/18 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 31/12/2017 for the final audited 2016/17 accounts.

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

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Depreciation | 4,732 | 3,107 |
| Impairment & downwards valuations | 1,477 | 431 |
| Amortisation | 131 | 134 |
| Increase/(decrease) in provisions | (366) | 228 |
| Increase/(decrease) in creditors | (122) | 391 |
| (Increase)/decrease in debtors | (2,213) | 507 |
| (Increase)/decrease in stock | (9) | 34 |
| Movement in pension liability | 10,908 | 8,233 |
| Net book value of fixed assets sold | - | 325 |
| | 14,538 | 13,390 |

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

| | 2016/17 | 2015/16 |
|---|---|---|
| | £000 | £000 |
| Interest received | 119 | 136 |
| Interest paid | (1,612) | (1,635) |

Interest paid includes interest payments in respect of both finance leases and PFI schemes (see accounting policy note 29, sections p and r)

## 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 2017 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.<br><br>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.<br>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 £2.4m. |
| 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. Consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied to each scheme. | The effects on the net pension liability of changes in individual assumptions can be measured as follows:<br>A 0.1% increase in these assumptions has the following effect on the net pension liability:<br>• Discount rate – decrease of £15.2m<br>• Inflation rate – increase of £14.7m<br>• Pay growth – increase of £1.6m<br>A 1 year increase in life expectancy will increase the net pension liability by £5.5m. |

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

## 27 Accounting Standards issued but not yet adopted

For 2016/17 the following accounting policy changes that need to be reported relate to:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

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

## 28 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 2016/17 accounts.

## 29 Accounting Policies

### a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. 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 – 2016/17, 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.

<u>The Firefighters' Scheme</u>

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 2016/17, the actuary based the valuation on a roll forwards approach.

Top up grant received during the year from the Home Office 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.

<u>The Local Government Pension Scheme</u>

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 2016/17, the actuary based the valuation on a roll forwards approach.

In valuing the pension scheme assets for 2016/17, 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 its 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 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) <u>Recognition</u>

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) <u>Measurement</u>

Land and buildings are revalued on a rolling five year basis by a suitably qualified surveyor. As at 31 March 2017, 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 surplus 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) Derecognition

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) Non Current Assets Held for Sale

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.

**k 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.

**l Capital Receipts**

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

**m 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.

**n 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.

**o 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).

**p Operating Leases**

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

**q Private Finance Initiative (PFI) and similar contracts**

<u>Current status</u>

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 15.

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.

**r 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.

**s 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 13 to the Balance Sheet.

**t 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.

**u 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.

**v 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.

**w 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 21 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.

## FIREFIGHTERS' PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

| **Fund Account** | 2016/17 Total £000 | 2015/16 Total £000 |
|---|---|---|
| **Income to the fund** | | |
| **Contributions receivable:** | | |
| - From employer | | |
| - contributions in relation to pensionable pay | (3,790) | (4,086) |
| - other contributions | (247) | (186) |
| - Members contributions | (2,946) | (3,594) |
| **Transfers in:** | | |
| - Individual transfers from other schemes | (44) | (17) |
| **Total Income to the Fund** | **(7,027)** | **(7,883)** |
| **Spending by the fund** | | |
| **Benefits payable:** | | |
| - Pension payments | 17,915 | 17,492 |
| - Commutations of pensions and lump-sum retirement benefits | 4,937 | 6,634 |
| **Transfers out:** | | |
| - Individual transfers out to other schemes | - | 197 |
| - Refunds of contributions | 447 | - |
| **Total Spending by the fund** | **23,299** | **24,323** |
| **Net amount receivable for the year before top up grant receivable from central government** | **16,272** | **16,440** |
| Top up grant receivable from central government | (16,272) | (16,440) |
| **Net amount receivable for the year** | **-** | **-** |

| **Net Assets Statement** | 2016/17 £000 | 2015/16 £000 |
|---|---|---|
| Net current assets and liabilities: | | |
| - pensions top up grant receivable from central government | (4,321) | (3,377) |
| - other current assets and liabilities (other than liabilities and other than benefits in the future) | 4,321 | 3,377 |
| **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 2017 the Authority is owed £4.321m (2015/16: £3.377m) by the Home Office 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 16 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 29 – accounting policies, in particular section f.

