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LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 29 May 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 - 14)

4. YEAR END TREASURY MANAGEMENT OUTTURN 2018/19 (Pages 15 - 20)

5. YEAR END CAPITAL OUTTURN 2018/19 (Pages 21 - 28)

6. YEAR END REVENUE OUTTURN 2018/19 (Pages 29 - 34)

7. YEAR END USABLE RESERVES AND PROVISIONS OUTTURN 2018/19 (Pages 35 - 44)

8. CORE FINANCIAL STATEMENTS 2018/19 (Pages 45 - 92)

9. 2019/20 BUDGET UPDATE (Pages 93 - 96)

10. EFFICIENCY PLAN 2019/20 (Pages 97 - 106)

11. DATE AND TIME OF NEXT MEETING

The next scheduled meeting of the Committee has been agreed for 10:00 hours on 25 September 2019 in the Main Conference Room, at Lancashire Fire & Rescue Service Headquarters, Fulwood.

Further meetings are: scheduled for 27 November 2019 and 25 March 2020 and; proposed for 20 May 2020.

12. URGENT BUSINESS

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

13. EXCLUSION OF PRESS AND PUBLIC

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

PART 2

14. SUB-COMMITTEE - CONTRACT VARIATIONS (Pages 107 - 112)

15. HIGH VALUE PROCUREMENT PROJECTS (Pages 113 - 118)

16. URGENT BUSINESS (PART 2)

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

LANCASHIRE COMBINED FIRE AUTHORITY

RESOURCES COMMITTEE

Wednesday, 27 March 2019, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

MINUTES

PRESENT:

Councillors

F De Molfetta (Chairman)
N Hennessy (Vice-Chair)
T Martin
D O'Toole
D Stansfield
G Wilkins
T Williams

Officers

C Kenny, Chief Fire Officer (LFRS)
K Mattinson, Director of Corporate Services (LFRS)
B Warren, Director of People and Development (LFRS)
D Brooks, Principal Member Services Officer (LFRS)

22/18 APOLOGIES FOR ABSENCE

Apologies were received from County Councillor Lorraine Beavers and Councillors Simon Blackburn and Fred Jackson.

23/18 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

County Councillor Nikki Hennessy declared a non-pecuniary interest in relation to item 6 on the agenda, Pension Board – Firefighters' Pension Schemes Update as she had been asked by the Local Government Association to be a member of the Firefighters' Pensions Scheme Advisory Board.

24/18 MINUTES OF THE PREVIOUS MEETING

In response to a request from the Chairman regarding the £1m costs of the Winter Hill incident the Director of Corporate Services confirmed that the Home Office had been contacted on several occasions regarding the claim submitted under the Bellwin Scheme and there appeared to be ongoing debate with the Ministry of Housing, Communities and Local Government (MHCLG) on where the claim sat. As it was financial year end the following week, the Director of Corporate Services would liaise with the auditors regarding the treatment of these costs which could impact on the drawdown of reserves. It was discussed and agreed that the Chairman, CC De Molfetta should write a letter to the Home Office either separately or collectively with Greater Manchester Fire and Rescue Service.

In response to a question raised by County Councillor O'Toole regarding the property overspend position reported on page 3, the Chief Fire Officer advised that the budget was well managed however additional work had been undertaken on female facilities at the request of the Executive Board. The Director of Corporate Services added that this overspend related to the revenue budget position, covering day-to-day repairs and small projects, large projects were reported as part of the High Value Procurement Report considered separately under part 2 of the agenda.

County Councillor Wilkins queried whether the apprentice levy funds could be better used. The Director of People and Development confirmed that managerial training had been identified and there had been changes to the number of green book apprentices. He advised that as support functions were not very large there were not many opportunities for apprentices and more of the fund would be spent once the firefighter apprenticeships standards had been approved. He confirmed that an application had been submitted for the Service Training Centre to be an approved training provider but a timescale for the approval process was currently unknown.

County Councillor O'Toole expressed concern regarding the continued overspend on property and following discussion under this agenda item and later under item 13 of the agenda it was agreed to establish a politically balanced sub-committee that would enable Members to better scrutinise contract variations on building projects. Political group leaders would advise the Clerk of their representatives outside the meeting.

RESOLVED: - That:

i) The Minutes of the last meeting held on 28 November 2018 be confirmed as a correct record and signed by the Chairman; and
ii) A politically balanced Resources Sub-Committee of 5 Members be established to scrutinise contract variations on building projects.

25/18 CHIEF FIRE OFFICER SUCCESSION ARRANGEMENTS

The Director of People and Development advised that the Panel Members (as approved at the Authority in February 2019, resolution 71/18 refers) had undertaken the recruitment and selection process for the Chief Fire Officer post and had appointed Justin Johnston with effect from 1 May 2019. It was noted that the original application process had been extended by Members and a second application was received from the National Fire Chief's Council website and both candidates were interviewed.

The Panel was now looking to appoint a Deputy Chief Fire Officer. The Director of People and Development advised that in the Pay Policy Statement discussed at the Authority meeting in February 2019 it was agreed that a salary review would be undertaken and adjusted prior to advert. The Panel had agreed the salary range to be £130,000 - £135,000 and to advertise for 28 days internally, on the National Fire Chief Council website and a national paper. It was proposed and agreed that the same Panel would undertake the recruitment and selection process early in May after the local elections had concluded.

County Councillor Wilkins on behalf of the Committee thanked Mr Kenny for his valued work and contribution.

RESOLVED: - That the report be noted and endorsed.

26/18 FINANCIAL MONITORING

The Director of Corporate Services presented the report that set out the current budget position in respect of the 2018/19 revenue and capital budgets and performance against savings targets.

Revenue Budget

The overall position as at the end of January showed an overspend of £0.1m. Trends were being monitoring to ensure that they were reflected in next year's budget, as well as being reported to Resources Committee. At the last meeting a forecast position of £0.1m underspend was presented. Since then the Government had confirmed the following additional sources of income:-

- The National Business Rates (NNDR) Levy fund surplus allocation being paid to Lancashire Fire and Rescue Service (LFRS) before the end of the financial year. The NNDR Levy Fund was created by the Government to fund business rates safety net grant payments from previously held back NNDR monies, any unused funds were now being redistributed, with LFRS receiving £237k. (This was announced alongside the Finance Settlement for 2019/20 during December, with no prior indication);
- The national government exercise to audit the Section 31 grants in relation to Business Rates Reliefs for 2017/18 had now been completed, and as a result the Authority would receive a further £192k from Central Government in relation to this. (Confirmation of this was received in the middle of February, with no prior indication of this amount.)

As a result a year end underspend of £0.5m was forecast.

The year to date and forecast outturn positions within individual departments were presented in Appendix 1 of the report with major variances relating to non-pay spends and variances on the pay budget shown separately in the table below: -

Area	Overspend / (Under spend) to 31 Jan	Forecast Outturn at 31 March	Reason
	£'000	£'000	
Service Delivery	191	243	The majority of both the year to date and outturn positions reflected the replacement of firefighting gloves and helmets to all operational staff during the year, in addition to investment in equipment for the specialist wildfire unit based at Bacup.
Winter Hill	110	110	Although the total cost was £1.2m, as reported previously details had been submitted to MHCLG under the Bellwin Scheme of Emergency Financial Assistance and hence it was anticipated the total net costs being limited to the threshold of £110k.
Prince's	(84)	(85)	On completion of the 17/18 academic

Trust			year Prince's Trust received an extra £42k team funding from Preston College in excess of the amount initially indicated. In addition £56k of European Social Fund money had been accessed for team members who were not eligible for standard funding. As this funding was only available for 16-18 year olds unless already claimed by another learning provider, this income had not been included in the base budget.
Property	116	140	The overspend position related to premises repairs and maintenance. The forecast overspend reflected some of the new minor schemes approved in year to enhance station facilities such as enhanced female facilities.
Pensions	25	63	The current and outturn positions reflected the three ill health retirements in the year to date, and one more anticipated before the end of the financial year. This position might still alter until exact costs and timing were finalised.
Non DFM	(166)	(647)	The year to date underspend was largely due to the increase in the bank base interest rate during the year, which increased interest receivable on call account balances with Lancashire County Council, and also interest receivable on several fixed term investments which had been put in place commencing in the second half of the year. • The outturn position reflected the above, and the additional £429k of income from central government, as referred to earlier.
Wholetime Pay	(204)	(318)	The following issues affected whole-time pay: • The budget allowed for an assumed 2% pay award last year, however this did not transpire, hence in the first eight months of the year there had been an underspend of £200k. (With a full year effect of £300k). • Overtime was overspent by approx. £40k the majority of which was attributable to the continuing policy of detaching wholetime personnel into key RDS stations. • As in previous years the budget included a vacancy factor based on anticipated retirements, leavers and

			new recruits. During the first four months staffing numbers were higher than forecast, due to fewer retirements, leading to overspend of approx. £100k. Since then the position had reversed due to the number of retirements coupled with several personnel leaving the service early. Hence we anticipated a broadly balanced position in respect of this at the year end. • The budget also allowed for the recruitment of 12 FF apprentices in the second half of the year, at a cost of £256k. Given the difficulty in establishing a suitable apprentice's scheme, as previously reported, it was clear that these would not be recruited until next year, and hence no costs would be incurred.
Retained (RDS) Pay	234	250	The following issues affected retained pay: • As referred to under whole-time pay the budget allowed for 2% pay awards in both years. Hence in the first ten months of the year there had been an underspend of £36k. • Activity levels in the first 10 months of the year were higher than previous (excluding Winter Hill), reflecting increased hours of cover as well as an increasing number of incidents and hence pay costs were higher than budgeted. • In addition RDS recruits received wholetime pay during the recruits course for two weeks, resulting in an overspend of £40k due to the two RDS courses run to date. Previously, the significant vacant posts in excess of the budgeted vacancy factor within RDS pay had mitigated any overspends, however with the previous marginal improvement in retention/recruitment and the increased activity costs these were more visible, and had been amended for the next financial year's budget. The forecast position was a lower underspend than previously predicted which reflected that there had been more leavers than new recruits in the second half of the year.
Associate	69	77	The annual training plan was used to

Trainers			match planned training activity to staff available at the training centre. Where this was not possible, associate trainers were brought in to cover the shortfall. There had been several ongoing trainer vacancies throughout the year to date, which had resulted in the overspend shown, but were counteracted by corresponding underspends within wholetime pay. In addition, it had been agreed that associate trainer could be used to facilitate the 'have a go' days which were part of the wholetime recruits process at an estimated cost of £10k.
Support staff (less agency staff)	(226)	(291)	The underspend to date related to vacant posts across various departments, which were in excess of the vacancy factor built into the budget. (Note agency staff costs to date of £70k were replacing vacant support staff roles, which accounted for just over 1% of total support staff costs). Although some vacancies had been filled, there were a number of vacancies which had proven historically difficult to fill, most notably in ICT and Information Management, resulting in a forecast outturn underspend. The Service continued to review roles and structures before moving to recruitment.
Apprentice Levy	(15)	(19)	The apprentice levy was payable at 0.5% of each month's payroll costs, the budget for this was set at anticipated establishment levels, hence the underspend against this budget reflected the various pay budget positions reported above. It was noted that due to delays in apprenticeships standards being approved it had not been possible to utilise the levy payments made to HMRC since April 2017. The outcome of this was that funds that had been in the levy account for 24 months and had not been utilised would be clawed back by HMRC. Whilst this would not affect the current year it would impact next year. At the present time a claw back of around £10k per month was anticipated until this could be fully utilised for training costs. An application had been submitted for STC to be an approved training provider, in order to access HMRC levy funds to match

			training costs; with approval expected to be granted early in the new financial year.

Any proposed year end transfers into reserves would be considered as part of the outturn position to be reported to the Resources Committee in May 2019.

County Councillor Wilkins asked whether the excellent work of the Prince's Trust which he was proud of could be increased. The Chief Fire Officer advised that the Prince's Trust was independent, self-sustaining and funded by the college. He explained that any consideration to expand would depend on the sustainability of the funding. County Councillor N Hennessy requested a Members' briefing on the Trust to include members of the Prince's Trust team.

