Public Document Pack

LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE

Friday, 27 November 2020 - Virtual meeting accessible via MS Teams and YouTube (as a live webcast) commencing at 10.00 am.

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

IF ANY MEMBER OF THE PRESS AND PUBLIC WISH TO RAISE A QUESTION FOR THE CHAIRMAN PLEASE DO SO NO LATER THAN 3 WORKING DAYS IN ADVANCE OF THE MEETING BY EMAIL TO: DIANEBROOKS@LANCSFIRERESCUE.ORG.UK.

AGENDA

PART 1 (open to press and public)

Chairman’s Announcement – Open and Transparent Virtual Committee Meeting
In response to the Covid-19 Pandemic the Government has made regulations that enable virtual meetings.

This meeting will be accessible for Committee Members via Microsoft Teams and for members of the press and public via a live webcast on YouTube.

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 - 8)

4. REVISIONS TO THE STATEMENT OF ACCOUNTS 2019/20 (PAGES 9 - 168)
   Includes updated version of Appendix 2

5. EXTERNAL AUDIT - LETTER OF REPRESENTATION (PAGES 169 - 182)
   Includes updated version of Appendix 1

6. EXTERNAL AUDIT - AUDIT FINDINGS REPORT (PAGES 183 - 210)

7. INTERNAL AUDIT MONITORING REPORT (PAGES 211 - 220)

8. RISK MANAGEMENT (PAGES 221 - 242)

9. DATE OF NEXT MEETING

   The next scheduled meeting of the Committee has been agreed for 10:00 hours on 23 March 2021 – venue to be agreed.

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

Further meetings are proposed for 27 July 2021 and 30 November 2021.

10. 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.

11. 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

12. URGENT BUSINESS (PART 2)

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

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Tuesday, 28 July 2020, at 10.00 am - Virtual meeting accessible via MS Teams and YouTube (as a live webcast).

MINUTES

PRESENT:

Councillors

N Hennessy (Chairman) (part)
J Shedwick (Vice-Chair)
S Clarke
S Holgate
A Kay
M Khan OBE
D Smith (part)

Officers

K Mattinson, Director of Corporate Services (LFRS)
J Bowden, Head of Finance (LFRS)
D Brooks, Principal Member Services Officer (LFRS)
N Bashall, Member Services Officer (LFRS)

In attendance

A Smith, External Audit, Grant Thornton
A Ayre, External Audit, Grant Thornton
R Lowry, Internal Audit, Lancashire County Council

27/19 CHAIRMAN'S ANNOUNCEMENT

As the Chairman, County Councillor Hennessy initially had connection problems, County Councillor John Shedwick, Vice-Chairman took the Chair.

CC Shedwick welcomed Authority Members and members of the press and public to the virtual committee meeting of the Audit Committee. He advised that in response to the Covid-19 Pandemic the Government had made regulations that enabled virtual meetings. This meeting was accessible for Committee Members via Microsoft Teams and for members of the press and public via a live webcast on YouTube.

The Committee Members individually confirmed their attendance at the start of the meeting; both County Councillor Hennessy and Councillor Smith had initial connection issues but joined the meeting as indicated.

28/19 APOLOGIES FOR ABSENCE

None received.

29/19 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

30/19 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 28 January 2020 be confirmed as a correct record for signature by the Chairman.

31/19 INTERNAL AUDIT - ANNUAL REPORT 2019/20

The report was presented by Mrs Ruth Lowry, Head of Internal Audit, Lancashire County Council. The Internal Audit Annual Report summarised the work that the Internal Audit Service had undertaken during 2019/20 and the key themes arising from it. It provided an opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control.

On the basis of programme of work for the year, the Head of Internal Audit provided substantial assurance over the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.

The opinion was based on the individual assurance levels provided for each of the individual audit reviews undertaken in 2019/20, detailed in the report now presented to Members.

Overall a strong control environment continued to operate, overseen by a Service Management Team that was responsive to internal audit findings and committed to continuous improvement. No significant areas of weakness in governance, risk management or control had been identified from audit work and where areas for improvement had been identified, actions had been agreed to enhance aspects of the control framework further and to ensure that it was effectively operating throughout.

It was confirmed that consideration was also given to the wider sources of assurance available including the results of the HMICFRS Inspection and the findings of Grant Thornton as the Authority's external auditor.

The work of the Internal Auditor was one of the key control measures in place within the Authority. As such, the annual report provided an assurance to Members that risks were being managed and controlled, and fed the Authority's overall assessment of the internal controls that operated within the Service.

