

# Public Document Pack

## LANCASHIRE COMBINED FIRE AUTHORITY

### AUDIT COMMITTEE

Tuesday, 30 July 2019 in Main Conference Room, Service Headquarters, Fulwood commencing at 10.00 am.

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

### AGENDA

#### PART 1 (open to press and public)

#### Chairman's Announcement – Openness of Local Government Bodies Regulations 2014

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

1. APOLOGIES FOR ABSENCE
2. DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS  
  
Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.
3. MINUTES OF THE PREVIOUS MEETING (Pages 1 - 4)
4. INTERNAL AUDIT ANNUAL REPORT 2018/19 (Pages 5 - 36)
5. ANNUAL GOVERNANCE STATEMENT 2018/19 (Pages 37 - 58)
6. STATEMENT OF ACCOUNTS 2018/19 (Pages 59 - 150)
7. EXTERNAL AUDIT - UNDERSTANDING HOW THE COMMITTEE GAINS ASSURANCE FROM MANAGEMENT (Pages 151 - 156)
8. EXTERNAL AUDIT - LETTER OF REPRESENTATION (Pages 157 - 162)
9. EXTERNAL AUDIT - AUDIT FINDINGS REPORT 2018/19 (Pages 163 - 190)
10. INTERNAL AUDIT - MONITORING REPORT 2019/20 (Pages 191 - 198)
11. RISK MANAGEMENT (Pages 199 - 216)

12. DATE OF NEXT MEETING

The next scheduled meeting of the Committee has been agreed for 10:00 hours on 24 September 2019 in the Main Conference Room, at Lancashire Fire & Rescue Service Headquarters, Fulwood.

Further meetings are scheduled for 28 January 2020 and 31 March 2020

13. 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.

14. 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

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

### AUDIT COMMITTEE

Tuesday, 2 April 2019, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

### MINUTES

#### PRESENT:

##### Councillors

S Clarke  
A Kay  
M Khan  
M Parkinson (for S Holgate)  
J Shedwick (Vice-Chair)  
D Smith  
M Tomlinson (Chairman)

##### Officers

C Kenny, Chief Fire Officer (LFRS)  
K Mattinson, Director of Corporate Services (LFRS)  
D Brooks, Principal Member Services Officer (LFRS)

##### In attendance

J Taylor, Internal Audit, Lancashire County Council  
R Tembo, External Audit, Grant Thornton

#### 32/18 APOLOGIES FOR ABSENCE

Apologies for absence were received from County Councillor Steve Holgate.

#### 33/18 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

#### 34/18 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 29 January 2019 be confirmed as a correct record and signed by the Chairman.

#### 35/18 RISK MANAGEMENT

The Director of Corporate Services presented the report that highlighted action taken in respect of corporate risk since the last Audit Committee meeting. The latest review of the corporate risk register had identified 1 new risk which warranted

consideration for inclusion on the corporate risk register in relation to Brexit. There was a great deal of uncertainty surrounding this issue however, the report set out the key issues for consideration: -

- Community tensions – this was picked up by the Lancashire Resilience Forum (LRF);
- UK economy and impact on longer term funding – this was already covered on the risk register under risk 1;
- Business rate income, and hence impact on longer term funding - this was already covered by on the risk register under risk 1;
- EU funding – we do not budget for any long term EU funding, with the only funding received being one-off funding of approximately £50k for Prince's Trust in 2018/19;
- Procurement issues, including availability and cost of goods – we would clearly need to comply with any changes to legislation arising from exiting the EU, however all indications were that our procurement rules would remain broadly the same. Whilst there was a possibility that the cost of goods would increase it was too early to say the extent and impact of any such increase, as such if this occurred we may need to draw down reserves in order to balance the budget. In terms of availability of goods/services we did not anticipate a significant impact in the short term however this situation would continue to be closely monitored.

Based on the above analysis it was clear that Brexit presented significant risk however, with the exception of the procurement risk it was felt that these were already covered within the exiting risk register and the LRF risk register. As such it was agreed to add the risk relating to the cost and availability of goods and services to the corporate risk register as a medium risk, with the situation going forward being monitored.

The updated corporate risk register was considered by Members and the Director of Corporate Services highlighted the following:

Risk no. 1 – insufficient resources due to poor funding settlement

This risk had been reviewed and increased to 16, a high risk due to the level of uncertainty with 2019/20 the final year of the 4-year settlement, the Government's 2019 spending review for the fire sector and the fair funding review. In response to a question raised by Councillor Smith the Director of Corporate Services advised that there was the prospect of moving to a 75% business rates retention which in theory would be cost neutral as the government provided section 31 grant to offset any lost income; bearing in mind that this was funded from top slicing the overall budget allocation in the first instance.

Risk no. 3 – insufficient staffing resources due to industrial action

The report provided an update on pay negotiations and it was proposed that the risk remained at 12, a medium risk.

Risk no. 6 – Operational staff do not have the required skills to operate safely at an incident with the potential to result in firefighter injuries or fatalities

This risk continued to be monitored and remained at 9, a medium risk.

Risk no. 19 – Failure to maximise the opportunities that technological advances present due to lack of capacity within ICT

The Service was still carrying vacancies which were proving difficult to fill but had recently achieved a security accreditation in cyber essentials and was preparing for Windows and Office updates.

RESOLVED:- That the Audit Committee noted the actions taken and endorsed the revised corporate risk register.

### 36/18 INTERNAL AUDIT MONITORING REPORT

The Internal Auditors produced a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 20 March 2019 was presented by Judith Taylor.

It was noted that work carried out during the period 1 April 2018 – 20 March 2019 was in accordance with the agreed audit plan and no significant issues had been identified.

The report identified that 69 days had been spent this financial year on the completion of the 2018/19 plan. This equated to 86% of the total planned audit activity of 80 days.

Details of the progress included audit days planned and used; assurance provided and comments against each of the areas completed to date. Progress to date in relation to the Plan was discussed by Members.

RESOLVED:- That the Audit Committee noted and endorsed the report.

### 37/18 INTERNAL AUDIT PLAN 2019/20

The Internal Auditors were required to produce an Annual Audit Plan, setting out work to be undertaken during the year. The plan amounted to a total resource of 70 audit days in 2019/20. This was lower than previous years which included 80 days and reflected the reduction in time auditing Pensions (as reported previously the audit assurance was now provided by Deloitte who audited the Local Pensions Partnership), as well as the move to 1 non-finance based audit per year, previously 2 reviews had been undertaken. This equated to an overall cost of £23k which was in line with the budget provision.

A proposed plan was presented by Judith Taylor.

The internal audit plan was designed to provide the evidence necessary to support an opinion of governance, risk management and control to encompass the following:

- Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
- Sufficient coverage over operations as a whole so that a fair assessment may be made across the Service;

- Coverage of the controls that served to mitigate the most significant risks to an acceptable level;
- Coverage of the controls that operated most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
- Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.

The deployment of audit resources was proposed as follows:-

Governance and business effectiveness	10 days
Service delivery and support	12 days
Business processes	30 days
Follow up audit activity	4 days
Other components of the audit plan	14 days
<b>Total</b>	<b>70 days</b>

The Director of Corporate Services advised that he supported the reduction in audit days to 70 given the internal auditors' findings were consistent and another major source of assurance was the outcome of Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services Inspection. The Director of Corporate Services also advised that if anything was identified during the year which required adding to the Audit Plan there would be flexibility to add additional days.

RESOLVED:- That the Audit Committee agreed the internal Audit Plan for 2019/20.

38/18 DATE OF NEXT MEETING

The next meeting of the Committee would be held on Tuesday 23 July 2019 at 10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

Further meeting dates were noted for 24 September 2019 and 28 January 2020 and agreed for 31 March 2020.

M NOLAN  
Clerk to CFA

LFRS HQ  
Fulwood

## **LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

### **INTERNAL AUDIT ANNUAL REPORT 2018/19 (Appendix 1 refers)**

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

#### **Executive Summary**

The Internal Audit Annual Report summarises the work that the Internal Audit Service undertook during 2018/19 and the key themes arising from it. It provides an opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control.

On the basis of programme of work for the year, the Head of Internal Audit can provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control. Further details are provided in the report attached as appendix 1.

#### **Recommendation**

The Committee is asked to note and endorse the report.

#### **Information**

As contained in the Executive Summary above and the attached appendix.

#### **Financial Implications**

None

#### **Environmental Impact**

None

#### **Equality and Diversity Implications**

None

#### **Human Resource Implications**

None

## **Business Risk Implications**

The work of internal auditor is one of the key control measures in place within the Authority. As such the annual report provides an assurance to members that risks are being managed and controlled and feeds the Authorities overall assessment of the internal controls that operate within the service

## **Local Government (Access to Information) Act 1985**

### **List of Background Papers**

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



**Lancashire Combined Fire Authority**

**Internal Audit Service**

**Annual report of the head of internal audit for the year  
ended 31 March 2019**

## **1 Introduction**

### **Purpose of this report**

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2018/19 and the key themes arising in relation to risk management, governance and internal control.

### **The role of internal audit**

- 1.2 The Internal Audit Service is an assurance function designed to evaluate and improve the effectiveness of risk management, control and governance processes. The Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the framework of governance, risk management and control of Lancashire Combined Fire Authority and a written report to those charged with governance, timed to support the annual governance statement.
- 1.3 This report is based upon the work the Internal Audit Service performed during 2018/19 and 2019/20 in relation to the 2018/19 audit plan, approved by the Audit Committee in March 2018.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex 1 to this report. The levels of assurance the Internal Audit Service provides are set out in Annex 2.
- 1.5 An Internal Audit Service Charter is in place that establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Combined Fire Authority and to meet its professional obligations under applicable professional standards. The current Internal Audit Charter, attached at Appendix A is submitted for Committee approval.

### **Acknowledgements**

- 1.6 I am grateful for the assistance that has been provided to the Internal Audit Service by the staff of Lancashire Fire and Rescue Service in the course of our work during the year.

Ruth Lowry  
Head of Internal Audit  
Lancashire County Council

## **2 Overall opinion on governance, risk management and internal control**

### **Overall opinion**

- 2.1 Overall, I can provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements.
- 2.3 Overall a strong control environment continues to operate, overseen by a Service Management Team that is responsive to internal audit findings and committed to continuous improvement.
- 2.4 No significant areas of weakness in governance, risk management or control have been identified from our audit or consultancy services, and where areas for improvement have been identified, actions have been agreed to enhance aspects of the control framework further and to ensure that it is effectively operated throughout. Our follow up work also confirms that agreed actions are being appropriately implemented.
- 2.5 The Corporate Programme Board arrangements, through its supporting programme boards, also continued to ensure that key projects or initiatives, affecting all areas of the business, are scoped, progressed and delivered in a controlled and risk managed fashion.

### **Wider sources of assurance available to the Combined Fire Authority**

- 2.6 The results of the July 2018 HMICFRS inspection on the effectiveness and efficiency with which LFRS prevents and protects the public, and responds to fires and other emergencies, and how well it looks after its personnel was published in December 2018. HMICFRS graded LFRS as 'Good' in all elements within the three areas noted above, with the exception of 'Outstanding' in relation to promoting the right values and cultures.
- 2.7 Assurance is also provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2017/18 financial statements and they were also satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

## **3 Internal audit work undertaken**

### ***Governance and risk management arrangements***

- 3.1 Our overall opinion on risk management, governance and internal control has been informed by our ongoing attendance at each of the meetings of the Audit Committee at which a Risk Management update report is

provided by the Director of Corporate Services, and through the work we conduct on individual audit assignments.

- 3.2 We additionally have obtained assurance regarding governance arrangements through our review of minutes of the meetings of the Executive Board, the Service Management Team and the Corporate Programme Board that have taken place during 2018/19.
- 3.3 The above procedures have not identified any weaknesses in governance, risk management or internal control that need to be brought to the attention of committee.

#### ***Assurance map***

- 3.4 During quarter 1 of 2018/19, we worked with the Director of Corporate Services on the development of an assurance map. We concluded that sufficient, relevant assurance is obtained to ensure compliance with the Code of Corporate Governance and to ensure all significant risks are appropriately managed and controlled.

#### ***Key financial systems***

- 3.5 During quarter 3 we completed our key financial systems work on Treasury management, Accounts payable, Accounts receivable and the General ledger. In each case we were able to provide substantial assurance. A strong control framework continues to be maintained across all areas and no significant matters were identified.
- 3.6 Where appropriate, we additionally obtained assurance that the agreed actions (two medium and one low residual risk) from the prior year audits have been implemented.
- 3.7 We completed our work on HR/ Payroll processes during quarter 4, and again provided substantial assurance. Valid appointments have been correctly established and the right amount is paid to individuals at the right time. Monitoring arrangements are in place to prevent and detect anomalies or errors that might arise.
- 3.8 A Service Level Agreement (SLA) is in place with Greater Manchester Fire and Rescue Service (GMFRS) which has been signed by both parties. Monthly meetings are held with GMFRS to review each pay run and identify and rectify any issues on a timely basis. Additionally, annual meetings are also held to review the SLA and address any performance issues.

#### ***Business Continuity Planning***

- 3.9 Our review of Business Continuity arrangements was finalised in February 2019, and we provided moderate assurance over the business continuity arrangements operated across LFRS.
- 3.10 The critical activities of the Service have been identified, and adequate business continuity plans are in place at a Strategic, Tactical and Operational (Department and Station) level. A business continuity exercise is also undertaken annually and business continuity training was last provided for members of the Service Management Team in November 2018.

- 3.11 A small number of areas for improvement have been identified primarily around the creation of a business continuity test record and expanding the provision of training to Station Managers.

***Optimising Rota Management***

- 3.12 Overall, Lancashire Fire and Rescue Service is able, through its rota management activity to ensure that the majority of its appliances are largely available at all times for deployment to fires and other emergencies as required across the county.

- 3.13 However, whilst the current control framework appropriately manages the risks affecting the primary system objective, the current processes and controls are inefficient and have significant resource implications for the service, which are having a detrimental impact on staff wellbeing.

- 3.14 A number of actions have been agreed to address inefficiencies in the existing control framework and to potentially reduce the future demand for detachments and overtime, in both the short and longer term.

***Pension administration***

- 3.15 At the current time, we have not yet received confirmation from the internal auditors of the Local Pension Partnership, that this work has been completed. The results of this work will be reported to the committee in September.

***Follow-up work***

- 3.16 Under the Public Sector Internal Audit Standards, management has responsibility for ensuring that agreed actions in audit reports are implemented. Internal Audit should obtain assurances that actions have been implemented as agreed, or that senior management has accepted the risk of not taking action.

- 3.17 Our follow up audit work has involved obtaining explanations and evidence where appropriate that actions have been implemented. We have not re-performed any testing on controls which were found to be adequately designed and operating effectively at the time of our original review, and neither have we re-assessed the overall control environment.

- 3.18 Based on the information and explanations provided to us in conducting our follow up work, we are satisfied that LFRS have made appropriate progress in implementing the agreed actions.

***Training, Learning and Development - Follow up***

- 3.19 Three medium and three low risk actions were raised in our original report, dated July 2018. Two of these actions have been fully implemented, with one (relating to the review and update of service orders) ongoing. The remaining three actions have been superceded. One of these is due to limitations in the reporting functionality of PDRpro (the system used to record firefighter training), with two no longer being required due to the direct support and guidance currently being provided to firefighters and officers, by the Training and Operational Review team.

- 3.20 We are satisfied that the alternative arrangements should address the initial risks our review had identified.

***Rota management – Follow up***

- 3.21 Two medium and two low residual risk actions were raised in our original report, dated March 2018. Except for one action, which has been superceded, all actions have been appropriately implemented.

**Fraud/ special investigations**

- 3.22 No specific incidences of fraud or irregularity have been brought to our attention.

**National Fraud Initiative**

- 3.23 The NFI is part of the statutory audit process for health, local government and other public sector providers managed by the Cabinet Office. The NFI flags inconsistencies in data within payroll, pensions, creditors and procurement which may indicate fraud or highlight emerging fraud risks.

- 3.24 Following the submission of data in October 2018, the resulting matches were released by the Cabinet Office in January 2019. The table below provides details of the total number of matches identified, the number of matches reviewed and processed or opened and in progress.

- 3.25 To date, no frauds, errors or savings have been identified.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress
Pensions	61	57	4
Payroll	53	35	6
Creditors	245	191	0
VAT overpaid	19	0	0
Procurement	1	1	0
<b>Total</b>	<b>379</b>	<b>284</b>	<b>10</b>

**4 Implications for the Annual Governance Statement**

- 4.1 In making its annual governance statement the Combined Fire Authority should consider this report in relation to internal control, risk management and corporate governance.

- 4.2 We have agreed actions in a number of areas to enhance the controls in place for the planned audit reviews, although no high risk areas for improvement have been identified. There are therefore no matters arising from the audit work conducted during 2018/19 that we consider should be identified in the annual governance statement as requiring specific improvement.

## **5 Internal audit inputs and performance**

- 5.1 Work carried out during 2018/19 was in accordance with the audit plan presented and approved by the Audit Committee in March 2018. Details of the assurance provided, and key issues identified for each of the areas covered is set out in the 'Summary of findings and assurance' table which forms part of Section 7 of this report. This shows that 72 days were spent delivering the audit plan against a provision of 80 days.
- 5.2 Action plans have been agreed, where appropriate in respect of all final audit reports. These indicate that positive action has been, or will be taken to address any areas for improvement identified. Implementation of these plans will be followed up as part of our 2019/20 audit plan.

## **6 Internal audit quality assurance and improvement**

- 6.1 PSIAS requires that the quality of internal audit activity is assessed through a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.
- 6.2 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and each year a post-audit file review process is conducted by the Head of Internal Audit, with any learning points being shared with the team.
- 6.3 An external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS was last conducted in November 2017 which confirmed that the service fully meets nearly all the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the IPPF.
- 6.4 A small number of actions arose for the Service from this review, and a report explaining how these had or were to be addressed was presented to the Audit Committee in March 2018. Progress has continued to be made during 2018/19, and we can confirm that we have now addressed the outstanding actions with the enhancement of our performance management framework and the appointment of an ICT audit provider in June 2018.
- 6.5 A copy of the current Quality Assurance and Improvement Programme for the Internal audit Service accompanies this report at Appendix B.

## **7 Summary of findings**

### **Overall summary and assurance provided**

- 7.1 The table on the following pages sets out a brief summary of each review or consultancy support completed during the year. This sets out the planned and actual days we have spent, the variance between the days

reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of business. This also sets out the level and number of actions agreed for each review. They reflect the findings at the time the work was carried out.

- 7.2 Where appropriate, we have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

**System adequacy:** We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

**System effectiveness:** We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.



## Summary of our findings and assurance

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b><i>Governance and business effectiveness</i></b>						
Governance and risk management arrangements	0	0.5	(0.5)	✓	✓	The audit work performed and our review of the minutes of the Executive Board, Service Management Team and the Corporate Programme Board supports an overall opinion of substantial assurance on the adequacy and effectiveness of governance, risk management and control arrangements.
Sources of assurance	10	6	4	<b>Sufficient, relevant assurance is obtained to ensure compliance with the Code of Corporate Governance and to ensure all significant risks are appropriately managed and controlled.</b>		<p>Four actions were agreed to strengthen the overall control environment in relation to:</p> <ul style="list-style-type: none"> <li>Ensuring all policies have an assigned owner and a scheduled review frequency.</li> <li>Considering the need for tender panel members to confirm that they have no conflicts of interest to declare.</li> <li>Maintaining a record of the dates and findings of the annual review of the register of gifts and hospitality.</li> <li>Updating the fraud risk assessments on a bi-annual basis.</li> </ul>
<b><i>Service delivery and support</i></b>						
Business Continuity Planning	6	9	(3)	✓	✓	<p>Our report was issued in February 2019. Two medium and two low residual risk actions were agreed in relation to:</p> <ul style="list-style-type: none"> <li>The further development and enhancement of the training programme;</li> <li>The creation of a formal business continuity test schedule;</li> <li>Updating SO690-Business Continuity for recent changes; and</li> <li>Ensuring compliance with the business continuity review schedule.</li> </ul>
				<b>Moderate assurance</b>		

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Optimising Rota Management	8	11	(3)	<b>Whilst the current control framework is effective at ensuring appliance availability, it is inefficient to operate</b>		Our report was finalised in June. A number of actions have been agreed to address the concerns regarding inefficiencies in the current processes regarding the arrangement of detached duty and overtime shifts.
<b>Business processes</b>						
Treasury management	5	4	1	✓	✓	Our report was finalised in September. No areas for improvement were identified.
				<b>Substantial assurance</b>		
HR and Payroll	10	9	1	✓	✓	Our report was finalised in February. No areas for improvement were identified.
				<b>Substantial assurance</b>		
Accounts payable	10	7	3	✓	✓	Our report covering each of these systems was finalised in November. No areas for improvement were identified. The three actions agreed following completion of our 2017/18 audits have been confirmed as satisfactorily implemented.
				<b>Substantial assurance</b>		
Accounts receivable	5	4	1	✓	✓	
				<b>Substantial assurance</b>		
General ledger	5	4	1	✓	✓	
				<b>Substantial assurance</b>		
Pensions administration	5	0.5	4.5	<b>O/S</b>	<b>O/S</b>	We have not yet been informed that the internal auditors of the Local Pension Partnership have completed this work.
<b>Follow up audit activity</b>						
Rota management Training, Learning and Development	4	5	(1)	<b>N/A</b>	<b>N/A</b>	Our work on the follow up assignments was completed in February 2019. Based on the information and explanations provided to us, we are satisfied that except for the actions that had been superseded, all remaining actions have been appropriately implemented.

Lancashire Combined Fire Authority  
Annual report for the year ended 31 March 2019

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b><i>Other components of the audit plan</i></b>						
Management activity	10	9	1	N/A	N/A	Work in the period has included production of the 2017/18 Annual Report, preparation of the quarterly monitoring reports, attendance at Audit Committee, and establishment of the 2019/20 Internal Audit Plan.
National Fraud Initiative	2	3	(1)	N/A	N/A	Preparation of data for submission to the Cabinet Office re the 2018/19 matching exercise, and support following the release of matches for investigation.
<b>Total days</b>	<b>80</b>	<b>72</b>	<b>8</b>			

## **Annex 1: Scope, responsibilities and assurance**

### **Approach**

- 1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. The scope of internal audit encompasses all of the governance, risk management and control processes of the Combined Fire Authority including where they are provided by other organisations on their behalf.

### **Responsibilities of management and internal auditors**

- 2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls.
- 3 Lancashire Combined Fire Authority has taken the decision to outsource their internal audit provision, and Lancashire County Council's Internal Audit Service was the appointed service provider for 2018/19.
- 4 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 5 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
- 6 Internal auditors cannot be held responsible for internal control failures, however, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 7 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
- 8 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

- 9 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- 10 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

#### **Basis of our assessment**

- 11 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the improvements that we proposed and that have been accepted by management.

#### **Limitations to the scope of our work**

- 12 There have been no limitations to the scope of our audit work.

#### **Limitations on the assurance that internal audit can provide**

- 13 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 14 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

#### **Access to this report and responsibility to third parties**

- 15 This report has been prepared solely for the Combined Fire Authority. This report forms part of a continuing dialogue between the Internal Audit Service, senior officers within Lancashire Fire and Rescue Service and the Audit Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 16 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

## **Annex 2: Audit assurance levels and classification of agreed actions**

### **Audit assurance**

As noted in the 2018/19 audit plan, submitted to the Audit Committee in March 2018, the audit assurance levels have been amended, and for 2018/19 the assurance we can provide over any area of control has fallen into one of four categories as follows:

**Substantial assurance:** the framework of control is adequately designed and/ or effectively operated overall.

**Moderate assurance:** the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

**Limited assurance:** there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

**No assurance:** there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

### **Actions proposed by the Internal Audit Service**

We categorise the issues we raise in the context of the residual risk to which the service is exposed. The agreed actions are therefore defined as 'extreme', 'high', 'medium' or 'low' in relation to the residual risk they are designed to address and fall into the following categories:

**Extreme residual risk:** critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the service, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the service's reputation. *Remedial action must be taken immediately.*

**High residual risk:** critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the service's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation. *Remedial action must be taken urgently.*

**Medium residual risk:** failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

**Low residual risk:** matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

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## **1 Introduction**

- 1.1 This charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Combined Fire Authority and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position in relation to the Combined Fire Authority; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.2 It will be subject to periodic review by the head of internal audit and presented to the Audit Committee for approval.

## **2 Relevant regulations and interpretation**

- 2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').
- "Internal audit: A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*  
*Accounts and Audit Regulations 2015*
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published *Public Sector Internal Audit Standards ('PSIAS')*, which encompass the *Mission of Internal Audit* and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within *PSIAS* by additional public sector interpretation and guidance. CIPFA has also published a *Local Government Advisory Note* setting out sector-specific requirements for local government within the United Kingdom.
- 2.3 Lancashire County Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.
- 2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales, which includes Combined Fire Authorities should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has

responsibility for the administration of those affairs". In its *Statement on the Role of the Chief Financial Officer in Local Government* CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the person fulfilling the role of Chief Finance Officer to ensure an effective internal audit function is resourced and maintained.

### **3 Definitions**

- 3.1 Both the Global Institute of Internal Auditors and *PSIAS* set out the following definition of internal auditing:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

*Global Institute of Internal Auditors, and  
Public Sector Internal Audit Standards, 2017*

- 3.2 The Global Institute of Internal Auditors and *PSIAS* also refer to the 'board' and 'senior management' and *PSIAS* recognise that these terms need to be interpreted in the context of the Combined Fire Authority's own governance arrangements.

- 3.3 *PSIAS* defines the board as:

"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

*Public Sector Internal Audit Standards, 2017*

- 3.4 In relation to the Combined Fire Authority, the board is defined as the Audit Committee.
- 3.5 Senior management is represented by the Executive Board which consists of the Chief Fire Officer, the Deputy and Assistant Chief Fire Officers, the Director of Corporate Services and the Director of People and Development.
- 3.6 *PSIAS* also refers to the 'chief audit executive' who is deemed to be the head of internal audit.

### **4 Responsibilities**

- 4.1 The Regulations set out that the Combined Fire Authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that financial and operational management is effective; and includes effective arrangements for the management of risk.



- 4.2 The Combined Fire Authority has taken the decision to outsource internal audit provision to Lancashire County Council's Internal Audit Service. However responsibility for maintaining an adequate and effective system of internal audit remains with the Combined Fire Authority.
- 4.3 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. *PSIAS* make clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 4.4 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all of the functions, services and activities of the Combined Fire Authority.
- 4.5 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.
- 4.6 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with senior management, who either accept the advice or accept the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.
- 4.7 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with *PSIAS* and the results of the quality assurance and improvement programme.
- 4.8 A note of the responsibilities of senior management and the Audit Committee ('the board') in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are set out in *PSIAS*, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

## **5 Independence, objectivity and integrity**

- 5.1 The Internal Audit Service remains independent of the other functions of the Combined Fire Authority and no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with senior management and the Audit Committee but remain a decision for the head of internal audit. The head of internal audit and audit manager have direct access to and freedom to report in their own names and without fear or favour to all officers and members, and specifically the Audit Committee. They have the formal opportunity prior to each committee meeting to meet with the chair of the Audit Committee.
- 5.3 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The head of internal audit makes an annual declaration that the internal audit function is operationally independent.
- 5.4 All auditors also make an annual declaration that they have read and are aware of the obligations placed on them by the *Public Sector Internal Audit Standards* and, specifically the *Code of Ethics*. They each acknowledge that they must adhere to the *Code of Ethics* and demonstrate integrity, objectivity, competence and confidentiality in the discharge of all their duties.

## **6 Reporting lines and relationships**

- 6.1 The head of internal audit and audit manager report functionally to the Audit Committee and have direct access to senior management of Lancashire Fire and Rescue Service.
- 6.2 The head of internal audit and the audit manager have, in addition, access to the chair of the Audit Committee which meets at least four times each year, and the head of internal audit or the audit manager reports to each meeting of that committee under its terms of reference. The Audit Committee is responsible for approving the annual audit plan.
- 6.3 The head of internal audit and, the Internal Audit Service as a whole, adhere to the requirements of CIPFA's *Statement on the Role of the Head of Internal Audit*.
- 6.4 The Internal Audit Service and the external auditor of the Combined Fire Authority operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to more effective performance of both and avoiding duplication of work.