<u>Contribution Rates</u>
Under the firefighters pension regulations the contribution rates during 2016/17 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. Three ill health retirements were recognised during 2016/17, and one in 2015/16.

<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>Home Office 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 Home Office, 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 16.

# 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.

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**LANCASHIRE COMBINED FIRE AUTHORITY**
**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**FINANCIAL MONITORING 2017/18**
**(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 2017/18 revenue and capital budgets and performance against savings targets.

**Recommendation**

The Committee is requested to note the financial position.

**Information**

Revenue Budget

The overall position as at the end of May shows an underspend of £0.097m. Whilst it is too early in the year to identify any trends we will monitor any trends that develop to ensure that they are reflected in future year's budgets, as well as being reported to Committee.

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

| Area | Overspend/ (Under spend) | Reason |
|---|---|---|
| | £'000 | |
| Service Delivery | 43 | The overspend relates to various headings, such as uniforms, training props for stations, and furniture, the majority of which are timing related and are expected to even out as the year progresses. |
| Training & Operational Review | 55 | The overspend relates to the timing of committed spend for training courses taking place later in the financial year, and is therefore a timing issue, rather than an anticipated outturn position. |
| Pay | (172) | In terms of the underspend to date, this is broken down as follows: |

| | | |
|---|---|---|
| | | • Wholetime pay (£50k underspend) this partly relates to the number of early leavers in the year, whereby 4 personnel have left earlier than anticipated, whereas the budget allows for just 2. With the balance of the underspend relating to the timing of costs of ad hoc payments such as overtime and public holidays.<br>• Retained pay (£70k underspend) reflects the two month delay in implementing the new RDS pay scheme, as previously reported.<br>• Support staff pay (£50k underspend) relates to several vacant posts across various departments, which are in excess of the vacancy factor built into the budget. Recruitment for the majority of these vacancies is currently underway, however it is likely that this underspend will increase, albeit at a slower rate, as the year progresses until such time as we return to full establishment. |

Capital Budget

The Capital Programme for 2017/18 stands at £13.533m, after allowing for slippage of £5.354m, as reported elsewhere on the agenda.

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

| | |
|---|---|
| Pumping Appliances | The budget allows for the purchase of 6 pumping appliances for the 2017/18 programme, for which the order was placed in February 2017. We currently anticipate that these appliances will be delivered during December 2017. In addition, the budget allows for the final stage payments in relation to the 5 pumping appliances carried from the 2016/17 programme, which are due to be delivered during June 2017. Payments made in the period to date relate to the 2016/17 pumping appliances. |
| Other vehicles | This budget allows for the replacement of various operational support vehicles, the most significant of which are one of the Command Support Units and two Driver Training Vehicles. Requirements for these are currently being finalised with a view to undertaking a procurement exercise. Dependent upon lead times the final costs associated with the purchase of these may slip over into 2018/19. |

| | |
|---|---|
| Operational Equipment/Future Firefighting | This budget allows for the replacement of Thermal Imaging Cameras (TICs) plus the replacement of Breathing Apparatus Radios in accordance with the Fleet Asset Management Plan. In addition the slippage relates to the balance of the Future Fire Fighting equipment budget, the majority of which relates to the purchase of the technical rescue jackets, which, following the regional procurement exercise, have now been ordered. |
| Building Modifications | The slippage allows for:<br>• 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 to the relocation of the Fleet workshop to Training Centre;<br>• the completion of the ongoing build of the joint Fire & Ambulance facility at Lancaster<br>• the purchase of a piece of land adjacent to Preston Fire Station, approved by Resources Committee in September 2016 which was completed in early June.<br>The budget also allows for the rebuild of Preston Fire Station. We have drawn up initial plans taking account of NWAS requirements, however in order to further develop these we need approval from NWAS before moving to a detailed design stage. This approval has been delayed and hence it now appears unlikely that any significant building works will take place in the current financial year, meaning that the majority of capital budget is likely to slip into the next financial year.<br>The final element of this capital budget relates to investment in training assets at two specific locations to maximise the efficiency and consistency of staff training, and in particular RDS staff. The exact requirements remain subject to review, and a further update on progress will be presented to the Committee once requirements have been finalised |
| IT systems | The majority of this budget relates to the following areas:-<br>• Costs of the national Emergency Services Mobile Communications Project (ESMCP) to replace the Airwave wide area radio system – including £0.8m slipped from 2016/17, the cost and timing of which is subject to the national project;<br>• The replacement of the station end mobilising system, where we may carry out an interim upgrade to improve security and resilience, which will have to be done in conjunction with NWFC, and is dependent on the timing of ESMCP in terms of capacity to deliver the project; |