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

32/19 ANNUAL GOVERNANCE STATEMENT

The Authority was required to produce an Annual Governance Statement as part of the year end process for 2019/20 along with the Authority's financial statements, following a review of the effectiveness of the internal controls in place. The report and the statement set out the key elements of the Authority's governance framework, how these had been evaluated, the outcome of the assessment of effectiveness and any areas for improvement.

The Audit Committee had previously approved a revised Code of Corporate Governance, in line with guidance produced jointly by CIPFA (Chartered Institute of Public Finance Accountants) and SOLACE (Society of Local Authority Chief Executives). The Code defined corporate governance as the way an authority ensured that it was doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

In order to assess the effectiveness of the Authority's current arrangements a self-assessment had been undertaken by the Executive Board who had considered the various sources of assurance that supported the core principles outlined in the report and the outcome of this was considered by Members under appendix 1 as now presented. One of the key elements of this was external assurance of the systems, and this was provided by internal and external auditors, both of whom provided positive reports, and by the outcome of the HMICFRS Inspection which rated the Service as Good.

The assessment also considered recommendations made as part of last year's Annual Governance Statement i) to continue to develop and embed a new assurance monitoring system app to collate information and intelligence; and, ii) to performance manage the completion of the appraisals and introduce new tools to improve the appraisal conversation. An update on the position in respect of these was considered by Members. Both areas were ongoing with target dates set as March 2021.

The various reviews highlighted an area for further improvement was to develop 360° assessments for leaders to inform personal development. As part of the review, the Service was required to identify and disclose any significant internal control issues, of which there had been none. Hence the statement re-affirmed that Lancashire Combined Fire Authority and Lancashire Fire and Rescue Service had in place a satisfactory system of internal control which facilitated the effective exercise of its functions and which included arrangements for the management of risk.

It was noted that the Statement on Annual Governance arrangements had been considered, approved and signed by the Chairman of the Combined Fire Authority, the Chief Fire Officer and the Treasurer on 8 July 2020.

RESOLVED: - That the Committee noted and endorsed the self-assessment and the Annual Governance Statement.

33/19 EXTERNAL AUDIT - AUDIT PLAN 2019/20

The external auditors were required to produce an annual audit plan, setting out the areas it intended to review during the year.

The Director of Corporate Services introduced Mr Andrew Smith, Key Audit Partner and Mr Andy Ayre, Audit Manager who were in attendance to present the report.

The Director of Corporate Services advised that the audit fee of £28.4k had been discussed with the Chairman and Vice-Chairman of the Committee. He felt that it was important to agree the fees in advance of the work being done and that the additional charges reflected additional work required.

Mr Smith advised there had been a £4,700 increase in the base fee to cover additional work which was largely around the valuation of land and buildings and pension liability; two areas that the regulator was very focussed on and which resulted in a late variation fee last year but was built into the plan going forwards.

Mr Smith highlighted that the impact of covid-19 meant the audit was being conducted remotely but no significant issues were anticipated. He advised that the pandemic had resulted in a change to the timetable as the Government had significantly put back the deadlines for the production of the draft accounts and the completion of audit. The deadline (which was July last year) was now 30 November. He also advised that the audit aimed to start mid-August, with fieldwork completed by the end of September and no problems were envisaged in order to report in November. If the audit was not completed by that date a statement must be made that the audit had not yet been completed and subsequently republished once the audit was complete. It was noted that several authorities had to follow this guidance last year.

County Councillor Nikki Hennessy, Chairman of the Committee joined the meeting.

Mr Smith handed over to Mr Ayre to provide Members of the Audit Committee an overview of the planned scope and timing of the statutory audit which included: key matters that impacted on the audit, details of significant risks identified and the proposed response to the risk, details of other audit responsibilities, materiality, value for money arrangements, audit logistics and team and audit fees. The report also confirmed there were no significant facts or matters that impacted on the auditors' independence to express objective opinion on the financial statements.

County Councillor Holgate felt it was excessive to be undertaking an audit and valuation of property every year. In response, Mr Smith confirmed that CIPFA and auditing standards required this area of work auditing every year as the valuation represented a significant estimate by management. It was therefore identified as a significant risk which was one of the most significant assessed risks of material misstatement. However, he acknowledged that the valuation of land and buildings did not fundamentally change the Authority's financial position. He advised that Grant Thornton was campaigning to move away from fair value accounting through influencing CIPFA via an independent review led by Sir Tony Redmond (which sought views on the quality of local authority financial reporting and external audit).

The Director of Corporate Services confirmed that the Authority commissioned revaluations of its assets on a 5-year rolling basis (20% each year with the remaining 80% a desk-top exercise) given the majority of buildings were fire stations.