Capital Budget
The Capital Programme for 2018/19 stood at £4.1m, as reported previously. A review of the programme had been undertaken to identify progress against the schemes. The overall position as at the end of January showed £2.9m of capital expenditure. The current anticipated year end spend was £3.4m, with £0.7m slippage. This position was shown as set out below, and summarised in Appendix 2 of the report as now considered by Members: -

	Spend to date	Forecast Year End Spend	
Pumping Appliances	0.4	0.4	The budget allowed for the first stage payment for the 6 pumping appliances ordered for the 2018/19 programme. A 7th pumping appliance was ordered to replace two Driver Training Vehicles, following approval by May Resources Committee, although the timing of the first stage payment wasn't allowed for in the 2018/19 budget. As the vehicle was currently in build the stage payment had been made, creating an overspend of £58k in year, however the remainder of the budget for all 7 appliances had been included in the 2019/20 draft programme.
Other vehicles	1.1	1.3	This budget allowed for the replacement of various operational support vehicles: • One Aerial Ladder Platform which was delivered during July. • One Water Tower, which was scheduled for delivery during the financial year. • Various support vehicles which were reviewed prior to replacement. Although the lead times on these were relatively short, it was anticipated that there would be some slippage into the next financial year.
Operational	0.4	0.5	This budget allowed for the initial purchase

Equipment/ Future Firefighting			of technical rescue jackets, following the regional procurement exercise, which were delivered at the end of May and were now in service. £40k related to the purchase of fist microphones, which included noise cancelling facilities and hence enabled clearer voice transmission, thus aiding fire ground communications. The balance of £50k was to meet costs of kitting out three reserve appliances with equipment to speed up handover for vehicle servicing, and it was anticipated this would be used in the current year.
Building Modifications	0.6	0.8	Completion of the new joint Fire & Ambulance facility at Lancaster was completed in October. Contract variations of £41k had been agreed in respect of time delays due to the discharge of planning conditions, and upgrading the appliance bay doors, however there was a further £40k variations still being discussed with the contractors. In terms of the redevelopment of Preston Fire Station, the budget allowed for £0.1m of fees which was unlikely to be incurred before the end of March, hence was included in slippage into 2019/20. The final element of this capital budget related to the balance of the Training Centre redevelopment works, largely relating to two main elements: • the replacement welfare/ICT porta-cabin which was expected to be completed before the end of the financial year; and • fleet workshop, where final design plans were being drafted however these formed part of a larger site masterplan. The development of the site master plan was on hold pending discussions with Lancashire Constabulary about joint use of the facility, therefore the budget would slip into the next financial year.
IT systems	0.4	0.6	Given the delay on the ESMCP project, the replacement station end project had also been delayed. However this could not be delayed indefinitely and work had therefore commenced to replace the station end in the current financial year, whilst ensuring that any solution would be compatible with the eventual ESMCP solution.

			The budget also allowed for the replacement of the Services wide area network (WAN) providing an enhanced network and improving speed of use across the Service. Having agreed a contract for this implementation would begin, but it was anticipated that about half of this budget would be spent in the next financial year.
Total	2.9	3.4	

Expenditure to date had been funded from the on-going revenue contributions, earmarked reserves and capital reserves.

Delivery against savings targets
The performance to date was now ahead of target, due salary underspends and procurement activities during the period, less current operational equipment overspends. It was anticipated that savings targets would be met for the financial year.

RESOLVED: - That the Committee noted and endorsed the financial position.

27/18 PENSION BOARD - FIREFIGHTERS' PENSION SCHEMES UPDATE

The Director of People and Development presented the report that outlined to Members the scope of activities of the Local Firefighter Pension Board up to 27 March 2019 and gave Members the opportunity to raise any issues in respect of the effectiveness of the local management of the pension schemes.

In terms of activity, since the Local Firefighter Pension Board was set up in 2015, the work of the Board had been shaped by the Board members and by Officers supporting the Board. Regular agenda items to the Board have been developed and these were:

- National Developments to provide the Board with the latest information on areas of significant pension work, and included both local and national issues. As well as enhancing the knowledge and understanding of Board members, this regular item served to prompt discussion about the impact of issues on pension scheme members and about how workloads were being managed. This helped to achieve the Board’s purpose of securing effective governance and administration.

- Recent items have included updates on: the FBU legal transitional protection challenge; work of the National Scheme Advisory Board; Valuation outcomes and ensuing consultation; reconciliation of contracting out payments; termination payments and abatement requirements.

- Management of the scheme issues such as membership levels, completion of annual benefit statements and performance of our administrative body.

- Update on any LFRS IDRP or Pension Ombudsman cases.

- Communications issues.

- Pension audit outcomes.

Other areas of governance that had been discussed at Board meetings included:

- Employer discretions under the firefighter pension schemes. Discretions were presented to the Board for information, and the process by which Officers make decisions about discretions had been explained.
- The Board was kept informed of progress towards sending out of Annual Benefits Statements to members of the scheme and other administrative matters.

The Local Firefighter Pension Board was now well established and had made good progress in improving the knowledge and understanding of the Board about pension issues, and ensuring that governance and administration of pensions was carried out effectively. Work had also been undertaken to communicate with pension scheme members about pension issues and to raise the profile of this important subject. The Board would continue to ensure that good practice was maintained and ongoing improvements made in line with advice from the Scheme Advisory Board and The Pension Regulator.

RESOLVED: - that the report be noted and endorsed.

28/18 GENDER PAY GAP

The Director of People and Development presented the report. The Equality Act (2010) (Specific Duties and Public Authorities) Regulations 2017 came into force on 31 March 2017. These regulations imposed a legal obligation for employers with 250 or more employees to publish gender pay details each year.(by 30 March for public sector employers) to highlight the difference in gross pay and bonus payments made to female as compared with male employees. The calculation followed government guidance to ensure consistency and this was our second report.

Building on last year's report, the Service had and was making improvements in its gender breakdown difference, with the latest recruitment processes for whole-time recruitment showing clear progress. The Service also had for many years had clear pay structure arrangements (as outlined in the Pay Statement) which provided for equal pay for both men and women across the roles throughout the organisation. Members had previously endorsed the single status approach for "green book" employees utilising the local authority job evaluation methodology and the adoption of the living wage principles. It therefore did not have an equal pay issue within the Service. (Men and women who carried out the same jobs or similar jobs or work of equal value were paid the same).

It was recognised, however, that like all fire and rescue services, the Authority had an unbalanced spread of male and female employees in the different occupational staff groups and at different levels and roles. A significant factor was the different construction of Terms & Conditions and remuneration between the "Grey" and "Green" book roles. These factors reflected the diversity and differences in activity and requirements and were two significant reasons for the gender pay gap outcomes.

In addition, the mean gender pay gap was significantly affected by the inclusion of certain groups as required by the statutory methodology utilised to calculate the position. This produced an anomaly between the mean and the median averages.

The Executive Board believed that excluding the RDS and Dual contract staff in the headline figure would provide a more realistic reflection on the position of LFRS but this would conflict with the government instructions, which was intended to allow comparisons across all sectors.

The report therefore showed a Gender Pay Gap of:

MEAN - positive of 3.23%   MEDIAN - negative of 16.95%

The Director of People and Development advised that last year all sectors of the economy showed a negative pay gap and that the Government had produced 2 documents to help employers reduce the gender pay gap, these were:

- 8 ways to understand your organisation's gender pay gap; and
- Four steps to developing a gender pay gap action plan.

These documents provided areas to help employers to identify potential causes of the gender pay gap in their organisation and develop an effective action plan to tackle it. The Director of People and Development confirmed that the Service already practiced the approaches suggested.

In response to a question raised by County Councillor O'Toole the Director of People and Development confirmed that staff on the same grade received the same rate of pay.

RESOLVED:- That the Resources Committee noted the report and authorised the publication of the Gender Pay Gap Report.

29/18 2019/20 BUDGET UPDATE

The Director of Corporate Services presented the report that provided an update on 2019/20 budget in respect of pension costs and amended council tax collection fund surplus figures. Dependent upon whether any additional funding was provided to meet the increased costs of the employer pension contributions, the Authority was potentially looking at an increase in its budget requirement of £0.4m, which it would have to meet from reserves.

Pension Costs

At the time of setting the 2019/20 budget the Treasurer highlighted that the Home Office had advised that the latest valuation of the Firefighter pension's scheme had identified an average increase of 12.6% in employer contribution rate, moving from 17.6% to 30.2%. This equated to an additional cost of £3.3m. However the Government had allowed an additional £2.6m of funding in 2019/20 to offset some of this pressure hence the net additional cost to the Authority, and allowed for in the budget, was £0.7m.

At the time the Treasurer confirmed that the split by individual pension scheme had not been provided, only the average, and hence the actual additional cost would vary according to the mix of personnel in each pension scheme.

The Home Office released the results of the valuation in March, providing details of the increase in employer contributions for each scheme as set out below:-

	92 Scheme	2006 Scheme	2015 Scheme
Previous Employer Contribution Rate	21.7%	11.9%	14.3%
New Employer Contribution Rate	37.3%	27.4%	28.8%
Increase	15.6%	15.5%	14.5%

The lowest increase was 14.5% and whilst the actual increase for each Authority would be dependent upon their mix of personnel in each scheme it was clear that as a minimum the increase could not be lower than this, and definitely not the 12.6% quoted.

Having looked at this for ourselves, based on numbers of personnel in each scheme our actual average increase was 14.7% and our therefore our forecast cost increase was £0.5m higher than allowed for in the budget.

Contact had been made with the Home Office to identify where the 12.6% increase came from, as it was obviously too low, and we had been advised that this took account of the change in mix of personnel since the last valuation. This meant that as personnel transferred from the more expensive 92 Scheme to the 2015 Scheme, the average employer costs had fallen. Whilst this was factually correct, previous budgets had already been adjusted to account for this, taking out £0.6m over the last 3 years. It was noted that the majority of Authorities were in similar positions.
At the time of publishing the average increase, the Home Office advised that the estimated total increased costs for the sector was £107m and that HM Treasury had indicated that they would provide additional funding in 2019/20 to mitigate most of the increase with public sector bodies standing only the additional costs announced at Budget 2016. This meant that Fire would only stand £10m of the additional cost with the remaining £97m being met by additional grant. They went on to say that costs in subsequent years would be considered as part of the next Spending Review. Given the fact that the basis of the additional costs was under-estimated the Sector had gone back to the Home Office asking them to review the actual position and seek additional funding to offset this, to ensure that the sector only stood the additional £10m costs referenced above. It was too early to say what the outcome of this would be, but if funding remained unchanged we were looking at an additional in-year cost pressure of £0.5m. If no funding was provided this would have to be met from reserves. An update would be provided at a future Committee once the final position became clear.

Council Tax Collection Fund
As part of the budget setting process billing authorities provided details of their overall council tax collection fund, and our share of that. After setting the budget we wrote out to each billing authority confirming the level of council tax, their share of the precept, the collection fund and business rates, so that they could arrange the relevant payments. As a result of this it had been identified that we had shown one of the Authorities as having a £28.5k deficit in the collection fund, whereas it was actually a £28.5k surplus. Therefore our share of the County wide collection fund was £59k higher than shown in the budget.

It should be noted that this would simply have reduced the funding gap shown in the budget report, reducing it from £495k to £436k, and we would therefore have identified a lower additional savings target of £136k.

Dependent upon whether additional funding was provided to meet the additional costs of the pension increase, the Authority was potentially looking at a net increase in its budget shortfall of £0.4m. It was unrealistic to think this could be met form increasing the in-year savings target; as such it was proposed that any eventual additional costs should be met from reserves.

RESOLVED: - That the Committee noted the increased costs and endorsed the action taken.

30/18 DATE AND TIME OF NEXT MEETING

The next meeting of the Committee would be held on Wednesday, 29 May 2019 at 1000 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

Further meeting dates were noted for 25 September 2019 and 27 November 2019 and agreed for 25 March 2020.

31/18 EXCLUSION OF PRESS AND PUBLIC

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

32/18 ISO 45001:2018 HEALTH & SAFETY AND ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEMS ASSESSMENT AUDIT REPORTS

(Paragraphs 1 and 2)

The Director of People and Development presented the report which included a comprehensive and confidential appendix.

It was noted that in 2011 Lancashire Fire and Rescue Service (LFRS) was successful in certification to ISO 14001 the International Standard for Environmental Management Systems and OHSAS 18001 the Health and Safety Management System standard.

Each year surveillance audits were carried out to ensure that the standards continued to be adhered to and to ensure continuous improvements were made. Every three years LFRS had to apply for re-certification to maintain the standards.

This year LFRS made the transition from OHSAS 18001 to the new health and safety standard ISO 45001:2018 and received a surveillance audit for ISO 14001:2015.

On 28 February 2019 on completion of the 2019 audit LFRS was recommended for continued certification to ISO 14001:2015 and for certification to ISO 45001:2018 with no non-conformities or suggested areas for improvement being identified. To achieve and maintain these standards at the same time clearly demonstrated that robust systems were in place for both the environment and health and safety.

RESOLVED: - That the report be noted and endorsed.

33/18 HIGH VALUE PROCUREMENT PROJECTS

(Paragraph 3)

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

RESOLVED: That the Committee noted and endorsed the report.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood

LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

YEAR END TREASURY MANAGEMENT OUTTURN 2018/19

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

Executive Summary

The report sets out the Authority's borrowing and lending activities during 2018/19. All borrowing and investment activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2018/19, and are based on anticipated spending and interest rates prevailing at the time.

Recommendation

The Authority is asked to note and endorse the outturn position report.

Information

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

Investment and borrowing decisions are taken in the light of long term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. Consideration is also given to various risks and ensuring compliance with the Prudential Indicators. Decisions are taken in the light of current and forecasted economic decisions. Therefore this report provides information on:

- An economic overview
- Borrowing position
- Investment activity
- Comparison to the Prudential Indicators

Economic Overview

The UK economy has continued to show economic growth with the last annual GDP growth being at 1.4% although this is below recent growth trends. The quarterly returns were:

- Q2 2018 0.4%
- Q3 2018 0.6%
- Q4 2018 0.2%

The continued uncertainty regarding the outcome of the discussions to leave the European Union has been impacting on the economy. However, growth has also been affected by world factors. There continues to be uncertainty with the USA introducing protectionist policies which could lead to potential trade wars with both China and the European Union. The European Union has shown signs of a rapid slowdown in economic growth

Despite the low economic growth employment data has remained positive with unemployment remaining low throughout the year. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The year has also seen real wages increasing with the 3-month average annual growth rate for pay excluding bonuses grew by 1.4% in real terms.