| | |
|---|---|
| | • 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, for which the specification is being produced;<br>• The replacement of various systems, in line with the ICT asset management plan, however these are reviewed prior to starting the replacement process and hence further updates on progress will confirm which replacements are being actioned in the current year. |

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

Members should also note that during May the surplus land at Valley Road, Penwortham was sold, bringing in a capital receipt of £0.070m which can be used to fund future capital programmes.

Delivery against savings targets

The following table sets out the efficiencies identified during the budget setting process, hence removed from the 2017/18 budget, and performance to date against this target: -

| | Annual Target | Target at end of May | Savings at end of May |
|---|---|---|---|
| | £m | £m | £m |
| Staffing, including Emergency Cover Review outcomes, LGPS scheme deficit removal plus management of vacancies | 0.777 | 0.210 | 0.382 |
| Reduction in service delivery non pay budgets including the smoke detector budgets | 0.222 | 0.037 | 0.018 |
| Reduction in Property repairs and maintenance and utilities budgets | 0.215 | 0.036 | 0.029 |
| Reduction in Fleet repairs and maintenance and fuel budgets | 0.066 | 0.011 | (0.001) |
| Reduction in insurance Aggregate Stop Loss | 0.050 | 0.008 | 0.008 |
| Reduction in capital financing charges | 0.040 | 0.007 | 0.007 |
| Procurement savings (these are savings on contract renewals, such as waste collection and stationery contracts) | - | - | 0.031 |

| | | | |
|---|---|---|---|
| Balance – cash limiting previously underspent non pay budgets | 0.180 | 0.030 | 0.030 |
| Total | 1.550 | 0.339 | 0.504 |

The performance to date is 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 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: | | |

APPENDIX 1

| BUDGET MONITORING STATEMENT May 2017 | Total Budget | Budgeted Spend to May 2017 | Actual Spend to May 2017 | Variance O/Spend (U/Spend) | Variance Pay | Variance Non-Pay |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Service Delivery** | | | | | | |
| Service Delivery | 30,756 | 5,730 | 5,618 | (111) | (154) | 43 |
| Prince's Trust Volunteers Scheme | - | 131 | 122 | (9) | - | (9) |
| Training & Operational Review | 3,647 | 694 | 785 | 91 | 36 | 55 |
| Control | 1,148 | 287 | 287 | (0) | - | (0) |
| Special Projects | 12 | 2 | (2) | (4) | 0 | (4) |
| **Strategy & Planning** | | | | | | |
| Service Development | 3,665 | 695 | 681 | (14) | (19) | 5 |
| Fleet & Technical Services | 2,292 | 596 | 612 | 17 | 5 | 12 |
| Information Technology | 2,371 | 359 | 349 | (9) | (25) | 16 |
| **People & Development** | | | | | | |
| Human Resources | 503 | 90 | 84 | (6) | (8) | 2 |
| Occupational Health Unit | 199 | 24 | 19 | (5) | (3) | (2) |
| Corporate Communications | 294 | 48 | 35 | (13) | (7) | (6) |
| Safety Health & Environment | 176 | 28 | 26 | (3) | 1 | (3) |
| **Corporate Services** | | | | | | |
| Executive Board | 978 | 168 | 192 | 23 | 6 | 18 |
| Central Admin Office | 742 | 124 | 131 | 7 | 7 | (0) |
| Finance | 142 | 24 | 24 | 0 | 0 | (0) |
| Procurement | 790 | 119 | 122 | 4 | (6) | 10 |
| Property | 1,271 | 315 | 316 | 2 | (6) | 8 |
| External Funding | - | (25) | (24) | 1 | 1 | 0 |
| **TOTAL DFM EXPENDITURE** | 48,987 | 9,408 | 9,379 | (29) | (172) | 143 |
| | | | | | | |
| **Non DFM Expenditure** | | | | | | |
| Pensions Expenditure | 1,172 | 374 | 360 | (14) | - | (14) |
| Other Non-DFM Expenditure | 3,775 | 726 | 672 | (54) | 1 | (55) |
| **NON-DFM EXPENDITURE** | 4,947 | 1,100 | 1,032 | (68) | 1 | (69) |
| | | | | | | |
| **TOTAL BUDGET** | 53,933 | 10,508 | 10,411 | (97) | (172) | 75 |