County Councillor Holgate did not feel the annual valuation was a sensible use of the Authority's resources as it didn't add any significant value and it wasn't a risk in real terms. He queried whether the Audit Committee could support the review of this requirement.

County Councillor Shedwick added that the Fire Authority did not have the biggest property portfolio. The Committee therefore asked the external auditors to note and feedback these comments as appropriate.

RESOLVED:- That the Audit Committee agreed the external audit plan for 2019/20 and the increased fee.

34/19 EXTERNAL AUDIT - UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

County Councillor Nikki Hennessy took the Chair.

It was noted that in order to comply with Auditing Standards, the External Auditors, Grant Thornton were required to obtain an assurance as to how those charged with governance gained assurance over management processes and arrangements, as set out in their letter dated April 2020, copy considered by Members.

A response had been prepared and submitted by Chairman of the Audit Committee which was considered by Members.

RESOLVED:- That the Committee noted and endorsed the response submitted.

35/19 INTERNAL AUDIT PLAN 2020/21

The Internal Auditors were required to produce an Annual Audit Plan, setting out work to be undertaken during the year. The plan amounted to a total resource of 70 audit days in 2020/21 which equated to an overall cost of £23,450 which represented a 3% increase from the previous year and was in line with the budget provision.

A proposed plan was presented by Mrs Ruth Lowry. It was noted that in light of the pandemic the plan may need to be discussed and reconfirmed. Mrs Lowry also advised that work would normally begin in September / October time however it was noted that the rest of the Internal Audit Team had been redeployed into operational roles (including Senior Auditor, Judith Taylor who would usually be present at this meeting). It was expected that the Team would return over the next couple of months and the plan, as considered now by Members would be fulfilled.

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

- Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
- Sufficient coverage over operations as a whole so that a fair assessment may be made across the Service;
- Coverage of the controls that served to mitigate the most significant risks to an acceptable level;
- Coverage of the controls that operated most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
- Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.

The deployment of audit resources was proposed as follows:-

Governance and business effectiveness	3 days
Service delivery and support	20 days
Business processes	30 days
Follow up audit activity	4 days
Other components of the audit plan	13 days
Total	70 days

RESOLVED:- That the Audit Committee agreed the internal Audit Plan for 2020/21.

36/19 RISK MANAGEMENT

The report highlighted action taken in respect of corporate risk since the last Audit Committee meeting. The latest review of the corporate risk register had not identified any new risks which warranted inclusion on the corporate risk register.

An updated corporate risk register was considered by Members with changes summarised in the report. The Director of Corporate Services highlighted the following key areas: -

Risk no. 1 – insufficient resources due to poor funding settlement
This risk was reviewed annually as part of the budget setting process in February. Discussions now pointed towards a 3-year Spending Review later this year which would provide more certainty. In addition, the outcome of a Fair Funding Review and the prospect of changes to the business rates retention model remained uncertain, both of which would impact on future funding. A further update would be provided as details became available. It was noted that funding had been received from the Government towards the cost of the pandemic and some of this was currently left in the budget.

Risk no. 27 – Increased costs associated with changes to pensionability of allowances
Members were aware of ongoing discussions with representative bodies regarding making some allowances pensionable with an implementation date agreed of

1 June 2020. This added £600k to the budget which had been included in the agreed revenue budget for 2020/21. There remained however, uncertainty regarding any backdating of the allowances and associated timescales. The outcome of ongoing discussions with representative bodies regarding this was awaited. Any backdating would have a significant cost implication on the Authority's financial position.

Risk No 29 – High levels of staff absence due to the pandemic
Currently there remained a lot of uncertainty in terms of the way forward. It was noted that the Business Continuity Plan was implemented in March 2020 in response to Covid-19. Incident Management Teams and sub-groups had been implemented, the Service was working as part of the Lancashire Resilience Forum workstreams and a lot of work had been done to manage the impact and provide support to staff. It was noted that absence levels had been lower than were anticipated in March, hence appliance availability had been maintained. The risk score was under constant review however, given the uncertainty as the lockdown measures eased across the county the proposal was to leave the risk score at 25.

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

37/19 SCALE OF AUDIT FEES 2020/21

Councillor Smith joined the meeting.

The Public Sector Audit Appointments Limited (PSAA) (the successor to the Audit Commission) had produced a consultation document on the proposed scale of fees for 2020/21 in which it was proposed to maintain the fees at the current level of £23.7k with any variation to this being dealt with through local negotiations.