## **7 Access to information**

- 7.1 The Internal Audit Service has the right of unrestricted and direct access to the records (however held), assets, premises and officers of Lancashire Fire and Rescue Service. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.
- 7.2 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Combined Fire Authority's legitimate and ethical objectives.

## **8 Internal audit resources**

- 8.1 The Chief Finance Officer of the Combined Fire Authority is responsible for ensuring that internal audit resources are sufficient to meet their responsibilities and achieve their objectives. If the head of internal audit or the Audit Committee considers that the level of audit resources or the terms of reference in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Combined Fire Authority accordingly.
- 8.2 The Combined Fire Authority determines through its budget the number of audit days in the annual audit plan. The Internal Audit Service's resources are therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the Combined Fire Authority and the Audit Committee.

## **9 Competency**

- 9.1 The head of internal audit and audit managers are required to hold appropriate professional audit qualifications. These are defined as full membership of one of the institutes of the Consultative Committee of Accountancy Bodies or full professional membership of the Chartered Institute of Internal Auditors. It is expected that senior auditors will either hold, or be close to and actively working towards, full professional qualification but, exceptionally, they may be qualified by experience at a demonstrably professional level.
- 9.2 The county council's performance and development opportunities are applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

## **10 Quality assurance and improvement**

- 10.1 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit

Service's compliance with *PSIAS*. This includes both internal and external assessments and is set out in a separate *Quality Assurance and Improvement Programme*.

10.2 The results of the quality assurance and improvement programme including any areas of non-conformance with *PSIAS* are reported annually to senior management and the Audit Committee. This report will include information regarding:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

## **11 Non-audit work**

11.1 *PSIAS* recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.

11.2 Lancashire County Council's Internal Audit Service facilitates the Combined Fire Authority's participation in the National Fraud Initiative, which matches data from Lancashire Fire and Rescue Service's information systems with information held by other bodies to identify potentially fraudulent activity.

11.3 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

11.4 The head of internal audit or the audit manager should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for her opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

## **Responsibilities in relation to the internal audit function**

### **The Executive Board ('senior management') of Lancashire Fire and Rescue Service will:**

- Consider the Internal Audit Charter, including the internal audit function's purpose and authority, the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.
- Consider, and contribute to the development of the risk-based internal audit plan, supporting its completion within the organisation.
- Make appropriate enquiries to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function.
- Receive and consider the results of the quality assurance and improvement programme, including areas of non-conformance with *PSIAS*.

### **The Audit Committee ('the board') will:**

- Consider and approve the Internal Audit Charter.
- Consider and approve the risk-based internal audit plan, including the Internal Audit Service's approach to using other sources of assurance and any work required to place reliance upon those other sources.
- Approve significant interim changes to the risk-based internal audit plan and resource requirements.
- Make appropriate enquiries of senior management and the head of internal audit to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function.
- Receive reports from the head of internal audit on the Internal Audit Service's performance and audit findings, including the head of internal audit's annual report and overall opinion for the year.
- Receive and consider the results of the quality assurance and improvement programme, including areas of non-conformance with *PSIAS*, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.
- Consider and approve any significant consulting services not already included in the audit plan, in light of any potential impairments to the auditors' independence or objectivity.

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## Internal Audit Service Quality Assurance and Improvement Programme

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### 1 Introduction

- 1.1 Lancashire County Council's Internal Audit Service aims to serve the council effectively and efficiently, to meet its professional obligations under applicable professional standards and to continuously improve. Accordingly this quality assurance and improvement programme enables the Internal Audit Service to evaluate and demonstrate its conformance with the Public Sector Internal Audit Standards (PSIAS) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It also assesses the efficiency and effectiveness of the Internal Audit Service's work and identifies opportunities for improvement.
- 1.2 It will be subject to periodic review by the Head of Service – Internal Audit (head of internal audit) and presented to the council's Management Team and Audit, Risk and Governance Committee for approval.
- 1.3 Where the Internal Audit Service provides either the full internal audit function or ad hoc assurance for organisations external to the county council its work for those organisations will be subject to the same quality assurance and improvement set out in this programme.

### 2 Relevant professional standards and interpretation

- 2.1 The Accounts and Audit Regulations 2015 refer to "public sector internal auditing standards or guidance". CIPFA is the relevant standard setter for internal audit in local government in the United Kingdom and has published PSIAS which encompass the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing).
- 2.2 PSIAS sets out the requirement for a quality assurance and improvement programme:

"The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity."

*PSIAS 1300 Quality Assurance and Improvement Programme*
- 2.3 A number of other subsidiary standards follow from this that establish clear requirements of any quality assurance and improvement programme. The PSIAS also add further interpretations and requirements for the public sector under the following standards:
  - 1310: Requirements of the quality assurance and improvement programme
  - 1311: Internal assessments

- 1312: External assessments
  - 1320: Reporting on the quality assurance and improvement programme
  - 1321: Use of “conforms with the International Standards for the Professional Practice of Internal Auditing”
  - 1322: Disclosure of non-conformance
- 2.4 PSIAS refers to the 'chief audit executive' who, under Lancashire County Council's Internal Audit Charter, is deemed to be the Head of Service – Internal Audit, or head of internal audit.
- 2.5 CIPFA has also published a Local Government Advisory Note setting out additional interpretation and guidance for local government within the United Kingdom.
- 2.6 The quality assurance and improvement programme set out here is designed in accordance with applicable professional requirements, as well as supporting the Internal Audit Service's own drive for continuous improvement.
- 2.7 It is expected that the Internal Audit Service will fully conform to professional standards. However, as required by PSIAS, if non-conformance with the Code of Ethics or the Standards impacts a specific engagement, the service will disclose the principle or rule breached, the reasons, and the impact on the engagement and its results.

### **3 The framework for quality assurance and improvement**

- 3.1 PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

Type of review	Internal review		External review
	Frequency	Ongoing	At least 5-yearly
<b>Audit assignment quality</b>		✓	✓
<b>Professional and operational framework</b>		✓	✓

### **4 The quality assurance and improvement programme**

- 4.1 Following this framework, the quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

#### **Internal ongoing monitoring of audit assignment quality**

"Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the



internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards."

*PSIAS 1311: Interpretation – Internal assessments*

- 4.2 The Internal Audit Service has designed procedures and an audit methodology that conform with PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The team meets regularly and routinely considers any technical issues arising through its work, both to ensure that individual interpretations of our procedures and methodology are consistent, and to identify any technical areas that should be reconsidered.
- 4.3 The Internal Audit management team ensures that audit work is allocated to staff with the appropriate skills, experience and competence. Ongoing monitoring and supportive coaching is built into the planning, execution and completion of every audit assignment through the managers' supervision and structured review of working papers and reports. Feedback is sought from auditees as each assignment is completed.
- 4.4 The Internal Audit management team routinely assesses the team's performance against its performance targets, which are set out at Appendix B. Any matters arising from the periodic self-assessment and external assessment processes are considered and promptly addressed.

**Periodic internal assessment of the professional and operational framework**

"Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards."

*PSIAS 1311: Interpretation – Internal assessments*

- 4.5 The Internal Audit Service operates to a Charter that mandates compliance with relevant professional standards and specifically the Definition of Internal Auditing, the Code of Ethics and PSIAS and is regularly reviewed.
- 4.6 Reports on progress against the annual audit plan are presented to each meeting of Lancashire County Council's Audit, Risk and Governance Committee and to the audit committees of each external client.
- 4.7 The head of internal audit assesses the service, and specifically its conformance with PSIAS, at least annually. This is considered by the Internal Audit management team and shared with the whole team to ensure that all understand where any changes or improvement are necessary. The outcome of this review, and progress against any improvement plans, are included in the head of internal audit's annual report to the Audit, Risk and Governance Committee.

**External review**

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest."

*PSIAS 1312: External Assessments*

4.8 Lancashire County Council's Internal Audit Service's self-assessment was externally validated by the Chartered Institute of Internal Auditors in late 2017, and was determined to 'generally conform' with all relevant professional standards.

## Appendix A: Relevant standards within *PSIAS*

Each of the relevant standards within *PSIAS* is set out in full below.

### **1310: Requirements of the quality assurance and improvement programme**

The quality assurance and improvement programme must include both internal and external assessments.

#### **1311: Internal assessments**

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

#### *Interpretation:*

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

#### **1312: External assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

#### *Interpretation:*

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team,

not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

*Public sector requirement:*

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

**1320: Reporting on the quality assurance and improvement programme**

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

*Interpretation:*

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

*Public sector requirement:*

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

**1321: Use of “conforms with the *International Standards for the Professional Practice of Internal Auditing*”**

Indicating that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing is appropriate only

if supported by the results of the quality assurance and improvement programme.

*Interpretation:*

The internal audit activity conforms with the *Code of Ethics* and the *Standards* when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

**1322: Disclosure of non-conformance**

When non-conformance with the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

*Public sector requirement*

Such non-conformances must be highlighted by the chief audit executive to be considered for inclusion in the governance statement.

## Appendix B: Internal Audit Service performance targets

### Quality

- Achieve 90% good or very good satisfaction scores for the measures of quality of the audit process in questionnaires completed by auditees.
- Achieve positive feedback overall from the Management Team and Audit, Risk and Governance Committee regarding the value of internal audit work.

### Productivity

- Achieve 85% of the annual audit plan by number of reviews completed.

### Compliance

- Achieve full compliance with the *Public Sector Internal Audit Standards*, demonstrated through annual self-assessment and five-yearly external assessment.

### Operational

- Deliver an internal audit service to Lancashire County Council within the agreed budget.
- Fully comply with any other operational requirements determined by the county council.

**LANCASHIRE COMBINED FIRE AUTHORITY  
AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

**ANNUAL GOVERNANCE STATEMENT 2018/19  
(Appendices 1 and 2 refer)**

Contact for further information:-

Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

**Executive Summary**

The Authority is required to publish an Annual Governance Statement along with the Authority's financial statements, following a review of the effectiveness of the internal controls in place. The report and the statement set out the key elements of the Authority's governance framework, how these have been evaluated, the outcome of the assessment of effectiveness and any areas for improvement.

The overall conclusion of the Annual Governance Statement is that the system of internal controls is adequate, and that no significant governance issues have been identified.

**Recommendation**

The Committee is asked to note and endorse the self-assessment and the Annual Governance Statement based on this.

**Background**

The Authority is required to produce an Annual Governance Statement as part of the year end process for 2018/19.

The Audit Committee has previously approved a revised Code of Corporate Governance, in line with guidance produced jointly by CIPFA (Chartered Institute of Public Finance Accountants) and SOLACE (Society of Local Authority Chief Executives).

The Code defines corporate governance as the way an authority ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

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.

In order to assess the effectiveness of the Authority's current arrangements a self-assessment has been undertaken by the Executive Board, considering the various sources of assurance which support the core principles outlined above, and the outcome of this is attached as appendix 1. One of the key elements of this is external assurance on our systems, and this is provided by our auditors, both of whom provide positive reports, and by the HMICFRS Inspection which rated the Service as Good.

The assessment also considers recommendation made as part of last year's Annual Governance Statement, and an update on the position in respect of these is set out below:-

Area for Improvement	Action to date	Complete/ On-going	Owner
Complete review of Scheme of Delegation	Review complete and agreed at Audit Committee in June.	Complete	Clerk
Complete review of staff recognition	Staff were consulted on recognition in the staff survey (May 2018) and the results are informing the recommendations. In-line with those results, a low-key recognition initiative was implemented in December 2018 where staff were asked to nominate 'star' colleagues who live our values. As a result, six members of staff (one from each area of the county) were presented with an LFRS Star Award. The initiative has been evaluated with a view to developing as part of the wider staff recognition programme.	Complete	Head of Corporate Comms
Create a new Intranet, incorporating social networking to	The new intranet went live in April 2019. Staff were consulted on the name, design and content in the staff survey (May 2018) and via staff and intranet focus groups. Content	Completed in April 2019	Head of Corporate Comms



connect staff across the service	authors in all departments have been identified and trained to use the site. This includes a social networking element for staff.		
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It is also worth noting that the Internal Auditors undertook a review of Sources of Assurance in the first quarter of 2018/19, as part of the internal audit programme. This review confirmed that LFRS has sufficient, relevant sources of assurance to satisfactorily manage its risks in order to ensure compliance with the Code of Corporate Governance and achieve overall Service objectives.

As a result of the various reviews a number of areas for further improvements have been identified:-

- continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning
- performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation

As part of our review, we are required to identify and disclose any significant internal control issues, of which there have been none, hence the overall conclusion is that the system of internal controls is adequate.

The above position is reflected in the Annual Governance Statement, attached as appendix 2.

### **Financial Implications**

None

### **Human Resource Implications**

None

### **Equality and Diversity Implications**

None

### **Environmental Impact**

None

### **Business Risk Implications**

The Annual Governance Statement and the review of effectiveness of the Authority's arrangements for complying with its Code of Corporate Governance forms a key element of the Authority's overall assessment of how well it is managing its business risks.

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

Paper	Date	Contact
Code of Corporate Governance	Mar 2017	Keith Mattinson, Director of Corporate Services
Internal Audit Annual Report	July 2019	
External Auditors Audit Findings Report	July 2019	
HMICFRS Inspection Report	December 2018	
Reason for inclusion in Part II, if appropriate:		

## Appendix 1

### **Lancashire Fire & Rescue Service Statement of assurance on governance arrangements, including risk management and internal control**

Lancashire Fire & Rescue Service is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

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

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.

As the Executive Board, we have responsibility for maintaining a system of sound internal control including risk management that supports the achievement of the Authority's and the Service's objectives, and for reviewing its effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of these objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

However the system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore provide only reasonable and not absolute confidence that the risks of failure have been mitigated.

As Executive Directors, we are responsible for reviewing the effectiveness of the governance arrangements including system of internal control and risk management processes operating within the Service. The review of the effectiveness of the governance arrangements including the system of internal control has taken into account the following:

- The adequacy and effectiveness of management review processes;
- Outcomes from the formal risk assessment and evaluation (the risk register);
- Relevant self-assessments of key service areas within the Service;
- Relevant internal audit reports and the implementation of recommendations made by the Audit Service; and

- Outcomes from reviews by other bodies including external and statutory inspectorates and the external auditors.

We are satisfied that effective governance arrangements are in place, including a sound system of internal control throughout the year ended 31 March 2019 and is on-going, with the following improvements proposed.

- introduce an updated Intranet, incorporating social networking to connect staff across the service (completed in April 2019)
- continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning
- performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation

We propose to take steps to address the matters identified to enhance the adequacy of the Services internal controls. We are satisfied that these steps will enhance the system of internal control and the overall governance arrangements and we will be monitoring their implementation and operation.

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interests and that these codes and policies are communicated effectively</p>	<p>Good</p>	<p>Set of values agreed by the Authority - STRIVE</p> <p>Constitutional standing orders reviewed</p> <p>Member and employee codes of conduct</p> <p>Register of interests, and on-going declaration of these</p> <p>Register of gifts and hospitality</p> <p>Appropriately qualified Clerk to the Authority</p> <p>Anti-bribery and whistle-blowing policies in place</p> <p>Register of complaints and compliments</p> <p>Complaints against Members considered as a standing CFA item</p> <p>Minimal number of complaints</p> <p>No substantiated complaints against the service</p>
<p>Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.</p>	<p>Good</p>	<p>All Committee and Authority reports contain section on financial implications. Legal implications are contained within the body of every report as appropriate.</p> <p>The Treasurer/Director of Corporate Services and Monitoring Officer examine all reports to the Authority and its committees to enable legal and financial implications to be considered and provision included where appropriate</p> <p>The Monitoring Officer and Treasurer/Director of Corporate Services attend Authority/Committee to provide advice as required</p>
<p>Documenting a commitment to openness and acting in the public interest, and compliance with the principles</p>	<p>Adequate</p>	<p>Compliance with Transparency code</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
of Data Transparency		<p>Publication scheme on the website.</p> <p>Compliance with FOI requirements</p> <p>Pay Policy Statement approved by the full Authority and published on the service website</p> <p>Annual Report</p> <p>Annual Assurance Statement</p> <p>Public meetings</p> <p>Publication of information on website, including Committee agenda and minutes</p> <p>Information Management Strategy updated</p>
Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.	Good	<p>Comprehensive communication and consultations strategies in place</p> <p>Positive evidence of proposals being amended following outcomes of consultation</p> <p>Annual report</p> <p>Key documents published on internet</p> <p>Constructive dialogue with representative bodies</p> <p>Register of complaints and compliments</p> <p>Annual Assurance Statement available on the website</p> <p>The External Auditors Annual Audit Letter did not identify any issues</p> <p>Internal Audit provided substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>management and control</p> <p>Recommendations from audit reviews implemented</p> <p>No substantiated complaints against the service</p> <p>HMICFRS Inspection rated the Service as Good in all categories, other than Outstanding in Culture. No major areas for improvement identified</p>
<p>Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</p> <p>Translating the vision into objectives for the authority and its partnerships</p>	<p>Good</p>	<p>Integrated Risk Management Plan covers 2017-2022</p> <p>Annual Service Plan, setting out Vision, Activities, Priorities and Values.</p> <p>KPIs identified for each of our priorities</p> <p>Suite of strategies/policies etc. regularly reviewed.</p> <p>Consultation and Communication Strategy setting out how we will consult with public and service users</p> <p>Assessment of compliance with National Framework</p> <p>Effective Corporate Programme Board arrangements, split into 4 Boards:-</p> <ul style="list-style-type: none"> <li>• Business Process Improvement Programme</li> <li>• Workforce Development Programme</li> <li>• Service Delivery Change Programme</li> <li>• Capital Projects Programme Board (established in 18/19).</li> </ul> <p>All major projects and revise follow similar format and report to CPB</p> <p>Terms of reference for all Programme Board items agreed at outset and delivery against these monitored on a bi-monthly basis</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision making in partnerships, information provided to decision makers and robustness of data quality.</p>	<p>Good</p>	<p>Appropriate governance arrangements in place, CFA plus 5 Committees.</p> <p>Updated Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations, which have all been reviewed and updated in last 2 years.</p> <p>BCP arrangements in place in respect of systems and information, including regular backing up and storage of data.</p> <p>ICT Disaster Recovery Plan in place</p>
<p>Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</p>	<p>Good</p>	<p>Comprehensive performance management information presented to SMT/Performance Committee on a regular basis</p> <p>KPIs agreed with monitoring arrangements in place</p> <p>Annual Report</p> <p>HMICFRS Inspection regime</p> <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> <li>• operational preparedness</li> <li>• operational response</li> <li>• operational learning</li> </ul> <p>We have introduced a new quarterly publication - Safety Health and Environment and Operational Assurance Performance Summary identifying learning from incidents etc.</p> <p><b>Continue to develop and embed the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning</b></p> <p>External Audit review</p>



**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>Comprehensive financial information reporting framework</p> <p>Medium Term Financial Plan and balanced budget in place</p> <p>Service reviews identified to deliver savings</p> <p>Resources redirected into priority areas such as prevention and protection</p> <p>Consistently exceeded efficiency targets</p>
<p>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.</p>	<p>Good</p>	<p>Updated Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations, which have all been reviewed and updated in last 2 years</p> <p>Strategy Group meetings inform members of developments in a less formal manner</p> <p>Member/Officer protocol in place setting out respective roles and relationships etc.</p> <p>Member champions covering:-</p> <ul style="list-style-type: none"> <li>• Community Safety</li> <li>• Equality, Diversity and Inclusion</li> <li>• Health and Wellbeing</li> <li>• Road Safety</li> </ul> <p>Job descriptions for all staff</p> <p>Regular briefing sessions before Committees and as and when required</p> <p>Induction/training provided to all members</p>
<p>Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief financial Officer in Local Government and,</p>	<p>Good</p>	<p>Self-assessment of the role of the Treasurer is compliant with the governance requirements set out in CIPFAs Statement on the Role of the Chief Financial Officer in Local Government</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
where they do not, explain why and how they deliver the same impact.		<p>Qualified Treasurer, sits on Exec Board and reports directly to Chief Fire Officer</p> <p>Regular appraisal, with updated process implemented this year</p> <p><b>We will performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation</b></p> <p>Contract standing orders, financial regulations, budget holder instructions all updated</p> <p>Comprehensive budget setting/monitoring arrangement in place, linked to corporate objectives and priorities. Budget is delegated appropriately and aligned with operational responsibility</p>
Ensuring effective arrangements are in place for the discharge of the monitoring officer function.	Good	<p>Clerk to the Authority is the monitoring officer</p> <p>Appropriately qualified/experienced</p> <p>Regular appraisal</p> <p>Procedural standing orders reviewed</p> <p>Scheme of delegation updated and agreed by Audit Committee</p>
Ensuring effective arrangements are in place for the discharge of the head of paid service function.	Good	<p>CFO is the head of paid service</p> <p>Regular appraisal with Chairman</p>
Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training	Good	<p>Member Training and Development Committee</p> <p>All Members subject to a one to one to identify training and development needs. Specific Member training budget to address outcome s of this.</p> <p>Senior Officers subject to appraisal system, including identification of training and</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		development needs
Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.	Good	Comprehensive Risk Mgt Strategy Corporate Risk Register Corporate Programme Board items include an assessment of risk Strategic BCP in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Dept. Additional resilience built into ICT network Appropriate insurance arrangements
Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.	Good	Anti-fraud policy Fraud risk assessment updated in 2018/19 Full compliance with National Fraud Initiative
Ensuring the assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit and, where they do not, explain why and how they deliver the same impact.	Good	Internal Audit is outsourced to Lancashire County Council Internal Audit Charter in place Internal Audit Service Quality Assurance and Improvement Programme process agreed Lancashire County Council comply with CIPFA statement Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority
Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical	Good	Audit Committee established and updated terms of reference agreed

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
Guidance for Local Authorities.		<p>All core functions of an Audit Committee are covered by the existing terms of reference</p> <p>Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present</p>
Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations	Good	<p>Audit Committee established</p> <p>All core functions of an Audit Committee are covered by the existing terms of reference</p> <p>Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority</p> <p>Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present</p> <p>No issues identified by either Internal or External Auditor,</p>
Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.	Good	<p>A framework has been developed to review potential partnership arrangements utilising the following criteria:</p> <ul style="list-style-type: none"> <li>• Will it make Lancashire Safer?</li> <li>• Will undertaking the activity potentially damage our brand?</li> <li>• Does it fit with the public image of the FRS?</li> <li>• Will it detract from our ability to undertake other operational or preventative functions, if so to what extent?</li> <li>• Is there a significant negative financial impact?</li> <li>• Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc.)?</li> </ul> <p>Statement of Intent signed with Lancashire Constabulary</p> <p>Collaboration Group established, with regular reports to members</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Staff resources are adequate in numbers and skills to deliver the service objectives. The roles and responsibilities of staff and members have been clearly defined and are understood, and appropriate guidance and training are in place</p>	<p>Good</p>	<p>Workforce Development Strategy agreed</p> <p>Agreed establishment in line with approved budget. Agreed process for revising establishment.</p> <p>Job descriptions in place</p> <p>Appropriate recruitment checks undertaken</p> <p>Staff induction process in place, incorporating LearnPro module</p> <p>Code of conduct in place and provided to all staff as part of induction.</p> <p>Appropriate performance management arrangements</p> <p>Appraisal system in place, including identification of training and development needs</p> <p>Use of:-</p> <ul style="list-style-type: none"> <li>• Action Learning Sets</li> <li>• Team Talks</li> <li>• Coaching and Mentoring</li> <li>• Leadership Conferences</li> </ul> <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> <li>• operational preparedness</li> <li>• operational response</li> <li>• operational learning</li> </ul> <p>Updated staff engagement strategy and improvement action plan agreed and implemented.</p> <p>Revised staff survey undertaken in 18/19.</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2018/19**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>'Star' awards introduced where staff were asked to nominate 'star' colleagues who live our values. As a result, six members of staff (one from each area of the county) were presented with an LFRS Star Award.</p> <p><b>Updated Intranet to be delivered in 19/20, incorporating social networking to connect staff across the service</b></p>
<p>There are adequate contingency procedures to ensure that services can be resumed in case of emergency.</p> <p>Contingency procedures are well communicated</p>	<p>Good</p>	<p>Strategic BCP in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Dept.</p> <p>BCP is considered as a standing item on SMT</p> <p>BCP plan tested on a regular basis, and amended as required</p> <p>Active member of Lancashire Resilience Forum</p> <p>Appropriate BCP arrangements in place in respect of systems and information,</p>
<p>Processes have been established to ensure that corporate and local service policies and procedures are implemented effectively and are periodically reviewed</p>	<p>Good</p>	<p>System of internal control established</p> <p>Policies and service orders are regularly reviewed, in line with an agreed timetable</p> <p>Internal audit reviews have not identified any significant weaknesses</p> <p>External audit reviews have not identified any significant weaknesses</p>

## Appendix 2

### 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 <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Code-of-Corporate-Governance.pdf>)

This statement explains how the Authority has complied with the code and also meets the requirements of regulation 6(2) of the Accounts and Audit Regulations 2015 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 2019 and up to the date of approval of the 2018/19 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 seven 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 last year and can be found on our website at <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/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 2019/20 was approved this year and can be found on our website at [https://vault.ecloud.co.uk/lancsfire/2019/05/2019-2020 Annual Service Plan ASP.pdf](https://vault.ecloud.co.uk/lancsfire/2019/05/2019-2020%20Annual%20Service%20Plan%20ASP.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;
- A Corporate Programme Board provides oversight across 4 areas:-
  - Business Process Improvement Programme
  - Workforce Development Programme
  - Service Delivery Change Programme
  - Capital Projects 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 HMICFRS Inspection 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 covers the five year period 2017-2022.
- We updated our Strategic Assessment of Risk.
- A revised Annual Service Plan has been agreed for 2019/20, 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. This is supported by Local Delivery Plans.
- A framework exists 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.)?
- Statement of Intent: Enhanced Collaboration between LFRS and Constabulary approved at Joint Exec Board. Joint Collaboration group established, reporting through to Members.
- An Operational Assurance Team undertake a programme of service wide station assurance visits to identify areas for improvement and track these through to completion, and publicise any improvements through a regular newsletter, thus enhancing operational preparedness, operational response and operational learning.
- Performance appraisal incorporating values is undertaken throughout the Service
- 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.

- We have undertaken an Assurance mapping exercise, with our Internal Auditors, which has confirmed that a strong assurance framework is in place.
- As part of the 2018/19 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can “*provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.*”
- 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 2017/18:
  - Financial statements – “*We gave an unqualified opinion on the Authority's financial statements*”
  - Value for money conclusion – “*We were satisfied that in all significant respects the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year*”
- HMICFRS undertook its first inspection of the Service. Overall the Service was rated as Good, in all categories other than ‘Promoting the right values and culture’ in which it was rated outstanding. This was the highest overall rating of any Service in the first tranche of inspections, and the only outstanding rating. “*Overall, we commend Lancashire Fire and Rescue Service for its performance. We are confident it is well equipped for this to continue.*” and “*It provides an effective service*” and “*It provides an efficient and affordable service by making good use of its resources*”

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	Complete/ On-going	Owner
Complete review of Scheme of Delegation	Review complete and agreed at Audit Committee in June.	Complete	Clerk
Complete review of staff recognition	Staff were consulted on recognition in the staff survey (May 2018) and the results are informing the recommendations. In-line with those results, a low-key recognition initiative was implemented in December 2018 where staff were asked to nominate ‘star’ colleagues who live our values. As a result, six members of staff (one from each area of the county) were presented with an LFRS Star Award. The initiative has been evaluated with a view to developing as part of the wider staff recognition programme.	Complete	Head of Corporate Comms
Create a new Intranet, incorporating social networking to connect staff across the service	The new intranet went live in April 2019. Staff were consulted on the name, design and content in the staff survey (May 2018) and via staff and intranet focus groups. Content authors in all departments have been identified and trained to use the site. This includes a social networking element for staff.	Completed in April 2019	Head of Corporate Comms

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, are listed below:

- continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning
- performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation

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  
29 May 2019

J Johnston,  
Chief Fire Officer,  
Lancashire Fire and Rescue  
Service  
29 May 2019

K Mattinson CPFA,  
Treasurer,  
Lancashire Combined Fire  
Authority  
29 May 2019

## **LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

### **REVISIONS TO THE STATEMENT OF ACCOUNTS 2018/19 (Appendices 1 and 2 refers)**

Contact for further information:

Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

#### **Executive Summary**

This report presents the changes made during the audit of the Statement of Accounts of the Combined Fire Authority for the financial year ended 31 March 2019.