| CAPITAL BUDGET 2017/18 | Original Programme | Slippage | Revised Programme | Projected to Date | Actual Expenditure | Variance to Date |
|---|---|---|---|---|---|---|
| **Vehicles** | | | | | | |
| Pumping Appliance | 1.195 | 0.533 | 1.728 | 0.330 | 0.330 | - |
| Other Vehicles | 0.464 | 0.437 | 0.901 | 0.116 | 0.112 | (0.005) |
| | 1.659 | 0.970 | 2.629 | 0.447 | 0.442 | (0.005) |
| **Operational Equipment** | | | | | | |
| Operational Equipment | 0.420 | 0.692 | 1.112 | - | - | - |
| | 0.420 | 0.692 | 1.112 | - | - | - |
| **Buildings Modifications** | | | | | | |
| STC Redevelopment | - | 0.793 | 0.793 | 0.130 | 0.126 | (0.004) |
| Lancaster Replacement | - | 2.119 | 2.119 | 0.270 | 0.269 | (0.001) |
| Other works | 4.750 | 0.150 | 4.900 | - | - | - |
| | 4.750 | 3.062 | 7.812 | 0.400 | 0.395 | (0.005) |
| **ICT** | | | | | | |
| IT Systems | 1.350 | 0.630 | 1.980 | 0.017 | - | (0.017) |
| | 1.350 | 0.630 | 1.980 | 0.017 | - | (0.017) |
| **Total Capital Requirement** | **8.179** | **5.354** | **13.533** | **0.863** | **0.837** | **(0.026)** |
| **Funding** | | | | | | |
| Capital Grant | 0.800 | 0.666 | 1.466 | 0.270 | 0.269 | (0.001) |
| Revenue Contributions | 2.000 | - | 2.000 | 0.593 | 0.568 | (0.025) |
| Earmarked Reserves | 0.049 | 0.200 | 0.249 | - | - | - |
| General reserves | 2.600 | - | 2.600 | - | - | - |
| Capital Reserves | 2.730 | 4.488 | 7.218 | - | - | - |
| **Total Capital Funding** | **8.179** | **5.354** | **13.533** | **0.863** | **0.837** | **(0.026)** |

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**LANCASHIRE COMBINED FIRE AUTHORITY**

**RESOURCES COMMITTEE**
Meeting to be held on 28 June 2017

**WORKFORCE PLANNING**

Contact for further information:
Bob Warren – Director of People & Development – telephone 01772 866804

**Executive Summary**

This reports outlines the current position in respect of the recruitment activity and identifies measures being taken to improve the process to assist in meeting the desired outcomes including:

- Ongoing positive action campaign requirement;
- Nurturing candidates;
- Amending processes whilst maintaining appropriate standards;
- Ongoing consideration in respect of role of apprentices.

**Decision Required**

The Committee is requested to note the position including the ongoing work being undertaken in respect of apprentices and the measures being adopted in respect of recruitment.

**Information**

LFRS prides itself in the provision of an effective and multi skilled workforce and has an extensive training programme to equip our employees to fulfil their roles. The Resources Committee has previously been apprised of the measures being taken in respect of our recruitment activity, which is the first part of the workforce planning process.

The workforce currently stands at an establishment of 1,242 with slight increases in both BME, female and disabled employees since 2010; but the Services work profile remains unrepresentative of our community. On occasions when undertaking previous recruitment campaigns the service has been able to reflect the community, for example the 50 Community Fire Service Practitioners was totally representative. However, when aggregated within the whole establishment, this only reflected a slight overall improvement. Of necessity the RDS recruitment reflects the RDS catchment area which is not representative of Lancashire, and the service has not undertaken any significant wholetime firefighter recruitment for many years prior to this year due to the demands imposed by the austerity measures.