It was not felt that this approach accurately reflected the audit requirements at the present time. Whilst PSAA stated that the impact of some of the changes were likely to vary from one audited body to another, even within classes of similar bodies, it was not believed that this was an accurate reflection of the situation. It was readily acknowledged that fees would vary according to the complexity of organisation and this was already reflected in the base fee, however it was not believed that the fee for changes to asset valuations, or pension liability valuations or the extent of challenge required would vary significantly between one organisation and another, other than to reflect size and complexity which were already taken account of. As such the opinion was that PSAA should do more to agree the impact of changes to auditing standards at a national level, as opposed to simply passing these discussions onto local negotiation. Therefore after consultation with the Chair and Vice Chair a response was agreed as set out in the report.

Subsequently the PSAA confirmed the scale of fee and that they had commissioned a review of the scale fees framework in 2019 and published the findings of that review. They highlighted that the current level of scale fees generated significant comment from audit firms, opted-in authorities and other stakeholders and it was a common theme from commenters on public audit. In most cases, scale fees had reduced by 65% from 2011/12. The reasons for this included a significant reduction in Audit Commission activity from 2012/13, the transfer of all the Commission's audit staff to firms, keen pricing from firms in successive procurements, improved audit efficiencies and reductions in PSAA costs. There was now mounting pressure on fees as the scope of audit and the role of the auditor had come under renewed scrutiny. Recent high-profile corporate failures in the private sector, concerns about the financial resilience of some local government bodies and additional technical requirements had led to an increase in the amount of work auditors were undertaking to discharge their statutory responsibilities. PSAA stated their fee setting process strived to take into account both the needs of opted-in bodies and the need for long-term sustainability of the local audit supply market. Their current review was exploring the arrangements for setting and varying scale fees. The results of this review would be reported to the Board during 2020, and hence should inform future consultations.

RESOLVED:- That the Audit Committee noted the response to the consultation documents as now considered and the subsequent confirmation that the fee remained at £23.7k, subject to local agreement on any variations.

38/19 DATE OF NEXT MEETING

Following discussion around the timing of the External Audit detailed in agenda item 6, the next meeting of the Committee was changed from Tuesday, 29 September 2020 to Monday 23 November 2020 at 10:00 hours – venue to be confirmed.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood

LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 27 November 2020

REVISIONS TO THE STATEMENT OF ACCOUNTS 2019/20
(Appendices 1 and 2 refers)

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

Executive Summary

This report presents the changes made during the audit of the Statement of Accounts of the Combined Fire Authority for the financial year ended 31 March 2020.

Recommendation

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

Information

The draft Statement of Accounts for the financial year ended 31 March 2020 were presented to Resources Committee in September (see report attached as appendix 1). The report confirmed that:-

- the unaudited Statement of Accounts would be signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2020;
- this would be subject to review by the Authority's external auditors, Grant Thornton
- that a further report would be presented to the Audit Committee in November, following completion of the external audit;
- at that meeting the Chair of the Audit Committee would be asked to sign the final statement of accounts, as well as the Treasurer.

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

Subsequent to that the full set of accounts were submitted for audit to Grant Thornton.

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

Adjusted Misstatements

The following significant adjustments have been made to the accounts, as referred to in the External Audit Findings Report – referred to elsewhere on this agenda.:-

- The HM Treasury published its consultation on reforms to public sector pension schemes on 16 July 2020. Following this the Authority requested updated IAS 19 calculations for the additional McCloud/Sargeant liability to allow for Authority specific membership data, rather than using data for the Fire scheme as a whole. In line with CIPFAs guidance the Authority have included this change in the remeasurement item. This resulted in a reduction of £4.1m to the Firefighter Pension Scheme liability. Hence the accounts have been adjusted for this. It is worth noting that the actual impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates.

- The value of fixed assets has increased by £100k reflecting a discrepancy between the valuer's valuations and the value recorded in the fixed asset register.

- The draft accounts included a provision of £600k for backdating of pensionable allowances to the date of the High Court ruling, March 2019. The Authority is attempting to resolve the issue of further backdating via the collective bargaining arrangements, but this has not yet been concluded. Pending the outcome of these discussions the Authority has now allowed for 6 years of backdating and has adjusted the draft accounts to include £1.8m provision. As the estimated value is material and the obligation relates to events prior to the start of the financial year, management has disclosed a prior period adjustment in relation to this matter.