Inflation as measured by the CPI was 3.0% in April 2018. It fell steadily to a low of 2.3% in August before rising again to 2.7% in November and has fallen below the Bank of England's target of 2% in both January and February with the latest figures showing CPI of 1.9%.

The continued uncertainty over the economy meant that the Bank of England has continued with its policy of slow and gradual increases in interest rates. Therefore the only change in the base rate came in August when the base rate was increased from 0.50% to 0.75%. The treasury management activity was undertaken with the expectation that interest rates would remain at the historically low levels but that there would be small increases. The latest forecast from Arlingclose, the County Council's Treasury Advisers, is for a 0.25% increase in the base rate in both of the quarters ending March and September 2020.

Borrowing

The borrowing of the Fire Authority has remained unchanged at £2m in 2018/19. The current approved capital programme has no requirement to be financed from borrowing and the debt relates to earlier years' capital programmes. While the borrowing is above its Capital Financing Requirement (CFR), which is the underlying need to borrow for capital purposes, this is because the Fire Authority has had a policy of setting aside monies in the form of statutory and voluntary minimum revenue provision (MRP) in order to repay debt as it matures or to make an early repayment. Consideration has been given to repaying the £2m but as reported to the Resources Committee as part of the 2019/20 Treasury Management Strategy the penalties incurred on repaying the loans early would incur significant costs. Also any early repayment means that cash balances available for investment will be reduced and hence interest receivable will also be reduced. It was estimated that if interest rate on investments are at 1.5% over the remaining period of the loan then repaying the loans during 2018/19 would be broadly neutral. It was concluded that the repayment was not considered to be financially beneficial at the time. However, the situation is periodically reviewed by the Director of Corporate Services.

The loans outstanding are all with the Public Loans Works Board (PWLB) and the maturity and interest rate of the Authority's outstanding borrowing is:

Loan amount	Maturity	Interest rate
£650k	December 2035	4.49%
£650k	June 2036	4.49%
£700k	June 2037	4.48%

Total interest paid on PWLB borrowing was £90k, which equates to an average interest rate of 4.49%.

Investments

Both the CIPFA Code and the MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Throughout the year when investing money the key aim was to strike an appropriate balance between risk and return.

In order to reduce credit risk to the Authority, Lancashire County Council (credit rating by Moodys Aa3) is the main counterparty for the Authority's investments via the operation of a call account. However the Treasury Management Strategy does permit investment with other high quality counterparties including other local authorities. During the year the cash held by the Authority has been positive with the highest balance being £48.7m and the lowest £28.5m. Therefore, given that the expectation was that interest rates would remain low the opportunity was taken to undertake some fixed term investments with other local authorities rather than keeping all the monies in the call account. This aimed to enhance the investment return while keeping the credit risk low. Therefore at the year end the following investments were held:

Start Date	End Date	Principal	Rate	Annual Interest
30/6/14	28/06/19	£5,000,000	2.40%	£120,000
18/10/18	19/10/20	£5,000,000	1.15%	£57,500
19/11/18	18/11/19	£5,000,000	1.00%	£50,000
19/12/18	19/06/19	£5,000,000	0.92%	£46,000*

* As this is only a 6 month investment actual interest earned will be £23k

Investing in these fixed term deposits, rather than leaving the money in the call account, has increased the interest received in 2018/19 by £102k although this does reduce the liquidity of the investments.

The call account provided by Lancashire County Council paid the base rate throughout 2018/19. Each working day the balance on the Authority's current account is invested in this to ensure that the interest received on surplus balances is maximised. The average balance in this account during the year was £27.258m earning interest of £0.180m.

The overall interest earned during this period was £0.358m at a rate of 0.95% which compares favourably with the benchmark 7 day index (Sterling Overnight rate 7 day rate) which averages 0.66% over the same period.

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

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

Prudential Indicators

In order to control and monitor the Authority's treasury management functions, a number of prudential indicators are determined against which performance may be measured. The revised indicators for 2018/19 are shown in the table below alongside the actual outturn position.

	Revised	Actual
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£000	£000
A prudent estimate of total external debt, which does not reflect the worst case scenario, but allows sufficient headroom for unusual cash movements		
Borrowing	5,000	2,000
Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements	15,000	14,177
Total	20,000	16,177
Operational boundary for external debt		
A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans		
Borrowing	3,000	2,000
Other long-term liabilities – these relate to vehicle finance leases and the PFI agreements	14,400	14,177
Total	17,400	16,177
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	58%
Upper limit for variable rate exposure		
Borrowing	25%	0%
Investments	100%	42%
Upper limit for total principal sums invested for over 365 days (per maturity date)	25.000	20.000

Maturity structure of debt	Upper/ Lower Limits	Actual
Under 12 months	100%/nil	-
12 months and within 24 months	30%/nil	-
24 months and within 5 years	50%/nil	-
5 years and within 10 years	50%/nil	-
10 years and above	100%/nil	100%

Financial Implications

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

	Revised Budget £m	Actual £m	Reason for variance
Interest Payable on PWLB loans	0.090	0.090	-
Interest Receivable on call account and fixed term investments	(0.272)	(0.358)	Higher cash balances than forecast, favourable interest rates
Minimum Revenue Provision re PWLB loans	0.010	0.010	-
Net financing income from Treasury Management activities*	(0.172)	(0.258)	-

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

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

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

Environmental Impact

None

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

Paper	Date	Contact
Treasury Management Strategy 2018/19	February 2018	Keith Mattinson, Director of Corporate Services
Treasury Management Guidance	February 2017	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

YEAR END CAPITAL OUTTURN 2018/19
(Appendices 1 and 2 refer)

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

Executive Summary

This report presents:

- the year end position for the Authority's capital programme, and how this has been financed;
- the impact of slippage from the 2018/19 capital programme into the 2019/20 programme.

Recommendation

The Resources Committee is asked to:-

- note the capital outturn position, the financing of capital expenditure 2018/19 and the prudential indicators;
- approve the revised 2019/20 capital programme, the financing of this and the prudential indicators.

Information

The year end position for the Authority's capital programme showed total expenditure of £2.4m compared with the budget of £4.2m, with the difference being slippage of £1.8m. (Members are aware that slippage is simply a timing issue dependent on the progress of capital schemes, and not an indication of future underspends.) Details of this are set out in the table below, and in appendix 1.

Area of Spend	**18/19 Budget**	**Actual Expend -iture**	**Slipp-age**	**(Under) / Over spend**	**Explanation**
	£m	£m	£m	£m	
Pumping Appliances	0.350	0.408	-	0.058	The budget allowed for the first stage payments for the 6 pumping appliances from the original 2018/19 programme. A 7th pumping appliance was ordered to replace two Driver Training Vehicles, but the full budget for this was included in the 2019/20 programme. All 7 vehicles are currently in build and the spend reflects their first stage payments. Delivery of all vehicles is anticipated at the end of the calendar year.

Other Vehicles	1.440	0.799	(0.650)	0.009	Spend related to the purchase of the Aerial Ladder Platform and various operational support vehicles during the year. The slippage relates to the second Water Tower, which is scheduled for delivery in June, along with the budget for any support vehicles not yet received.
Operational Equipment	0.466	0.431	(0.032)	(0.003)	Spend relates to the purchase of technical rescue jackets and kitting out reserve appliances within the future firefighting budget, and the purchase of fist microphones to improve fire-ground communications. The slippage relates to the balance of costs to fully kit out 3 reserve appliances, which will be completed in the first quarter of the new financial year.
Buildings	1.121	0.771	(0.370)	0.020	Spend relates to Lancaster Fire & Ambulance facility, which is complete, however final variations are still under discussion, and the provision of the welfare/ICT Portacabin at STC as previously reported, which is complete. Slippage relates to: • carry forward of outstanding STC redevelopment works, • anticipated fees in relation to Preston Fire Station replacement as previously forecast.
ICT Systems	0.780	0.002	(0.778)	-	The budget, and therefore the slippage, relates to: • the replacement of the Service wide area network providing an enhanced network and improving speed of use across the Service. The delivery of this is currently scheduled for the first half of the new financial year. • The replacement of the station end mobilising system which had been held back pending delivery of the ESMCP project, however we cannot delay this indefinitely and have therefore commenced work to replace the station end in the current financial year, whilst ensuring that any solution will be compatible with the eventual ESMCP solution.
Grand Total	**4.157**	**2.410**	**(1.830)**	**0.083**	

The programme has been financed in year, from a combination of revenue contributions (£2.0m), the drawdown of earmarked reserves (£0.03m) and the drawdown of capital reserves (£0.4m), as shown in Appendix 1.

Prudential Indicators 2018/19

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

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

	Revised	**Actual**
Net financing costs (Income)	(£0.172m)	(£0.258m)
Ratio of Financing Costs to Net Revenue Stream (this expresses net financing charges as a % of total net revenue spending)	(0.31%)	(0.47%)

	Revised £m	**Actual £m**
Capital Expenditure (this is simply a measure of spend)	4.157	2.410
Capital Financing (how the spending was funded):		
Grants and contributions	-	-
Own resources	4.157	2.410
Debt	-	-
Total	4.157	2.410

	Revised £m	**Actual £m**
Capital Financing Requirement (this measures the authority's underlying need to borrow to fund its capital programmes)	0.192	0.192

The Impact of Slippage from the 2018/19 Capital Programme into the 2019/20 Programme

The original approved capital programme for 2019/20 was £11.4m. This has been updated to reflect the final level of slippage of £1.8m, outlined above.

In addition we have reviewed the resultant budget for any changes in timing assumptions since budget setting, and have made the following changes:

- Vehicles £0.7m, the majority of which relates to replacement pumping appliances, whereby we need to undertake a new procurement exercise prior to ordering replacement appliances, and the change in cab specification has led to a delay in undertaking this exercise;
- Building Modifications £4.0m, which relates to delays on the Fleet workshop project, pending Polices decision re training requirements, and on Preston Station where design work is still on-going;

- ICT £1.1m – the majority of this relates to the replacement Vehicle Mounted Data System hardware, which has been put on hold pending delivery of the national ESMCP project and therefore will not be progressed during 2019/20. The remainder relates to various systems which are not expected to be replaced in the year.

Therefore the final proposed capital programme for 2019/20 is £7.5m, which is funded from capital grant, revenue contributions, and capital reserves. The revised programme and its funding are set out in appendix 2.

The following table sets out the revised prudential indicators for 2019/20-2021/22, showing that the revised programme remains affordable, prudent and sustainable, as follows: -

	2019/20 Estimate	**2020/21 Estimate**	**2021/22 Estimate**
Net financing costs (Income)	(£0.254m)	(£0.221m)	(£0.188m)
Ratio of Financing Costs to Net Revenue Stream. (the figures show that there is revenue income rather than costs.)	(0.46%)	(0.39%)	(0.32%)

	2019/20 Estimate £m	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Capital Expenditure	7.457	6.476	5.691
Capital Financing (how the spending will be funded):			
Grants and contributions	1.000	-	-
Own resources	6.457	6.476	5.691
Debt	-	-	-
Total	7.457	6.476	5.691

	2019/20 Estimate £m	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Capital Financing Requirement	0.182	0.172	0.162

Capital Reserves

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

	Capital Reserves	**Capital Receipts**	**Capital Grant**	**Total**
	£m	£m	£m	£m
Balance 31/3/18	17.7	1.6	0.0	19.3
Additions/utilisation in year	(0.4)	0.1	0.0	(0.3)
Balance 31/3/19	17.4	1.6	0.0	19.0
Additions/utilisation in year	(4.5)	0.0	0.0	(4.5)
Balance 31/3/20	12.9	1.6	0.0	14.6
Additions/utilisation in year	(8.5)	0.0	0.0	(8.5)
Balance 31/3/21	4.5	1.6	0.0	6.1
Additions/utilisation in year	(3.6)	(0.1)	0.0	(3.7)
Balance 31/3/22	0.9	1.6	0.0	2.4
Additions/utilisation in year	0.0	(0.1)	0.0	(0.1)

Balance 31/3/23	0.9	1.4	0.0	2.3
Additions/utilisation in year	0.6	0.0	0.0	0.6
Balance 31/3/24	1.5	1.4	0.0	2.9

As can be seen the capital programme over the next five financial years will leave a balance of £2.9m in capital reserves.

Financial Implications

As outlined in the report.

Business Risk Implications

The outturn report sets out how the Authority has performed financially in the year, and as such is a key means of stakeholders monitoring the Authority and assessing how it is performing.