The current recruitment activity is predicated on an ongoing desire to maintain our current operational strength and this meant the Service originally envisaged a recruitment of a further circa 60 firefighters to maintain this level with recruitment in

June (36) and January 2018 (24). Further recruitment programmes would be run on an annual basis. This followed a recruitment exercise focused purely on RDS that resulted in 27 new recruits for the wholetime in November 2016. The actual numbers to be recruited will be adjusted through the campaigns to reflect altered demand, retirement and other leavers to meet the overall requirement in the long term.

This recruitment activity will also be supplemented by an apprenticeship programmed following the imposition on all public bodies of an apprenticeship target of a minimum of 2.3% of headcount annually. This equates to a target of 29 apprentices, with a requirement to report on achievement against the target annually from September 2018. Steps have been taken in respect of green book employees to consider the role that apprentices can undertake and an opportunistic approach is currently being adopted with all positions under grade 4 being considered for possible apprenticeships as they fall vacant with identification of specific areas of additional need such as in ICT.

The associated Apprenticeship levy was implemented with effect from 6 April 2017 which is based on our current pay bill equates to £150k. The Service is currently continuing to determine the best way of drawing down from this levy, but the approach will be a combination of green book apprentices, coupled with higher level apprenticeship training for existing staff and recruiting firefighter apprentices once the issues around the framework to be utilised are clarified. An allocation of £180k has been identified in the budget and more detailed proposals will be brought to a later meeting of the Resources Committee about the utilisation of these funds. Due to uncertainty around the appropriate mechanisms it is feasible that the full allocation will not be utilised in year. If this should occur it is proposed to carry any unspent amount including any set up provision amounts forward as an earmarked reserve as the programmes will require the funding.

The intent is to provide meaningful routes into employment within LFRS and career prospects for young individuals with skills and attributes which will enhance our organisation.

Recruitment

As the Authority has previously sanctioned, the Service has commenced an ongoing programme of recruitment with primacy being given to meeting the appropriate standards, improving the diversity of our workforce and providing an opportunity for our RDS staff to successfully apply for whole-time roles. This section outlines progress to date and future direction.

Progress to date

The twin track approach endorsed by the CFA delivered 27 transferees from the RDS in 2016 This was as a bespoke programme to address immediate need whilst enabling positive action to be instigated in advance of subsequent recruitment.

Of the 32 on the current recruits course, 12 emerged from RDS employment, whilst 5 of the 17 scheduled to attend the recruits course commencing in January 2018 are from the RDS. This demonstrates that the standards required have not adversely affected RDS employees (indeed the role naturally gives an opportunity to demonstrate examples of suitability). Also instances exist where individuals have used the full time standard as a spur to improve their RDS involvement and future employability (driving and enrolment on educational courses being examples). However, this level of success is unlikely to be repeated hence the proposal for additional support.

In effect 44 out of the total of 76 personnel recruited have emerged from the RDS grouping. Transferring this level of resource from our RDS establishment does have performance and organisational issues which increases demands on the Service. In many respects this is a harder recruitment challenge than wholetime exercises. A number of individuals transferred have given a dual contract commitment but this is normally with a reduction in RDS hours of cover and the impact has been felt. Whilst it is believed it will act as a spur for future RDS recruitment this benefit has not been seen yet. It is believed only an isolated individual has left the service following an unsuccessful application.

<u>Changes in process</u>
In addition to the positive action referred to in respect of dual tracking, LFRS reviewed the whole process to ensure today's and anticipated future fire service was reflected in the person and job specifications. Similarly the Service considered and adopted some positive action initiatives to facilitate recruitment from underrepresented groups, whilst the key determinate remained meeting the Services’ standard.

The result from the current campaign was 32 recruited in June and potentially 17 in January 2018. The standard of successful recruits’ attainment is high. However the level of underrepresented groups has however been disappointing with 3 BME and 5 females being within the 32 new entrants, with one BME candidate commencing in January.

The campaign was targeted to improve our diversity and to ensure the anticipated number of applications could be managed. In reality the actual number of applications was lower than anticipated and the rigid standards, set in anticipation of the volume expected, were such that the desired ability to finally select on behaviours was reduced. It is intended to allow some flexibility in future campaigns without compromising the actual standards.