Misclassifications and disclosure changes

Note 27 - Accounting Standards issued but not yet adopted – IFRS 16	A disclosure, in line with the requirements of IAS 8, about IFRS 16 was not included in the draft statement of accounts. This has now been included
Accounting Policies - O – Going Concern	The disclosure in the draft accounts was very short and lacking in detail, a more comprehensive explanation has been included.
Critical Judgements In Applying Accounting Policies	In the draft accounts, there was no disclosure of the critical judgements the authority has made in applying accounting policies or lack thereof, as at that time we did not consider that there were any critical judgements. We have now updated this recognising HM Treasury's consultation as an adjusting post balance sheet event and the judgement made in respect of the backdating of pension contributions on day crew plus allowances.
Note 26 - Assumptions made about the future and other major sources of estimation and uncertainty	For each item in the disclosure, the carrying amounts as at the balance sheet date should be added to the disclosure so support users of the accounts understanding of the quantum of the uncertainty. It is worth noting that the carrying amounts are already shown elsewhere in the accounts. We have revised the disclosure relating to the uncertainty deriving from the HM Treasury consultation remedies for the McCloud issue, and have added a new disclosure relating to LGPS asset valuations.
Note 20 - Post Balance Sheet Events	In the draft accounts, no post balance sheet events were identified as at the time there were none. Subsequent to the accounts being signed by the Treasurer, the Authority have recognised HM Treasury's consultation on the remedies for McCloud as an adjusting post balance sheet event and has now disclosed this as such.

Note 8 – Financial Instruments	In the draft accounts, the financial instruments were categorised under IAS 39 categories. IAS 39 has been replaced by IFRS 9 and the accounts have been updated accordingly.
Prior Period Adjustment	The draft accounts did not include a prior period adjustment. This has now been included to reflect the potential additional backdating of employer pension contributions in respect of pensionable allowances.

Approval and Signing of the Accounts

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

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 2020	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	April – November 2020	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

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LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE
Meeting to be held on 23 September 2020

UNAUDITED STATEMENT OF ACCOUNTS 2019/20
(Appendix 1 refers) – NOT ATTACHED

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

Executive Summary

This report presents the Unaudited Statement of Accounts for the Combined Fire Authority for the financial year ended 31 March 2020.

Members should note that the Statement presented includes the Authority's 25% share of North West Fire Control Ltd draft year end position for 2019/20.

Members should also note that there will be a further pensions adjustment in respect of the recent HMT consultation on the McCloud/Sargeant remedy, estimated by our actuaries to reduce the Firefighters pension scheme liabilities by up to 1% (up to £8.1m).

Recommendation

The Committee is asked note and endorse the Unaudited Statement of Accounts.

Information

The Statement of Accounts 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, and are attached as Appendix 1. 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 also note that the Statement presented includes the Authority's 25% share of North West Fire Control Ltd draft year end position for 2019/20.

Members should also note that there will be a further pensions adjustment in respect of the recent HMT consultation on the McCloud/Sargeant remedy, estimated by our actuaries to reduce the Firefighters pension scheme liabilities by up to 1% (up to £8.1m). Once our actuaries have completed the additional analysis, any changes required will be built into the final version of the Statement of Accounts.

Narrative Report

This sets out the financial context in which the Combined Fire Authority operates, and provides an overview of the financial year 2019/20 as well as details of future plans.

Annual Governance Statement

This reflects the position the Authority has reached in connection with corporate governance, including internal controls and risk management, including a review of the effectiveness of these arrangements, as reported at the Audit Committee in July.

Auditors Report and Opinion

This will set out the Auditors opinion on the Statement of Accounts, and will be included on completion of the audit which commenced in August.

Statement of Responsibilities

This sets out the responsibilities of the Authority and the Treasurer in terms the overall management of the Authority's finances and in terms of the production of the annual accounts.

Comprehensive Income & Expenditure Account

This statement shows the accounting cost in the year of providing services. It is a summary of the resources that have been generated and consumed in providing services and managing the Authority during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

The main points to note are: -

	2019/20	2018/19	
Service Delivery	34,771	27,673	The cost of Service Delivery shows an increase when compared with the previous year, attributable to both the increased Fire Fighters pension employer's contribution costs (which is offset by additional grant shown within Overheads), and the effect of the adjustment required in respect of pension liabilities under IAS 19.
Strategy & Planning	8,684	7,680	The cost of Strategy & Planning shows an increase when compared with the previous year, attributable to both the increased Fire Fighters pension employer's contribution costs (which is offset by additional grant shown within Overheads), and the effect of the adjustment required in respect of pension liabilities under IAS 19.
People & Development	1,633	1,604	The cost of People & Development is broadly comparable with last year.
Corporate Services	5,040	4,212	The cost of Corporate Services shows an increase when compared with the previous year, attributable to both the centralisation of utility costs within the Property department, and the effect of the adjustment required in respect of pension liabilities under IAS 19.