Environmental Impact

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

Equality and Diversity Implications

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

Human Resource Implications

None

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

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

APPENDIX 1

CAPITAL BUDGET 2018/19

CAPITAL BUDGET 2018/19	Final Programme	Actual Exp	Slippage	Est final Cost	Over/ (Under) Spend
Vehicles					
Pumping Appliance	0.350	0.408	-	0.408	0.058
Other Vehicles	1.440	0.799	(0.650)	1.449	0.009
	1.790	1.207	(0.650)	1.856	0.066
Operational Equipment					
Operational Equipment	0.466	0.431	(0.032)	0.463	(0.003)
	0.466	0.431	(0.032)	0.463	(0.003)
Buildings Modifications					
STC Redevelopment	0.400	0.136	(0.270)	0.406	0.006
Lancaster Replacement	0.621	0.635	-	0.635	0.014
Preston Replacement	0.100	-	(0.100)	0.100	-
	1.121	0.771	(0.370)	1.141	0.020
ICT					
IT Systems	0.780	0.002	(0.778)	0.780	-
	0.780	0.002	(0.778)	0.780	-
Total Capital Requirement	**4.157**	**2.410**	**(1.830)**	**4.240**	**0.083**
Funding					
Capital Grant	-	-	-	-	-
Revenue Contributions	2.030	2.030	-	2.030	-
Earmarked Reserves	0.025	0.028	-	0.028	0.003
Capital Reserves	2.102	0.352	(1.830)	2.182	0.080
Total Capital Funding	**4.157**	**2.410**	**(1.830)**	**4.240**	**0.083**

APPENDIX 2

CAPITAL BUDGET 2019/20

CAPITAL BUDGET 2019/20	Original Programme	Slippage	May Resources	Revised Programme
Vehicles				
Pumping Appliance	1.706	-	(0.500)	1.206
Other Vehicles	0.966	0.650	(0.180)	1.436
	2.672	0.650	(0.680)	2.642
Operational Equipment				
Operational Equipment	0.150	0.032	-	0.182
	0.150	0.032	-	0.182
Buildings Modifications				
STC Redevelopment	4.250	0.270	(3.000)	1.520
NWAS Co-location - Morecamb	0.120	-	-	0.120
Area training hub - Morecambe	0.400	-	-	0.400
Enhanced station facilities	0.275	-	-	0.275
Preston Replacement	1.100	0.100	(1.000)	0.200
	6.145	0.370	(4.000)	2.515
ICT				
IT Systems	2.470	0.778	(1.130)	2.118
	2.470	0.778	(1.130)	2.118
Total Capital Requirement	**11.437**	**1.830**	**(5.810)**	**7.457**
Funding				
Capital Grant	1.000	-	-	1.000
Revenue Contributions	2.000	-	-	2.000
Earmarked Reserves	-	-	-	-
Capital Reserves	8.437	1.830	(5.810)	4.457
Total Capital Funding	**11.437**	**1.830**	**(5.810)**	**7.457**

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LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

YEAR END REVENUE OUTTURN 2018/19
(Appendix 1 refers)

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

Executive Summary

This report presents the revenue outturn position, and the impact of this on usable reserves.

The overall outturn position shows an underspend of £435k, which is lower than the £508k underspend previously forecast (the impact of this on reserves is set out in the Year End Usable Reserves and Provisions Outturn report, reported elsewhere on the agenda).

Recommendation

The Committee is asked to note and endorse the outturn position on the 2018/19 revenue budget.

The Revenue Outturn Position

The annual budget for the year was set at £54.770m. The final outturn position shows net expenditure of £54.335m, giving a total underspend for the financial year of £435k. As set out in the Year End Usable Reserves and Provisions Outturn report (reported elsewhere on the agenda) it is proposed to transfer £333k to the general reserve and £102k to earmarked reserves, predominantly to the Prince's Trust Reserve.

The final position within individual departments is broadly consistent with that reported throughout the year, and specifically the forecast presented to the March Resources Committee. As previously reported, the majority of the underspend during 2018/19 related to additional funding received during the last quarter of the financial year. The detailed final revenue position is set out in Appendix 1, with major variances being summarised below (note as reported throughout the year the variances shown relate to non-pay spend, with the variance on the pay budget being shown separately): -

Area	Overspend/ (Underspend)	Reason
	£'000	
Service Delivery	140	The position is broadly consistent with previous forecasts, although there had been a slowdown in spending over the last quarter of the year, hence a lower overspend than forecast.
Winter Hill	110	We have now received confirmation that the Bellwin claim for Emergency Financial Assistance has had ministerial approval, and we will receive the funds in due course. As anticipated, this leaves our net cost for Winter Hill as forecast of £110k.
The Princes Trust	(109)	As previously reported, Princes Trust received several sources of unbudgeted income during the financial year. It is proposed to transfer the £109k into the Princes Trust Earmarked reserve in order to: • set aside funds to replace one of the team minibuses; • purchase some presentation equipment for the end of team presentation evenings; and • increase the buffer for loss of college funding, specifically in relation to the merger of the Accrington & Rossendale College with Nelson & Colne College for the 19/20 academic year, which could potentially result in reduced income for Princes Trust. The funding situation will be monitored during 19/20 financial year and will be reviewed in twelve months' time.
Non DFM	(420)	As previously reported, the underspend largely relates to the additional income from Central Government, in addition to increased bank interest receivable during the year.
Wholetime Pay	(431)	The year-end position is consistent with the previous forecast and the reasons for the underspend also remain consistent:- • 17/18 pay award was 1% rather than assumed 2% • Forecast retirements were lower than expected during the early part of the year, but during the latter part of the year caught up again • whole time recruits are lower than budgeted • pension costs are lower than forecast due to the mix of staff in each FF Pension Scheme changes throughout the year as personnel transfer, or as personnel withdraw from the scheme

		As previously stated the position reflects the budget of £256k for 12 apprentice fire fighters, which have not been possible to recruit to due to delays in the national apprenticeship scheme, hence was not spent.
Retained (RDS) Pay	251	The year-end position is consistent with the previous forecast and the reasons for the overspend also remain consistent:- • Activity levels are higher than in the previous year (excluding Winter Hill) reflecting increased hours of cover as well as increased incidents • An 18% average vacancy throughout the year, versus a 20% budgeted vacancy assumption, ie increased hours of cover • 17/18 pay award was 1% rather than assumed 2%
Associate Trainers	140	The annual training plan is used to match planned training activity to staff available at the training centre. However it is inevitable that this will not always be possible, specifically at times when there are a large number of courses running concurrently, i.e. where Whole-time recruit's course is run. Associated trainers are used at these times to provide greater flexibility to match resource to demand. Thus avoiding the need to create a permanent establishment to meet peak demands, which would clearly be an inefficient use of resources. In addition, it was agreed that associate trainers could be used to facilitate the 'have a go' days as part of the wholetime recruitment process at a cost of £10k.
Support staff (including agency staff)	(228)	The underspend relates to vacant posts across various departments, which are in excess of the vacancy factor built into the budget. The majority of these vacancies have now been filled, although ICT and Knowledge Management remain problem areas. Note agency staff costs to date of £111k are replacing vacant support staff roles, this accounts for less than 2% of total support staff costs.
Apprentice Levy	(18)	The apprentice levy is payable at 0.5% of each months payroll costs, the budget for this was set at anticipated establishment levels, hence the underspend against this budget reflects the various pay budget underspends reported above.

Delivery against savings targets

The following table sets out the target level of efficiencies required in 2018/19 and performance against this target: -

	Annual Target	Savings delivered
	£m	£m
Staffing, including post reductions plus management of vacancies	0.059	0.344
Reduction in service delivery non pay budgets including the smoke detector budgets	0.090	0.036
Reduction in Fleet operational equipment budget	0.150	0.121
Reduction in capital financing charges	0.161	0.161
Procurement savings (these are savings on contract renewals, such as waste collection and stationery contracts)	-	0.173
Balance – cash limiting previously underspent non pay budgets	0.353	0.406
Total	0.812	1.241

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

Financial Implications

As outlined in the report

Business Risk Implications

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

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

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

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		

Appendix 1

BUDGET MONITORING STATEMENT MAR 2019	Total Budget	Actual Spend to Mar 2019	Variance O/Spend (U/Spend)	Variance Pay	Variance Non-Pay
	£000	£000	£000	£000	£000
Service Delivery					
Service Delivery	30,535	31,082	547	407	140
Winter Hill	-	110	110	-	110
Training & Operational Review	4,029	4,059	30	(42)	72
Control	1,183	1,175	(8)	-	(8)
Prince's Trust Volunteers Scheme	-	(109)	(109)	-	(109)
Strategy & Planning					
Fleet & Technical Services	2,205	2,217	12	17	(6)
Information Technology	2,523	2,400	(123)	(108)	(15)
Service Development	3,952	3,758	(194)	(225)	31
Special Projects	(18)	(33)	(15)	-	(15)
People & Development					
Human Resources	697	659	(37)	5	(42)
Occupational Health Unit	257	203	(54)	1	(55)
Corporate Communications	299	306	7	9	(1)
Safety Health & Environment	219	228	8	5	4
Corporate Services					
Executive Board	1,017	1,031	15	20	(5)
Central Admin Office	799	758	(41)	(40)	(1)
Finance	143	139	(3)	(6)	2
Procurement	796	793	(3)	(11)	9
Property	1,304	1,405	101	3	97
External Funding	-	(0)	(0)	(0)	(0)
Pay					
TOTAL DFM EXPENDITURE	**49,941**	**50,182**	**240**	**35**	**205**
Non DFM Expenditure					
Pensions Expenditure	1,178	1,242	64	-	64
Other Non-DFM Expenditure	3,651	2,911	(740)	(320)	(420)
NON-DFM EXPENDITURE	**4,829**	**4,153**	**(676)**	**(320)**	**(356)**
TOTAL BUDGET	**54,770**	**54,335**	**(435)**	**(285)**	**(150)**

LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

YEAR END USABLE RESERVES AND PROVISIONS OUTTURN 2018/19
(Appendix 1 refers)

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

Executive Summary

This report presents the year end outturn position in respect of usable reserves and provisions. It is based on the information reported in the Revenue Outturn, Capital Outturn and Treasury Management Outturn reports.

Recommendation

The Committee is asked to:-

- note the additional £62k of earmarked reserves and the additional £198k of provisions, contributing to the overall revenue outturn position;
- agree the year end transfers associated with the revenue outturn, £333k to the general reserve and £102k to earmarked reserves;
- agree the year end transfer associated with the capital outturn, £352k drawdown from capital reserves and £28k drawdown from earmarked reserves;
- note £69k of capital receipts;
- note and endorse the overall level of reserves and provisions as set out in the report.

Information

The Authority approves its reserves and balances policy as part of its budget setting process, in February, with the year-end outturn position being reported to Resources committee and included in the statement of accounts.

The previously reported Revenue Outturn, Capital Outturn and Treasury Management Outturn all feed the Authorities overall reserves position, which is summarised over the page:-

	General Reserve	Earmarked Reserves	Capital Reserves	NWFC Reserves	Total Usable Reserves	Provisions	Total
	£m	£m	£m	£m	£m	£m	£m
Balances at 31/3/18	7.828	7.884	19.326	0.192	35.230	1.084	36.314
Revenue Adjustments							
• Utilised/Provided for In-Year	-	0.062	-	-	0.062	0.198	0.260
• Revenue Outturn	0.333	0.102	-	-	0.435	-	0.435
• Specific transfers to/(from) Earmarked Reserves	-	-	-	-	-	-	-
	0.333	0.164	-	-	0.497	0.198	0.695
Capital Adjustments							
• Capital Outturn	-	(0.028)	(0.352)	-	(0.380)	-	(0.380)
• Capital Receipts	-	-	0.069	-	0.069	-	0.069
• Unused Revenue Contributions	-	-	-	-	-	-	-
	-	(0.028)	(0.283)	-	(0.311)	-	(0.311)
Balances at 31/3/19	8.161	8.020	19.043	0.192	35.415	1.282	36.698

General Reserve

These are non-specific reserves which are kept to meet short/medium term unforeseeable expenditure and to enable significant changes in resources or expenditure to be properly managed in the medium term.

The Authority needs to hold an adequate level of general reserves in order to provide:-

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events;
- A means of smoothing out large fluctuations in spending requirements and/or funding available.

As a precepting Authority any surpluses or deficits are transferred into/out of reserves in order to meet future potential commitments, and as such the balance of the surplus on the revenue budget, £333k, has been transferred into this reserve.

After allowing for transfers the Authority now holds a General fund balance of £8.2m. This is within the target range agreed by the Authority at its February meeting, £3.2m to £10.0m.