#### **Recommendation**

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

#### **Information**

The Core Financial Statements for the financial year ended 31 March 2019 were presented to Resources Committee in May (see report attached as appendix 1). The report confirmed that:-

- the unaudited Statement of Accounts would be 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 2019;
- this would be subject to review by the Authority's external auditors, Grant Thornton
- that a further report would be presented to the Audit Committee in July, following completion of the external audit;
- at that meeting the Chair of the Audit Committee would be asked to sign the final statement of accounts, as well as the Treasurer;
- Following this a final audited set of accounts will be presented to the Resources Committee for information.

In light of this the Committee noted and endorsed the report and accounts, based on the various outturn reports presented on the same agenda.

Subsequent to that the full set of accounts were produced and signed by the Treasurer and submitted for audit to Grant Thornton.

The Statement of Accounts has now been updated to reflect the following changes identified during the audit (as reported in the Audit Findings Report – elsewhere on the agenda) and a revised statement of accounts is attached as appendix 2.

#### **Adjusted Misstatements**

The accounts have been adjusted to reflect the impact of the McCloud judgement on the pension liabilities. This adjustment, relating to costs associated with both the Fire-fighter Pensions scheme and the Local Government Pension Scheme, arose following a legal challenge in respect of alleged unlawful discrimination arising from the Transitional

Provisions in the Firefighters Pension Regulations 2015. In December 2018 the Court of Appeal ( McCloud / Sargeant ) ruled that the ‘transitional protection’ offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 27 June the Supreme Court refused leave to appeal on the McCloud case. In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes, which would lead to an increase in pension scheme liabilities. Initial accounting advice provided by CIPFA was to treat this as a contingent liability, however following the Supreme Court’s refusal to allow an appeal the accounting policy adopted by external auditors required the additional liability to be recognised in the accounts. Hence the accounts have been adjusted for this.

It is worth noting that the actual impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates.

This impacts throughout the accounts changing the core financial statements as well as the detailed notes supporting these (as referred to in the External Audit Findings Report – referred to elsewhere on this agenda). However it is worth noting that excluding this adjustment there are no other changes to the core financial statements.

### **Misclassifications and disclosure changes**

Note 1 EFA – Income and Expenditure analysis by nature	We have updated this to include a missing transaction in relation to collection fund accounting
Note 6 Movement on the property, plant and equipment valuations	We have added a footnote to explain the reclassification adjustment between PFI assets and Other Land & Buildings Assets
Note 8 income, interest, gains and losses	We have included a breakdown of interest payable between PFI, borrowing and finance leases

### **Approval and Signing of the Accounts**

As all changes requested by Grant Thornton have been made to the accounts the Treasurer to the Fire Authority and the Chair of the Audit Committee are therefore required to approve the revised accounts by signing off the Balance Sheet (Page 22) and the Statement of Responsibilities (page 18).

### **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	<i>Date</i>	Contact
Code and Guidance	February 2019	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	April - July 2019	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

**LANCASHIRE COMBINED FIRE AUTHORITY  
RESOURCES COMMITTEE – 29 MAY 2019****Core Financial Statement 2018/19 - Updated  
(Appendix 1, 2, 3, 4 and 5 refer)**

Contact for further information:

Keith Mattinson - Director of Corporate Services – Telephone Number 01772 866804

**Executive Summary**

This report presents the Core Financial Statements, which form part of the Statement of Accounts, for the Combined Fire Authority for the financial year ended 31 March 2019.

Members should note that the 2018/19 core statements presented assume that the Authority's 25% share of North West Fire Control Ltd year end position has not changed from 2017/18 to 2018/19 (this will be updated for the final version of the accounts).

**Recommendation**

The Committee is asked note and endorse the Core Financial Statements.

**Information**

The Combined Fire Authority's Core Financial Statements, which form part of the Statement of Accounts, are attached as Appendix 1. The Statements takes account of the information presented in the Year End Revenue Outturn, Year End Capital Outturn, Year End Treasury Management Outturn and Year End Usable Reserves and Provisions Outturn reports. However it must be borne in mind that they are prepared in line with recommended accounting practice and this is not accounted for on the same basis as we account for council tax. As such this means they do not match the details in the Outturn reports, and hence the following sections provide an overview of each statement and a reconciliation between Outturn reports and the Core Financial statements where appropriate.

Members should note that the 2018/19 core statements presented assume that the Authority's 25% share of North West Fire Control Ltd year end position has not changed from 2017/18 to 2018/19 (this will be updated for the final version of the accounts).

**Narrative Report**

This sets out the financial context in which the Combined Fire Authority operates, and provides an overview of the financial year 2018/19 as well as details of future plans. The performance statistics for 2018/19 are not yet completed, and will be updated prior to the final version being approved.



## 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 main points to note are: -

	2018/19	2017/18	
Service Delivery	27,513	27,408	The cost of Service Delivery shows a marginal increase when compared with the previous year, attributable to the net cost of the Winter Hill incident.
Strategy & Planning	7,680	7,466	The cost of Strategy & Planning shows an increase when compared with the previous year, due primarily to pay awards and inflation.
People & Development	1,604	1,304	The cost of People & Development shows an increase when compared with the previous year, mainly due to the underspends during 1718.
Corporate Services	4,212	4,166	The cost of Corporate Services is broadly comparable with last year.
Fire Fighters Pensions	1,242	1,138	These 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	4,239	4,645	This heading includes all capital financing charges, refunds made in respect of the LGPS surplus, and depreciation and impairment charges made in respect of assets. The reduction is attributable to changes associated with the adjustment required in respect of pension liabilities under IAS 19.
Gain On Disposals Of Fixed Assets	(68)	(13)	This relates to the sale of surplus vehicles.
Interest Payable	1,479	1,576	The level of interest payable in respect of current loans has fallen due to the early repayment of £3.2m of loans during 1718. 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	20,253	21,005	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 pensions' scheme is unfunded there is no increase in asset value to offset the increase in scheme costs resulting in a £20.3m charge to the Income and Expenditure Account.
Interest Receivable	(358)	(267)	The level of interest earned on investments has increased as we have placed several fixed term investments during the year, and also the call account interest rate increased.
Council Tax	(29,360)	(28,233)	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	(9,262)	(10,659)	The level of Revenue Support Grant allocated to the Authority by the Government, the reduction reflecting the cut in Government funding
Non-Domestic Rates Redistribution	(15,485)	(14,605)	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.
Business rates S31 grant	(946)	(511)	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	<b>12,745</b>	<b>14,421</b>	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	(4,539)	(5,167)	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	19,849	(10,730)	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.
Total Comprehensive Income And Expenditure	<b>28,055</b>	<b>(1,476)</b>	This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation.

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 set out above:-

	£m
Revenue Outturn	(0.435)
Earmarked reserves utilised/provided for in year	0.102
Accounting for pensions under IAS19	11.228
Revenue Contributions to Capital Outlay	(2.030)
Adjustments between accounting basis and funding basis under regulations	3.880
Deficit on the provision of services	<b>12.745</b>
Surplus on revaluation of non-current assets	(4.539)
Actuarial loss on pensions assets and liabilities	19.849
Total Comprehensive Income and Expenditure	<b>28.055</b>

### 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 in respect of are:-

	Usable Reserves	Unusable Reserves	Total Reserves	
Balance at 1 April	35,230	(720,870)	(685,640)	
Deficit on the provision of service	(12,745)	-	(12,745)	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. As set out earlier it 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.
Other Comprehensive Income And Expenditure	-	(15,310)	(15,310)	This relates to the surplus on revaluation of non-current assets and the actuarial loss on pensions assets and liabilities
Charges for depreciation and impairment of non-current assets	4,258	(4,258)	-	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year
Amortisation of intangible assets	33	(33)	-	This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year
Amount by which the Code and the statutory pension costs differ	11,228	(11,228)	-	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	207	(207)	-	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 2018/19 reflecting the fact that authorities have collected less than anticipated.
Provision for the repayment of debt	(337)	337	-	This is the charge made against the revenue budget to reduce future borrowing requirements, and includes an element relating to debt associated with PFI and finance leases

Capital expenditure charged against General Fund Balance	(2,030)	2,030	-	This is the level of capital expenditure which has been funded from contributions from the 2018/19 revenue budget, as agreed as part of the budget setting process and as shown in the Year End Capital Outturn report.
Net increase/decrease before transfers to earmarked reserves	614	(28,669)	(28,055)	This shows the Usable Reserves Balance change in year before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.
Transfers (to)/from earmarked reserves	(28)	28	-	These represents the transfers to specific earmarked reserves referred to in the Year End Usable Reserves and Provisions Outturn report.
Transfers (to)/from capital funding reserves	(352)	352	-	These represents the transfers from the capital funding reserve referred to in the Year End Capital Outturn report and the Year End Usable Reserves and Provisions report.
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(49)	49	-	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	185	(28,240)	(28,055)	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 and ties into the overall change in Usable reserves included in the Year End Usable Reserves and Provisions Outturn report
Balance at 31 March	<b>35,415</b>	<b>(749,110)</b>	<b>(713,694)</b>	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 Usable Reserves and Provisions Outturn report.

## 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: -

	2018/19	2017/18	
<b>Long Term Assets</b>			
Property, Plant & Equipment	96,678	93,794	The value of property, plant & equipment has increased by £2.9m, due to the level of capital expenditure (£2.4m as shown in the Year End Capital Outturn report) and the net revaluation gains of £4.1m compared with depreciation charges of £3.8m.
Intangible assets	439	472	Intangible assets are assets which do not have a physical form, such as software, the reduction in value reflecting the level of amortisation of these assets, representing their usage in year.
Long Term Investments	5,000	5,000	The Authority holds one investment with Local Government bodies which is classed as long term investments, i.e. over 12 months in duration, as shown in the Year End Treasury Management Outturn report.
<b>Current Assets</b>			
Inventories	238	228	The value of stock held has remained broadly in line with last year.
Short-Term Investments	15,000	-	The Authority holds three investments with Local Government bodies which are classed as short term investments, i.e. under 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Short-Term Debtors	9,675	10,760	Debtors represent monies owed to the Authority on 31st March 2019. 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. The level of debtors at the year-end has remained consistent, with the main debt relating to Council Tax, Business Rates (which represent our share of debts that billing authorities hold) and amounts owed to the Authority by the FF pension fund in the form of top up grant due during July 2019.
Cash & Cash Equivalents	14,865	28,768	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. The reduction reflects the placing of several short term investments during the year.
<b>Current Liabilities</b>			
Other Short-Term Liabilities	(384)	(329)	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	(6,789)	(6,998)	This figure represents the amount of money we owe to other bodies at 31st March 2019. The overall balance is broadly in line with last year.
<b>Long Term Liabilities</b>			
Provisions	(1,282)	(1,084)	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. The increase largely relates to amounts set aside by billing authority's in relation to our share of their Business Rates appeals.
Long-Term Borrowing	(2,000)	(2,000)	This represents the amount of long term debt that the Authority holds which does not mature within the next 12 months. The balance of £2.0m is due to mature between 2035-2037.
Other Long-Term Liabilities	(845,135)	(814,251)	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 £831m. This also includes liabilities covering the remainder of the contract associated with the two PFI contracts; <ul style="list-style-type: none"> <li>• PFF Lancashire Ltd for the provision of two fire stations,</li> <li>• 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.</li> </ul> In addition, this also includes liabilities relating to an outstanding finance lease.
<b>Total Assets Less Liabilities</b>	<b>(713,694)</b>	<b>(685,640)</b>	

<b>Financed By Usable Reserves:</b>			
Revenue Reserves	(16,253)	(15,783)	This is the level of reserves 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. The increase in year represents the revenue budget surplus for the year, as referred to in the Year End Revenue Outturn report, and the Usable Reserves and Provisions Outturn report.
Capital Funding Reserve	(17,393)	(17,745)	This reserve holds £17.4m of balances to fund future capital expenditure, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.
Capital Grant Unapplied	(121)	(121)	The capital grant unapplied relates to the Authority's share of the NWFC end of year balances, and as such, the 2018/19 balances have not been updated for changes. This will be done prior to the final version being approved.
Usable Capital Receipts Reserve	(1,649)	(1,581)	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. The increase in value representing the sale proceeds vehicles, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.

<b>Unusable Reserves:</b>			
Revaluation Reserve	(43,925)	(40,862)	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	(38,573)	(38,641)	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.
Collection Fund Adjustment Account	(496)	(704)	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 deficit of £342k.
Accumulated Absences Adjustment Account	764	813	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.
Pensions Reserve	831,341	799,479	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.
	<b>713,694</b>	<b>685,640</b>	

## 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:-

	2018/19	2017/18	
Net Cash Flows Arising From Operating Activities	5,224	4,604	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	(17,339)	221	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 placing £15m on short term deposit, and £2.4m of expenditure on capital assets.
Financing Activities	(1,789)	(5,402)	This relates to the repayment of long term debt, including that associated with PFI and finance leases.
Net increase/(decrease) in cash and cash equivalents	<b>(13,903)</b>	<b>(578)</b>	This shows the movement in the net cash immediately available within the Authority in a call account with LCC. This shows a significant reduction in year, reflecting the short term investments placed during the year, and ties in to the figure included in the Treasury Management Outturn report

## Signing of the Statement of Accounts

The unaudited Statement of Accounts will be 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 2019.

This will be 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 in July, following completion of the external audit. At this meeting the Chair of the Audit Committee will be asked to sign the final statement of accounts, as well as the Treasurer. Following which a final audited set of accounts will be presented to the Resources Committee for information.

## 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 2019	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	May 2019	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		



## 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 2018/19
- 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 2019 (referred to as 2018/19). 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 2018/19. 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 to the Members of Lancashire Combined Fire Authority** – The Auditor's report to the CFA on the accounts for 2018/19, 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 2019, 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 and Net Assets Statement** – 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**

We have remained financially secure and are in a strong position not only to face future challenges but to lead innovation and improvements in our sector. We have continued to invest in people, training and equipment; prioritised operational effectiveness and efficiency to meet the challenges of an increasingly complex environment; embedded clear values and strong leadership throughout the organisation; and looked for new ways to collaborate to improve services for local people.

The summer of 2018 brought an unprecedented period of dry weather that lasted for many weeks, led to a water shortage and exceptionally dry conditions in moorland areas of North West England, resulting in the service facing its largest moorland fire in living memory, at Winter Hill. The fire burnt above and below ground for 41 days and covered over 18 square miles. It was managed and coordinated using the resources from many different agencies and a national deployment of fire crews from around England and Wales. At its peak there were over 70 fire appliances and specialist vehicles fighting this fire. The total cost of the incident was £1.2m, of which £1.1m was recovered from the Government.

2018/19 also saw the first independent inspection of the Fire Service for several years, with Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) undertaking an inspection of Lancashire in July, whilst the Winter Hill fire was still burning. The inspection assesses how effectively and efficiently the Service prevents, protects the public against and responds to fires, as well as how well the Service looks after staff. The outcome of the inspection was that Lancashire was the only fire and rescue service to be given an 'outstanding' in any category. The Service was in the first tranche of fire and rescue services to be inspected, was rated as 'outstanding' for promoting its values and culture, and was rated as 'good' in all other areas, with no areas that 'require improvement'. This was the highest rating of any Service in the first tranche of inspections, with the outcome of the second and third tranche expected in 2019/20.

Recruitment statistics for the 2018/19 financial year will be updated in due course once available.

We have continued to invest in providing the best Personal Protective Equipment and operational equipment, introducing new technical rescue jackets, and new helmets and gloves and battery operated hand tools, as part of a trial.

Our leadership and management training has continued across the organisation, focusing on developing a strong organisational culture based on clear values and leadership.

We have continued to develop collaborative opportunities. The joint Fire and Ambulance station at Lancaster was completed in November, and we are continuing to review further opportunities for site sharing with both NWAS and Lancashire Constabulary. We continue to support Lancashire Constabulary by use of a shared drone, as well as assisting in missing persons searches, and

Performance statistics for the 2018/19 financial year will be updated in due course once available.

## **The 2018/19 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.

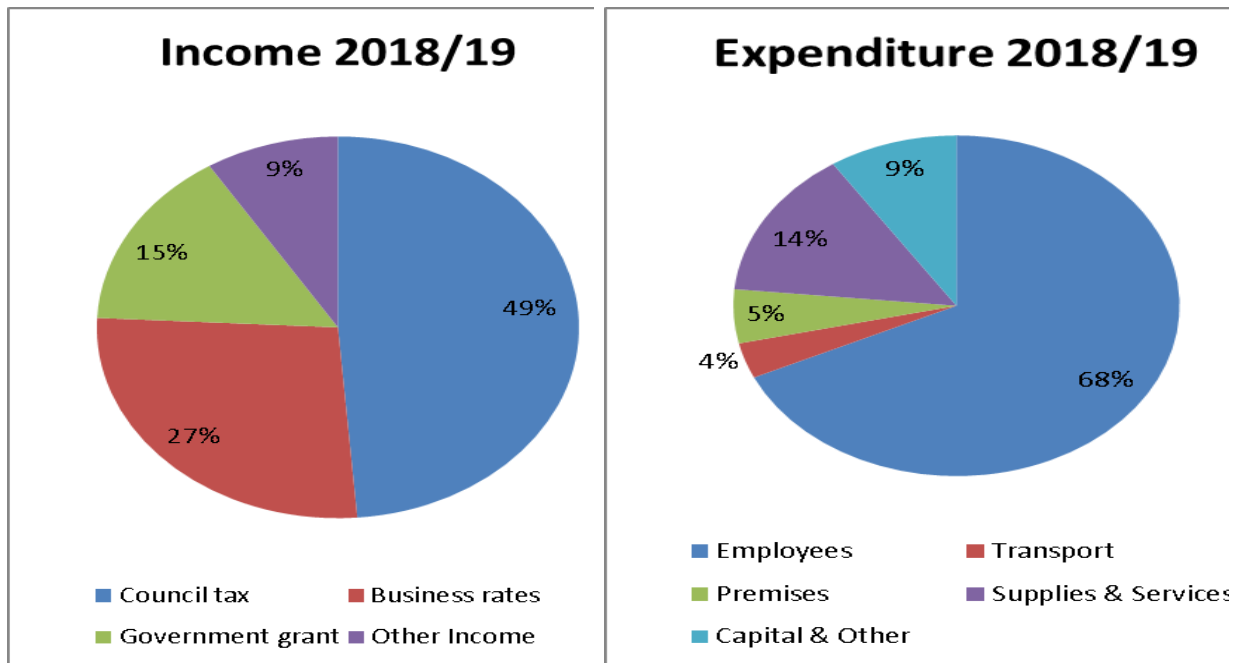
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account of known and anticipated pressures
- maintain an adequate level of reserves

2018/19 was the third year of the Governments four year funding settlement, and in line with this Government funding, which comprises Revenue Support Grant and a proportion of Non-Domestic Rates Redistribution, fell by £1.0m to £24.3m. The Authority had to identify efficiencies of £1.1m in order to offset financial pressures and deliver an acceptable budget. This resulted in a gross revenue budget of £54.8m, an increase of less than 2%, and a council tax of £67.46, which is just under £1.30 per week. This represented a 2.99% increase in council tax, in line with the referendum limit. Based on this the budget was considered affordable, prudent and sustainable, whilst ensuring that the Authority was able to deliver against its corporate priorities.

The net revenue position shows an overall underspend of £0.5m, however of this £0.2m relates to the redistribution of unused National Business Rates (NNDR) Levy fund (which the Government has previously held back to fund business rates safety net grant payments) and a further £0.2m in respect of Business Rates Reliefs for 2017/18. Had this not been received the overall budget position would have been a marginal underspend of £0.1m.

The following charts show a breakdown of where the monies we received 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	£000		
	Budget	Spend	(Under)/ over spend
Employees: pay costs	40,268	39,982	(285)
Other employee related costs	1,136	1,036	(100)
Premises	3,004	3,075	72
Transport	2,002	2,027	25
Supplies & services	8,195	8,504	309
Capital financing costs & other	5,330	5,630	300
<b>Total Expenditure</b>	<b>59,935</b>	<b>60,256</b>	<b>321</b>
Other Income	(5,165)	(5,431)	(266)
<b>Budget requirement</b>	<b>54,771</b>	<b>54,825</b>	<b>55</b>
<b>Funded by:</b>			
Council tax	(29,567)	(29,567)	-
Business rates	(15,941)	(16,432)	(490)
Government grant	(9,263)	(9,263)	0
	<b>(54,771)</b>	<b>(55,261)</b>	<b>(490)</b>
<b>Net Overspend</b>	<b>-</b>	<b>(435)</b>	<b>(435)</b>

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 19.

	£m
Revenue Outturn	(0.435)
Earmarked reserves utilised/provided for in year	0.102
Accounting for pensions under IAS19	11.228
Revenue Contributions to Capital Outlay	(2.030)
Adjustments between accounting basis and funding basis under regulations	3.880
Deficit on the provision of services	<b>12.745</b>
Surplus on revaluation of non-current assets	(4.539)
Actuarial loss on pensions assets and liabilities	19.849
Total Comprehensive Income and Expenditure	<b>28.055</b>

The Authority transferred £0.3m to the general fund balance and as a result of this the general fund balance now stands at £8.2m, still within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m). This still provides capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified, and the on-going use of reserves remains 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 2019/20 budget, shows approx. £5m of reserves being used by March 2024 meaning that we will be approaching our minimum reserve level at that time.

The Authority also holds an additional £8m of earmarked revenue reserves and £19m of capital reserves and receipts. Again, the majority of these are utilised within the medium term financial strategy, reducing to a level of £6m and £3m respectively by March 2024. It is also worth noting that over half of the earmarked reserve relates to the Authorities two PFI schemes, whereby monies are set aside in the early years of the schemes to meet future costs, thus smoothing out the impact of inflationary pressures.

The Authority has continued to invest in its asset base, with capital expenditure incurred in the year totalling £2.4m, as set out below:-

	Spend
Vehicles	
<ul style="list-style-type: none"> <li>Pumping Appliances – first stage payment for 7 Pumping Appliances from the 2018/19 capital programme</li> </ul>	£0.4m
<ul style="list-style-type: none"> <li>Operational Support Vehicles – purchase of Aerial Ladder Platform plus various support vehicles, such as vans and cars</li> </ul>	£0.8m
Operational Equipment	
<ul style="list-style-type: none"> <li>Purchase of Technical Rescue Jackets and purchase of equipment for reserve appliances</li> </ul>	£0.4m
Buildings	
<ul style="list-style-type: none"> <li>Training Centre site replacement welfare/ICT porta-cabin</li> </ul>	£0.1m
<ul style="list-style-type: none"> <li>Stage payments relating to the new joint Fire/Ambulance Station project in Lancaster, which is now complete.</li> </ul>	£0.7m
Total	£2.4m

The Balance Sheet shows that the Authorities Total Net Liabilities have increased to £715m. 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

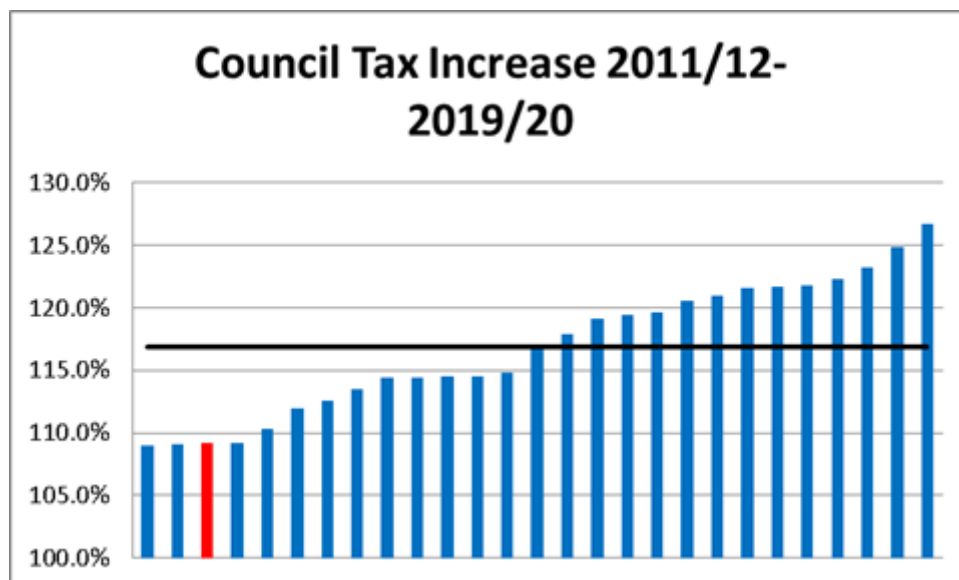
hence the Authority's overall pension liability of £831m is extremely large. If this liability was excluded the Authorities Total Net Assets would be £116m.

Long term assets have increased in value to £102m, reflecting the expenditure incurred in year and the net outcome of revaluations and sums invested for over 12 months.

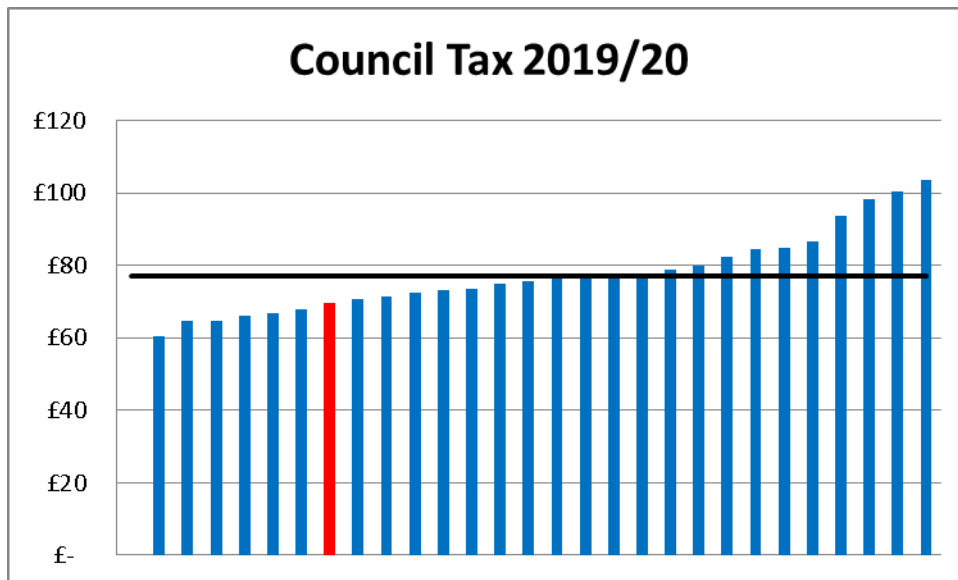
### Future Financial Plans

Next year is the last of the four year funding settlement. This shows further Government funding cuts of £0.5m. The Authority has plans to deliver £1.2m of efficiencies in 2019/20, but these are more than offset by increased costs associated with pay awards, the full extent of which is not known at the present time, increased pension costs, which are partly met by the Government, and the additional costs associated with the increase in Firefighter numbers following the successful recruitment campaigns. Overall these changes result in a revenue budget of £56.5m, however in order to deliver a council tax increase within the referendum limit (3%) an additional, as yet unidentified, savings target of £0.2m was agreed, alongside a drawdown of £0.3m of reserves. Therefore the net revenue budget requirement is £56.0m, an increase of 2.3%, resulting in a council tax of £69.48, an increase of 2.99%. Based on this the budget, as presented, is considered affordable, prudent and sustainable, whilst ensuring that the Authority is able to deliver against its corporate priorities.

However it is worth noting that our council tax has increased by just 9.20% since 2010/11, the third lowest of any Authority and considerably lower than the average increase of 16.8%:-



Our 2019/20 council tax of £69.48 is still below the national average of £77.04, and is the seventh lowest of any Fire Authority



Given economic uncertainty, particularly surrounding Brexit, and the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates, it is extremely difficult to anticipate what funding will look like beyond the existing settlement, hence for the purpose of medium term financial strategy we have assumed that funding is frozen in future years.

Based on this we will be faced with a funding gap in future years, the extent of which depends on future council tax decisions, and 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.

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 £27m over the next five years.

We will continue to invest in training assets, with work on-going to develop plans to enhance training facilities and provide new workshop facilities at the Training Centre.