Fire Fighters Pensions	1,283	1,242	These are the ongoing pension costs relating to previous ill health or injury retirements, which have remained at a broadly similar level to the previous year.
Overheads	4,746	37,643	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 during 2018/19.
Gain on Disposals of Fixed Assets	(14)	(68)	This relates to the sale of surplus vehicles.
Interest Payable	1,461	1,479	This heading includes interest payable in respect of loans and interest charges associated with the PFI schemes and finance leases, in line with the previous year's charges.
Pension Interest Cost and Expected Return on Assets	21,150	20,276	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 the charge to the Income and Expenditure Account.
Interest Receivable	(332)	(358)	The level of interest earned on investments has reduced in line with base rate changes during the year. Several fixed term investments matured during the year, which has increased the call account balance, held at very low interest rates.
Taxation on North West Fire Control	-	1	The Authority's 25% share of any tax payable by North West Fire Control.
Council Tax	(30,724)	(29,440)	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)	The level of Revenue Support Grant allocated to the Authority by the Government. Due to the participation in the Lancashire Business Rates 75% Pool in 2019/20 all Revenue Support grant was replaced by retained Business Rates.
Non-Domestic Rates Redistribution	(23,930)	(15,405)	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. The increase reflects the Authority's participation in the Lancashire Business Rates Pool, and the replacement of Revenue Support grant with Business Rates.
Capital Grant Income	(417)	(563)	The Authority's 25% share of North West Fire Controls capital grants for the year.
Business rates S31 grant	(1,654)	(946)	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	**21,699**	**45,769**	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. The 2018/19 balance includes £33m pensions adjustment to reflect the ongoing McCloud remedy.
(Surplus)/Deficit on Revaluation of Non-Current Assets	(4,140)	(4,539)	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	(68,755)	19,884	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, for both the Firefighters and Local Government pension schemes. The majority of the gains in 19/20 reflect the reduction in previous assumptions regarding future pay and pensions increases in the fire fighters' scheme, with the previous year assuming larger pay and pensions increases than the year before. Note the 19/20 amount will change following revised assumptions around the McCloud/Sargeant remedy, as reported above.
Total Comprehensive Income and Expenditure	**(51,196)**	**61,114**	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	0.248
Earmarked reserves utilised/provided for in year	0.038
Accounting for pensions under IAS19	20.661
Revenue Contributions to Capital Outlay	(2.000)
Adjustments between accounting basis and funding basis under regulations	2.752
Deficit on the provision of services	**21.699**
Surplus on revaluation of non-current assets	(4.140)
Actuarial loss on pensions assets and liabilities	(68,755)
Total Comprehensive Income and Expenditure	**(51.196)**

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	36,017	(782,770)	(746,754)	
Deficit on the provision of service	(21,699)	-	(21,699)	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	-	72,895	72,895	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	4,059	(4,059)	-	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year
Amortisation of intangible assets	135	(135)	-	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	20,661	(20,661)	-	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	(93)	93	-	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 surplus in 2019/20 reflecting the fact that authorities have collected less than anticipated.
Provision for the repayment of debt	(576)	576	-	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	(2,000)	2,000	-	This is the level of capital expenditure which has been funded from contributions from the 2019/20 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	488	50,709	51,196	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 to unusable reserves	-	-	-	There were no transfers from earmarked reserves into unusable reserves during either year.
Transfers (to)/from capital funding reserves to unusable reserves	(860)	860	-	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	47	(47)	-	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	(325)	51,521	51,196	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	**35,692**	**(731,249)**	**(695,557)**	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: -

	2019/20	2018/19	
Long Term Assets			
Property, Plant & Equipment	99,214	96,700	The value of property, plant & equipment has increased by £2.5m, due to the level of capital expenditure (£2.4m as shown in the Year End Capital Outturn report) and the net revaluation gains of £4.0m compared with depreciation charges of £3.9m.
Intangible assets	859	343	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	237	239	The value of stock held has remained in line with last year.
Short-Term Investments	5,000	15,000	The Authority holds one investment with Local Government bodies (three in the previous year) 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	8,801	9,737	Debtors represent monies owed to the Authority on 31st March 2020. 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 broadly 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 paid during July 2020.
Cash & Cash Equivalents	27,992	14,841	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 increase reflects the maturity of several short-term investments during the year.