Earmarked Reserves

The reserve covers all funds, which have been identified for a specific purpose. The overall reserves level increased slightly from £7.9m to £8.0m, with the detailed position in respect of the various earmarked reserves set out below:-

	Balance at 31 March 2018	Transfer 2018/19	Balance at 31 March 2019	
	£m	£m	£m	
Devolved Financial Management	0.297	(0.027)	0.270	This reserve enables budget holders to carry forward any surplus or deficit from one financial year to the next, giving greater flexibility in managing budgets thereby optimising the use of available financial resources and facilitating better value for money. The levels of individual DFM reserves are reviewed each year as part of the revenue outturn/annual accounts process, to ensure that they are reasonable and that budget holders are not building up excessive reserves, with a maximum limit of £25k per budget. (Appendix 1 provides a breakdown of this reserve by individual department)
PFI Equalisation Reserve	4.327	0.086	4.413	This is used to smooth out the annual net cost to the Authority of both PFI schemes, and will be required to meet future contract payments. The level of reserve required to meet future contract payments has been updated to reflect current and forecast inflation levels.
PWLB Loan repayment penalty	0.877	-	0.877	This reserve was created to meet the potential penalty costs associated with repayment of the remaining PWLB loans. The Authority still has £2.0m of long term loans, incurring £0.1m of interest charges per annum. We continue to review opportunities to repay these, hence saving any interest payments, however based on the current penalty associated with this, £0.9m, it is not considered prudent to do so at the present time.

Insurance Aggregate Stop Loss (ASL)	1.070	0.048	1.118	The Authority has aggregate stop losses (ASLs) on both its combined liability insurance policy (£0.4m) and its motor policy (£0.3m). This means that in any one year the Authority's maximum liability for insurance claims is capped at the ASL. As such the Authority can either meet these costs direct from its revenue budget or can set up an earmarked reserve to meet these. Within Lancashire we have chosen to meet the potential costs through a combination of the two. Hence the amount included in the revenue budget reflects charges in a typical year, with the reserve being set up to cover any excess over and above this. As such the reserve, combined with amounts within the revenue budget, provides sufficient cover to meet 2 years' worth of the maximum possible claims, i.e. the ASL. It is worth noting that the revenue budget allocation has also been reduced in recent years reflecting the claims history. Without holding this reserve to cushion any major claims that may arise this would not have been possible.
Fleet & Equipment	0.350	(0.018)	0.232	This reserve provides scope to meet new equipment requirements identified in-year, such as • replacement fuel tanks • battery powered hand tools
Prince's Trust	0.189	0.109	0.298	This reserve has been established to balance short term funding timing differences and also to mitigate the risk of loss of funding and enable short term continuation of team activities, whilst alternative funding is found. Without this reserve any significant loss of funding would have an immediate impact on our ability to deliver the PT programme, and hence improve the lives of younger people.

Apprentices/ Graduates	0.152	-	0.152	This reserve was created from the in-year underspend relating to the appointment of apprentices, which was delayed awaiting national developments. As such the reserve has been set up to offset some of the pay costs that will be incurred in future years, with the balance being met direct from the revenue budget. The flexibility this creates contributes to addressing apprenticeship targets, set by the Government, as well as addressing capacity issues within departments.
ESMCP Ringfenced Funding	0.094	0.066	0.160	As part of the Emergency Services Mobile Communication Programme (ESMCP), transitional funding was made available to fund costs associated with the transition to the new national arrangements, with any funds not spent being carried forwards for use in future years.
Training Centre (including bequest)	0.028	(0.028)	-	This reserve has been utilised to fund site improvement works in 2017/18, with the balance being utilised in 2018/19.
Innovation Fund	0.500	-	0.500	This reserve was established to cover any unfunded developments that are identified which will improve service delivery or fire fighter safety, with any requests to utilise the fund requiring the approval of the Executive Board.
	7.884	0.134	8.020	

Capital Reserves and Receipts

Capital Reserves have been created from under spends on the revenue budget in order to provide additional funding to support the capital programme in future years; as such they cannot be used to offset any deficit on the revenue budget, without having a significant impact on the level of capital programme that the Authority can support.

Capital Grant had been previously received in relation to Lancaster Fire Station rebuild, this has been fully utilised within the year.

Capital Receipts are generated from the sale of surplus assets, which have not yet been utilised to fund the capital programme.

In 2018/19 we utilised £352k of capital reserves. However this was partly offset by the sale of assets, which generated £69k of capital receipts.

As a result of this the Authority currently holds £19.0m of capital reserves/receipts.

	Capital Reserves	Capital Receipts	Total
Balance at 31 March 2018	17.745	1.581	19.326
Capital receipts	-	0.069	0.069
Capital expenditure	(0.352)	-	(0.352)
Balance at 31 March 2019	17.393	1.650	19.043

However the 19/20 capital programme, after allowing for slippage, shows £16.1m of this being utilised over the latest 5 year capital programme, leaving a balance of approx. £2.9m at the end of 2023/24.

North West Fire Control Reserves

Members will recall that last year's accounts were amended to reflect the Authority's 25% share of North West Fire Control Ltd. As such we will update the 2018/19 accounts in due course for this, however as these are not available at the time of writing the report we have assumed that the year end position has not changed from 2017/18 to 2018/19 (this will be updated for the final version of the accounts). It must be emphasised that these reserves are not available for our use, as they form an essential part of NW Fire Controls financial planning.

Provisions

The Authority has three provisions to meet future estimated liabilities:-

- Insurance Provision, which covers potential liabilities associated with outstanding insurance claims. A review of current claims outstanding and our claims history has been undertaken and as such the provision has increased to £502k at 31 March 2019.
- RDS Provision, which covers potential costs associated with RDS personnel relating to employment terms and eligibility to join the Pensions Scheme.
- Business Rates Collection Fund Appeals Provision, which covers the Authority's share of outstanding appeals against business rates collection funds, which is calculated each year end by each billing authority within Lancashire based on their assumptions of outstanding appeal success rates, as part of their year-end accounting for the business rates collection fund. The change in this reflecting the latest estimates provided by billing Authorities.

	Insurance Provision	RDS Provision	Business Rates Collection Fund Appeals Provision	Total
Balance at 31 March 2018	0.434	0.022	0.628	1.084
Additional provision/(Utilised in year)	0.068	-	0.130	0.198
Balance at 31 March 2019	0.502	0.022	0.758	1.282

Summary

The overall position at year end shows the Authority (excluding North West Fire Control balances) holding £36.5m of reserves and provisions, compared with the anticipated position of £36.1m identified in the Reserves and Balances Policy, agreed in February. The majority of the difference relating to the additional grant funding received in respect of Business Rates at the end of the year. At this level the Treasurer believes these are adequate to meet future requirements in the medium term.

Future forecasts (excluding North West Fire Control balances) have been updated and are set out below:-

	General Reserve	Earmarked Reserves	Capital Reserves	Total Usable Reserves	Provisions	Total
	£m	£m	£m	£m	£m	£m
Balance 31/3/18	7.8	7.9	19.3	35.0	1.1	36.1
Change in year	0.3	0.1	(0.3)	0.2	0.2	0.4
Balance 31/3/19	8.2	8.0	19.0	35.2	1.3	36.5
Change in year	(0.3)	(0.4)	(4.5)	(5.2)	0.0	(5.2)
Balance 31/3/20	7.9	7.6	14.6	30.0	1.3	31.3
Change in year	(0.9)	(0.4)	(8.5)	(9.7)	0.0	(9.7)
Balance 31/3/21	7.0	7.2	6.1	20.3	1.3	21.6
Change in year	(1.2)	(0.3)	(3.7)	(5.1)	0.0	(5.1)
Balance 31/3/22	5.9	6.9	2.4	15.2	1.3	16.5
Change in year	(1.5)	(0.2)	(0.1)	(1.8)	0.0	(1.8)
Balance 31/3/23	4.4	6.7	2.3	13.4	1.3	14.7
Change in year	(1.7)	(0.2)	0.6	(1.3)	0.0	(1.3)
Balance 31/3/24	2.7	6.5	2.9	12.0	1.3	13.3

Financial Implications

As outlined in the report

Business Risk Implications

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

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

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

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		

Appendix 1

Devolved Financial Management Earmarked Reserve

	Balance at 31 March 2018	Transfer 2018/19	Balance at 31 March 2019
	£000	£000	£000
Service Delivery			
Service Delivery	(100)	-	(100)
Winter Hill	-	-	-
Training & Operational Review	-	-	-
Control	-	-	-
Prince's Trust Volunteers Scheme	(25)	-	(25)
Strategy & Planning			
Fleet & Technical Services	(25)	12	(13)
Information Technology	(25)	-	(25)
Service Development	(24)	(1)	(25)
Special Projects	-	(15)	(15)
People & Development			
Human Resources	(10)	-	(10)
Occupational Health Unit	(10)	-	(10)
Corporate Communications	(25)	25	-
Safety Health & Environment	(5)	5	-
Corporate Services			
Executive Board	(2)	2	-
Central Admin Office	(5)	-	(5)
Finance	(5)	-	(5)
Procurement	(25)	-	(25)
Property	-	-	-
External Funding	(12)	-	(12)
Pay			
TOTAL	**(297)**	**27**	**(270)**

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LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

CORE FINANCIAL STATEMENT 2018/19
(Appendices 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 take 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 and 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	(28,521)	(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	**13,584**	**14,421**	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	**28,893**	**(1,476)**	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	4.719
Deficit on the provision of services	**13.584**
Surplus on revaluation of non-current assets	(4,539)
Actuarial loss on pensions assets and liabilities	19,849
Total Comprehensive Income and Expenditure	**28,893**

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	(13,584)	-	(13,584)	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	1,046	(1,046)	-	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	(29,507)	(28,893)	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	(29,079)	(28,893)	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	**35,415**	**(749,949)**	**(714,533)**	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	
Long Term Assets			
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.
Current Assets			
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	9,654	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.

Current Liabilities			
Other Short-Term Liabilities	(384)	(329)	This relates to short term liabilities in respect of the Authority’s 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	(7,607)	(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.
Long Term Liabilities			
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 Authority’s 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	(848,417)	(814,251)	This majority of this relates to adjustments required under IAS 19, and shows the extent to which the Authority’s 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; • PFF Lancashire Ltd for the provision of two fire stations, • 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. In addition, this also includes liabilities relating to an outstanding finance lease.
Total Assets Less Liabilities	**(714,533)**	**(685,640)**	

Financed By			
Usable Reserves:			
Revenue Reserves	(16,252)	(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.
Unusable Reserves:			
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	342	(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.
	714,533	**685,640**	

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	**(13,903)**	**(578)**	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 in2019/20.

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.

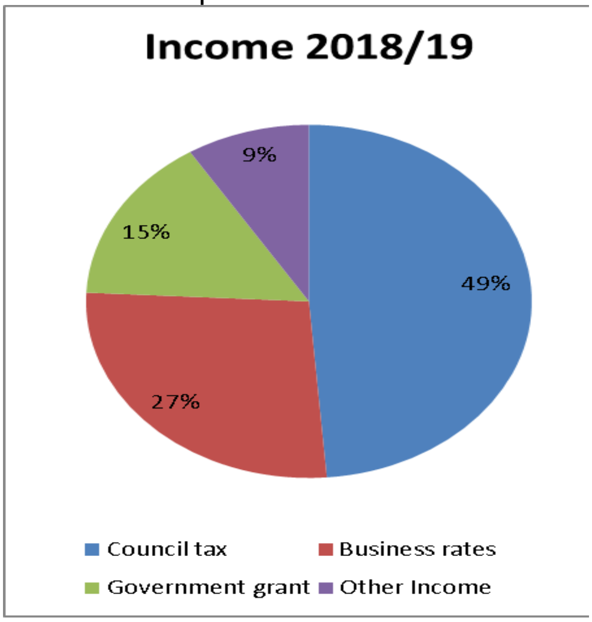
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

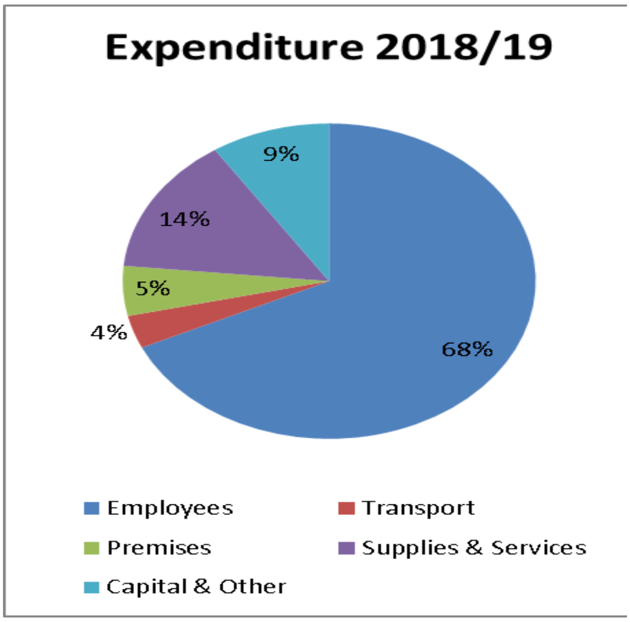
- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account 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
Total Expenditure	59,935	60,256	321
Other Income	(5,165)	(5,431)	(266)
Budget requirement	54,771	54,825	55
Funded by:			
Council tax	(29,567)	(29,567)	-
Business rates	(15,941)	(16,432)	(490)
Government grant	(9,263)	(9,263)	0
	(54,771)	(55,261)	(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	11.228
Revenue Contributions to Capital Outlay	(2.030)
Adjustments between accounting basis and funding basis under regulations	4.719
Deficit on the provision of services	**13.584**
Surplus on revaluation of non-current assets	(4.539)
Actuarial loss on pensions assets and liabilities	19.849
Total Comprehensive Income and Expenditure	**28.894**