We will continue to invest in our operational equipment to ensure that our staff have the best equipment available, and the programme includes the replacement of our 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:-

- Reductions in funding levels over and above those forecast;
- 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 pension costs/contributions;
- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spare conditions or major equipment replacement requirements;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements



## Comprehensive Income &amp; Expenditure Account

Comprehensive Income & Expenditure Account	2018/19			2017/18		
	Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure
	£000	£000	£000	£000	£000	£000
<b>Continuing operations</b>						
Service Delivery	30,585	(3,071)	27,513	29,580	(2,172)	27,408
Strategy & Planning	8,196	(515)	7,680	8,084	(618)	7,466
People & Development	1,604	(0)	1,604	1,304	(1)	1,304
Corporate Services	4,272	(60)	4,212	4,225	(59)	4,166
FF Pensions	1,242	0	1,242	1,138	(1)	1,138
Overheads	6,023	(1,784)	4,239	6,436	(1,790)	4,645
<b>Net cost of services</b>	<b>51,922</b>	<b>(5,431)</b>	<b>46,491</b>	<b>50,766</b>	<b>(4,640)</b>	<b>46,126</b>
<b>Other operating expenditure</b>						
(Gain)/Loss on disposal of fixed assets			(68)			(13)
<b>Financing &amp; investment income &amp; expenditure</b>						
Interest payable and similar charges			1,479			1,576
Pensions interest cost and expected return on pensions assets			20,253			21,005
Interest and investment income			(358)			(267)
<b>Taxation and non-specific grant income</b>						
Tax on NWFC			-			1
Council tax			(29,360)			(28,233)
Revenue support grant			(9,262)			(10,659)
Non-domestic rates redistribution			(15,485)			(14,605)
Non specific grant income:						
Capital grant			-			0
Business rates S31 grant			(946)			(511)
<b>Deficit on provision of services</b>			<b>12,745</b>			<b>14,421</b>
(Surplus)/Deficit on revaluation of fixed assets			(4,539)			(5,167)
Actuarial (gains)/losses on pension fund assets			19,849			(10,730)
<b>Other comprehensive income &amp; expenditure</b>			<b>15,310</b>			<b>(15,896)</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>28,055</b>			<b>(1,476)</b>

## Movement in Reserves Statement

	Usable Reserves							Unusable Reserves						Total reserves
	General Fund	Earmarked Reserves	Total General Fund Balance	Capital Fund	Capital grant unapplied	Usable Capital Receipts	Usable Reserves	Reval Reserve	CAA	AAAA	Coll Fund	Pension Reserve	Unusable Reserves	
Bal at 1.4.18	7,899	7,883	15,783	17,745	121	1,581	35,230	40,862	38,642	(813)	704	(800,264)	(720,870)	(685,640)
Surplus/(Deficit) on provision of services	(12,745)		(12,745)				(12,745)						-	(12,745)
Other comprehensive income & expenditure			-				-	4,539				(19,849)	(15,310)	(15,310)
Total comprehensive income & expenditure	(12,745)	-	(12,745)	-	-	-	(12,745)	4,539	-	-	-	(19,849)	(15,310)	(28,055)
Adjustments between accounting basis and funding basis under regulations:														
Depreciation & impairment of non-current assets	4,258		4,258				4,258	(1,476)	(2,782)				(4,258)	0
Amortisation of intangible assets	33		33				33		(33)				(33)	-
Write off of assets disposed	(68)		(68)			68	(0)	-	-				-	(0)
Utilisation of capital grant unapplied	-		-		-		-		-				-	-
Amount by which the code & statutory pension costs differ	11,228		11,228				11,228					(11,228)	(11,228)	-
Amount by which the collection fund income in CI&E is different to the amount taken from the GFB	207		207				207				(207)		(207)	-
Statutory provision for the repayment of debt	(335)		(335)				(335)		335				335	-
Capital expenditure charged to the GFB	(2,030)		(2,030)				(2,030)		2,030				2,030	-
Voluntary provision for the repayment of debt	(2)		(2)				(2)		2				2	-
	13,291	-	13,291	-	-	68	13,359	(1,476)	(448)	-	(207)	(11,228)	(13,359)	(0)
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>546</b>	<b>-</b>	<b>546</b>	<b>-</b>	<b>-</b>	<b>68</b>	<b>614</b>	<b>3,064</b>	<b>(448)</b>	<b>-</b>	<b>(207)</b>	<b>(31,077)</b>	<b>(28,669)</b>	<b>(28,055)</b>
Tfr to/(from) earmarked reserves	(164)	136	(28)				(28)		28				28	-
Tfr to/(from) capital fund	-		-	(352)			(352)		352				352	-
Postings between the GFB and AAAA	(49)		(49)				(49)			49			49	-
Net tfr to/(from) earmarked reserves	(213)	136	(77)	(352)	-	-	(429)	-	380	49	-	-	429	-
<b>Increase/Decrease in the year</b>	<b>333</b>	<b>136</b>	<b>469</b>	<b>(352)</b>	<b>-</b>	<b>68</b>	<b>185</b>	<b>3,064</b>	<b>(68)</b>	<b>49</b>	<b>(207)</b>	<b>(31,077)</b>	<b>(28,240)</b>	<b>(28,055)</b>
<b>Bal at 31.3.19</b>	<b>8,233</b>	<b>8,019</b>	<b>16,252</b>	<b>17,394</b>	<b>121</b>	<b>1,649</b>	<b>35,415</b>	<b>43,926</b>	<b>38,574</b>	<b>(764)</b>	<b>496</b>	<b>(831,341)</b>	<b>(749,110)</b>	<b>(713,695)</b>

**Balance Sheet**

<b>SUMMARY</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>LFRS</b>	<b>LFRS</b>
	<b>£000</b>	<b>£000</b>
Property, plant & equipment	96,678	93,794
Intangible assets	439	472
Long-term investments	5,000	5,000
<b>Total Long Term Assets</b>	<b>102,117</b>	<b>99,266</b>
Assets held for sale		
Inventories	238	228
Short term investments	15,000	
Short term debtors	9,675	10,760
Cash & cash equivalents	14,865	28,768
<b>Current Assets</b>	<b>39,778</b>	<b>39,757</b>
Short term borrowing		
Other short term liabilities	(384)	(329)
Short term creditors	(6,789)	(6,998)
<b>Current Liabilities</b>	<b>(7,172)</b>	<b>(7,327)</b>
Provisions	(1,282)	(1,084)
Long term borrowing	(2,000)	(2,000)
Other long term liabilities	(845,135)	(814,251)
<b>Long Term Liabilities</b>	<b>(848,417)</b>	<b>(817,336)</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>(713,694)</b>	<b>(685,640)</b>
<b>FINANCED BY:</b>		
Revenue Reserves	(16,253)	(15,784)
Capital Funding Reserve	(17,393)	(17,745)
Capital grants unapplied	(121)	(121)
Usable Capital Receipts Reserve	(1,649)	(1,581)
<b>Usable Reserves:</b>	<b>(35,416)</b>	<b>(35,231)</b>
Revaluation Reserve	(43,926)	(40,862)
Capital Adjustment Account	(38,573)	(38,641)
Collection Fund Adjustment Account	(496)	(704)
Accumulated Absences Adjustment Account	764	813
Pensions Reserve	831,341	800,264
<b>Unusable Reserves:</b>	<b>749,110</b>	<b>720,871</b>
<b>Total Net Worth</b>	<b>713,694</b>	<b>685,640</b>

## Cash Flow Statement

	2018/19	2017/18
	£000	£000
Net deficit on the provision of services	(12,745)	(14,421)
Adjustments to net deficit on the provision of services for non-cash movements	16,692	17,569
Adjustments to net deficit on the provision of services for investing/financing activities	1,277	1,455
<b>Net cash inflows from operating activities</b>	<b>5,224</b>	<b>4,604</b>
Investing activities		
Purchase of fixed assets & other capital spend	(2,553)	(4,879)
Increase in long term deposits	-	-
(Increase)/Decrease in short term deposits	(15,000)	5,000
Receipts from investing activities	181	99
	(17,372)	221
Financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(332)	(335)
Repayment of long term borrowing	-	(3,514)
Payments for financing activities	(1,457)	(1,553)
	(1,789)	(5,402)
<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>(13,937)</b>	<b>(578)</b>
Cash and cash equivalents at the beginning of the reporting period	28,769	29,347
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>14,832</b>	<b>28,769</b>



## STATEMENT OF ACCOUNTS

2018/19

# LANCASHIRE COMBINED FIRE AUTHORITY

## STATEMENT OF ACCOUNTS 2018/19

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## NARRATIVE REPORT

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

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

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2018/19
- 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 2019 (referred to as 2018/19). 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 2018/19. 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 to the Members of Lancashire Combined Fire Authority** – The Auditor's report to the CFA on the accounts for 2018/19, 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 Statement** - 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.

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## Review of the Year

We have remained financially secure and are in a strong position not only to face future challenges but to lead innovation and improvements in our sector. We have continued to invest in people, training and equipment; prioritised operational effectiveness and efficiency to meet the challenges of an increasingly complex environment; embedded clear values and strong leadership throughout the organisation; and looked for new ways to collaborate to improve services for local people.

The summer of 2018 brought an unprecedented period of dry weather that lasted for many weeks, led to a water shortage and exceptionally dry conditions in moorland areas of North West England, resulting in the service facing its largest moorland fire in living memory, at Winter Hill. The fire burnt above and below ground for 41 days and covered over 18 square miles. It was managed and coordinated using the resources from many different agencies and a national deployment of fire crews from around England and Wales. At its peak there were over 70 fire appliances and specialist vehicles fighting this fire. The total cost of the incident was £1.2m, of which £1.1m was recovered from the Government.

2018/19 also saw the first independent inspection of the Fire Service for several years, with Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) undertaking an inspection of Lancashire in July, whilst the Winter Hill fire was still burning. The inspection assesses how effectively and efficiently the Service prevents, protects the public against and responds to fires, as well as how well the Service looks after staff. The outcome of the inspection was that Lancashire was the only fire and rescue service to be given an 'outstanding' in any category. The Service was in the first tranche of fire and rescue services to be inspected, was rated as 'outstanding' for promoting its values and culture, and was rated as 'good' in all other areas, with no areas that 'require improvement'. This was the highest rating of any Service in the first tranche of inspections, with the outcome of the second and third tranche expected in 2019/20.

The Authority recruited 66 new whole-time firefighters and 82 new on call firefighters, of which 15% were female and 5% were from a BME background.

We have continued to invest in providing the best operational and Personal Protective Equipment, introducing new technical rescue jackets, and new helmets and gloves and battery operated hand tools, as part of a trial.

Our leadership and management training has continued across the organisation, focusing on developing a strong organisational culture based on clear values and leadership.

We have continued to develop collaborative opportunities. The joint Fire and Ambulance station at Lancaster was completed in November, and we are continuing to review further opportunities for site sharing with both NWS and Lancashire Constabulary. We continue to support Lancashire Constabulary by use of a shared drone, as well as assisting in missing persons searches, and

2018/19 activity has increased by 8% to just over 17,000 incidents, although the number of accidental dwelling fires decreased by 14%. Deliberate dwelling fires saw a 14% increase to 124. A total of 756 gaining entry incidents were undertaken in 2018/19, an increase of 19% over the previous year.

## The 2018/19 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 aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

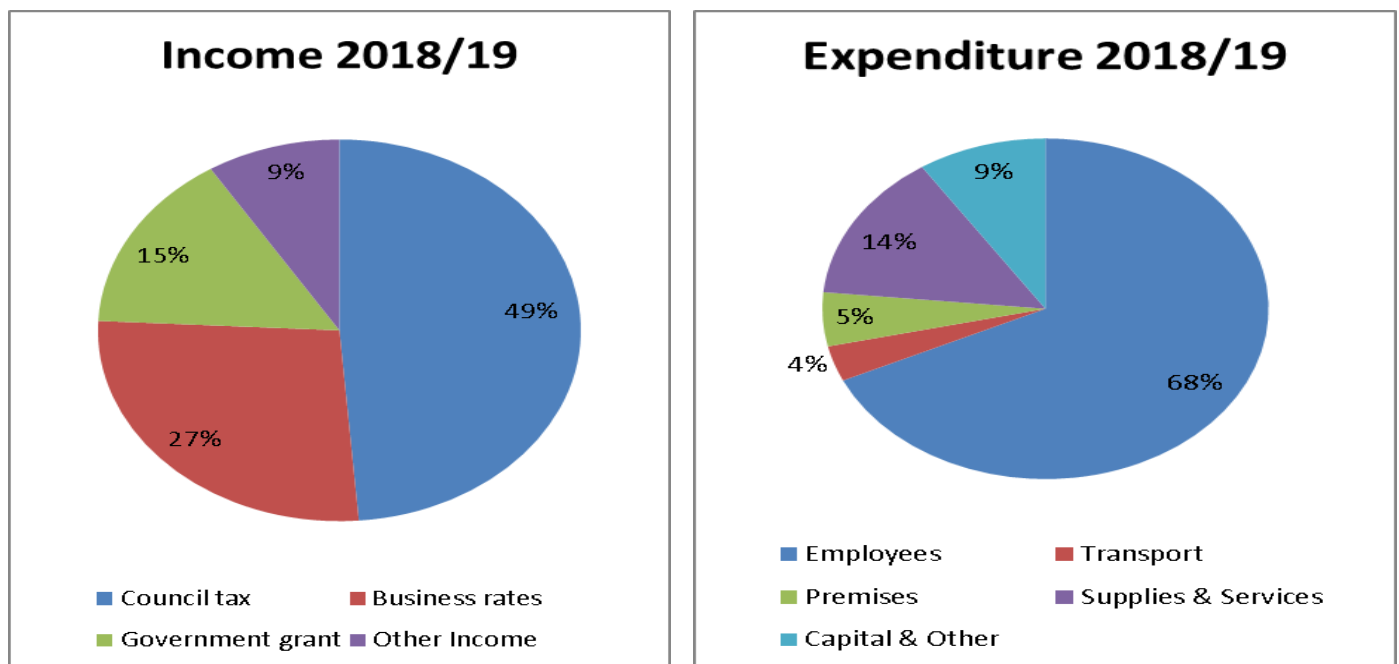


- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account of known and anticipated pressures
- maintain an adequate level of reserves

2018/19 was the third year of the Governments four year funding settlement, and in line with this Government funding, which comprises Revenue Support Grant and a proportion of Non-Domestic Rates Redistribution, fell by £1.0m to £24.3m. The Authority had to identify efficiencies of £1.1m in order to offset financial pressures and deliver an acceptable budget. This resulted in a gross revenue budget of £54.8m, an increase of less than 2%, and a council tax of £67.46, which is just under £1.30 per week. This represented a 2.99% increase in council tax, in line with the referendum limit. Based on this the budget was considered affordable, prudent and sustainable, whilst ensuring that the Authority was able to deliver against its corporate priorities.

The net revenue position shows an overall underspend of £0.5m, however of this £0.2m relates to the redistribution of unused National Business Rates (NNDR) Levy fund (which the Government has previously held back to fund business rates safety net grant payments) and a further £0.2m in respect of Business Rates Reliefs for 2017/18. Had this not been received the overall budget position would have been a marginal underspend of £0.1m.

The following charts show a breakdown of where the monies we received come from and how we spent this:



Lancashire Combined Fire Authority  
Statement of Accounts 2018/19

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

Spend/Income type	£000		(Under)/ over spend
	Budget	Spend	
Employees: pay costs	40,268	39,983	(285)
Other employee related costs	1,136	1,036	(100)
Premises	3,004	3,076	72
Transport	2,002	2,027	25
Supplies & services	8,195	8,504	309
Capital financing costs & other	5,330	5,630	300
Total Expenditure	59,935	60,256	321
Other Income	(5,165)	(5,431)	(266)
Budget requirement	54,770	54,825	55
Funded by:			
Council tax	(29,567)	(29,567)	-
Business rates	(15,940)	(16,430)	(490)
Government grant	(9,263)	(9,263)	0
	(54,770)	(55,260)	(490)
Net Overspend	-	(435)	(435)

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 19.

	£m
Revenue Outturn	(0.435)
Earmarked reserves utilised/provided for in year	0.102
Accounting for pensions under IAS19	44.632
Revenue Contributions to Capital Outlay	(2.030)
Adjustments between accounting basis and funding basis under regulations	3.880
Deficit on the provision of services	<b>46.149</b>
Surplus on revaluation of non-current assets	(4.539)
Actuarial loss on pensions assets and liabilities	19.714
Total Comprehensive Income and Expenditure	<b>61.324</b>
Recognise 25% share in North West FireControl Limited	(0.210)
Total Comprehensive Income and Expenditure	<b>61.114</b>

The Authority (excluding North West FireControl) transferred £0.3m to the general fund balance and as a result of this the general fund balance now stands at £8.2m, still within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m). This still provides capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified, and the on-going use of reserves remains 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 2019/20 budget, shows approx. £5m of reserves being used by March 2024 meaning that we will be approaching our minimum reserve level at that time.

The Authority also holds an additional £8m of earmarked revenue reserves and £19m of capital reserves and receipts. Again, the majority of these are utilised within the medium term financial strategy, reducing to a level of £6m and £3m respectively by March 2024. It is also worth noting that over half of the earmarked reserve relates to the Authorities two PFI schemes, whereby monies are set aside in the early years of the schemes to meet future costs, thus smoothing out the impact of inflationary pressures.

The Authority has continued to invest in its asset base, with capital expenditure incurred in the year totalling £2.4m, as set out below:-

	Spend
Vehicles	
<ul style="list-style-type: none"> <li>Pumping Appliances – first stage payment for 7 Pumping Appliances from the 2018/19 capital programme</li> </ul>	£0.4m
<ul style="list-style-type: none"> <li>Operational Support Vehicles – purchase of Aerial Ladder Platform plus various support vehicles, such as vans and cars</li> </ul>	£0.8m
Operational Equipment	
<ul style="list-style-type: none"> <li>Purchase of Technical Rescue Jackets and purchase of equipment for reserve appliances</li> </ul>	£0.4m
Buildings	
<ul style="list-style-type: none"> <li>Training Centre site replacement welfare/ICT porta-cabin</li> </ul>	£0.1m
<ul style="list-style-type: none"> <li>Stage payments relating to the new joint Fire/Ambulance Station project in Lancaster, which is now complete.</li> </ul>	£0.7m
<b>Total</b>	<b>£2.4m</b>

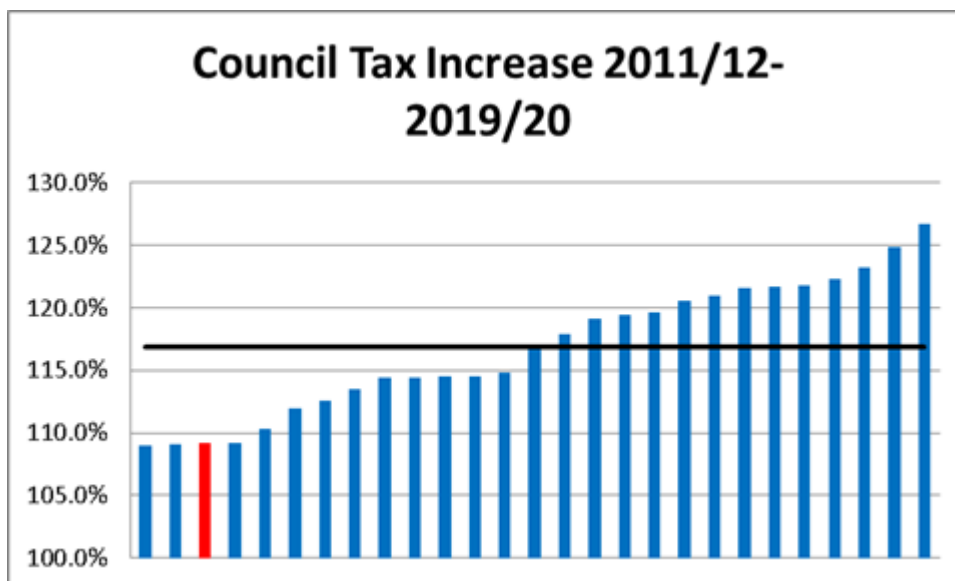
The Balance Sheet shows that the Authorities Total Net Liabilities have increased to £747m. This reflects the Authorities compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government 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 £865m is extremely large. If this liability was excluded the Authorities Total Net Assets would be £119m. The pension liability includes estimated costs in relation to the McCloud judgement, further details can be found in note 19.

Long term assets have increased in value to £102m, reflecting the expenditure incurred in year and the net outcome of revaluations and sums invested for over 12 months.

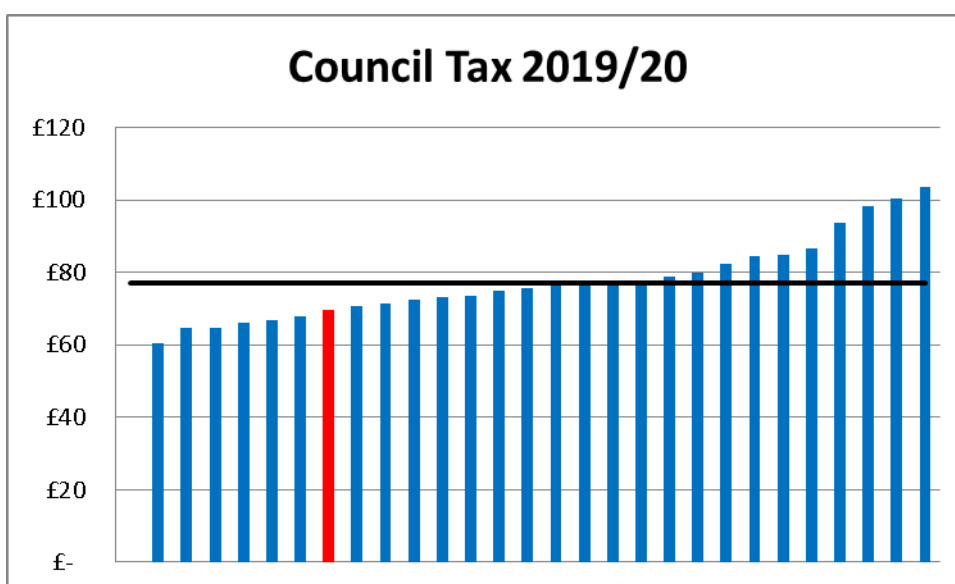
### Future Financial Plans

Next year is the last of the four year funding settlement. This shows further Government funding cuts of £0.5m. The Authority has plans to deliver £1.2m of efficiencies in 2019/20, but these are more than offset by increased costs associated with pay awards, the full extent of which is not known at the present time, increased pension costs, which are partly met by the Government, and the additional costs associated with the increase in Firefighter numbers following the successful recruitment campaigns. Overall these changes result in a revenue budget of £56.5m, however in order to deliver a council tax increase within the referendum limit (3%) an additional, as yet unidentified, savings target of £0.2m was agreed, alongside a drawdown of £0.3m of reserves. Therefore the net revenue budget requirement is £56.1m, an increase of 2.3%, resulting in a council tax of £69.48, an increase of 2.99%. Based on this the budget, as presented, is considered affordable, prudent and sustainable, whilst ensuring that the Authority is able to deliver against its corporate priorities.

However it is worth noting that our council tax has increased by just 9.20% since 2010/11, the third lowest of any Authority and considerably lower than the average increase of 16.8%:-



Our 2019/20 council tax of £69.48 is still below the national average of £77.04, and is the seventh lowest of any Fire Authority



Given economic uncertainty, particularly surrounding Brexit, and the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates, it is extremely difficult to anticipate what funding will look like beyond the existing settlement, hence for the purpose of medium term financial strategy we have assumed that funding is frozen in future years.

Based on this we will be faced with a funding gap in future years, the extent of which depends on future council tax decisions, and 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.

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 £27m over the next five years.

We will continue to invest in training assets, with work on-going to develop plans to enhance training facilities and provide new workshop facilities at the Training Centre.

We will continue to invest in our operational equipment to ensure that our staff have the best equipment available, and the programme includes the replacement of our 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:-

- Reductions in funding levels over and above those forecast;
- 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 pension costs/contributions;
- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements

### **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 2018/19 (the Code). The code included the following change:

- The addition of the Reconciliation of liabilities arising from financing activities note (Note 25)

## **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 <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Code-of-Corporate-Governance.pdf>)

This statement explains how the Authority has complied with the code and also meets the requirements of regulation 6(2) of the Accounts and Audit Regulations 2015 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 2019 and up to the date of approval of the 2018/19 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 seven 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 last year and can be found on our website at <https://www.lancsfire.org.uk/wp-content/uploads/2018/04/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 2019/20 was approved this year and can be found on our website at [https://vault.ecloud.co.uk/lancsfire/2019/05/2019-2020\\_Annual\\_Service\\_Plan\\_ASP.pdf](https://vault.ecloud.co.uk/lancsfire/2019/05/2019-2020_Annual_Service_Plan_ASP.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;
- A Corporate Programme Board provides oversight across 4 areas:-
  - Business Process Improvement Programme
  - Workforce Development Programme
  - Service Delivery Change Programme
  - Capital Projects 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 HMICFRS Inspection 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 covers the five year period 2017-2022.
- We updated our Strategic Assessment of Risk.



- A revised Annual Service Plan has been agreed for 2019/20, 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. This is supported by Local Delivery Plans.
- A framework exists 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.)?
- Statement of Intent: Enhanced Collaboration between LFRS and Constabulary approved at Joint Exec Board. Joint Collaboration group established, reporting through to Members.
- An Operational Assurance Team undertake a programme of service wide station assurance visits to identify areas for improvement and track these through to completion, and publicise any improvements through a regular newsletter, thus enhancing operational preparedness, operational response and operational learning.
- Performance appraisal incorporating values is undertaken throughout the Service
- 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.
- We have undertaken an Assurance mapping exercise, with our Internal Auditors, which has confirmed that a strong assurance framework is in place.
- As part of the 2018/19 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can *"provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control."*
- 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 2017/18:
  - Financial statements – *"We gave an unqualified opinion on the Authority's financial statements"*
  - Value for money conclusion – *"We were satisfied that in all significant respects the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year"*
- HMICFRS undertook its first inspection of the Service. Overall the Service was rated as Good, in all categories other than 'Promoting the right values and culture' in which it was rated outstanding. This was the highest overall rating of any Service in the first tranche of inspections, and the only outstanding rating. *"Overall, we commend Lancashire Fire and Rescue Service for its performance. We are confident it is well equipped for this to continue."* and *"It provides an effective service"* and *"It provides an efficient and affordable service by making good use of its resources"*

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	Complete/ On-going	Owner
Complete review of Scheme of Delegation	Review complete and agreed at Audit Committee in June.	Complete	Clerk
Complete review of staff recognition	Staff were consulted on recognition in the staff survey (May 2018) and the results are informing the recommendations. In-line with those results, a low-key recognition initiative was implemented in December 2018 where staff were asked to nominate 'star' colleagues who live our values. As a result, six members of staff (one from each area of the county) were presented with an LFRS Star Award. The initiative has been evaluated with a view to developing as part of the wider staff recognition programme.	Complete	Head of Corporate Comms
Create a new Intranet, incorporating social networking to connect staff across the service	The new intranet went live in April 2019. Staff were consulted on the name, design and content in the staff survey (May 2018) and via staff and intranet focus groups. Content authors in all departments have been identified and trained to use the site. This includes a social networking element for staff.	Completed in April 2019	Head of Corporate Comms

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, are listed below:

- continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning
- performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation

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  
De Molfetta, Chairman,  
Lancashire Combined Fire  
Authority  
29 May 2019

J Johnston,  
Chief Fire Officer,  
Lancashire Fire and Rescue  
Service  
28 May 2019

K Mattinson CPFA,  
Treasurer,  
Lancashire Combined Fire  
Authority  
28 May 2019

**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 secure 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.
- To 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 2019.