Current Liabilities			
Other Short-Term Liabilities	(417)	(384)	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	(8,420)	(6,265)	This figure represents the amount of money we owe to other bodies at 31st March 2020. The majority of the increase reflects the receipt of £1.3m grant relating to business rates relief due in 2020/21 during March 2020.
Long Term Liabilities			
Provisions	(1,580)	(1,282)	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 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	(830,173)	(878,683)	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 £817m. 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. Note the 1920 pensions liability will change following revised assumptions around the McCloud/Sargeant remedy, as reported above.
Total Assets Less Liabilities	**(695,557)**	**(746,754)**	

Financed By			
Usable Reserves:			
Revenue Reserves	(16,008)	(16,370)	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 reduction in year represents the revenue budget deficit for the year, as referred to in the Year End Revenue Outturn report, and the Usable Reserves and Provisions Outturn report.
Capital Funding Reserve	(17,583)	(17,393)	This reserve holds £17.6m 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	(438)	(605)	The capital grant unapplied relates to the Authority's share of the NWFC end of year balances.
Usable Capital Receipts Reserve	(1,663)	(1,649)	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	(46,444)	(43,925)	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	(39,325)	(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	(589)	(496)	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 £589k.
Accumulated Absences Adjustment Account	811	764	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	816,796	864,889	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. Note the 19/20 reserve balance will change following revised assumptions around the McCloud/Sargeant remedy, as reported above.
	695,557	**746,754**	

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:-

	2019/20	2018/19	
Net Cash Flows Arising From Operating Activities	7,786	5,238	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	7,116	(17,377)	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 £10m returning from short term deposit, and £2.4m of expenditure on capital assets.
Financing Activities	(1,822)	(1,789)	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	**13,080**	**(13,928)**	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 has been signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2020.

This will be subject to review by the Authority's external auditors, Grant Thornton, which is scheduled to take place in August and September. A further report will be presented to the Audit Committee in November, following inclusion of revised IAS19 pensions adjustments and 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.

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 2020	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	July 2020	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

APPENDIX 2

Lancashire Fire and Rescue Service

STATEMENT OF ACCOUNTS

2019/20

LANCASHIRE COMBINED FIRE AUTHORITY

STATEMENT OF ACCOUNTS 2019/20

CONTENTS

NARRATIVE REPORT

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

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

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2019/20
- 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 2020 (referred to as 2019/20). 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 2019/20. 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 2019/20, which are set out in the sections shown below.

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

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

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

Balance Sheet – This shows information on the financial position of the Fire Authority as at the 31 March 2020, 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.

2019/20 saw the completion of the third and final tranche of independent inspections of the Fire Service by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS), following on from the first tranche done in 2018/19 which included the Authority. We remain one of only two services in the country to receive an outstanding rating along with all other areas rated as good, and no areas requiring improvement in any of the 11 categories assessed. We have remained focussed on continuous improvement since our inspection in 2018 and progress is being made in areas including improving protection services, identifying high potential staff and aspiring leaders and prioritising our risk-based inspection programme.

In March 2020 the Authority won the UK Fire Service of the Year at the iESE 2020 public sector award ceremony when nominated alongside three other fire services. The judges were impressed by the service's longstanding commitment to offering the best equipment and training. The judges also remarked that the service has some of the most innovative and outstanding facilities in the country.

The Authority took part in the Lancashire business rates pool pilot during 2019/20, which was expected to retain an additional £7m of business rates income within Lancashire, rather than pay over to Central Government, therefore providing opportunities to promote further economic growth as well as building financial resilience. As such, we did not receive Revenue Support Grant (RSG) in 2019/20, but instead received a larger share of business rates income and associated Section 31 grant.

In the first months of 2020 we began to face the unprecedented effects of the Covid-19 pandemic and invoked our Business Continuity Plan to ensure we responded appropriately and proportionately. In terms of the impact on our provision of services, we continue to attend fires and road traffic collisions as before, but have had to temporarily cease some activities, such as Home Fire Safety checks where a member of staff enters the home, and the Fire Cadets programme. We continue to monitor the latest guidance and have prepared detailed plans to bring back on line all ceased activities when it is safe to do so.

Whilst operational crews continued to attend fire stations and provide services, the majority of non-operational staff were, where possible, provided with equipment to enable them to work from home. Where staff could not carry out their ordinary role from home, we utilised them to assist the Lancashire Resilience Forum in various duties benefitting the public of Lancashire, such as assistance with distribution of food parcels and maintaining telephone contact with vulnerable adults.

Although the full financial impact of the pandemic on future funding streams is still uncertain, we have carried out some initial modelling and believe that we are in a strong position to cope with potential reduced income in the next and coming financial years.