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 Authority's 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 • Pumping Appliances – first stage payment for 7 Pumping Appliances from the 2018/19 capital programme • Operational Support Vehicles – purchase of Aerial Ladder Platform plus various support vehicles, such as vans and cars	 £0.4m £0.8m
Operational Equipment • Purchase of Technical Rescue Jackets and purchase of equipment for reserve appliances	 £0.4m
Buildings • Training Centre site replacement welfare/ICT porta-cabin • Stage payments relating to the new joint Fire/Ambulance Station project in Lancaster, which is now complete.	 £0.1m £0.7m
Total	£2.4m

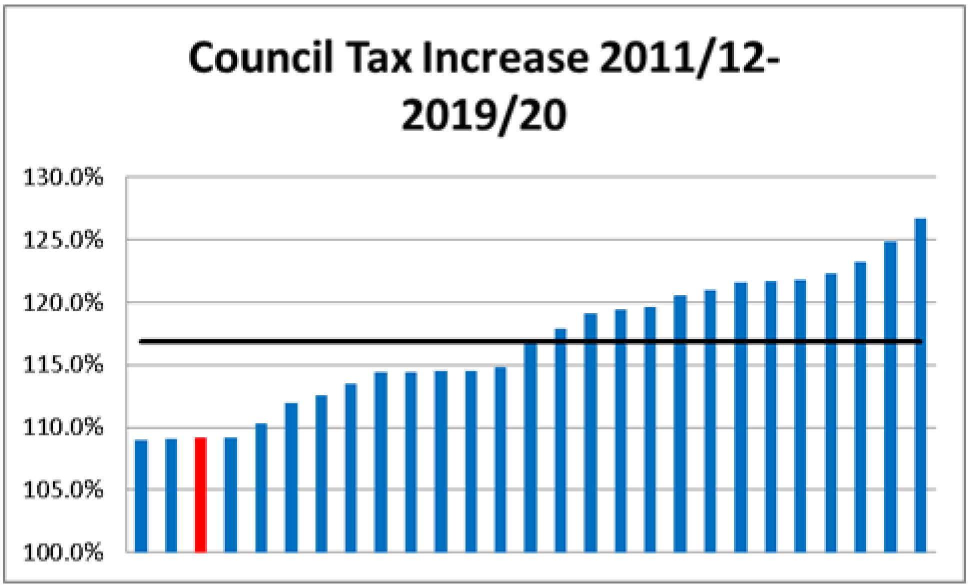
The Balance Sheet shows that the Authority's Total Net Liabilities have increased to £715m. This reflects the Authority's compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government 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 Authority's 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.

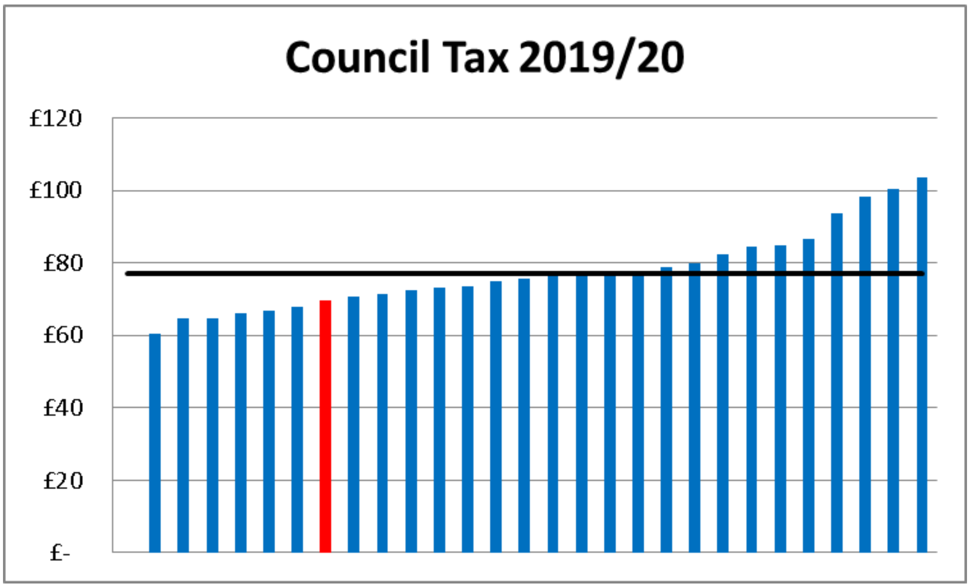
Future Financial Plans

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 spate conditions or major equipment replacement requirements;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements

Appendix 2

Comprehensive Income & Expenditure Account

Comprehensive Income & Expenditure Account	2018/19			2017/18		
	Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure £000	Income £000	Net Expenditure £000
Continuing operations						
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
Net cost of services	**51,922**	**(5,431)**	**46,491**	**50,766**	**(4,640)**	**46,126**
Other operating expenditure						
(Gain)/Loss on disposal of fixed assets			(68)			(13)
Financing & investment income & expenditure						
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)
Taxation and non-specific grant income						
Tax on NWFC			-			1
Council tax			(28,521)			(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)
Deficit on provision of services			**13,584**			**14,421**
(Surplus)/Deficit on revaluation of fixed assets			(4,539)			(5,167)
Actuarial (gains)/losses on pension fund assets			19,849			(10,730)
Other comprehensive income & expenditure			**15,310**			**(15,896)**
Total Comprehensive Income and Expenditure			**28,893**			**(1,476)**

Appendix 3

Movement in Reserves Statement

	Usable Reserves							Unusable 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**	**Total 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	(13,584)		(13,584)				**(13,584)**						**-**	**(13,584)**
Other comprehensive income & expenditure			-				**-**	4,539				(19,849)	**(15,310)**	**(15,310)**
Total comprehensive income & expenditure	(13,584)	-	(13,584)	-	-	-	**(13,584)**	4,539	-	-	-	(19,849)	**(15,310)**	**(28,893)**
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	1,046		1,046				**1,046**				(1,046)		**(1,046)**	**-**
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**	**-**
	14,130	-	14,130	-	-	68	**14,198**	(1,476)	(448)	-	(1,046)	(11,228)	**(14,198)**	**(0)**
Net increase/decrease before transfers to earmarked reserves	**546**	**-**	**546**	**-**	**-**	**68**	**614**	**3,064**	**(448)**	**-**	**(1,046)**	**(31,077)**	**(29,507)**	**(28,893)**
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**	**-**
Increase/Decrease in the year	**333**	**136**	**469**	**(352)**	**-**	**68**	**185**	**3,064**	**(68)**	**49**	**(1,046)**	**(31,077)**	**(29,079)**	**(28,893)**
Bal at 31.3.19	**8,233**	**8,019**	**16,252**	**17,394**	**121**	**1,649**	**35,415**	**43,926**	**38,574**	**(764)**	**(342)**	**(831,341)**	**(749,949)**	**(714,533)**

Appendix 4

Balance Sheet

	2018/19	2017/18
	LFRS	LFRS
	£000	£000
Property, plant & equipment	96,678	93,794
Intangible assets	439	472
Long-term investments	5,000	5,000
Total Long Term Assets	**102,117**	**99,266**
Assets held for sale		
Inventories	238	228
Short term investments	15,000	
Short term debtors	9,654	10,760
Cash & cash equivalents	14,865	28,768
Current Assets	**39,758**	**39,757**
Short term borrowing		
Other short term liabilities	(384)	(329)
Short term creditors	(7,607)	(6,998)
Current Liabilities	**(7,991)**	**(7,327)**
Provisions	(1,282)	(1,084)
Long term borrowing	(2,000)	(2,000)
Other long term liabilities	(845,135)	(814,251)
Long Term Liabilities	**(848,417)**	**(817,336)**
TOTAL ASSETS LESS LIABILITIES	**(714,533)**	**(685,640)**
FINANCED BY:		
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)
Usable Reserves:	(35,416)	(35,231)
Revaluation Reserve	(43,926)	(40,862)
Capital Adjustment Account	(38,573)	(38,641)
Collection Fund Adjustment Account	342	(704)
Accumulated Absences Adjustment Account	764	813
Pensions Reserve	831,341	800,264
Unusable Reserves:	749,949	720,871
Total Net Worth	**714,533**	**685,640**

Cash Flow Statement

	2018/19		2017/18	
	£000		£000	
Net deficit on the provision of services		(13,584)		(14,421)
Adjustments to net deficit on the provision of services for non-cash movements		17,531		17,569
Adjustments to net deficit on the provision of services for investing/financing activities		1,277		1,455
Net cash inflows from operating activities		**5,224**		**4,604**
Investing activities				
Purchase of fixed assets & other capital spend	(2,520)		(4,879)	
Increase in long term deposits	-		-	
(Increase)/Decrease in short term deposits	(15,000)		5,000	
Receipts from investing activities	181		99	
		(17,339)		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)
Net increase or (decrease) in cash and cash equivalents		**(13,904)**		**(578)**
Cash and cash equivalents at the beginning of the reporting period		28,769		29,347
Cash and cash equivalents at the end of the reporting period		**14,865**		**28,769**

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PART 1 ITEM No 8

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	**12,745**	**14,421**	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	**28,055**	**(1,476)**	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	**12.745**
Surplus on revaluation of non-current assets	(4.539)
Actuarial loss on pensions assets and liabilities	19.849
Total Comprehensive Income and Expenditure	**28.055**

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	**35,415**	**(749,110)**	**(713,694)**	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	
Long Term Assets			
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.
Current Assets			
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.
Current Liabilities			
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.
Long Term Liabilities			
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; • PFF Lancashire Ltd for the provision of two fire stations, • 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. In addition, this also includes liabilities relating to an outstanding finance lease.
Total Assets Less Liabilities	**(713,694)**	**(685,640)**	

Financed By			
Usable Reserves:			
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.

Unusable Reserves:			
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.
	713,694	**685,640**	

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	**(13,903)**	**(578)**	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:		

Appendix 1

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 in2019/20.

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.

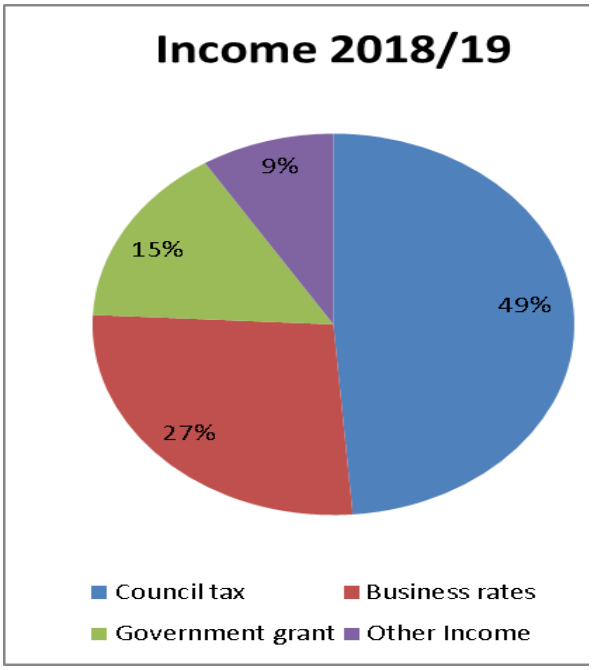
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

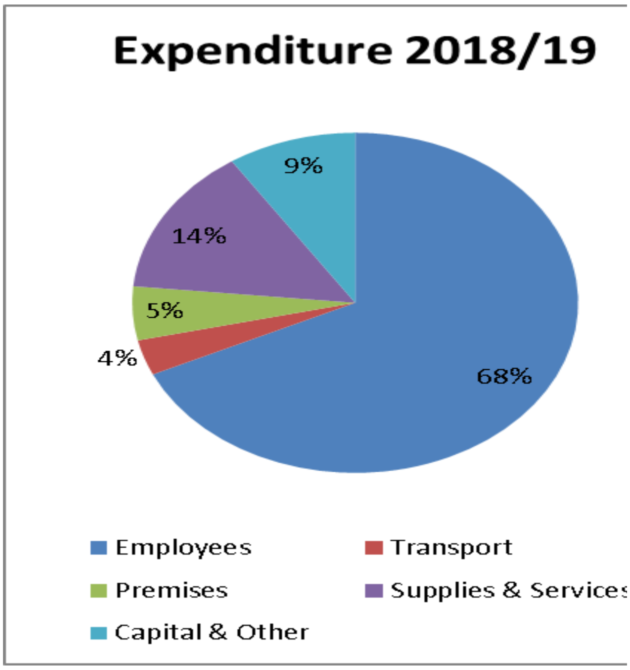
- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account 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
Total Expenditure	59,935	60,256	321
Other Income	(5,165)	(5,431)	(266)
Budget requirement	54,771	54,825	55
Funded by:			
Council tax	(29,567)	(29,567)	-
Business rates	(15,941)	(16,432)	(490)
Government grant	(9,263)	(9,263)	0
	(54,771)	(55,261)	(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	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	**12.745**
Surplus on revaluation of non-current assets	(4.539)
Actuarial loss on pensions assets and liabilities	19.849
Total Comprehensive Income and Expenditure	**28.055**