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  
30 July 2019

Nikki Hennessy  
Chair of Audit Committee  
30 July 2019



### COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

		2018/19		2017/18	
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income
	£000	£000	£000	£000	£000
Continuing operations:					
1 Service Delivery	30,979	(3,306)	27,673	29,581	(2,173)
1 Strategy and Planning	8,196	(516)	7,680	8,084	(618)
1 People and Development	1,604	-	1,604	1,303	-
1 Corporate Services	4,272	(60)	4,212	4,224	(59)
1 Fire-fighters Pensions	1,242	-	1,242	1,138	-
1 Overheads	39,427	(1,784)	37,643	6,436	(1,790)
1 Net Cost of Services	85,720	(5,666)	80,055	50,766	(4,640)
Loss on disposal of non current assets			(68)		(13)
Financing & investment income & expenditure					
8 Interest payable and similar charges			1,479		1,576
15 Pensions interest cost and expected return on pensions assets			20,276		21,005
8 Interest receivable and similar Income			(358)		(267)
Taxation and non-specific grant income					
Taxation on NW FireControl			1		1
Council tax			(29,440)		(28,233)
Revenue Support Grant			(9,262)		(10,659)
Non-domestic rates redistribution			(15,405)		(14,605)
Capital grant income			(563)		-
Business rates S31 grant			(946)		(511)
Deficit/(Surplus) on the provision of services			45,769		14,421
(Surplus)/Deficit on revaluation of non-current assets			(4,539)		(5,167)
18 Actuarial (gains)/losses on pensions assets and liabilities			19,884		(10,730)
Other comprehensive income & expenditure			15,345		(15,896)
Total Comprehensive Income and Expenditure			<b>61,114</b>		<b>(1,476)</b>

### MOVEMENT IN RESERVES STATEMENT 2018/19

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 2018 carried forwards	7,899	7,884	15,783	17,745	121	1,582	35,230	(720,870)	(685,640)
Movement in reserves during 2018/19									
Surplus/(Deficit) on provision of services	(45,769)	-	(45,769)	-	-	-	(45,769)	-	(45,769)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(15,345)	(15,345)
Total comprehensive income and expenditure	(45,769)	-	(45,769)	-	-	-	(45,769)	(15,345)	(61,114)
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,268	-	4,268	-	-	-	4,268	(4,268)	-
Amortisation of intangible assets	134	-	134	-	-	-	134	(134)	-
Disposal of assets	(68)	-	(68)	-	-	68	-	-	-
Capital grants unapplied	(484)	-	(484)	-	484	-	-	-	-
Provision for the repayment of debt	(337)	-	(337)	-	-	-	(337)	337	-
Capital expenditure charged against General Fund Balance	(2,030)	-	(2,030)	-	-	-	(2,030)	2,030	-
Amount by which the Code and the statutory pension costs differ	44,741	-	44,741	-	-	-	44,741	(44,741)	-
Amount by which the Code and the statutory collection fund income differ	207	-	207	-	-	-	207	(207)	-
	46,433	-	46,433	-	484	68	46,984	(46,984)	-
Net increase/decrease before transfers to earmarked reserves	664	-	664	-	484	68	1,216	(62,329)	(61,114)
Transfers (to)/from earmarked reserves	(164)	136	(28)	-	-	-	(28)	28	-
Transfers (to)/from capital funding reserve	-	-	-	(352)	-	-	(352)	352	-
Transfers (to)/from accumulated absences adjustment account	(49)	-	(49)	-	-	-	(49)	49	-
Net tfr (to)/from earmarked reserves	(213)	136	(77)	(352)	-	-	(429)	429	-
Increase/(Decrease) in the year	451	136	587	(352)	484	68	787	(61,900)	(61,114)
Balance at 31 March 2019 carried forwards	8,350	8,020	16,370	17,393	605	1,649	36,017	(782,770)	(746,754)

**MOVEMENT IN RESERVES STATEMENT 2017/18**

	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 2017 carried forwards	10,512	7,455	17,967	16,633	947	1,501	37,048	(724,164)	(687,116)
Movement in reserves during 2017/18									
Surplus/(Deficit) on provision of services	(14,421)	-	(14,421)	-	-	-	(14,421)	-	(14,421)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	15,896	15,896
Total comprehensive income and expenditure	(14,421)	-	(14,421)	-	-	-	(14,421)	15,896	1,476
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,264	-	4,264	-	-	-	4,264	(4,264)	-
Amortisation of intangible assets	122	-	122	-	-	-	122	(122)	-
Disposal of assets	(60)	-	(60)	-	-	81	21	(21)	-
Capital grants applied	321	-	321	-	(826)	-	(505)	-	-
Provision for the repayment of debt	(388)	-	(388)	-	-	-	(388)	388	-
Capital expenditure charged against General Fund Balance	(1,493)	-	(1,493)	-	-	-	(1,493)	1,493	-
Amount by which the Code and the statutory pension costs differ	13,251	-	13,251	-	-	-	13,251	(13,251)	-
Amount by which the Code and the statutory collection fund income differ	(39)	-	(39)	-	-	-	(39)	39	-
	15,979	-	15,979	-	(826)	81	15,234	(15,234)	-
Net increase/decrease before transfers to earmarked reserves	1,558	-	1,558	-	(826)	81	813	663	1,476
Transfers (to)/from earmarked reserves	(652)	428	(224)	-	-	-	(224)	224	-
Transfers (to)/from capital funding reserve	(3,528)	-	(3,528)	1,112	-	-	(2,416)	2,416	-
Transfers (to)/from accumulated absences adjustment account	9	-	9	-	-	-	9	(9)	-
Net tfr (to)/from earmarked reserves	(4,171)	428	(3,743)	1,112	-	-	(2,631)	2,631	-
Increase/(Decrease) in the year	(2,613)	428	(2,184)	1,112	(826)	81	(1,818)	3,293	1,476
Balance at 31 March 2018 carried forwards	7,899	7,884	15,783	17,745	121	1,582	35,230	(720,870)	(685,640)

## 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 2019 £000	At 31 March 2018 £000
	<b>Long Term Assets</b>		
6	Property, Plant & Equipment	96,700	93,794
7	Intangible Assets	343	472
8	Long-Term Investments	5,000	5,000
		<u>102,043</u>	<u>99,266</u>
	<b>Current Assets</b>		
	Inventories	239	228
8	Short Term Investments	15,000	-
9	Short Term Debtors	9,737	10,760
10	Cash & Cash Equivalents	14,841	28,768
		<u>39,817</u>	<u>39,757</u>
	<b>Current Liabilities</b>		
8	Other Short Term Liabilities	(384)	(329)
11	Short Term Creditors	(6,265)	(6,998)
		<u>(6,649)</u>	<u>(7,327)</u>
	<b>Long Term Liabilities</b>		
12	Provisions	(1,282)	(1,084)
8	Long Term Borrowing	(2,000)	(2,000)
13	Other Long Term Liabilities	(878,683)	(814,251)
		<u>(881,965)</u>	<u>(817,336)</u>
	<b>Net Liabilities</b>	<u>(746,754)</u>	<u>(685,640)</u>
16	Revenue Reserves	(16,370)	(15,784)
16	Capital Funding Reserve	(17,393)	(17,745)
16	Capital Grants Unapplied Account	(605)	(121)
16	Usable Capital Receipts Reserve	(1,649)	(1,582)
16	<b>Usable Reserves:</b>	<u>(36,017)</u>	<u>(35,231)</u>
18	Revaluation Reserve	(43,925)	(40,862)
18	Capital Adjustment Account	(38,461)	(38,641)
13,15&18	Pension Reserve	864,889	800,264
18	Collection Fund Adjustment Account	(496)	(704)
18	Accumulated Absences Adjustment Account	764	813
18	<b>Unusable Reserves:</b>	<u>782,771</u>	<u>720,871</u>
	<b>Total Reserves</b>	<u><u>746,754</u></u>	<u><u>685,640</u></u>

These Financial Statements replace the unaudited financial statements authorised by the Treasurer on 31 May 2019.

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 2019 and its income and expenditure for the year then ended.

## 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	2018/19		2017/18	
	£000	£000	£000	£000
		(45,769)		(14,421)
23	Adjustments to net (deficit)/surplus on the provision of services for non-cash movements	49,731		17,569
	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities	1,277		1,455
	<b>Net cash flows from Operating Activities</b>	<b>5,238</b>		<b>4,603</b>
	<u>Investing activities</u>			
6&7	Purchase of property plant and equipment & other capital spend	(2,558)		(4,879)
	(Increase)/Decrease in short term deposits	(15,000)		5,000
24	Receipts from investing activities	181		99
	Net cash flows from investing activities	<u>          </u>	(17,377)	<u>          </u> 221
	<u>Financing activities</u>			
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(332)		(335)
	Repayment of long term borrowing	-		(3,514)
24	Payments for financing activities	(1,457)		(1,553)
	Net cash flows from financing activities	<u>          </u>	(1,789)	<u>          </u> (5,402)
	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(13,928)</b>		<b>(578)</b>
10	Cash and cash equivalents at the beginning of the reporting period		28,769	29,347
10	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>14,841</b>	<b>28,769</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS**

**1 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.

<b>2018/19</b>	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	36,278	109	36,387	(8,715)	27,673
Strategy and Planning	8,342	-	8,342	(662)	7,680
People and Development	1,396	-	1,396	209	1,604
Corporate Services	4,127	-	4,127	85	4,212
Firefighters Pensions	1,242	-	1,242	-	1,242
Overheads	3,401	(7)	3,394	34,249	37,643
<b>Net cost of Services</b>	<b>54,786</b>	<b>102</b>	<b>54,888</b>	<b>25,166</b>	<b>80,055</b>
Other income and expenditure	(55,221)	-	(55,221)	20,936	(34,285)
<b>Surplus on provision of services</b>	<b>(435)</b>	<b>102</b>	<b>(333)</b>	<b>46,102</b>	<b>45,769</b>
Opening General Fund balance			(7,899)		
Surplus on provision of services			(333)		
NWFC recognise 25% surplus on provision of services			(117)		
Closing General Fund balance			<u>(8,350)</u>		

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<b>2017/18</b>	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	35,236	-	35,236	(7,828)	27,408
Strategy and Planning	8,382	-	8,382	(916)	7,466
People and Development	1,166	-	1,166	137	1,303
Corporate Services	4,111	-	4,111	55	4,165
Firefighters Pensions	1,138	-	1,138	-	1,138
Overheads	3,942	(17)	3,925	720	4,646
<b>Net cost of Services</b>	<b>53,975</b>	<b>(17)</b>	<b>53,958</b>	<b>(7,832)</b>	<b>46,126</b>
Other income and expenditure	(53,968)	-	(53,968)	22,263	(31,706)
<b>Surplus on provision of services</b>	<b>7</b>	<b>(17)</b>	<b>(10)</b>	<b>14,430</b>	<b>14,420</b>
Opening General Fund balance			(10,512)		
Less transfers to capital/earmarked reserves			2,628		
Surplus on provision of services			(10)		
NWFC recognise 25% surplus on provision of services			(5)		
Closing General Fund balance			<u>(7,899)</u>		

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**1a Note to the Expenditure and Funding Analysis**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts <b>2018/19</b>	Transfer to/(from) Earmarked Reserves £000	<b>Total to arrive at amount charged to the General Fund £000</b>	Adjustments for Capital Purposes (1) £000	Net change for Pensions Adjustments (2) £000	Other Differences (3) £000	<b>Total adjustment between funding and accounting basis £000</b>
Service Delivery	109	<b>109</b>	112	(8,717)	(110)	<b>(8,715)</b>
Strategy and Planning	-	-	(13)	(692)	43	<b>(662)</b>
People and Development	-	-	-	189	20	<b>209</b>
Corporate Services	-	-	-	85	-	<b>85</b>
Firefighters Pensions	-	-	-	-	-	<b>-</b>
Overheads	(7)	<b>(7)</b>	1,936	33,600	(1,288)	<b>34,249</b>
<b>Net cost of Services</b>	<b>102</b>	<b>102</b>	<b>2,036</b>	<b>24,466</b>	<b>(1,335)</b>	<b>25,166</b>

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Other income and expenditure	-	-	(68)	20,276	729	<b>20,936</b>
<b>Total</b>	<b>102</b>	<b>102</b>	<b>1,968</b>	<b>44,741</b>	<b>(606)</b>	<b>46,102</b>

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2017/18	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	-	-	(16)	(7,869)	57	<b>(7,828)</b>
Strategy and Planning	-	-	(41)	(750)	(125)	<b>(916)</b>
People and Development	-	-	-	137	-	<b>137</b>
Corporate Services	-	-	-	55	-	<b>55</b>
Firefighters Pensions	-	-	-	-	-	<b>-</b>
Overheads	(17)	<b>(17)</b>	1,597	582	(1,459)	<b>720</b>
<b>Net cost of Services</b>	<b>(17)</b>	<b>(17)</b>	<b>1,540</b>	<b>(7,845)</b>	<b>(1,527)</b>	<b>(7,832)</b>
Other income and expenditure	-	-	(13)	21,005	1,270	<b>22,263</b>
<b>Total</b>	<b>(17)</b>	<b>(17)</b>	<b>1,527</b>	<b>13,160</b>	<b>(257)</b>	<b>14,430</b>

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.



## 2 Fire Authority Costs

In 2018/19 Fire Authority costs amounted to £0.274m (2017/18: £0.268m), analysed as follows:

	2018/19	2017/18
	£000	£000
Members allowances/expenses	132	123
Statutory officers	97	98
Statutory reports/publications	-	1
Subscriptions	11	11
Others	34	35
	<u>274</u>	<u>268</u>

## 3 Employees Emoluments

Details of the Authority's employees, out of an estimated 1,124 full-time equivalent, who have received pay and benefits of more than £50,000 are:

	2018/19	2017/18
	No.	No.
£75,000 - £89,999	2	-
£70,000 - £74,999	2	2
£65,000 - £69,999	4	4
£60,000 - £64,999	7	6
£55,000 - £59,999	13	10
£50,000 - £54,999	32	19
	<u>60</u>	<u>41</u>

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.

<b>Post holder information (post title and name)</b>	<b>Salary</b>	<b>Allowances (estimated based on 2017/18 figures)</b>	<b>Total Remuneration excluding pension contributions</b>	<b>Pension contributions accrued at the standard employer rate for all senior officers</b>	<b>Total Remuneration including pension contributions</b>
<b>2018/19</b>					
Chief Fire Officer – Chris Kenny	160,016	5,108	165,124	34,723	199,848
Director of Service Delivery – Justin Johnston	136,014	4,637	140,651	19,450	160,101
Director of Strategy & Planning – David Russel	128,012	1,164	129,177	18,306	147,482
Director of People & Development – Robert Warren	102,410	-	102,410	15,054	117,465
Director of Corporate Services – Keith Mattinson	102,410	-	102,410	15,054	117,465
	<b>628,863</b>	<b>10,910</b>	<b>639,773</b>	<b>102,588</b>	<b>742,361</b>

<b>Post holder information (post title and name)</b>	<b>Salary</b>	<b>Allowances Restated*</b>	<b>Total Remuneration excluding pension contributions</b>	<b>Pension contributions accrued at the standard employer rate for all senior officers</b>	<b>Total Remuneration including pension contributions</b>
<b>2017/18</b>					
Chief Fire Officer – Chris Kenny	157,261	4,977	162,238	34,126	196,364
Director of Service Delivery – Justin Johnston	133,672	5,587	139,258	19,115	158,373
Director of Strategy & Planning – David Russel	125,809	4,038	129,847	17,991	147,838
Director of People & Development – Robert Warren	100,647	-	100,647	12,883	113,530
Director of Corporate Services – Keith Mattinson	100,647	9	100,656	12,883	113,539
	<b>618,036</b>	<b>14,611</b>	<b>632,646</b>	<b>96,997</b>	<b>729,644</b>

\* The 2017/18 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2017/18 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)	2018/19		2017/18	
	Number of departures agreed	Total cost of exit packages in each band £000	Number of departures agreed	Total cost of exit packages in each band £000
£0 - £20,000	-	-	-	-
£20,001 - £40,000	-	-	1	38
£40,001 - £60,000	-	-	-	-
	-	-	1	38

#### 4 External Auditors Fees

In 2018/19, the Fire Authority paid a total of £0.024m to its external auditors, Grant Thornton (2017/18: £0.031m), as follows:

	2018/19 £000	2017/18 £000
Audit fees – Grant Thornton	24	31

#### 5 Related Parties Transactions

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

##### Central Government

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

##### Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in note 2. As required under Section 81 of the Local Government Act 2000, members' outside interests are recorded in a formal register and the Code of Conduct operated by the Authority requires members to declare any related interests they have, and to take no part in meetings or decisions on issues concerning those related interests.

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

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

- roles with voluntary organisations;

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

### **Officers**

In 2018/19 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 (£0.402m received from the precepting authority, 2017/18: £0.393m), and council tax (£2.317m received from the precepting authority, 2017/18 £2.221m), the administration of these is strictly defined by a statutory framework.

## 6 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 2018/19 are:

Movement during the year	Other Land & Buildings £000	PFI Assets – land & buildings £000	Vehicles, Plant & Equipment £000	Assets under construction £000	Total Property, Plant & Equipment £000
<b>Cost or valuation</b>					
At 1 April 2018	50,120	28,620	22,995	4,698	106,433
Additions	770	-	1,865	-	2,635
Disposals	-	-	(784)	-	(784)
Impairment losses recognised in the Revaluation Reserve	(1,480)	(687)	-	-	(2,167)
Impairment losses recognised in the Deficit on the Provision of Services	(33)	-	(432)	-	(465)
Reclassifications	5,567	(869)*	-	(4,698)	-
Revaluations	2,696	1,826	-	-	4,522
As at 31 March 2019	57,641	28,889	23,644	-	110,174
<b>Depreciation and impairments</b>					
At 1 April 2018	-	-	(12,639)	-	(12,639)
Depreciation charge for 2018/19	(1,524)	(660)	(1,619)	-	(3,803)
Disposals	-	-	784	-	784
Revaluations	1,524	660	-	-	2,184
As at 31 March 2019	-	-	(13,474)	-	(13,474)
Balance sheet at 31 March 2019	57,641	28,889	10,170	-	96,700
Balance sheet at 31 March 2018	50,120	28,620	10,356	4,698	93,794
<b>Nature of asset holding</b>					
Owned	57,371	-	9,977	-	67,348
Finance lease	270	-	193	-	463
PFI	-	28,889	-	-	28,889
	57,641	28,889	10,170	-	96,700

Movement in the property, plant and equipment valuations are detailed in the following tables:

Carried at historical cost	-	-	10,132	-	10,132
Valued at current value as at:					
31 March 2019	57,641	28,889	-	-	86,530
31 March 2010	-	-	38	-	38
Total cost or valuation	57,641	28,889	10,170	-	96,700

\* The reclassification of PFI assets in 2018/19 relates to an adjustment to the balance carried forwards from 2017/18, which should have been classified as Other Land & Buildings.

On 31 March 2019 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 £6.706m (2017/18: net gain of £7.629m).

The comparative figures detailing the movement during 2017/18:

<b>Movement during the year</b>	<b>Other Land &amp; Buildings £000</b>	<b>PFI Assets – land &amp; buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Surplus Assets £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or valuation</b>					
At 1 April 2017	53,256	25,610	21,445	-	100,310
Additions	375	-	2,767	1,498	4,639
Disposals	-	-	(889)	-	(889)
Impairment losses recognised in the Revaluation Reserve	(2,462)	-	-	-	(2,462)
Impairment losses recognised in the Deficit on the Provision of Services	(372)	-	(327)	-	(699)
Reclassifications	(3,200)	-	-	3,200	-
Revaluations	2,523	3,010	-	-	5,533
As at 31 March 2018	50,120	28,620	22,995	4,698	106,433
<b>Depreciation and impairments</b>					
At 1 April 2017	(149)	-	(11,897)	-	(12,046)
Depreciation charge for 2017/18	(1,384)	(563)	(1,631)	-	(3,578)
Disposals	-	-	889	-	889
Revaluations	1,533	563	-	-	2,096
As at 31 March 2018	-	-	(12,639)	-	(12,639)
Balance sheet at 31 March 2018	50,120	28,620	10,356	4,698	93,794
Balance sheet at 31 March 2017	53,107	25,610	9,548	-	88,264
<b>Nature of asset holding</b>					
Owned	49,850	-	10,308	4,698	64,856
Finance lease	270	-	48	-	318
PFI	-	28,620	-	-	28,620
	50,120	28,620	10,356	4,698	93,794

### 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 2018/19 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.

	2018/19 £000	2017/18 £000
Opening Capital Financing Requirement	14,518	14,906
Capital investment:		
Property, Plant & Equipment*	2,635	4,638
Intangible assets*	5	-
Sources of Finance:		
Government Grant	-	(505)
Capital Reserves	(352)	(2,416)
Earmarked Reserves	(28)	(224)
Revenue contributions to capital*	(2,068)	(1,493)
MRP	(337)	(388)
Closing Capital Financing Requirement	14,374	14,518
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow (supported by Government financial assistance)	(337)	(388)
Assets acquired under finance lease	193	-
	(144)	(388)

\* Includes NWFC balances

### Details of Assets Held

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

	2018/19	2017/18
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 2019 is £2.806m (2017/18: £0.545m).

## 7 Intangible Assets

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

<b>Movement during</b>	2018/19 £000	2017/18 £000
<b>Cost or valuation</b>		
At 1 April	2,087	2,131
Additions	5	10
Disposals	-	(54)
As at 31 March	2,092	2,087
<b>Amortisation &amp; impairment</b>		
At 1 April	(1,615)	(1,447)
Amortisation charge for the year	(134)	(222)
Disposals	-	54
As at 31 March	(1,749)	(1,615)
Balance sheet at 31 March 2019	343	472
Balance sheet at 31 March 2018	472	684

## 8 Financial Instruments

### Categories of Financial Instruments

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

	Long-Term		Current	
	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000
<u>Investments</u>				
Loans and receivables	5,000	5,000	15,000	-
<u>Debtors</u>				
Financial assets carried at contract amounts	-	-	170	59
<u>Borrowings</u>				
PWLB Borrowings at amortised cost	2,021	2,023	-	-
<u>Other Long Term Liabilities</u>				
PFI and finance lease liabilities	13,793	13,987	384	329
<u>Creditors</u>				
Financial liabilities carried at amortised cost	-	-	2,729	3,555



### Income, Expense, Gains and Losses

	Financial assets: Loans and receivables			
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
<b>Financial Liabilities</b>				
Interest payable relating to PFI	1,380	1,397	-	-
Interest payable relating to Borrowing	89	176	-	-
Interest payable relating to finance leases	10	3	-	-
Total expense in Deficit on the Provision of Services	1,479	1,576	-	-
<b>Financial Assets</b>				
Interest income	-	-	(358)	(266)
Total income in Deficit on the Provision of Services	-	-	(358)	(266)
Net gain/(loss) for the year	1,479	1,576	(358)	(266)

### Fair Values of Assets and Liabilities

In accordance with IFRS 9, 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 2019 of 4.48% to 4.49% 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 value of the PFI liabilities has been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated bond yield rates.

The fair values calculated are as follows:

	31 March 2019		31 March 2018	
	Amortised Cost £000	Fair Value £000	Amortised Cost £000	Fair Value £000
Loans from the Public Works Loan Board	2,021	2,687	2,023	2,663
Cash deposits invested and classed as loans and receivables	-	-	-	-
PFI Liabilities	13,917	16,954	14,231	16,277

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Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2019 is £2.000 million (2017/18: £2.000m) and it is due for repayment as shown in the following table:

	2018/19	2017/18
	£000	£000
Over 10 years	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

**9 Debtors**

	2018/19	2017/18
	£000	£000
Trade debtors	2,406	1,015
VAT	176	223
Local taxation debtors	3,161	3,134
Other debtors	3,994	6,388
	<u>9,737</u>	<u>10,760</u>

**10 Cash & Cash Equivalents**

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

	2018/19	2017/18
	£000	£000
Cash held by the Authority	54	49
Cash held by North West FireControl (25% share)	141	164
Call account balance	14,646	28,555
	<u>14,841</u>	<u>28,768</u>

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 2019 equal to their nominal value.

**11 Creditors**

	2018/19	2017/18
	£000	£000
Goods and services creditors	2,274	2,829
PAYE/NI	964	905
Local taxation creditors	1,907	1,801
Other creditors	871	1,204
Receipts in advance	249	259
	<u>6,265</u>	<u>6,998</u>

## 12 Provisions

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

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

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

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

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

	Insurance Liabilities		Part time workers		Business rates appeals		Total	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Balance at 1 April	434	1,129	22	21	628	613	1,084	1,763
Amounts utilised	(38)	(6)	-	-	-	-	(38)	(6)
Unused amounts reversed	(41)	(799)	-	-	-	-	(41)	(799)
Additional provision	147	110	-	1	130	15	277	125
Balance at 31 March	502	434	22	22	758	628	1,282	1,084

## 13 Other Long Term Liabilities

Other long term liabilities comprise the following:

	2018/19 £000	2017/18 £000
Finance Lease Liability	154	-
PFI Liability (see note 14)	13,575	13,917
PFI Contractor Loan (see note 14)	65	70
Pension Liability (see note 15)	864,889	800,264
	<u>878,683</u>	<u>814,251</u>

## 14 PFI Schemes

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

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 Limited 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 Limited 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 2019 the total outstanding loan was £0.070m (2017/18: £0.075m).

#### Balfour Beatty Fire and Rescue NW Limited

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

#### All PFI Schemes

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

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

Payments remaining to be made under both PFI contracts and Government Subsidies to be received at 31 March 2019 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total	Government Subsidy
	£000	£000	£000	£000	£000
Payable in 1 year	710	342	1,360	2,412	1,734
Payable within 2-5 years	3,040	1,707	5,185	9,932	6,935
Payable within 6-10 years	4,296	3,250	5,539	13,085	8,668
Payable within 11-15 years	4,527	4,553	3,728	12,808	8,166
Payable within 16-20 years	3,018	4,065	1,414	8,497	5,371
<b>Total</b>	<b>15,591</b>	<b>13,917</b>	<b>17,226</b>	<b>46,734</b>	<b>30,874</b>

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:

	2018/19 £000	2017/18 £000
Balance outstanding at the start of the year	14,231	14,519
Payments during the year	(314)	(288)
Balance outstanding at year end	13,917	14,231

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

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

The Authority participates in two pension schemes:

- i) Uniformed Firefighters are covered by an unfunded, defined benefit scheme, meaning that there are no investment assets built up to meet the pensions liabilities and that cash has to be generated by the Authority to meet actual pensions payments as they fall due.
- ii) Other staff pensions are provided from the Lancashire County Pension Fund. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with the investment assets.

### Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
<b>Comprehensive Income &amp; Expenditure Statement</b>				
<b>Cost of Services:</b>				
• Current service cost	1,801	1,774	10,660	10,690
• Administrative expenses	26	24	-	-
• Past service cost	434	-	32,970	510
	<b>2,261</b>	<b>1,798</b>	<b>43,630</b>	<b>11,200</b>
<b>Financing and Investment Income and Expenditure:</b>				
• Interest cost	1,625	1,570	20,100	20,790
• Interest on scheme assets	(1,449)	(1,354)	-	-
	<b>176</b>	<b>216</b>	<b>20,100</b>	<b>20,790</b>
<b>Total post employment benefit charged to the deficit on provision of services</b>	<b>2,437</b>	<b>2,014</b>	<b>63,730</b>	<b>31,990</b>
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>				
• Actuarial (gains) and losses	(1,156)	(3,200)	21,040	(7,530)
<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>1,281</b>	<b>(1,186)</b>	<b>84,770</b>	<b>24,460</b>
<b>Movement in reserves statement</b>				
• Reversal of net charges made to the deficit on provision of services in accordance with the code	(726)	1,958	(63,900)	(4,480)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employers' contributions payable to the scheme	(555)	(772)	-	-
Net retirement benefits payable to pensioners	-	-	(20,870)	(19,980)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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 £16.511m (2017/18: £15.195m) in addition to these, which can be seen in the Firefighters Pension Fund Account on page 63.

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 2019	31 March 2018 Restated*	31 March 2019	31 March 2018
	£000	£000	£000	£000
Opening balance at 1 April	(62,839)	(62,912)	(793,336)	(788,856)
Current service cost	(1,801)	(1,774)	(10,500)	(10,649)
Interest on liabilities	(1,625)	(1,570)	(20,100)	(20,789)
Contributions by scheme participants	(371)	(381)	(3,240)	(2,964)
Remeasurements (liabilities):				
Experience (gain)/loss	-	-	900	9,258
Gain/(Loss) on financial assumptions	(3,808)	2,614	(21,940)	(21,922)
Gain/(Loss) on demographic assumptions	-	-	-	20,190
Benefits/transfers paid	1,441	1,183	23,950	22,904
Past service cost	(434)	-	(32,970)	(508)
Closing balance at 31 March	(69,436)	(62,839)	(857,236)	(793,336)

Reconciliation of the fair value of the scheme assets:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2019	31 March 2018 Restated*	31 March 2019	31 March 2018
	£000	£000	£000	£000
Opening balance at 1 April	55,910	54,025	-	-
Interest on scheme assets	1,449	1,355	-	-
Remeasurements (assets)	4,964	586	-	-
Administrative expenses	(26)	(24)	-	-
Employer contributions	556	771	20,710	19,940
Contributions by scheme participants	371	381	3,240	2,964
Benefits paid	(1,441)	(1,183)	(23,950)	(22,904)
Closing balance at 31 March	61,783	55,910	-	-

\* The Comparative figures have been restated to correct an error in the way the NWFC LGPS balances had been included.