The processes have therefore been reviewed to identify improvements in the ongoing process.

The main change is to adopt the national fitness standards (as opposed to the higher LFRS standards) as the threshold to provide some potential flexibility in final selection.

The Service, based on previous experience, has used higher fitness standards than other services or the national standards require. This has had the consequence of reducing the level of failures on the intensive recruits training programme that immediately follows employment. The decision was also previously influenced by the firefighter pension scheme provisions. In this instance the application of the higher fitness standard had an effect on reducing the numbers to a smaller cohort but potentially had an adverse effect on females. It is proposed to adopt the national standard on the next campaign, but continue to assess individuals overall fitness.

Similarly the equipment assembly element of the process had a significant effect on failure rates, including female applicants and therefore whilst the service still believes the requirement is genuine it is intending to consider an alternative dexterity test rather than the current slightly out of context measure. In addition whether a new test or the current test is used the current practice of a strict pass/fail standard will be modified to give a tolerance.

Neither the ability tests or standard of educational attainment warrant any reduction in standard.

The general principle is to allow flexibility so that one slight fail will not unnecessarily rule out a candidate, when the shortfall can be addressed.

To further assist RDS employees and to potentially address any shortfall in overall operational numbers, it is proposed to offer the opportunity for development contracts of 6 months duration. The purpose being to enable individuals to address any operational gaps that they might have. Experience has shown that the gap in the requirements between an RDS and whole-time employee can be significant and this has endorsed the previous decision for all individuals to undertake the full recruitment course as planned rather than a variance on the abridged conversion course undertaken by the 27. The utilisation of development contracts does not providing automatic progression but should enable an individual to enhance their experience ensuring some continued progression from RDS to whole-time.

A separate review of our positive action campaigning initiatives is being undertaken but the emerging themes are that this needs to be a continuous part of our operations and not a bespoke activity as we recruit. The actual generation of applications from underrepresented groups as a percentage was good; but it is considered that the higher pass figures adopted to manage numbers did not give any flexibility in approach, that a ‘nearly there’ list needs to be collated and nurtured.

It should be stated that the results experienced by LFRS are similar to other Fire services and demonstrates the need for the development of solutions that work within LFRS, working in partnership where benefits are seen.

Other changes are slight alterations in timeframes.

Shortfall in Numbers

Serious consideration was given to revisiting the applications in order to generate further successful candidates but this was not seen as desirable in view of the messages that would send to the organisation, especially those who were still aspiring or felt concerned about the process, the fact that individuals had already been notified, practicality and the stance the service has adopted concerning attainment of the standards. Also depending on the actions taken we would either potentially be moving into positive discrimination or revisiting the whole recruitment process.

Similarly consideration was given to immediately embarking on a further recruitment campaign coupled with more positive action work. However this was seen to be unrealistic due to the limited resource and time available (as well as the effect on morale in view of the dedicated efforts that individuals had put in) and that the positive action needed to be part of the process if the diversity issue was to be addressed.

The outcome was to focus on positive action and nurturing the nearly there candidates and provide opportunities and feedback to our current employees to gain skills.

**Financial Implications**

By waiting for meaningful positive action on recruitment to be enacted would produce an underspend on salary spend as the service will be under establishment for a short period. This would be partially offset by the use of overtime and temporary development contracts as an opportunity for RDS staff.

Provision has been made within the 2017/18 budget based on fully populating 2 recruit courses in the year. The shortfall in the number of recruits will result in an underspend on the budget of approx. £300k.

Similarly the budget allowed for the recruitment of apprentices in the second half of the year, and any shortfall in this would result in a further underspend, but obviously at this stage it is too early to anticipate the extent of this.

**Business Risk Implications**

The recruitment of suitable and adequate numbers of employees is essential for the ongoing delivery of our responsibilities. In addition not increasing the diversity of our recruitment activity will potentially expose the CFA to external criticism.

**Environmental Impact**

Nil

**Equality, Diversity & Inclusion Implications**

The proposals are to improve the unrepresentative workforce

**Human Resource Implications**

The proposals are in line with HR practice

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

| Paper | Date | Contact |
|---|---|---|
| None | | |
| Reason for inclusion in Part II, if appropriate: | | |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

# Agenda Item 14

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