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 • Pumping Appliances – first stage payment for 7 Pumping Appliances from the 2018/19 capital programme • Operational Support Vehicles – purchase of Aerial Ladder Platform plus various support vehicles, such as vans and cars	£0.4m £0.8m
Operational Equipment • Purchase of Technical Rescue Jackets and purchase of equipment for reserve appliances	£0.4m
Buildings • Training Centre site replacement welfare/ICT porta-cabin • Stage payments relating to the new joint Fire/Ambulance Station project in Lancaster, which is now complete.	£0.1m £0.7m
Total	£2.4m

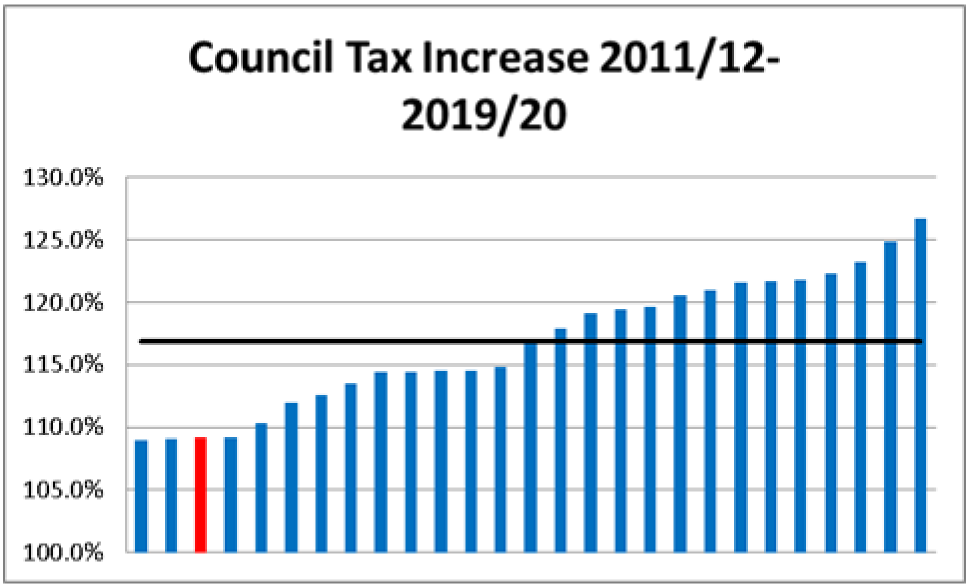
The Balance Sheet shows that the Authorities Total Net Liabilities have increased to £715m. This reflects the Authorities compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government 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.

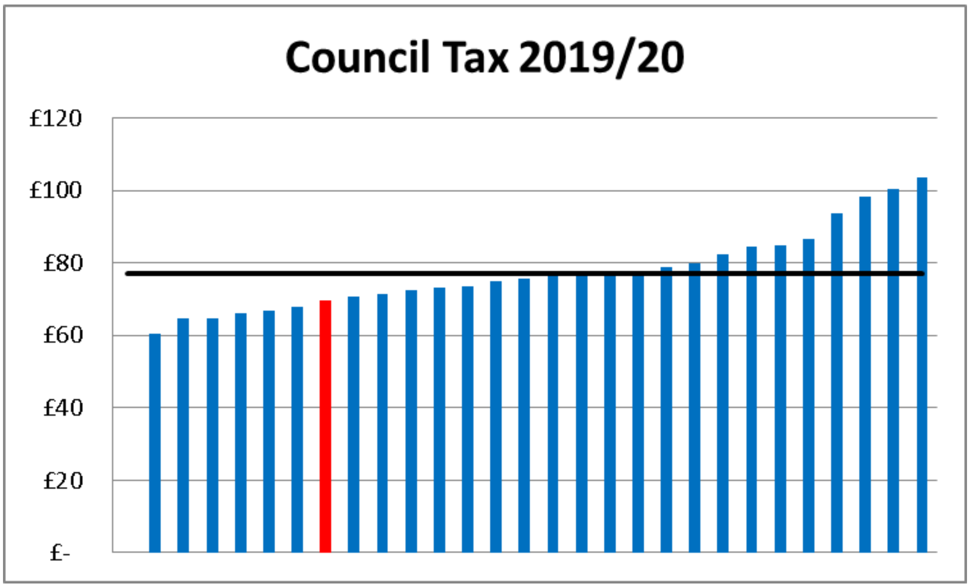
Future Financial Plans

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 spate conditions or major equipment replacement requirements;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements

Comprehensive Income & Expenditure Account

Comprehensive Income & Expenditure Account	2018/19			2017/18		
	Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure £000	Income £000	Net Expenditure £000
Continuing operations						
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
Net cost of services	**51,922**	**(5,431)**	**46,491**	**50,766**	**(4,640)**	**46,126**
Other operating expenditure						
(Gain)/Loss on disposal of fixed assets			(68)			(13)
Financing & investment income & expenditure						
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)
Taxation and non-specific grant income						
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)
Deficit on provision of services			**12,745**			**14,421**
(Surplus)/Deficit on revaluation of fixed assets			(4,539)			(5,167)
Actuarial (gains)/losses on pension fund assets			19,849			(10,730)
Other comprehensive income & expenditure			**15,310**			**(15,896)**
Total Comprehensive Income and Expenditure			**28,055**			**(1,476)**

Movement in Reserves Statement

	Usable Reserves							Unusable 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**	**Total 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)**
Net increase/decrease before transfers to earmarked reserves	**546**	**-**	**546**	**-**	**-**	**68**	**614**	**3,064**	**(448)**	**-**	**(207)**	**(31,077)**	**(28,669)**	**(28,055)**
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**	**-**
Increase/Decrease in the year	**333**	**136**	**469**	**(352)**	**-**	**68**	**185**	**3,064**	**(68)**	**49**	**(207)**	**(31,077)**	**(28,240)**	**(28,055)**
Bal at 31.3.19	**8,233**	**8,019**	**16,252**	**17,394**	**121**	**1,649**	**35,415**	**43,926**	**38,574**	**(764)**	**496**	**(831,341)**	**(749,110)**	**(713,695)**

Appendix 4

Balance Sheet

SUMMARY	2018/19	2017/18
	LFRS	**LFRS**
	£000	**£000**
Property, plant & equipment	96,678	93,794
Intangible assets	439	472
Long-term investments	5,000	5,000
Total Long Term Assets	**102,117**	**99,266**
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
Current Assets	**39,778**	**39,757**
Short term borrowing		
Other short term liabilities	(384)	(329)
Short term creditors	(6,789)	(6,998)
Current Liabilities	**(7,172)**	**(7,327)**
Provisions	(1,282)	(1,084)
Long term borrowing	(2,000)	(2,000)
Other long term liabilities	(845,135)	(814,251)
Long Term Liabilities	**(848,417)**	**(817,336)**
TOTAL ASSETS LESS LIABILITIES	**(713,694)**	**(685,640)**
FINANCED BY:		
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)
Usable Reserves:	(35,416)	(35,231)
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
Unusable Reserves:	749,110	720,871
Total Net Worth	**713,694**	**685,640**

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
Net cash inflows from operating activities		**5,224**		**4,604**
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)
Net increase or (decrease) in cash and cash equivalents		**(13,937)**		**(578)**
Cash and cash equivalents at the beginning of the reporting period		28,769		29,347
Cash and cash equivalents at the end of the reporting period		**14,832**		**28,769**

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LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

2019/20 BUDGET UPDATE

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

Executive Summary

The report provides an update on 2019/20 budget in respect of increased pension costs and associated grant and revised Section 31 grant calculation in respect of business rate reliefs.

Dependent upon the outcome of discussions with MHCLG the Authority is potentially looking at a net shortfall on its revised budget of £94k, which could be met from an additional drawdown of reserves.

Recommendation

Resources Committee is requested to:-

- note the final position re increased cost associated with changes to employer pension contributions, and the additional grant associated with this;
- note the position in respect of Section 31 Grant for Business Rates Relief and endorse the action taken to date;
- note the potential overall impact on the 2019/20 revenue budget and the potential need to drawdown an additional £94k of reserves;
- approve a virement to action these changes, subject to the outcome of discussions relating to the Section 31 Grant re Business Rates Relief.

Information

Pension Costs

As reported at the last Resources Committee the Home Office released the results of the valuation in March, providing details of the increase in employer contributions for each scheme as set out below:-

	92 Scheme	2006 Scheme	2015 Scheme
Previous Employer Contribution Rate	21.7%	11.9%	14.3%
New Employer Contribution Rate	37.3%	27.4%	28.8%
Increase	15.6%	15.5%	14.5%

These increases were significantly higher than the 12.6% increase that had been quoted. As a result of this all Fire Authorities suffered a significantly higher budgetary impact than initially calculated.

As such we have made representations to the Home Office stating that their additional national funding of £97m was not sufficient, as it was based on an incorrect calculation. This has been accepted by the Home Office and the Treasury, who have provided an additional £18m of grant to cover this.

In terms of Lancashire we have now had chance to fully work through the new rates, based on the actual mix of employees in each scheme. The total cost of the new employer pension contributions is £3.5m, some £0.4m higher than budgeted. However grant now stands at £3.1m, £0.5m higher than budgeted. Hence the net effect is actually a budget reduction of £0.1m.

It is worth emphasising that, as previously highlighted, no allowance has been made in the 2019/20 budget for any increased costs associated with the DCP crewing system and in particular any changes to the pensionability of the allowance. It should be noted that the cost of moving to a 30% pensionable allowance, if it was agreed, will have increased from £150k to £300k as a result of the increased pension contributions (note costs will vary slightly due to the actual mix of staff affected by a change based on the pension scheme membership at the time of any potential implementation).

As previously stated the on-going funding of this pressure will be considered as part of the Spending Review process.

<u>Section 31 Grant in respect of Business Rates Relief</u>

As Members are aware, part of the Authority's funding comes from business rates in the form of a locally retained share and a top-up grant.

At previous Autumn statements and Budget events, the Chancellor of the Exchequer announced various changes to the business rates system, such as small business relief. The Government has undertaken to compensate local authorities for the loss of income they suffer as a result of these changes. Compensation will be provided by means of a grant payment to authorities under section 31 of the Local Government Act 2003.

This grant is calculated based on information provided by billing authorities and on the level of top-up provided by the Government. With guidance stating:-

> *For the purposes of budgeting, both billing authorities and major precepting authorities will need to remember to adjust the total in line 40 for the impact of the multiplier cap on their tariff, or top-up, payments.*
>
> *This is because each year, tariffs and top-ups are indexed by the change in the small business multiplier. Accordingly, capping the small business multiplier for 2014-15, 2015-16 and 2018-19, will mean that top-up authorities receive less top-up payments than would otherwise have been the case; and tariff authorities will pay less in tariff.*
>
> *The purpose of making S.31 payments is to ensure that authorities will be in the same financial position that they would have been if the Autumn Statement*

measures had not been made. Accordingly, in making S.31 payments, the Government will adjust the amounts at line 40, as follows:

W x (16/491)

Where;

W is the tariff or top-up payment due to/from the authority for 2019-20 (as set out in the Draft Local Government Finance Report (England) 2019-20).

We have applied this formula as follows:-

£17,656,850 (Top up)x16/49=£575,375

Hence at the time of setting the budget we built £575k of section 31 grant from the Government in respect of our top-up share.

At the end of April MHCLG wrote to Authorities setting out the annual value of Section 31 Business Rate Relief grants for the year. This quoted a figure of £302k, some £273k less than our calculation. We immediately queried this with MHCLG assuming it was an error on their part. Having chased this a number of times we have now obtained a response explaining that our method of calculation was incorrect and that the correct calculation should have deducted the element of Revenue Support Grant that was rolled into the top up funding (in our case £8.4m) before applying the relevant indexation. Giving a revised calculation as follows:-

£17,656,850 (Top up) - £8,386,086 (RSG rolled in)=£9,270,76x16/491=£302,102.

We have queried this with Lancashire County Council, Blackburn with Darwen Council and Blackpool Council, all of whom are top-up authorities in the pilot pool, all of whom have applied the same formula and all of whom, according to MHCLG, have overstated their section 31 grant. None of the authorities are aware of any guidance explaining the revised formula for pilot pools, nor are Ribble Valley, as the lead authority. We have queried where and when this additional guidance was made available and at the time of writing the report are awaiting an answer.

Until such time as we receive a response to this query we are unable to say what the next steps will be, but a worst case scenario shows the Authority suffering a funding reduction of £0.3m.

Financial Implications

The following table sets out changes to the Authority’s budget position from its approval in February to the latest forecast assuming the position re Business rates relief does not change:-

Approved Budget	£56.051m
Net pension adjustments	(£0.138m)
Revised Budget Requirement	£55.931m
Approved Funding	£56.051m
Increase in Council Tax Collection Fund Surplus	£0.059m
Reduction in Section 31 Grant in respect of Business Rates relief	(£0.273m)
Revised Funding	£55.837m
Additional Reserves Drawdown Required	£0.094m

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

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

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

LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 29 May 2019

EFFICIENCY PLAN 2019/20
(Appendix 1 refers)

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

Executive Summary

The attached efficiency plan updates that approved in 2016/17 as part of the four year funding settlement. The update is based on the approved 2019/20 budget.