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 £6.239m (2017/18: gain of £1.869m). The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2019 is a gain of £0.287m (2017/18: cumulative gain of £0.267m).

### Scheme history

	2018/19	2017/18 Restated	2016/17	2015/16	2014/15
	£000	£000	£000	£000	£000
Present value of liabilities:					
Local Government Pension Scheme (LGPS)	(69,436)	(62,839)	(62,912)	(49,267)	(50,503)
Firefighters Pension Scheme	(857,236)	(793,336)	(788,856)	(666,356)	(687,420)
Fair value of assets in LGPS	61,783	55,910	54,025	44,027	39,099
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(7,653)	(6,929)	(8,887)	(5,240)	(11,404)
Firefighters Pension Scheme	(857,236)	(793,336)	(788,856)	(666,356)	(687,420)
Total	(864,889)	(800,265)	(797,743)	(671,596)	(698,824)

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, £864.889m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £746.754m (2017/18: £685.640m). 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 a £7m 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	1,156	3,846	5,002

\*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 2016, taking account of any significant changes since this. The figures include an estimate of the potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The Local Government Fund liabilities have been assessed by Mercer Resource Consulting Limited, 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 LGPS figures also include a past service cost in relation to a potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The principal assumptions used by the actuary have been:

	NWFC Local Government Pension Scheme		LCFA Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018
Mortality assumptions:						
Longevity at 65 for current pensioners:						
Men	22.3	22.3	22.8	22.7	22.0	21.9
Women	24.5	24.5	25.5	25.4	22.0	21.9
Longevity at 65 for future pensioners:						
Men	23.9	23.9	25.1	25.0	23.9	23.9
Women	26.5	26.5	28.2	28.0	23.9	23.9
Rate of CPI inflation	2.40%	2.30%	2.20%	2.10%	2.35%	2.30%
Rate of increase in salaries	2.70%	2.60%	3.70%	3.60%	4.35%	4.30%
Rate of increase in pensions	2.40%	2.30%	2.30%	2.20%	2.35%	2.30%
Rate for discounting scheme liabilities	2.50%	2.70%	2.40%	2.60%	2.45%	2.55%
Take up of option to convert annual pension into retirement lump sum	50%	50%	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 2019		Assets at 31 March 2018 Restated*	
		Fair Value £000	%	Fair Value £000	%
Equities	Y	1,094	1.8	889	1.6
Bonds	Y	3,876	6.3	3,256	5.8
Property	N	5,726	9.3	5,229	9.4
Cash/Liquidity	N	395	0.6	(140)	(0.3)
Other	N	50,692	82.0	46,676	83.5
		<u>61,783</u>	<u>100.0</u>	<u>55,910</u>	<u>100.0</u>

\* The 2017/18 figures have been updated to include the NWFC asset fair values.

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2018/19 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2019:

<b>Local Government Pensions Scheme (LGPS) inc NWFC:</b>	2018/19	2017/18	2016/17	2015/16	2014/15
	%	%	%	%	%
Experience Gains and losses on assets	8.0	1.0	12.3	1.3	6.9
Gains and losses on liabilities	(5.5)	4.2	16.6	(6.2)	14.9
<b>Firefighters Pension Scheme:</b>	2018/19	2017/18	2016/17	2015/16	2014/15
	%	%	%	%	%
Experience Gains and losses on assets	-	-	-	-	-
Gains and losses on liabilities	2.5	(0.9)	14.4	(4.8)	11.0
<b>Total of LGPS and Fire Pension Schemes:</b>	2018/19	2017/18	2016/17	2015/16	2014/15
	%	%	%	%	%
Experience Gains and losses on assets	8.0	1.0	12.3	1.3	6.9
Gains and losses on liabilities	1.9	(0.6)	14.6	(4.9)	11.2

**16 Usable Reserves**

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statements, on pages 20 and 21.

	2018/19		2017/18	
	£000	£000	£000	£000
Revenue Reserves:				
General Fund		(8,350)		(7,899)
Earmarked Reserves	(3,607)		(3,556)	
PFI Equalisation Reserve	<u>(4,413)</u>		<u>(4,327)</u>	
Total Earmarked Reserves		(8,020)		(7,884)
Total Revenue Reserves		<u>(16,370)</u>		<u>(15,783)</u>
Capital Reserves:				
Capital Funding Reserve		(17,393)		(17,745)
Capital Grants Unapplied		(605)		(121)
Usable Capital Receipts		(1,649)		(1,582)
Total Usable Reserves		<u>(36,017)</u>		<u>(35,230)</u>

**17 Transfers (to)/from Earmarked Reserves**

	Balance at 31.3.17	Transfers in 2017/18	Transfers out 2017/18	Balance at 31.3.18	Transfers in 2018/19	Transfers out 2018/19	Balance at 31.3.19
General fund	(10,512)	(16)	2,629	(7,899)	(451)	-	(8,350)
Earmarked Reserves	(3,919)	(1,054)	1,417	(3,556)	(240)	189	(3,607)
PFI Equalisation Reserves	<u>(3,537)</u>	<u>(1,061)</u>	<u>271</u>	<u>(4,327)</u>	<u>(125)</u>	<u>40</u>	<u>(4,413)</u>
Total Earmarked Reserves	(7,456)	(2,115)	1,688	(7,884)	(365)	229	(8,020)
Capital funding reserve	(16,633)	(3,528)	2,416	(17,745)	-	352	(17,393)
Capital grants unapplied	(947)	-	826	(121)	(563)	79	(605)
Usable capital receipts	<u>(1,501)</u>	<u>(81)</u>	<u>-</u>	<u>(1,582)</u>	<u>(68)</u>	<u>-</u>	<u>(1,649)</u>
Total Usable Reserves	<u>(37,048)</u>	<u>(5,740)</u>	<u>7,558</u>	<u>(35,230)</u>	<u>(1,447)</u>	<u>660</u>	<u>(36,017)</u>

**18 Unusable Reserves**

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

	2018/19 £000	2017/18 £000
Revaluation Reserve	(43,925)	(40,862)
Capital Adjustment Account	(38,461)	(38,641)
Pensions Reserve	864,889	800,264
Collection Fund Adjustment Account	(496)	(704)
Accumulated Absences Adjustment Account	764	813
Total Unusable Reserves	<u>782,771</u>	<u>720,871</u>

**Revaluation Reserve**

	2018/19 £000	2017/18 £000
Balance at 1 April	(40,862)	(36,957)
Upward revaluation of assets	(6,706)	(7,629)
Downward revaluation of assets and impairment losses not charged to Net cost of Services	2,167	2,462
Difference between fair value depreciation and historical cost depreciation	1,476	1,215
Amount written off to the Capital Adjustment Account	-	47
	<u>(43,925)</u>	<u>(40,862)</u>

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.

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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.

	2018/19		2017/18	
	£000	£000	£000	£000
Balance at 1 April		(38,641)		(36,762)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
• Charges for depreciation and impairment of non-current assets	2,328		2,351	
• Revaluation losses on Property, Plant & Equipment	465		699	
• Amortisation of intangible assets	134		122	
		2,927		3,172
Disposal of assets via the Comprehensive Income & Expenditure Statement		-		21
Adjusting amounts written out of the Revaluation Reserve		-		(47)
Net amount written out of the cost of non-current assets consumed in the year		2,927		3,146
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		-	(505)	
• Statutory provision for financing of capital investment charged against General Fund	(335)		(340)	
• Voluntary provision for financing of capital investment charged against General Fund	(2)		(48)	
• Use of capital reserves to fund expenditure	(352)		(2,416)	
• Use of earmarked reserves to fund expenditure	(28)		(224)	
• Capital expenditure charged to General Fund Balance	(2,030)		(1,493)	
		(2,747)		(5,026)
Balance as at 31 March		<u>(38,461)</u>		<u>(38,641)</u>

**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.

	2018/19	2017/18 Restated*
	£000	£000
Balance at 1 April	800,264	797,742
Actuarial (gains) or losses on pensions assets and liabilities	19,884	(10,729)
Reversal of items relating to retirement benefits debited or credited to Net Cost of Services in the Comprehensive Income & Expenditure Statement	66,166	34,003
Net payments to pensioners payable in the year	(20,870)	(19,980)
Employers pension contributions	(555)	(772)
	<u>864,889</u>	<u>800,264</u>

\* The 2017/18 figures have been restated to correctly split out LGPS employers contributions from the net Firefighters pension costs and reversal of items charged to the CIES.

**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	
	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000	2017/18 £000
Balance at 1 April	(601)	(734)	(103)	70	(704)	(664)
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	127	133	-	-	127	133
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	-	-	80	(173)	80	(173)
Balance at 31 March	<u>(474)</u>	<u>(601)</u>	<u>(23)</u>	<u>(103)</u>	<u>(496)</u>	<u>(704)</u>

**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.

	2018/19	2017/18
	£000	£000
Balance at 1 April	813	804
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(49)	9
Balance at 31 March	764	813

**19 Contingent Liability**

Municipal Mutual Insurance Limited

Municipal Mutual Insurance Limited (MMI) 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, remains 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. The service is attempting to resolve this issue via the collective bargaining arrangements, but this has not yet been concluded.

Firefighters Pension Scheme Transitional protection arrangements (McCloud / Sargeant)

Claims have been made in relation in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015 and in December 2018 the Court of Appeal ( McCloud / Sargeant ) ruled that the ‘transitional protection’ offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 27 June the Supreme Court refused leave to appeal on the McCloud case. In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes. This would lead to an increase in Firefighters Pension Scheme liabilities and our actuaries (The

Government Actuarial Department (GAD)) using specific assumptions and applying these across the Firefighters schemes have estimated that the potential increase in scheme liabilities to be approximately £33m or 4% of pension scheme liabilities. This increase is reflected in the IAS19 disclosure (note 15) as a Past Service Cost. The actuaries have highlighted that this estimate is based on one potential remedy and that the figures are highly sensitive to assumptions around short term earnings growth.

The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates. The next Firefighters Pension valuation is due to take place in 2020 with implementation of the results planned for 2023/24 and authorities will need to plan for the impact of this on employer contribution rates alongside other changes identified through the valuation process.

The impact of an increase in annual pension payments arising from McCloud / Sargeant is determined through The Firefighters Pension Scheme (England) Order 2006. These require a fire authority to maintain a pension fund into which employee and employer contributions are paid and out of which pension payments to retirees are made. If the pension fund does not have enough funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the fire authority in the form of a central government top-up grant.

#### Local Government Pension Scheme (LGPS) (McCloud / Sargeant)

With regard to the LGPS a similar adjustment to past service costs within the IAS19 disclosure (note 15) has been made for the McCloud judgement. This corresponds to £0.4m, or 0.7% increase in liabilities. The impact of an increase in scheme liabilities arising from the McCloud/Sargeant judgement will be measured through the pension valuation process, which determines employer and employee contribution rates.

## **20 Post Balance Sheet Events**

As at the date the Treasurer signed the accounts, 30 July 2019, there were no post balance sheet events to report.

## **21 Nature and Extent of Risks Arising from Financial Instruments**

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

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

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

### **Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which states that any investment counterparty must have a minimum actual or implied credit rating of AA- in order to be eligible. The Authority will also have regard to recent banking reform legislation which provides for creditor 'bail-in' rather than state 'bail-out' of banks should the bank fail. The effect of this legislation is that a local authority is likely to lose a higher proportion of any assets caught up in a credit event than almost any



other type of institution. Credit risk control therefore means that unsecured bank deposits are, unless for very short duration, not suitable as an investment instrument in the future.

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

### Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.012m of the £0.177m 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 £0.007m and which is considered sufficient for this purpose.

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

	2018/19 £000	2017/18 £000
0 to 30 days	165	58
31 to 60 days	10	2
61 to 90 days	1	1
91 to 180 days	1	-
Over 180 days	-	1
	<u>177</u>	<u>62</u>

### 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. During 2017/18 £3.2m of debt was repaid, leaving a balance of £2m.

The maturity profile of our remaining debt is shown in the table below.

Value of PWLB loans maturing in future years	
As at 31 March 2019	
Year	Loan value £000
2036	650
2037	650
2038	700
Total	2,000

### 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 £27.3 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 £273,000 and a 1% fall would give a reduction of the same amount.

## **22 Local Authority Controlled Company – NW FireControl Limited**

NW FireControl 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 FireControl Limited. 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 FireControl Limited therefore also transfers.

An assessment for Group Accounting requirements has taken place during 2018/19 in respect of NW FireControl Limited. 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, and on this basis, the Authority's 25% share of the transactions and balances of NW FireControl Limited have been recognised within the accounts.

Below shows the key Information from the Draft Financial Statements of NW FireControl Limited:

Key Information	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Total assets less Current Liabilities	304	285
Net assets*	(3,953)	(2,857)
(Loss) Before Taxation	(411)	(427)
(Loss) After Taxation	(417)	(432)
Debtor Balance (LFRS)	-	296
Creditor Balance (LFRS)	-	-
Invoices raised by NW FireControl to LFRS	1,175	1,144
Invoices raised by LFRS to NW FireControl	-	-

\*Net assets includes the future pension liabilities under FRS17 reported by the Cheshire Pension Fund actuaries.

All figures are shown net of VAT.

Transactions between LFRS and NW FireControl Limited include Invoices Raised by NW FireControl to LFRS for the Control Room service and use of facilities in the building.

The Company's Financial Statements can be obtained from Companies House with the deadline for submission as 31/12/2019 for the final audited 2018/19 accounts.

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

	2018/19 £000	2017/18 £000
Depreciation	3,803	3,578
Impairment & downwards valuations	465	699
Amortisation	134	222
Increase/(decrease) in provisions	198	(679)
Increase/(decrease) in creditors	(622)	403
(Increase)/decrease in debtors	1,023	95
(Increase)/decrease in stock	(10)	(21)
Movement in pension liability	44,741	13,251
Net book value of fixed assets sold	-	21
	<u>49,732</u>	<u>17,569</u>

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

	2018/19 £000	2017/18 £000
Interest received	181	99
Interest paid	(1,457)	(1,553)

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

**25 Reconciliation of liabilities arising from financing activities -**

	Long Term borrowings £000	Short Term borrowings £000	Lease liabilities £000	Total £000
1 April 2018	16,231	288	10	16,529
Cash flows:				
Repayment	(656)	54	(13)	(615)
Proceeds	-	-	-	-
Non-cash:				
Acquisition	-	-	193	193
31 March 2019	15,575	342	190	16,107

**26 Assumptions made about the future and other major sources of estimation and 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.  It is estimated that the annual depreciation charge for buildings would increase by £0.1m for every year that useful lives had to be reduced.
Fair Value Measurements	When the fair values of financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using the Discounted Cash Flow (DCF) model.	The Authority uses the DCF model to measure the fair value of its PFI liabilities. Fair value is calculated using the bond yield rates against the annual net cash flows. It is estimated that a 1% decrease in the discount rate would increase the fair value by £1.7m.
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: A 0.1% increase in these assumptions has the following effect on the net pension liability: <ul style="list-style-type: none"> <li>• Discount rate – decrease of £17.7m</li> <li>• Inflation rate – increase of £14.9m</li> <li>• Pay growth – increase of £2.1m</li> </ul>

		A 1 year increase in life expectancy will increase the net pension liability by £5.7m.
Fire-fighters Pension Liability & LGPS Liability	Estimate of the impact on future liabilities arising from the potential remedy awarded to affected employees relating to the McCloud/Sargeant judgement.	Past service costs have been recognised (see Note 15), however these are based on one potential remedy and are very sensitive to the assumptions made. Full details can be seen in note 19 Contingent Liabilities.

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 2018/19 the following accounting policy changes that need to be reported relate to:

- Amendments to IAS40 Investment Property: Transfers of investment property
- Annual Improvements to IFRS Standards 2014 – 2016 cycle
- Amendments to IFRS9 Financial Instruments: Prepayment Features with negative compensation

These standards will be incorporated into the Statement of Accounts as required by the Code, but are not expected to have a material impact.

## 28 Expenditure and Income Analysed by Nature

The Authority's expenditure and income is analysed as follows:

	2018/19 £000	2017/18 £000
<b>Expenditure</b>		
Employee benefits expenses	67,391	33,678
Other services expenses	13,925	12,584
Support service recharges	4	8
Depreciation, amortisation and impairment	4,402	4,499
Interest payments	21,755	22,581
Gain on disposal of fixed assets	(68)	(13)
<b>Total expenditure</b>	<b>107,409</b>	<b>73,337</b>
<b>Income</b>		
Fees, charges and other service income	(5,666)	(4,640)
Interest and investment income	(358)	(267)
Income from council tax and business rates	(44,845)	(42,838)
Government grants and contributions	(10,771)	(11,170)
<b>Total Income</b>	<b>(61,640)</b>	<b>(58,916)</b>
Deficit on the provision of services	45,769	14,421

## 29 Accounting Policies

### a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. 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 – 2018/19, 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 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.

**e Employee Benefits**

**Benefits Payable During Employment**

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

**Post Employment Benefits**

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

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

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

The Firefighters' Scheme

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

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

In calculating the liability for 2018/19, 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.

The Local Government Pension Scheme

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

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

In calculating the liability for 2018/19, the actuary based the valuation on a roll forwards approach.

In valuing the pension scheme assets for 2018/19, the actuaries used fair value basis for both derivatives and investments.

**f 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.

**g Financial Assets measured at amortised cost**

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.

**h 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.

**i Non Current Assets**

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

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



i) Recognition

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

ii) Measurement

Land and buildings are revalued on a rolling five year basis by a suitably qualified surveyor. As at 31 March 2019, 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.

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.

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

Current status

The Authority has two existing PFI arrangements:

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

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

Accounting for PFI

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

Recognition of assets and liabilities

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

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

Minimum Revenue Provision (MRP)

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. The amounts of MRP are

calculated in accordance with the appropriate regulations and statutory guidance. MRP is equal to that element of the unitary charge which is applied to repay the outstanding liability.

### Unitary Payment

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

### Deductions from the Unitary Payment

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

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

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

## **k 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 Limited. The contract relates to the provision and maintenance by PFF Lancashire Limited 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 and Rescue NW Limited. 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.

## **l Provisions**

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

**m 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.

**n 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.

**O Going Concern**

These accounts are prepared on a going concern basis, on the assumption that the Authority's functions will continue in operational existence for the foreseeable future. Please see the future financial plans section in the foreword for more detail.

**FIRE FIGHTERS PENSION FUND ACCOUNT AND NET ASSETS STATEMENT**

<b>Fund Account</b>	2018/19 Total £000	2017/18 Total £000
<b>Income to the fund</b>		
<b>Contributions receivable:</b>		
- From employer		
- contributions in relation to pensionable pay	(3,699)	(3,692)
- other contributions	(266)	(179)
- Members contributions	(3,074)	(2,923)
<b>Transfers in:</b>		
- Individual transfers from other schemes	(168)	(52)
<b>Total Income to the Fund</b>	<b>(7,207)</b>	<b>(6,846)</b>
<b>Spending by the fund</b>		
<b>Benefits payable:</b>		
- Pension payments	19,297	18,446
- Commutations of pensions and lump-sum retirement benefits	4,418	3,593
<b>Transfers out:</b>		
- Individual transfers out to other schemes	3	-
- Refunds of contributions		2
<b>Total Spending by the fund</b>	<b>23,718</b>	<b>22,041</b>
<b>Net amount receivable for the year before top up grant receivable from central government</b>	<b>16,511</b>	<b>15,195</b>
Top up grant receivable from central government	(16,511)	(15,195)
<b>Net amount receivable for the year</b>	<b>-</b>	<b>-</b>
<b>Net Assets Statement</b>	2018/19 £000	2017/18 £000
Net current assets and liabilities:		
- pensions top up grant receivable from central government	(3,765)	(4,275)
- other current assets and liabilities (other than liabilities and other than benefits in the future)	3,765	4,275
<b>Net current assets at the end of the year</b>	<b>-</b>	<b>-</b>

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 2019 the Authority is owed £3.765m (2017/18: £4.275m) 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 15 to the accounts. The fund was established under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The statement was prepared according to International Financial Reporting Standards (IFRS).

The note has been prepared in line with general accounting policies set in Note 29 – accounting policies, in particular section e.

#### Contribution Rates

Under the firefighters pension regulations the contribution rates during 2018/19 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 10.5% and 14.5% for employees dependent on salary)

These contribution levels are set nationally by the Government, and are subject to triennial revaluations by the Government Actuary's Department. Four ill health retirements were recognised during 2018/19, and two in 2017/18.

#### Benefits Paid

Pensions are paid to retired officers, their survivors and others who are eligible for benefits under new and existing pension schemes.

#### Home Office Grant

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.

#### Future Liabilities

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

## GLOSSARY OF TERMS

### **Accrual**

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

### **Amortised cost**

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

### **Budget**

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

### **Capital Expenditure**

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

### **Capital Receipts**

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

### **Comprehensive Income & Expenditure Statement**

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

### **Creditors**

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

### **Debtors**

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

### **Fair Value**

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

### **Financial Instrument**

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

**Financial Year**

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

**Financing Charges**

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

**Premiums and Discounts**

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

**Public Works Loan Board (PWLB)**

A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**Revenue Contribution to Capital Outlay**

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

**Revenue Expenditure**

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



## **LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

### **EXTERNAL AUDIT – UNDERSTANDING HOW THE AUDIT 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, is required to obtain an assurance as to how those charged with governance gain assurance over management processes and arrangements. The letter requesting this is attached as appendix 1.

A response has been prepared and submitted by the previous Chair of the Audit Committee, and is attached as appendix 2. (It is worth noting that Management have had to submit a similar response in connection with the processes in place to prevent and detect fraud and ensure compliance with law and regulations, as well as views on key areas affecting the financial statements.)

#### **Recommendation**

The Committee is asked to note and endorse the response submitted.

#### **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:		

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Chair of the Audit Committee  
Lancashire Combined Fire Authority  
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25 March 2019

Dear Cllr Tomlinson

**Lancashire Combined Fire Authority Financial Statements for the year end 31 March 2019**

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit Committee gains assurance over management's processes and arrangements.

I would be grateful, therefore, if you could respond to the questions on the attached schedule.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of questions to Keith Mattinson. We suggested that it may be useful to coordinate your response with that of management.

If you are in agreement with this I would be grateful for your formal response by 23 July 2019, thus ensuring it covers the full twelve month period for 2018/19.

Please feel free to contact me if you wish to discuss anything in relation to this request

Yours sincerely



Richard Tembo  
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For Grant Thornton UK LLP

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## Response from Audit Committee Chair of Lancashire Combined Fire Authority

### Fraud risk assessment

Auditor Question	Response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	Yes
What are the results of this process?	No material risk identified as there is a reconciliation between the management accounts reported to Resources Committee and the financial accounts presented here
What processes does the Authority have in place to identify and respond to risks of fraud?	Participation in the NFI (and have not identified any frauds as a result of this), whistle blowing and anti-fraud policies
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No
Are internal controls, including segregation of duties, in place and operating effectively?	Yes Review by Internal and External Audit Reported in Annual Governance Statement
If not, where are the risk areas and what mitigating actions have been taken?	N/A
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No
Are there any areas where there is a potential for misreporting?	No
How does the Authority exercise oversight over management's processes for identifying and responding to risks of fraud?	Updated corporate risk register is presented at each Audit Committee, update report relating to NFI is reported to the Committee
What arrangements are in place to report fraud issues and risks to the Authority / Audit Committee?	Updated corporate risk register is presented at each Audit Committee, update report relating to NFI is reported to the Committee

Auditor Question	Response
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	Agreed set of values includes trust and Integrity. Employee code of conduct. Code of Corporate Governance. Contractor terms and conditions
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Agreed whistle blowing and anti-fraud policies  No

Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No, only significant related party relates to Treasurer whose wife is Treasurer at Blackburn with Darwen Council, as detailed in the accounts
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2018?	No

## Law and regulation

Auditor Question	Response
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	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.
How does management gain assurance that all relevant laws and regulations have been complied with?	As above
How is the Authority provided with assurance that all relevant laws and regulations have been complied with?	As above
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018?	No

Auditor Question	Response
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	Year-end process to identify contingent liabilities/outstanding litigation and claims On-going DFM monitoring arrangements Discussion with Clerk/Solicitor
Is there any actual or potential litigation or claims that would affect the financial statements?	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

## Going Concern

Auditor Question	Response
How will the Authority / Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the 2018/19 financial statements?	Review of budget reports, financial reports throughout the year. Including ability to set a balanced budget, level of reserves, robustness of budget and MTFS

## **LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

### **EXTERNAL AUDIT – LETTER OF REPRESENTATION (Appendix 1 refers)**

#### **Contact for further information:**

Keith Mattinson – Director of Corporate Services – Telephone 01772 866804.

#### **Executive Summary**

As part of the year-end process the Authority is required to sign a letter of representation. This letter confirms that the Authority has disclosed all relevant information in its accounts for the year in question and that all issues which should have been brought to the attention of the auditors have been.

#### **Recommendation**

The Committee is asked to authorise the signing of the letter by the Chair of the Audit Committee.

#### **Information**

The letter of representation is attached as appendix 1 and this requires signing by the Treasurer and Chair of the Audit Committee to confirm that there are no issues that should have been brought to the attention of the auditors but which have not been.

The Treasurer has confirmed that he will sign the letter at the meeting, as there are no further issues which he feels require disclosure.

#### **Financial Implications**

None.

#### **Human Resource Risk Implications**

None.

#### **Equality and Diversity Implications**

None

**Environmental Impact**

None

**Business Risk 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:		



Mr Robin Baker  
Director  
Grant Thornton UK LLP  
Royal Liver Building  
LIVERPOOL  
L3 1PS

Please ask for: Keith Mattinson  
Telephone: 01772 866804  
Email: keithmattinson@lancsfirerescue.org.uk  
Your Ref:  
Our Ref: KM/JLW  
Date: 30 July 2019

Dear Sir

**LANCASHIRE FIRE COMBINED AUTHORITY  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019**

This representation letter is provided in connection with the audit of the financial statements of Lancashire Combined Fire Authority for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Authority's financial statements are presented fairly in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vi Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Authority has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Authority's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Authority's needs. We believe

that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

### **Information Provided**

- xiv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Authority financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.
- xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

- xxiii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that

we are not aware of any significant risks that are not disclosed within the AGS.

### **Narrative Report**

xxiv The disclosures within the Narrative Report fairly reflect our understanding of the Authority's financial and operating performance over the period covered by the Authority's financial statements.

### **Approval**

The approval of this letter of representation was minuted by the Authority's Audit Committee at its meeting on 30 July 2019.

Keith Mattinson

Councillor Nikki Hennessy

Director of Corporate Resources

Chair of the Audit Committee

30 July 2019

30 July 2019

Signed on behalf of the Governing Body

## **LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

### **EXTERNAL AUDIT – AUDIT FINDINGS REPORT (Appendix 1 refers)**

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

#### **Executive Summary**

The external auditor is required to produce an Audit Findings Report summarising the conclusions from their work undertaken as part of the year-end audit of accounts.

The report for the financial year ended 31 March 2019 is attached which does not identify any significant issues.

#### **Recommendation**

The Committee is asked to:-

- Note and endorse the matters raised in the report;
- Note the unqualified opinion on the financial statements;
- Note the value for money conclusion.

#### **Information**

Under the statutory Code of Audit Practice for Local Government bodies our external auditors Grant Thornton are required to issue a report to those charged with governance summarising the conclusions from their audit work.

This report, known as the Audit Findings Report, is attached as Appendix 1, and will be presented by the Audit Manager. At the time of writing the report the audit work was substantially complete and there were no issues which they were aware of that would require further modification of the audit opinion or material change to the financial statements.

As such the anticipated audit opinions are:-

- Our anticipated audit report opinion will be unqualified;
- We anticipate issuing an unqualified value for money conclusion.

As reported earlier on the agenda (Revisions to the Statement of Accounts 2018/19) there was one adjusted mis-statement relating to costs associated with both the Fire-fighter Pensions scheme and the Local Government Pension Scheme, which arose from a legal challenge in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015. Initial accounting advice provided by CIPFA was to treat this as a contingent liability, however following the Supreme Court's refusal to allow an appeal the accounting policy adopted by external auditors required the additional liability to be recognised in the accounts.

In addition there were three minor misclassification and disclosure changes which were required (as set out on page 20 of the Audit findings Report).

It is worth noting that the auditor report highlights “The financial statements were received on time .....and were prepared to a good standard”.

### **Audit Action Plan**

Grant Thornton have not made any recommendations following the audit.

### **Financial Implications**

The fee charged for the audit includes an additional £2k in respect of additional work in respect of the pensions adjustment referred to earlier, bringing the total fee to £26k. It is clear that the late change in the treatment of the pension adjustment did result in additional work for the auditors. However, had the relevant accounting treatment been agreed at the outset of the accounts process, then this could have been incorporated into the accounts published in May and would therefore have negated the need for additional work. It is extremely disappointing that CIPFA and the National Audit Office failed to agree a consistent approach to cover the eventuality of the Supreme Court refusing the right to appeal, and it is undoubtedly this that has led to the additional audit work/fee, as well as additional actuarial fees in revising their assessment of liabilities.

The proposed increase in fee is consistent with similar audited bodies, and ultimately requires Public Sector Audit Appointments approval before final agreement (this is the national body responsible for audit fees).

### **Human Resource Risk Implications**

None

### **Equality and Diversity Implications**

None

### **Environmental Impact**

None

### **Business Risk Implications**

The report does not identify any new risk issues that the Authority needs to address.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

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

# The Audit Findings for Lancashire Combined Fire Authority

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Year ended 31 March 2019  
23 July 2019



# Contents



Your key Grant Thornton  
team members are:

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire Combined Fire Authority (the Authority) and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements:

- give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 21.

One adjustment to the primary financial statements has been made by management to include the impact of a national legal case where events occurring in June 2019 altered the Authority's initial accounting treatment. This resulted in a compensating balance sheet classification adjustment of £33.249m in relation to the Authority's Net Pension liability and the Pension Reserve balances. There is no impact to the usable reserves of the Authority as a result of this adjustment.

Other amendments identified relate to minor changes in wording and were adjusted by management.

We have not had to raise any recommendations for management from our audit work.

Our work is substantially complete and there are no matters of which we are currently aware that would require modification of our audit opinion or material changes to the financial statements, subject to the satisfactory resolution of the matters listed on page 4.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified. A draft of the proposed audit opinion is detailed at Appendix C.

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Lancashire Combined Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Authority received a positive assessment by the Fire Inspectorate this year and continues to have appropriate arrangements in place to manage its financial position.

We anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 16 and 17

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit Committee on 30 July 2019.

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

## Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- re-evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our assessment regarding the risk of improper revenue recognition as documented on page 6.

## Closedown arrangements

The financial statements were received on time and published in line with the statutory deadline. The financial statements were prepared to a good standard and there is an appropriate quality review process in place. Working papers were available before the start of the audit and were clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15.

## Conclusion

We have substantially completed our audit of your financial statements and subject to the resolution of the outstanding items set out below, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2019. A draft of the Audit Report is included as Appendix C.

The outstanding items include:

- receipt of the management representation letter;
- review and challenge of the valuer's assumptions and methodology used in valuation of Land and buildings;;
- Engagement Lead final review of the completed audit working papers and resolution any final queries;
- review of the final set of financial statements;
- receipt and review of the assurance letter from the Lancashire County Pension Fund auditor; and
- updating our post-balance sheet review to the date of the audit opinion.

# Summary

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have redetermined materiality. We reported in our Audit Plan that we determined planning materiality to be £1.108m (PY £919k) which equates to 2% of your forecast gross expenditure for the year. We have redetermined materiality to be based on actual gross operating expenditure for the year. We detail in the table below our determination of materiality for Lancashire Combined Fire Authority.

	Amount (£)	Factors considered
Materiality for the financial statements	1,046,000	• This equates to 2% of your gross operating expenditure for the year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	784,500	• Assessed to be 75% of financial statements materiality
Trivial matters	52,300	• This equates to 5% of financial statement materiality

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

The revenue cycle includes fraudulent transactions:

Income from room hire, Princes Trust, other miscellaneous sources including colleges

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

We have revisited our assessment regarding this risk reported in the audit plan. Having considered the risk factors set out in ISA240, and having analysed the nature of the revenue streams at the Authority which include room hire, Princes Trust, other miscellaneous sources including colleges, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable

We have

- evaluated the Authority's accounting policy 29(b) for recognition of miscellaneous and other income for appropriateness;
- gained an understanding of the Authority's system for accounting for miscellaneous and other income.
- agree, on a sample basis amounts recognised as miscellaneous and other income in the financial statements to supporting documentary evidence.

Our audit work has not identified any issues in respect of revenue recognition.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We carried out the following work:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of land and buildings

The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£86.5 million) and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement

We carried out the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register, and
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Our audit work confirmed that revaluations were carried out by an appropriate external expert. We are satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2019.

Our audit work on the valuation of property, plant and equipment has not identified any significant issues that we need to bring to members attention.

Our work on the estimation process is in the judgements and estimates section on page 10.

Page 17

# Significant findings – audit risks

Page 172

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£801 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

We carried out the following work:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- sought assurances from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements, and
- obtained assurances from PWC in respect of valuation of the firefighters pension fund liability valuation by GAD.

We are awaiting the assurance from the auditor of Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We draw your attention to page 9 regarding a national issue relevant to all local authorities to consider and assess how the result of the McCloud case has impacted upon the valuation of the pension fund net liability. The McCloud /Sergeant cases have a direct impact on the Firefighters Pension Scheme and are a significant development for the Fire and Rescue sector.

Our audit work has not identified any other issues in respect of valuation of net pension liabilities

# Significant findings – other issues

5

## Issue

### Potential impact of the McCloud Judgement

The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.

The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. We understand the case will now be remitted back to employment tribunal for remedy.

The legal ruling around age discrimination (McCloud – Court of Appeal) has implications not just for the firefighters' pension funds, but also for other pension schemes where they have implemented transitional arrangements in changing benefits such as the local government Pension Scheme and Police Pension Scheme.

## Commentary

Management requested an updated estimate from the scheme actuary of the potential impact of the McCloud ruling. This has now been received from both Mercers and Government Actuarial Department (GAD) (Officers). The updated assessments indicate increases in past service costs of £33.404m and actuarial gains by £0.135m and therefore an increase the net liability of £33.269m.

	LGPS	Firefighters pension Pension	Total
	£m	£m	£m
Increase in past service costs	- 0.434	- 32.970	- 33.404
Increase in actuarial gains	<u>0.135</u>	<u>-</u>	<u>0.135</u>
Increase in net pension liability	<u>- 0.299</u>	<u>- 32.970</u>	<u>- 33.269</u>


The accounts are being amended and once complete we will review the analysis performed by the actuaries, and consider whether the approach that has been taken to arrive at this estimate is reasonable.

### North West Fire Control Ltd (NWFC)

Management have also assessed the impact of the McCloud judgement on the North West Fire Control Ltd for purposes of consolidation. It has been determined that the increase in net pension liability for NWFC would be less than 1% of its net liability which amounts to £23k . The Authority's share of the increase would be trivial to the financial statements. Management have therefore not included in the financial statements the transactions relating to McCloud judgement for NWFC.

6

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<p><b>Other Land and Buildings: £57.641m</b></p> <p><b>PFI Assets: Land and Buildings: £28.889m</b></p> <p><b>Total Land and Building: £86.530m</b></p>	<p>Other land and buildings comprises £86.361m of specialised assets such as fire stations and fire training schools, which are valued at depreciated replacement cost (DRC) reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£0.169m) are not specialised in nature and are valued at existing use value (EUV) at year end.</p> <p>The Authority has engaged Tim Ellams registered external valuer to complete the valuation of properties as at 31 03 2019 on a cyclical basis. 20% of total assets were fully revalued and 80% was revalued using a desktop valuation exercise during 2018/19. The valuation of properties valued by the valuer and the desktop valuation has resulted in a net increase of £4,539m.</p> <p>The total year end valuation of Other land and buildings was £86.530m, a net increase of £3.093m from 2017/18.</p>	<p>We reviewed the detail of your assessment of the estimate, considering;</p> <ul style="list-style-type: none"> <li>the assessment of management's expert, your external valuer;</li> <li>the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>the reasonableness of the overall increase in the estimate; and</li> <li>the adequacy of the disclosure of the estimate in the financial statements.</li> </ul> <p>There are no issues to raise from the work carried out on the estimate.</p>	

Page 174

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious



# Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment																												
Page 175	<p><b>Net pension liability – £845.4m</b></p> <p>The Authority’s net pension liability at 31 March 2019 is £878.683m (PY £814.3m) comprising the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. Liability figures are higher than the previous year mainly due to a general fall in corporate bond yields, the increase in the market expectations of inflation and the impact of the McCloud judgement. Full actuarial valuations are undertaken every three years.</p> <p>The Authority uses Mercers to provide actuarial valuations of the Authority’s assets and liabilities derived from the Local Government Pension Scheme. The latest full actuarial valuation by Mercers was completed as at 31 March 2016.</p> <p>The Authority uses GAD to provide actuarial valuations of the Authority’s liabilities derived from the Firefighters’ Pension Schemes. Full actuarial valuations are required every three years. The latest full actuarial valuation was completed by GAD as at 31 March 2016.</p> <p>Both actuaries use a roll forward approach in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £19.9m net actuarial loss during 2018/19.</p>	<p>We reviewed the detail of your assessment of the estimate, considering;</p> <ul style="list-style-type: none"> <li>the assessment of management’s experts, Mercers and GAD;</li> <li>the completeness and accuracy of the underlying information used to determine the estimates;</li> <li>the reasonableness of the Authority’s share of the LGPS assets;</li> <li>the reasonableness of the overall increase in the estimates;</li> <li>the adequacy of the disclosure of the estimates in the financial statements.</li> </ul> <p>External auditors are provided with assurance in the form of an auditors expert report from PwC to assess the assumptions made by the Actuaries, the table below sets out the key assumptions.</p>	●																												
	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value - LGPS</th> <th>Actuary Value - FFPS</th> <th>Within PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.45%</td> <td>Yes</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.3%</td> <td>2.35%</td> <td>Yes</td> <td style="text-align: center;">●</td> </tr> <tr> <td>CP inflation</td> <td>2.2%</td> <td>2.35%</td> <td>Yes</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males over 65</td> <td>22.8 years</td> <td>22.0 years</td> <td>Yes</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females over 65</td> <td>25.5 years</td> <td>22.0 years</td> <td>Yes</td> <td style="text-align: center;">●</td> </tr> </tbody> </table> <p>Other than the issue already noted on page 9 regarding the McCloud judgement, there are no further issues to note from the work carried out.</p>	Assumption	Actuary Value - LGPS	Actuary Value - FFPS	Within PwC range	Assessment	Discount rate	2.4%	2.45%	Yes	●	Pension increase rate	2.3%	2.35%	Yes	●	CP inflation	2.2%	2.35%	Yes	●	Life expectancy – Males over 65	22.8 years	22.0 years	Yes	●	Life expectancy – Females over 65	25.5 years	22.0 years	Yes	●
Assumption	Actuary Value - LGPS	Actuary Value - FFPS	Within PwC range	Assessment																											
Discount rate	2.4%	2.45%	Yes	●																											
Pension increase rate	2.3%	2.35%	Yes	●																											
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Life expectancy – Females over 65	25.5 years	22.0 years	Yes	●																											

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
1 Significant events or transactions that occurred during the year	<ul style="list-style-type: none"> <li>The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards have been disclosed within the financial statements.</li> <li>There has not been a material impact to the financial statements as a result of the implementation of IFRS9 and IFRS15, with movements in the classification of financial instruments disclosed within the financial statements. Management provided us with detailed working papers setting out their assumptions and judgements for the implementation of IFRS9 and IFRS15.</li> </ul>
2 Business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement	<ul style="list-style-type: none"> <li>No such issues were identified</li> </ul>
3 Concerns about management's consultations with other accountants on accounting or auditing matters	<ul style="list-style-type: none"> <li>No such issues were identified</li> </ul>
4 Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	<ul style="list-style-type: none"> <li>We were reappointed as auditors to the Authority for five years from 2018/19</li> </ul>
5 Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	<ul style="list-style-type: none"> <li>No such issues were identified</li> </ul>
6 Other matters that are significant to the oversight of the financial reporting process	<ul style="list-style-type: none"> <li>No such issues were identified</li> </ul>

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management’s assessment process

The Authority has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists.

### Auditor commentary

- The Authority’s use of the going the concern basis of accounting is appropriate.
- The Authority has provided us with its working paper for its assessment of going concern.
- The disclosure of the going concern basis within the financial statements is satisfactory.

### Work performed

We discussed the financial standing of the Authority with the Director of Corporate Services and the Head of Finance and reviewed management’s assessment of going concern and the assumptions and supporting information.

### Auditor commentary

No material uncertainty identified.

The Authority has determined that it is difficult to anticipate what funding will look like beyond the existing settlement having considered important issues like the economic uncertainty surrounding Brexit, the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates. Consequently, for the purpose of its medium term financial strategy the Authority has assumed that funding is frozen in future years. Based on this the Authority will be faced with a funding gap in future years, the extent of which depends on future Council tax decisions.

The Authority has put in place plans to use its available reserves to fill this funding gap in future years. The latest medium term financial strategy, identified at the time of setting the 2019/20 budget, shows approximately £5m of reserves being used by March 2024.

In 2018/19 the Authority’s General Fund balance has increased by £0.5m from £7.9m to £8.4m and its earmarked reserves has increased from £7.9m to £8m. The General Fund balance is within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m) which will provide capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified. The majority of the earmarked reserves will be utilised within the medium term financial strategy, reducing to a level of £6m by March 2024.

### Concluding comments

The Authority’s use of going concern basis of accounting is appropriate.

### Auditor commentary

- The Authority has adequate reserves to meet its 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.
- Our opinion is unmodified in respect of the going concern conclusion.

# Other communication requirements

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

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Authority. The draft letter of representation is included as an agenda item at the Audit Committee on 30 July 2019.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests to the Authority's bankers and those with whom it placed investments. This permission was granted and requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> <li>The financial statements were received on time, and published within the statutory deadline.</li> <li>The financial statements were prepared to a good standard with embedded quality review processes in place.</li> <li>Working papers were available at the start of the audit and were detailed, and clear to understand.</li> <li>The responses to our audit samples and queries were comprehensive and timely.</li> </ul>

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# Other responsibilities under the Code

Issue	Commentary
<p>1 <b>Other information</b></p>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect which is detailed in Appendix C.</p>
<p>2 <b>Matters on which we report by exception</b></p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>There are embedded processes within the Authority to produce and review the Annual Governance Statement.</p> <p>We have nothing to report on these matters.</p>
<p>3 <b>Specified procedures for Whole of Government Accounts</b></p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>This work is not required as the Authority does not exceed the threshold of £500m</li> </ul>
<p>4 <b>Certification of the closure of the audit</b></p>	<p>We intend to certify the closure of the 2018/19 audit of Authority in the audit opinion, as detailed in Appendix C.</p>

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# Value for Money

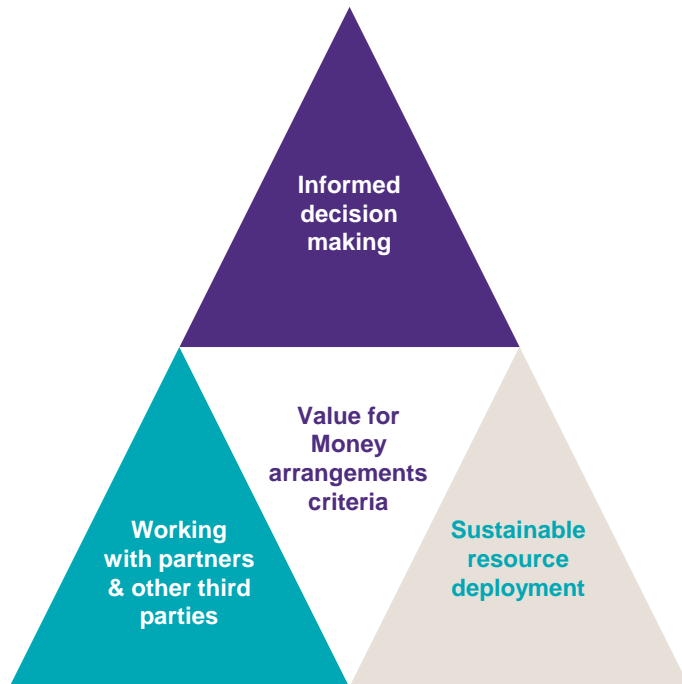
## Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We communicated this to you in our Audit Plan dated 22 January 2018.

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

# Value for Money

## Our work

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

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

We updated our review of your arrangements as part of our audit. Our work included reviewing key documents and discussing issues with your officers. Among the documents reviewed was Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) Report issued following an inspection of the Service.

The Authority was one of the first 14 services to be inspected by HMICFRS during the first tranche of inspections. Each inspection assesses how effective and efficient the service is, how it protects the public against fires and other emergencies and how it responds to the same. They also assess how well each service looks after the people who work there.

In carrying out inspections of fire and rescue services in England, HMICFRS have regard to the following main questions:

- How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?
- How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks?
- How well does the fire and rescue service look after its people?

The categories of judgement used are: outstanding, good, requires improvement and inadequate. Lancashire Combined Fire Authority was rated as '*Outstanding*' for promoting its values and culture. In all other areas, the Service was rated as '*Good*' with no areas that 'require improvement' in any of the 11 categories that were assessed.

The Authority was the only fire and rescue service to be given an 'outstanding' in any category. It was rated as 'outstanding' for promoting its values and culture, and was rated as 'good' in all other areas, with no areas that 'require improvement'. This was the highest rating of any Service in the first tranche of inspections, with the outcome of the second and third tranche expected in 2019/20

The net budget for 2018/19 was £54.8m, an increase of £0.9m compared to 2017/18 budget of £53.9m. This increase was largely the result of pay awards, partly offset by efficiency savings of £0.8m.

The Authority has a good record of delivering savings, £18.5m of efficiency savings have been made between April 2011 and March 2018. The Authority delivered its planned budget for 2018/19 and delivered £1.1m of efficiencies inclusive of an additional savings target of £0.3m required to deliver an increase in Council Tax within the referendum limit of 3% despite the reduction in government funding by £1m from £25.3m in 3017/18 to £24.3m in 2018/19.

The Authority has adequate reserves. In 2018/19 the Authority's General Fund has increased by £0.5m from £7.9m to £8.4m and its earmarked reserves has increased from £7.9m to £8m. The general fund balance is within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m) which will provide capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified. The majority of the earmarked reserves will be utilised within the medium term financial strategy, reducing to a level of £6m by March 2024. The Authority will also have at its disposal capital reserves and receipts amounting to £19m.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

## Recommendations for improvement

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

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.



# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement		Balance Sheet		Impact on total net surplus/(deficit)
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
1	Dr Past Service Costs – Overheads Cr Long Term Liabilities - Pension Net Liabilities  Being recognition of the impact of McCloud case .	33,404			33,401	£(33,404)
2	Dr Long Term Liabilities - Pension Net Liabilities Cr Actuarial (gains)/losses on pensions assets and liabilities  Being recognition of the impact of McCloud case re:actuarial gains/losses		135	135		£135
		33,401	135	135	33,401	33,269
	<b>Overall impact (Reversed out via adjustments between accounting basis and funding basis under regulations)</b>	33,269			33,269	£nil
3	<p>Various main statements and notes in the financial statements have been updated to reflect the impact of the above adjustment . The following are the statements and the notes affected:</p> <ul style="list-style-type: none"> <li>• Narrative Report : Table on page 4 and has been updated. Page 5 has been updated</li> <li>• Movement in Reserves Statement has been updated</li> <li>• Cashflow statement has been</li> <li>• Note 1, Income, Expense, Gains and Losses</li> <li>• Note 13, Other Long Term Liabilities</li> <li>• Note 15, Net Liability Related to Local Government and Firefighters' Pensions Schemes</li> <li>• Note 18, Unusable Reserves and Pensions Reserve</li> <li>• Note 19, Contingent liabilities</li> <li>• Note 23, Adjust net surplus/(deficit) on the provision of services for non cash movements</li> <li>• Note 26, Assumptions made about the future and other major sources of estimation and uncertainty</li> <li>• Note 28, Expenditure and Income Analysed by Nature</li> </ul>					

# Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Action required	Adjusted?
Note 1: Expenditure Funding Analysis	The figure for deficit on the provision of services (£13,203k) did not agree to figure on CIES (£12,365K).	Note 1: Expenditure Funding Analysis been amended to correct the error.	✓
Note 6: Property, Plant and Equipment.	There is an unusual reclassification of £869k of PFI assets (land and buildings) to Other Land and Buildings.	An explanatory note has been added at the bottom of the table in note 6. The amount relates to an adjustment to balance of land and buildings carried forward from 2017/18 which should have been classified as Other Land & Buildings.	✓
Note 8: Income, Expense, Gains and Losses	Interest payable on financial liabilities was disclosed as one figure of £1,479k	Note 8, Income, Expense, Gains and Losses has been amended to split the interest payable relating to: <ul style="list-style-type: none"> <li>• PFI (£1,380K);</li> <li>• borrowing (£89k); and</li> <li>• Finance leases (£10k)</li> </ul>	✓

# Fees

We confirm below our final fees charged for the audit

## Audit Fees

	Final fee 2017/18 (£)	Proposed fee 2018/19 (£)	Final fee 2018/19 (£)
Authority's accounts audit	30,739	23,669	23,669
Additional fee: McCloud case adjustment *	-	-	2,000
<b>Total audit fees (excluding VAT)</b>	<b>£30,739</b>	<b>£23,669</b>	<b>£25,669</b>

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\* Due to additional time required to review the impact of the McCloud judgement case an additional fee of £2,000 has been included as part of the 2018/19 audit fee. We have discussed the fee adjustment with management and the amount will be subject to approval by Public Sector Audit Appointments Ltd.

# DRAFT Audit opinion

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

## Independent auditor's report to the members of Lancashire Combined Fire Authority Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Lancashire Combined Fire Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including significant accounting policies, and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the Firefighters Pension Fund Notes. The notes to the financial statements include the Expenditure Fund Analysis (EFA), Notes to the Core Statements and Policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Arrangements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Arrangements for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

# DRAFT Audit opinion

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided. The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

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

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Lancashire Combined Fire Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

# DRAFT Audit opinion

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Robin J Baker, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Liverpool

xx May 2019

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**LANCASHIRE COMBINED FIRE AUTHORITY  
AUDIT COMMITTEE**

Meeting to be held on 30 July 2019

**INTERNAL AUDIT MONITORING REPORT  
(Appendix 1 refers)**

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

**Executive Summary**

The attached report sets out the current position in respect of the internal audit plan for 2019/20.

**Recommendation**

The Committee is asked to note/endorse the report.

**Information**

The internal auditors produce a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 30 June 2019 is attached as Appendix 1, and will be presented by the Head of Internal Audit.

**Financial Implications**

None

**Human Resource Implications**

None

**Equality and Diversity Implications**

None

**Business Risk Implications**

None

**Environmental Impact**

None

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

Paper	<u>Date</u>	Contact
None		
Reason for inclusion in Part II, if appropriate:		

## **Appendix A**

**Lancashire Combined Fire Authority**

**Internal Audit Service**

**Monitoring report for the period ended**

**30 June 2019**

## 1 Purpose of this report

- 1.1 The Internal Audit Plan for 2019/20 was approved by the Audit Committee in March 2019. This report details the progress to date in undertaking the agreed coverage and the planned schedule of audit dates for the remainder of the financial year.

## 2 Internal audit work undertaken

- 2.1 Work carried out during the period 1 April 2019 to 30 June 2019 was in accordance with the agreed audit plan. To date, 2 days have been spent this financial year on completion of the 2019/20 plan, equating to 3% of the total planned audit activity of 70 days. Consistent with previous years, the audit programme is scheduled for completion during the second half of the financial year.
- 2.2 Additionally, we spent a further 2 days during the first quarter of this financial year in completing and finalising reviews outstanding from the 2018/19 audit plan. The findings from these reviews are included in the 2018/19 Annual Report of the Head of Internal Audit presented alongside this report.

### ***Overall summary and assurance provided***

- 2.3 We have set out in the table on the following pages a brief summary of the position of each review during the period. This sets out the planned and actual days we have spent on each review to date.
- 2.4 We will provide a summary of the assurance we are able to provide in relation to each system or operational area of your business where work has been finalised.
- System adequacy:*** We define a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.
- System effectiveness:*** We define a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.
- 2.5 The assurance we provide over any area of control falls into one of four categories and these are defined at Appendix 1.

### ***Use of this report***

- 2.6 This report has been prepared solely for the use of Lancashire Combined Fire Authority and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Governance and business effectiveness</b>						
Governance and risk management arrangements	10	0	10	-	-	An overall opinion on the adequacy and effectiveness of governance and risk management arrangements will be reported as part of the 2019/20 Annual Report of the Head of Internal Audit. This work will be completed during quarter 4.
<b>Service delivery and support</b>						
Contact centre	12	0	12	-	-	Scheduled for quarter 3.
<b>Business processes</b>						
Accounts payable	7	0	7	-	-	Scheduled for quarter 3.
Accounts receivable	4	0	4	-	-	Scheduled for quarter 3.
General ledger	4	0	4	-	-	Scheduled for quarter 3.
HR and Payroll	10	0	10	-	-	Scheduled for quarter 3.
Treasury management	4	0	4	-	-	Scheduled for quarter 3.

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions administration	1	0	1	-	-	Assurance will be obtained directly from the work completed by the internal auditors of the Local Pension Partnership Limited.
<b><i>Follow up audit activity</i></b>						
Assurance map Business Continuity Planning	4	0	4	N/A	N/A	Scheduled for quarter 3 and 4.
<b><i>Other components of the audit plan</i></b>						
Management activity	10	2	8	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> <li>• Production of the 2018/19 Annual Report of the Head of Internal Audit;</li> <li>• Preparation of the quarterly monitoring report for Audit Committee; and</li> <li>• Update of the Internal Audit Charter and Engagement Letter.</li> </ul>
National Fraud Initiative	4	0	4	N/A	N/A	Time will be incurred throughout the year.
<b>Total days</b>	<b>70</b>	<b>2</b>	<b>68</b>			

## Audit assurance levels

## Appendix 1

The assurance we can provide over any area of control falls into one of four categories as follows:

**Substantial assurance:** the framework of control is adequately designed and/ or effectively operated overall.

**Moderate assurance:** the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

**Limited assurance:** there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

**No assurance:** there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

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## LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE

Meeting to be held on 30 July 2019

### **RISK MANAGEMENT** **(Appendix 1 refers)**

Contact for further information:

Keith Mattinson – Director of Corporate Services– telephone 01772 866804.

#### **Executive Summary**

The report highlights action taken in respect of corporate risk since these were last reported to the Audit Committee.

#### **Recommendation**

The Committee is asked to note the actions taken and endorse the revised corporate risk register

#### **Information**

The latest review of the corporate risk register has identified one new risk which warrants inclusion on the corporate risk register:-

##### Pensionability of Allowances

Following a High Court decision on the pensionability of allowances, which provides a different interpretation to both the historical basis and to previous decisions of the Pensions Ombudsman, the pensionability of various allowances will change with associated cost implications.

The position is unclear and the fire service (including LFRS) is awaiting guidance from the LGE. Issues to be determined include:-

- What is the correct interpretation
- The impact in respect of each of the three pension schemes
- Does backdating apply
- How to treat both employee and employer contributions
- The position of representative bodies on this

Whatever the final position, making allowances pensionable will add a significant cost to our budget.

Based on the above analysis it is clear that this presents significant risk from a cost perspective, as such it is proposed to add this risk to the corporate risk register as a high risk, with the situation going forward being monitored.