Recommendation

The Committee is asked to note and endorse the Efficiency Plan.

Information

The attached efficiency plan updates that initially approved in 2016/17 as part of the four year funding settlement, and updated on an annual basis thereafter. The update is based on the approved 2019/20 budget.

Included within the update are revised savings figures, showing total savings of over £20m being delivered since April 2011. With further savings of £1.2m already identified.

As set out in the budget report we are still faced with funding shortfalls in future years. We will continue to identify savings opportunities, and explore collaborative opportunities to deliver savings in order to contribute to this position, however the on-going use of reserves will remain a key component of our Medium Term Financial Strategy.

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.

Financial Implications

As outlined in the report

Business Risk Implications

The Authority is required to publish its efficiency plan, to demonstrate how it is meeting the challenges presented by the current for year funding settlement.

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
Revenue Budget 2019/20	February 2019	Keith Mattinson
Reason for inclusion in Part II, if appropriate:		

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Efficiency Plan 2019/20 (Including Outturn for 18/19)

This efficiency plan is based on the Authority's 2019/20-2023/24 revenue budget/medium term financial strategy, as contained in its budget booklet (available here)

Revenue Budget Strategy

In considering its council tax requirements 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

Government Funding

The Government has continued with the multi-year settlement offer made in 2015/16. As such funding fell by £0.5m to £23.8m in 2019/20 (£5.6m over the four year period of the funding settlement).

		Reduction	
2015/16	£29.4m		
2016/17	£27.6m	£1.8m	6.1%
2017/18	£25.3m	£2.3m	8.3%
2018/19	£24.3m	£1.0m	4.0%
2019/20	£23.8m	£0.5m	2.0%
		£5.6m	

We still have no indication as to what settlement will look like after 2019/20. Funding in 2020 and beyond will be determined by the Governments overall budget and the 2019 Spending Review, however there is still no clarity as to whether this will be a 1 year Spending Review or a multi-year 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, however the recent budget included some indictors of Governments current thinking:-

- The Chancellor said that austerity was coming to an end
- The Chancellor told the Today programme that:-
    - Public spending will go up by 1.2%, but most of that will go to the health service
    - Once you take out the commitment made to health it gives a flat real spending available for all other departments

- He did not deny that some departments could face cuts but that the other option was that everybody would get a 0% increase in funding once inflation was taken into account

Furthermore the Government is currently consulting on a Fair Funding Review which will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence, with the outcomes of this anticipated to impact on the settlement in 2020/21 and beyond. Running alongside this the Government is consult on options to increase the level of business rates that are retained locally, increasing this to 75% by April 2020. The impact of these changes is unclear at the moment.

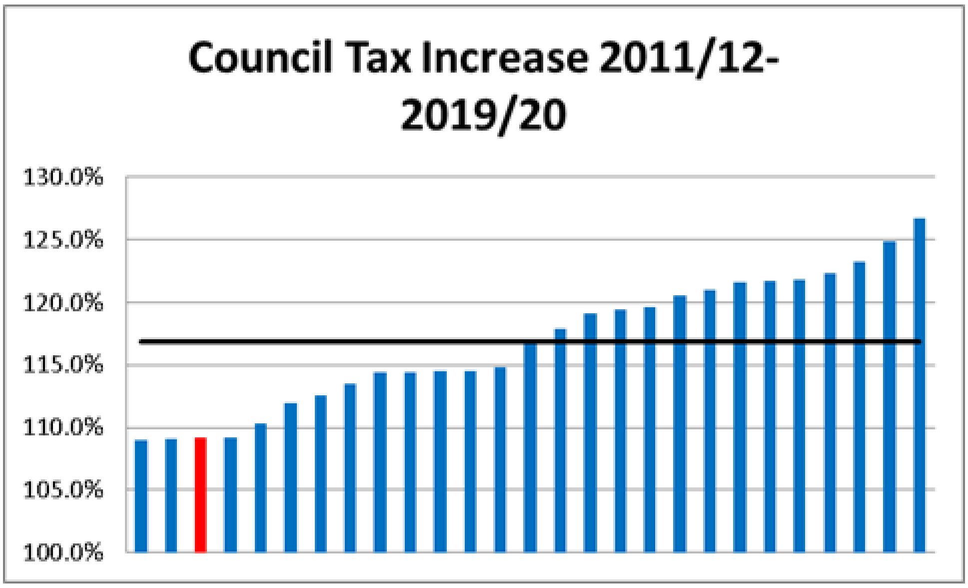
Hence we have assumed that funding is frozen in future years.

Council Tax

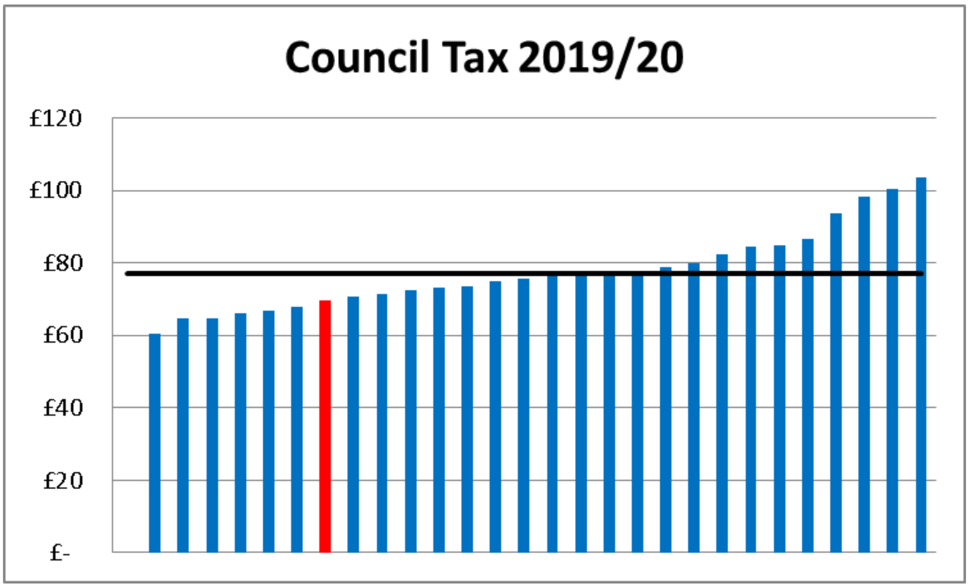
In setting the council tax, the Authority aims to balance the public's requirement for our services with the cost of providing this. As such the underlying principle of any increase in council tax is that this must be seen as reasonable within the context of service provision.

Council tax increases, and hence budget increases, have been constrained by our desire to deliver value for money services and by capping or the current referendum thresholds set by the Government.

This culminated in a council tax increase of 2.99% in 2019/20. 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



It is also worth noting that Fire accounts for less than 5% of the overall council tax charged in Lancashire.

Cashable Savings

The Authority has a good track record of delivering efficiency savings, achieving £14.1m of savings between April 2011 and March 2016.

The first three years of the four year settlement have seen the Authority deliver a further £4.8m of savings, with a further £1.2m identified as part of the 19/20 budget setting process.

	2011-2016	2016-2020	Total
Outcome of Emergency Cover Reviews	£0.9m	£1.0m	£1.9m
Introduction of Day Crewing Plus Duty System	£4.2m	£0.4m	£4.6m
Alternative Crewing Arrangements for Specials	£0.7m	-	£0.7m
Reduction in number of recruits	-	£0.8m	£0.8m
Move to NW Fire Control	£0.9m	-	£0.9m
Prevention & Protection Review	£0.5m	£0.7m	£1.2m
Reduction in Senior management posts	£0.2m	-	£0.2m
Reduction in Flexi Duty Officers	£0.6m	-	£0.6m
Support Functions	£1.5m	£0.4m	£1.9m
Reduction in number and cost of ill health retirements	£0.2m	-	£0.2m
Reduction in LGPS costs	-	£0.3m	£0.3m
Reduction in capital financing costs	£0.7m	£0.5m	£1.2m
Non pay savings(inc procurement)	£3.7m	£1.9m	£5.6m
	£14.1m	£6.0m	£20.1m

It is worth noting that the Authority has exceed its efficiency savings target each year, with the latest comparison set out below:

	2018/19 Target	2018/19 Actual
	£0.1m	£0.3m
Reduction in capital financing charges	£0.2m	£0.2m
Reduction in service delivery non pay budgets including the smoke detector budgets	£0.1m	-
Removal of the contribution to Greater Manchester FRS in respect of their Urban Search And Rescue team	-	-
Reduction in Fleet repairs and maintenance, fuel and equipment budgets	£0.1m	£0.1m
Reduction in Property repairs and maintenance and utilities budgets	-	-
Procurement savings (these are savings on contract renewals, such as waste collection and stationery contracts)	-	£0.2m
Balance – cash limiting previously underspent non pay budgets	£0.3m	£0.4m
Total	£0.8m	£1.2m

Collaboration

The Service continues to deliver savings from Collaborative opportunities. .

In 2014 the Service was involved in establishing a joint NW Fire Control Centre with Cumbria, Manchester and Cheshire, which delivered over £0.8m of savings to Lancashire.

We continue to look at opportunities to deliver services, including support service, on a more effective basis through collaboration, and this approach has seen us utilise Lancashire County Council for various support functions, GMC Fire for payroll services and we have a shared procurement arrangement with Mersey Fire.

In respect of procurement we work collaboratively with our partners delivering regional contracts in areas such as PPE, uniforms, specialist vehicles etc., as well as utilising national contracts where appropriate.

We have implemented a gaining entry scheme to support North West Ambulance Service across the county, removing some of the burden previously placed on Lancashire Constabulary to undertake this activity.

We introduced an emergency first responder scheme with North West Ambulance Service in Morecambe and Ormskirk, attending incidents and ensuring that the public get the quickest possible assistance to specific types of medical emergencies, thus improving survival rates. (This is currently suspended pending the outcome of national pay discussions)

We have continued to explore opportunities to share sites with other public bodies, and 2018/19 saw the completion of a new joint Fire & Ambulance Station in Lancaster, which is part funded by Government grant. This is the third station that we share with North West Ambulance Service, after Darwen and Preston Fire Stations. We are also reviewing options around Morecambe Fire Station. In addition we already share Preesall Fire Station with the Police, and are exploring opportunities to share our Training Centre site.

In order to ensure that we are well placed to meet future challenges arising from our new duty to collaborate, we have established a joint collaboration group with the Constabulary to explore further opportunities that collaboration presents.

Funding Gap

Despite identifying over £23m of savings since April 2011, we are still faced with a growing funding shortfall in subsequent years, the scale of which will depend upon future council tax options and other pressures:-

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
3% increase in council tax each year	(0.5)	(0.5)	(0.4)	(0.3)
2% increase in council tax each year	(0.9)	(1.2)	(1.5)	(1.7)
1% increase in council tax each year	(1.2)	(1.8)	(2.4)	(3.1)
Council tax freeze each year	(1.5)	(2.4)	(3.4)	(4.4)

It must be stressed that there are a whole host of assumptions underpinning these projections, particularly around vacancy profiles, pension costs, future inflation, pay awards and funding beyond March 2020.

Use of reserves

The Authority has adopted a position of delivering savings at the earliest opportunity, with any subsequent underspend being transferred into reserves in order to enhance its overall financial position and to ensure that sufficient reserves are held to deal with future uncertainties the most notable of which has bene funding levels.

As a result the Authority is in a strong financial position currently holding £8m of general reserves, i.e. uncommitted reserves which provides scope to utilise £5m of these to meet the future revenue and capital requirements.

As such general reserves are sufficient to balance the budget in the short term. However based on the current assumptions included in the budget, and allowing for a 2% council tax increase each year, they will fall below our minimum level during 2023/24. Furthermore the utilisation of reserves will still leave a recurring funding gap that will need to be offset by savings at a future point in time, and as highlighted earlier the scope to do so is limited. In order to offset this the Authority will continue to identify savings opportunities, and we will continue to explore collaborative opportunities to deliver cashable, and non-cashable, savings in order to contribute to this position.

Our Reserves Strategy is included in our budget booklet (available here)

Key risk and mitigation strategies

The following significant financial risks have all been assessed and are adequately covered within the budget estimates presented 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

It is inevitable that there may be other changes in funding or costs which cannot be anticipated which may impact the Authority. Dependant upon the scale of these the Authority will be required to utilise more reserves or deliver greater savings. However the Authority remains in strong position to deal with any such changes that occur.

Summary

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

In terms of community benefits we will continue to explore collaborative arrangements with partner agencies such as Lancashire County Council, Blackpool and Blackburn with Darwen Councils, as well as Lancashire Police and Northwest Ambulance Service. The greater funding certainty will enable us to commit to these partnerships for a longer period and will ensure that the public of Lancashire get the best possible service from all agencies.

We will report on performance against the efficiency plan, alongside our other performance data, such as the annual accounts (available here), annual assurance statement (available here), performance report (available here), etc., and will continue to strive to make any such reporting as transparent as possible.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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