Of the existing risks 1 has been reviewed, and an updated corporate risk register is attached as appendix 1, with changes summarised below:-

		Update since last meeting	Proposed Risk Score	
1	Insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as RDS pensions etc., plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget	No change, not due to report till 31/3/20	16	High
2	Premises Risk Information: That operational staff do not have available adequate and reliable premises information to efficiently resolve operational incidents: Risk information is provided to operational staff based on premises information and premises risk are identified on a continuous basis although this is not consistent throughout the Service.	No change, not due to report till 31/12/19	9	Medium
3	Insufficient staffing resources, due to Industrial Action, to deal with operational demand and fulfil statutory responsibilities	No change, not due to report till 31/3/20	12	Medium
4	Lack of availability of water supplies for fire fighting prevents effective fire fighting resulting in additional damage to property and increased risk to life.	Previously discharged		
5	The increasing age profile of operational staff could adversely affect our ability to deliver effective emergency response.	Previously discharged		
6	Operational staff do not have the required skills to operate safely at an incident with the potential to result in F/F injuries or fatalities.	No change, not due to report till 31/3/20	9	Medium

7	Failure of key ICT systems resulting in disruption to services	The implementation phase of the new WAN is well underway with the proof of concept site in test. The new Security System Engineer role successfully put us through the Cyber Essentials accreditation and is working towards the next level, Cyber Essentials Plus. Upgrades to key parts of our infrastructure are on track as is the replacement of Windows 7 and Office 2010 that's end of life January 2020.	Remains at 9	Medium
8	Loss of corporate reputation through negative publicity	No change, not due to report till 31/12/19	9	Medium
9	Retention and recruitment of RDS staff impacts on RDS appliance availability	No change, not due to report till 31/12/19	9	Medium
10	Lack of workforce planning resulting in significant over/under provision of staff and resulting impact on service and finances	Previously discharged		Medium
11	Lack of compliance with legislation resulting in prosecution or compliance order	Previously discharged		
12	Ineffective Health and Safety in the workplace, resulting in prosecution, intervention fees etc.	No change, not due to report till 31/12/19	9	Medium
13	Lack of effective Information management impacting on service delivery and support or leading to a breach of data protection/freedom of information or a loss of sensitive/personal information	No change, not due to report till 31/12/19	9	Medium
14	Delayed mobilisation, impacting on service delivery	No change, not due to report till 31/12/19	9	Medium
15	High levels of staff absence due to outbreak of ebola.	Previously discharged		

16	Lack of clarity on future of FRS, leading to inertia	Previously discharged		
17	Failure of ESMCP to deliver a viable communication facility.	No change, not due to report till 31/12/19	9	Medium
18	Inability to maintain service provision in spate conditions	Previously discharged		
19	Failure to maximise the opportunities that technological advances present due to a lack of capacity within the ICT department, and an inability of staff to keep pace with new development that are implemented	No change, not due to report till 31/3/20	9	Medium
20	Loss of support for Vector Incident Command product with the product name Command Support System (CSS) leading to ineffective command function at large incidents	No change, not due to report till 31/12/19	9	Medium
21	Risk of rapid external fire spread in high rise premise resulting in a major incident	No change, not due to report till 31/12/19	10	Medium
22	Failure to maximise collaborative opportunities presented by Policing and Crime Act 2017	No change, not due to report till 31/12/19	9	Medium
23	Lack of leadership capacity impacting on delivery of services	No change, not due to report till 31/12/19	9	Medium
24	Insufficient preparation for inspection programme leading to opportunities being lost in terms of national learning and Lancashire's ability to effectively communicate its progress and awareness	Previously discharged		
25	The outcome of the EU court ruling on the Matzak case relating to on-call arrangements in Belgium has a detrimental impact on service provision and/or cost.	No change, not due to report till 30/9/19	10	Medium
26	Increase in costs of and/or lack of availability of goods and services, following Brexit	No change, not due to report till 30/9/19	12	Medium

**Financial Implications**

None

**Human Resource Implications**

None

**Equality and Diversity Implications**

None

**Environmental Impact**

None

**Business Risk Implications**

The improvement in risk management arrangements should result in reduced business risk

**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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## CORPORATE RISK REGISTER

Jul 19

KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
1 Insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as pay, pensions etc., plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget.	The Government has confirmed that the multi-year settlement offers have been agreed with all single purpose fire and rescue authorities (19/20 is the final year of this). The Final Settlement for 19/20 was in line with the four year settlement previously agreed. However there still remains a great deal of uncertainty surrounding the impact of Brexit. Funding in 2020 and beyond will be determined by the Governments overall budget and the 2019 Spending Review. The Budget will set overall total for public sector spending which will then be allocated out to departments as part of the Spending Review. Until such time as the outcome of this is known it is impossible to accurately predict future funding levels. In addition the Government is currently consulting on a Fair Funding Review and changes to the Business Rates Retention Scheme, both of which may impact on future funding. The draft budget assume future funding is frozen. The Authority will continue to review opportunities for further savings. The Authority holds sufficient reserves to enable it to meet anticipated funding gaps in the short to medium term.	4	4	16	Continue to monitor position and review implications arising from Brexit, Spending Review, Fair funding review and Local Retention of Business Rates. Continue to identify savings opportunities	31/03/2020	DoCS	DoCS	Corp Serv
2 Premises Risk Information: That operational staff do not have available adequate and reliable premises information to efficiently resolve operational incidents: Risk information is provided to operational staff based on premises information and premises risk are identified on a continuous basis although this is not consistent throughout the Service.	The gathering of operational risk information is a key activity within LFRS. The service has adopted an integrated approach to managing the risk; thereby ensuring safe systems of work for all employees. LFRS will undertake incident pre planning and the gathering of operational risk information to enable: *The prevention of injury and ill health of firefighters and other emergency responders *Management and mitigation of risks in the community *Continual improvement in the provision of, accurate, relevant and timely operational information *Compliance with the legal duties on Fire and Rescue Authorities in relation to operational risk information *Compliance with formal guidance and "best practice" models; and Audit and review mechanisms. Premises based risks are assessed using the Provision of Risk Information to Staff (PORIS) methodology. The risk based information is formulated via an application on the iPad and categorised from Level 1 through to Level 5 (e.g. Top Tier COMAH Sites.) All known high risk premises are recorded on the system.	3	3	9	The Operational Assurance Team have been commissioned to carry out the independent scrutiny, with 18 SSRI reviews (across varying levels) planned to complete by March 2019. A key priority through 2019 / 20 is the review of SSRI plans associated with High-rise Buildings across Lancashire. This will be completed jointly by operational crews and Fire Protection staff members. Information Sharing Agreements with neighbouring FRS' are ongoing in readiness for digital cascade of risk information exchange for premises within 10km of a county border.	31/12/2019	HoSD	DoSD	Serv Delivery
3 Insufficient staffing resources, due to Industrial Action, to deal with operational demand and fulfil statutory responsibilities.	LFRS has a separate contingency plan in place that is specific to industrial action. This has been reviewed and reissued to all SMT and relevant staff. The Home Office has undertaken an audit of our arrangements, with the final reported noting our arrangements.	3	4	12	Continue to monitor the position regarding national pay awards and related role map reviews.	31/03/2020	HoSD	DoSP	Strategy & Planning

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
4	Lack of availability of water supplies for fire fighting prevents effective fire fighting resulting in additional damage to property and increased risk to life.	<p>The Service commissions, adopts, systematically inspects and repairs mains fed fire fighting hydrants across the County.</p> <p>We maintain operational plans that display the location of available hydrants and open water supplies. Accurate hydrant information now provided to FES. Hydrant inspections moved to a risk based programme. New SSI Hydrant Manager update - Central system (within FES) is now up and running with current information being available on appliance MDT's. Hydrant tech's now moved over to Toughbook's for hydrant management and reporting of defects. We have Strategic Hydrants (those with a flow rate of above 1,500 litres per minute), then Risk Category 1, 2 and 3. Strategic are tested annually, Risk 1 annually, Risk 2 every two years, and Risk 3 every three years. Defects are repaired either in-house by the Hydrant Technicians, or reported to United Utilities (Strategic being marked urgent). Strategic Hydrants are always flow tested and this is recorded on the hydrant asset in SSI. Other hydrants are dry tested</p> <p>Increased use of HVP for larger incidents.</p>	2	3	6	Discharged				
5	The increasing age profile of operational staff could adversely affect our ability to deliver effective emergency response.	<p>Fitness Assessments introduced and included as part of the Crew Training as of 1st April 14. Remedial action to ensure that acceptable levels of fitness are developed and maintained.</p> <p>Provision of facilities for physical exercise and training on operational stations.</p> <p>Currently staff are timetabled to take a fitness test, are subject to health monitoring and managers can refer staff to OHU if they have concerns. The Service provides a physiotherapy service, critical incident debriefing and counselling if needed.</p>	3	2	6	Discharged				



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KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
<p>Operational staff do not have the required skills to operate safely at an incident with the potential to result in F/F injuries or fatalities.</p>	<p>Recruitment of Whole-time and RDS staff is undertaken against national standards. Initial and Continuation training delivery is based on National Occupational Standards (NOS), National Operational Guidance (NOG) and Training Specifications. Role related competencies have been identified and recorded within the PDR Pro system with appropriate retraining frequencies identified. Initial and Refresher training delivered to cover a wide range of specialist skills. Particularly risk Critical areas such as Breathing Apparatus are centrally assessed to ensure uniformity. An Operational Assurance policy is in place delivered through a dedicated Operational Assurance Team that continually assesses operational readiness through station visits, incident / exercise monitoring and debriefing. The team publishes a quarterly performance report to promote staff awareness of key operational performance issues. As well as internal learning sources, the team receives National Operational Learning (NOL) in relation to nationwide incidents, Rule 43 Letters and Joint Operational Learning from other blue light Services and Resilience Forum Partners. Such learning results in a range of actions including REC1 safety bulletins, changes to operational policy and training content (both courses and e-learning) and thus constant evolution/improvement in safety and effectiveness. A dedicated Incident Command Training team exists recognising the vital importance of this skill to safe and effective operations. Incident Commanders are now required to maintain a command license. Retained Support Officers have been appointed and their responsibilities include recruitment and training. The Service continues to invest in training props to ensure realistic hot fire training conditions. Through the Operational Assurance Group, Prevention, Protection and Response Task and Strategic Groups along with the Health, Safety and Environment Advisory Groups, internal and external learning are monitored and fed into the Training and Operational Review department to influence operational training.</p>	3	3	9	<p>Monitor effectiveness of Operational Assurance Performance Report in disseminating information</p>	31/03/2020	HoTOR	DoSD	Serv Delivery

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KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
7 Failure of key ICT systems resulting in disruption to services.	Separate BCP plans developed, including backup and recovery procedures, desktop exercise completed. Asset replacement policy in place, regularly reviewed. IT Firewall to prevent inappropriate access, moisture detection loop installed in SHQ plant room to identify any early threat of flooding Secondary ICT site constructed at STC to provide enhanced resilience, implementation of Active Directory to enhance security and control of user access, improved virus protection. Strategy to control use of USB devices implemented. Patch and update policy place to ensure servers and workstations are up to date with latest security developments. Wide Area Network (WAN) to all administrative and operations site. New Storage Area Network (SAN) to replicate all essential servers and data to the disaster recovery site at STC. Installed resilient link from STC to County Hall in order to maintain LCC/OCL supplied services in the event of a failure at SHQ or the link to County and also have extended the network to include the new control facility in Warrington.	3	3	9	Complete the implementation of the new WAN Work towards Cyber Essentials Plus security accreditation. Upgrade key parts of our infrastructure and replace end of life Windows 7 and Office 2010	30/06/2020	HoICT	HoICT	Strategy & Planning
8 Loss of corporate reputation through negative publicity.	Emergency communication plan and toolkit covers all aspects of risk including business continuity issues, emergencies and broader reputational risk, and fulfils requirements of the Lancashire Resilience Forum emergency communications plan. Documents were updated in September 2018 following Winter Hill moorland fire learning. Plan regularly tested during exercises. Effective reactive press office and proactive media activity to build positive reputation including on-call arrangements for out-of-hours cover. Media and social media training forms part of middle manager development programme and is delivered to individuals and teams as required throughout the year. A social media management tool was procured in February 2018 which provides ability to monitor and manage, if required, social media activity by stations. Communication plans for all corporate projects include internal communication to ensure staff are well informed to reduce risk of misinformation. Corporate use of social media is embedded in communication plans with policy and guidance in place. Scanning and planning function helps anticipate and plan for specific reputational risks and daily media monitoring highlights inaccurate reporting and emerging issues that that need to be addressed or corrected.	3	3	9	Revised image consent forms have been produced in line with GDPR however social media guidelines are yet to be updated in respect of images and personal data, as a preferred method of processing and storing images has yet to be determined by the Service. In addition to the middle manager development programme, media and social media training continues to be delivered to staff in departments and on stations on an ad hoc basis by the communications team.	31/12/2019	HoCC	HoCC	People & Development

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
9	Retention and recruitment of RDS staff impacts on RDS appliance availability.	RDS recruitment and retention working group established. Increased RDS basic recruits course population from 12 to 24. Quicker access to BA course on completion of recruit training. TOR support throughout the RDS probationary period. Enhanced retained pay scheme introduced and reviewed regularly. The service allows shorter RDS contracts to improve appliance availability. Encourages dual contract staff to contribute to the RDS. RDS availability targets now reduced to 95%. Proactive recruitment by SDM's. Joint working between HR and service delivery to enhance current recruitment processes. RDS Strengthening & Improving programme in place with the focus on supporting staff through their developmental stages and improving efficiency and effectiveness of recruitment work. A new Recruitment Vehicle has been established. RSO activity around both development and recruitment are paying off with improved levels of support being given across all required skill sets to those in the Service and those looking to join us.	3	3	9	RSO's continue to embed 'core skills' workshops on stations and STC staff routinely delivering Incident Command skills across a variety of topics to RDS staff to improve competency as well as sense of feeling valued. Activity around RDS recruitment campaigns will continue to develop. For those who fail the RDS course the RSO's maintain contact and developmental work with a view to attendance on subsequent course. Monitor success of initiatives	31/12/2019	HoSD	HoSD	Serv Delivery
10	Lack of workforce planning resulting in significant over/under provision of staff and resulting impact on service and finances.	A mechanism of workforce planning has now been agreed and this will be reviewed on annual basis. As part of the development of the workforce plan a review of retirement profile is considered which is the main reason for turnover for those staff on grey book terms and conditions, this information is used to plan recruitment and enables us to plan effectively ensuring enough staff. Further to the turnover last year, an internal recruitment campaign and associated recruitment resulted in recruitment to 27 posts. A further recruitment campaign is being conducted for 2017/18 which will be completed by mid-May. Our approach to training and organisational development ensures that staff have the necessary ability, skills and training in order to able to undertake the job role. In terms of managing the risks associated with over establishment, all posts are checked against the post book prior to advertising. Where a post is not established it needs to go through specific authorisation and establishment process which ensures that we control the number of posts we recruit.	2	3	6	Discharged				
11	Lack of compliance with legislation resulting in prosecution or compliance order.	Clerk of Authority reviews all Committee reports for legality and advises CFA. Clerk and Solicitor review new legislation. Government notify of all new requirements Horizon scanning.	2	2	4	Discharged				

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
12	Ineffective Health and Safety in the workplace, resulting in prosecution, intervention fees etc.	<ul style="list-style-type: none"> <li>• Health and Safety Management System (HSMS) in place certified to OHSAS 18001:2007 to develop, maintain and continuously improve the HSMS.</li> <li>• Operational Assurance Programme.</li> <li>• HSA3 – workplace inspection programme.</li> <li>• Publication of risk information – Health and Safety Risk and Opportunities Register resulting in service objectives and targets, Generic Risk Assessments, Service Orders, Standard Operating Procedures etc.</li> <li>• External audit and scrutiny through External Auditors.</li> <li>• Health, Safety and Environment Advisory Group / Health and Safety Consultation Meeting monitor performance.</li> <li>• Annual SHE Report presented to CFA.</li> <li>• LFRS SHE Audit and Development Plan to develop, maintain, ensure compliance, review and continuously improve the HSMS.</li> </ul>	3	3	9	Following the independent audit of Health and Safety and Environmental Management Systems carried out as part of our OHSAS 18001 and ISO 14001 certification process non-conformances and opportunities for improvement are collated together into the SHE Audit Improvement Action Plan and monitored to conclusion through the Health, Safety and Environment Advisory Group.	31/12/2019	HoSHE	HoSHE	People & Development
13	Lack of effective Information management impacting on service delivery and support or leading to a breach of data protection/freedom of information or a loss of sensitive/personal information.	<p>A revised structure to deliver Information Management has been implemented. Nominated Data Protection and Freedom of Information Lead Officers to ensure legal obligations met. All freedom of information requests considered by Exec Board.</p> <p>Data encryption in place. Information Management related projects are progressing as scheduled with governance from Programme Board and DCFO as Sponsor. Compliance with the Data Protection Act (DPA) and General Data Protection Regulation (GDPR) remains a priority.</p> <p>A data protection LearnPro module; this will further support the Service in effective information management by increasing staff awareness. The Service has also provided specialist data protection and GDPR training to increase staff knowledge and engagement with the subject matter. Data protection has been added as a standard agenda item to several key Papers in the Service. The appointment of a DPO not only aligns the Service with legislative obligations but also provides the oversight inherent to that post.</p>	3	3	9	<p>Work remains ongoing in order to deliver performance management integration within our District Plan, the first stage of which is to prototype both a CorVu replacement and the integrated planning and performance tool. If successful, this should be developed further to automate the wider District Plan Key Performance Indicators (KPI's). Work also needs to be undertaken to develop the culture within the Service of a more unified approach to managing planning and information and, to that end, a communication strategy should be pursued.</p> <p>More general information tasks related to the Information Management Strategy will be supported by the recruitment of a fixed-term Records Officer</p>	31/12/2019	HoServ Develop	DoSP	Strategy & Planning

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
14	Delayed mobilisation, impacting on service delivery.	System uses AVLS to locate the nearest available pump, based on anticipated 'run time'. 2014 saw the implementation of a new Global ITN road speed setting developed from historical evidence provided by Cheshire FRS. This implementation along with changes to Station geographical locations, the removal of road restrictions (imposed on the ITN by the developers) and the development of new response plans has seen an improvement in mobilising with appliances arriving with greater accuracy between the proposed and actual run times. Restrictions have been imposed on the system to ensure non critical incidents are attended by the host station whilst preventing a lengthy run time and/or a slow response time. This restriction ensures both the spread of resources is maintain and the continued use of RDS whilst preventing Whole time appliances being taken out of higher risk areas, this also reduces the need for standby/closing in moves.	3	3	9	New road speed algorithms have now been deployed onto a test server at NWFC. This is currently being tested by the four FRS to assess its accuracy. Expected roll out mid 2019.	31/12/2019	HoServ Develop	DoSP	Strategy & Planning
15	High levels of staff absence due to outbreak of Ebola.	On-going liaison with LCC Emergency Planning Dept and LRF. Separate BCP plans developed re large scale staff absence. Enhanced sickness and absence policy implemented. OHU department to provide advice to managers/staff.	1	4	4	Discharged				
16	Lack of clarity on future of FRS, leading to inertia.	The Sir Ken Knight review highlighted a need to review governance arrangements relating to FRAs identified several potential governance models, regional, national, mergers, ambulance, police etc. responsibility for Fire Service has transferred from CLG to Home Office The Policing and Crime Bill (which is currently going through Parliament) introduces measures which require the police, fire and rescue, and ambulance services to collaborate with one another. As a minimum, the legislation requires PCCs to be represented on the relevant fire and rescue authority (FRA) (or its committees) with full voting rights, subject to the consent of the FRA. Alternatively, PCCs have the option of putting forward a business case which may include arrangements to take on responsibility for the governance of fire and rescue; or to become the single employer for fire and police, to deliver greater improvements through the integration of back office functions and maximise the benefits of workforce flexibility. As such future options now appear to be:- • remain as we are • move towards a PCC	2	3	6	Discharged				

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KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
17 Failure of ESMCP to deliver a viable communication facility.	Emergency Services Mobile Communication Programme (ESMCP) is a national project which will deliver a replacement communications and data service using 4G technology. The new broadband data services will replace the existing private mobile radio system provided by Airwave. Main contracts awarded to EE and Motorola for the network and network equipment respectively. Since the signing of the contract, there has been considerable work done by the suppliers, central programme team and emergency services in the regions. However there are still some areas that need to be resolved, and therefore the original go live for the North West (the first region go-live) September 2017, has moved on 6 months to April 2018. The current Airwave contract has been extended until 2019, in order to ensure that the roll out of the new system is complete before the existing contact ends.	3	3	9	Work is ongoing at both a service and regional level in order to prepare for transition to ESMCP. This is focussed upon coverage, transition planning, device support requirements and evaluation of Home Office (HO) documentation such as the vehicle mounted device specifications. The Programme has reported to the Parliamentary Advisory Committee and prioritised work with both key contractors, these being EE and Motorola. LFRS is managing the project with a dedicated Project Manager through Home Office allocated funding . Significant progress cannot be achieved until after the HO issue the revised National Transition Plan which is expected by February 2019 following anticipated approval of the Full Business Case refresh.	31/12/2019	HoServ Develop	DoSP	Strategy & Planning
18 Inability to maintain service provision in spate conditions	Robust Business Continuity arrangements The published 2017-2022 LFRS Integrated Risk Management Plan recognises the impacts of wide area flooding (P2 increasing weather related events) as does our SOR for 2017. Ensure ESMCP specification recognises communication needs identified Training for LFRS FDOs regarding National Resilience Asset mobilisation and associated Command Support has been delivered, testing via an exercise to be completed LFRS vehicle fleet amended with multi-purpose (4x4) vehicles suitable for use in wide area flooding placed within the fleet, further purchases to follow in 2017/18 to extend the provision to 10. The enhancement of staff PPE with provision of flood suits and associated training is complete. The Lancaster accommodation side (not appliance bay etc.) has been built with flood defences and other mitigation works as per flood risk assessment. Other works include elevating all Station Mobilisation Cabinets that are in Flood risk areas.	3	2	6	Discharged				

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
19	Failure to maximise the opportunities that technological advances present due to a lack of capacity within the ICT department, and an inability of staff to keep pace with new development that are implemented	ICT Asset Mgt Plan in place, which identifies replacement timeframes for existing systems. Revised ICT Strategy presented to Resources Committee in March 2018 and includes work stream to improve user experience. BPIP consider all new ICT systems/developments, as part of this consideration is given to capacity planning in terms of ICT resource and impact on end users CPB consider outcomes from BPIP Additional Systems Engineering posts are now filled with the individuals already having a positive impact on the back log of work.	3	3	9	ICT are updating our back Office infrastructure and preparing for the next generation Windows 10 and Office 2016 that will be delivered next financial year. They have continued to develop bespoke packages, such as Assurance Monitoring System. ICT continue to carry vacancies within the team and are working with HR to fill these.	31/03/2020	HoICT	DoSP	Strategy & Planning
20	Loss of support for Vector Incident Command product with the product name Command Support System (CSS) leading to ineffective command function at large incidents	The CSS software application (Vector Incident Command) we run on our command units to manage the incident command system, went into administration and the Intellectual Property Rights (IPR) for the software were bought at auction by Telent, who are the prime contractor for the NWFC ICT mobilising and communication. Telent have presented to say they will ensure that the original Vector developments as promised under the NWFC contract will be delivered. However developments have been very slow	3	3	9	A new project has now commenced to deliver a new command software solution prior to the current Telent contract finishing.	31/12/2019	HoServ Develop	DoSP	Strategy & Planning
21	Risk of rapid external fire spread in high rise premise resulting in a major incident	All high rise residential premises have been audited, in conjunction with relevant Local Authority. Only one building found with ACM cladding panel, this was on a 6 storey section of building (top section), which is being managed locally to limit the risk this presents. An on-going risk based inspection plan has been agreed based on following priority order: -High rise Purpose flats -High rise sleeping -High rise hospitals -High rise schools -High rise commercials -Hospital non- high rise -School non-high rise -other Community reassurance visits undertaken. Temporarily amend PDA to high rise to include an ALP	2	5	10	Complete inspection programme Update relevant SSRIs. 2018 inspection of residential high rise programme completed. Planning 2019 high rise inspections to be included within the RBIP and to include joint inspections with Local Authority Housing Departments. Review amendment to PDA in light of further information from the Grenfell Inquiry	31/12/2019	HoServ Develop	DoSP	Strategy & Planning

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
22	Failure to maximise collaborative opportunities presented by Policing and Crime Act 2017	Well-developed relationships with Lancashire Constabulary and NWAS Regular meetings to discuss issues/opportunities Collaboration already taking place i.e. EMR, Gaining Entry, Missing Persons, Air Support (Drone), Site Sharing etc. Statement of Intent agreed and signed off at Deputy Chief Officer level between LFRS and Lancashire Constabulary External training for both organisations Senior Management Teams delivered by Shares Services Architects. Work areas considered and a 32 item collaboration log has been created.	3	3	9	3 core projects to be progressed to scope report status:- • multi officer role • response arrangements • public order training at Washington hall Further roll out of EMR is dependent upon outcome of national pay negotiations	31/12/2019	HoSD	DoSP	Strategy & Planning
23	Lack of leadership capacity impacting on delivery of services	Workforce plan agreed and implemented which clearly identifies our challenges and workforce profile Recruitment policy in place which reviews the success of recruitment campaigns against the knowledge and skills gap Appraisal system in place, to establish opportunities for development feedback, identification of training needs, development opportunities and talent Leadership Development programmes in place, including in house leadership development, ILM (Institute of Leadership and Management) ELP (Executive Leadership Programme), Leading into the Future (A cross sectoral leadership programme) etc. Coaching and mentoring system introduced Action Learning Sets introduced Leadership Conferences delivered Promotion Board in place with clear development and promotion pathways established for operational staff	3	3	9	Leadership Development Programme commencing September for Crew Managers this will be delivered during 2018/2019. Currently evaluating leadership development needs for the future and consulting with staff in relation to the performance management arrangements	31/12/2019	HoHR	DoPD	People & Development
24	Insufficient preparation for inspection programme leading to opportunities being lost in terms of national learning and Lancashire's ability to effectively communicate its progress and awareness	Resources allocated to the required preparatory work to meet the needs of the HMICFRS inspection process. Creation of an internal review and subsequent self-assessment against the draft inspection criteria including the collation of key evidence and identification of any shortfalls of evidence. Completion of the HMICFRS returns including a corporate narrative overview, statements against the diagnostics covering effectiveness, efficiency and people including the submission of associated evidence. Inspection completed week commencing 9 July. Report due completion October (released at same time as other Tranche 1 reports)	1	3	3	Discharged				



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KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
25 The outcome of the EU court ruling on the Matzak case relating to on-call arrangements in Belgium has a detrimental impact on service provision and/or cost.	The case looked at the applicability of Working Time in connection with the Belgian Fire Service and their version of On Call Controls. Legal opinion is being sought in connection with the case to identify its impact in the UK. On more detailed examination, the case was not directly applicable to the UK, the issue in question was also resolved before further consideration by the Belgium Courts.	2	5	10	The issue has been raised at national level and appropriate guidance is awaited	30/09/2019	DoPD	DoPD	People & Development
26 Increase in costs of and/or lack of availability of goods and services, following Brexit	We are continuing to monitor any trends in terms of this, with a view to identifying the extent of any impact. If costs increase significantly in the short term we will need to drawdown reserves in order to deliver a balanced budget. We have not seen any evidence that the availability of essential goods/services has been affected at this moment in time.	3	4	12	Continue to monitor impact	30/09/2019	HoProc	DoCS	Corporate Services
27 Increase in costs associated with changes to pensionability of allowances	Following a High Court decision on the pensionability of allowances, which provides a different interpretation to both the historical basis and to previous decisions of the Pensions Ombudsman, the pensionability of various allowances will change with associated cost implications. The position is unclear and the fire service (including LFRS) is awaiting guidance from the LGE. Issues to be determined include:- <ul style="list-style-type: none"> <li>• What is the correct interpretation</li> <li>• The impact in respect of each of the three pension schemes</li> <li>• Does backdating apply</li> <li>• How to treat both employee and employer contributions</li> <li>• The position of representative bodies on this</li> </ul>	4	4	16	Continue to monitor guidance	31/12/2019	DoPD	DoPD	People & Development
				<b>27</b>					

HIGH	2
MEDIUM	17
MEDIUM/LOW	5
LOW	3

27

- Scores**
- |                               |                              |
|-------------------------------|------------------------------|
| <b>Likelihood</b>             | <b>Impact</b>                |
| 5 Certain, see next sheet     | Minor, see next sheet        |
| 4 Very Likely, see next sheet | Noticeable, see next sheet   |
| 3 Likely, see next sheet      | Significant, see next sheet  |
| 2 Unlikely, see next sheet    | Critical, see next sheet     |
| 1 Rare, see next sheet        | Catastrophic, see next sheet |

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