The Authority recruited 14 new whole-time firefighters and 69 new on call firefighters, of which 11% were female and 5% were from a BME background.

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. We are continuing to review further opportunities for site sharing with both North West Ambulance Service and Lancashire Constabulary. We continue to support Lancashire Constabulary by use of a shared drone, as well as assisting in missing persons searches.

2019/20 activity has increased by 0.8% to just over 17,200 incidents, and the number of accidental dwelling fires increased by 1 from the previous year. Deliberate dwelling fires remained at 124. A total of 452 gaining entry incidents were undertaken in 2019/20, a decrease of 40% over the previous year.

The 2019/20 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.

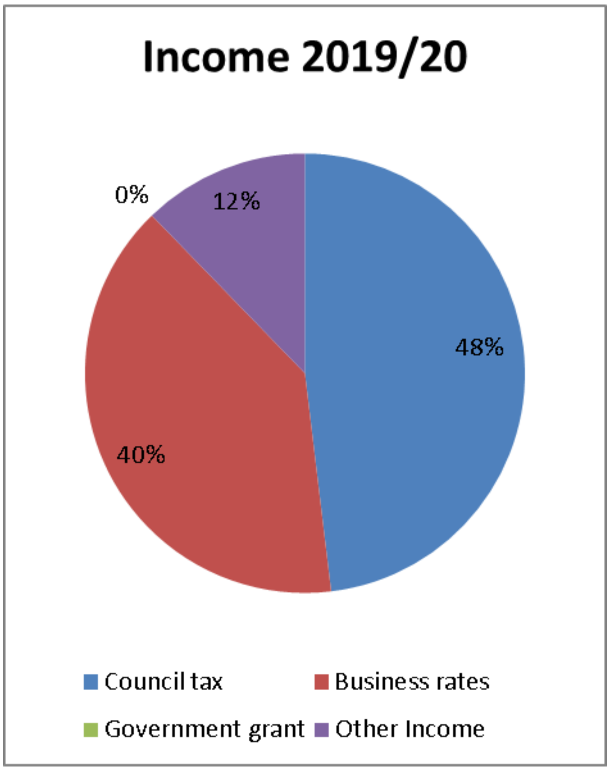
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

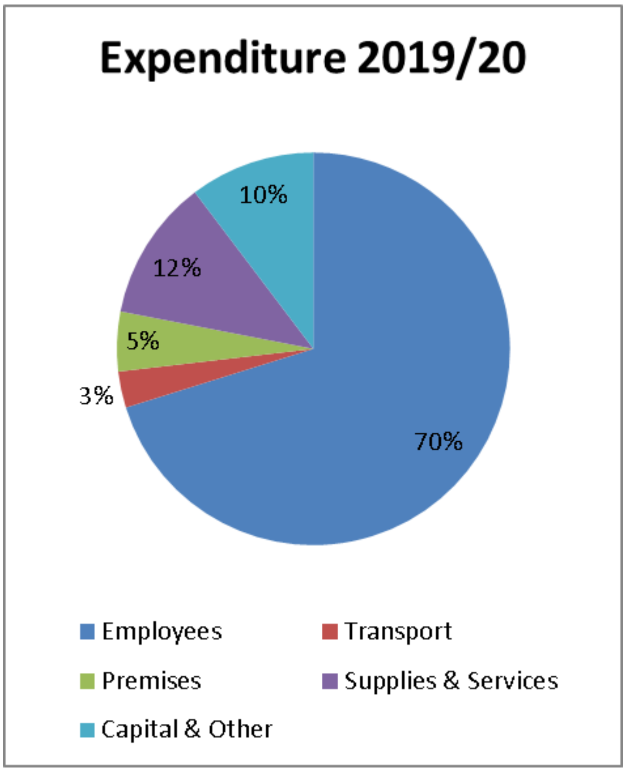
- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account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

2019/20 was the final 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 £0.5m to £23.8m. The Authority had to identify efficiencies of £1.4m and draw down £0.3m reserves in order to offset financial pressures and deliver an acceptable budget. This resulted in a gross revenue budget of £56.0m, an increase of just over 2%, and a council tax of £69.48, which is just under £1.34 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 overspend of £0.2m. reflecting backdating of various pensionable allowances to March 2019.

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	44,122	44,349	227
Other employee related costs	800	774	(26)
Premises	3,123	3,157	35
Transport	1,910	1,924	14
Supplies & services	7,834	7,484	(350)
Capital financing costs & other	5,773	6,624	851
Total Expenditure	63,562	64,312	750
Other Income	(7,511)	(7,849)	(338)
Budget requirement	56,052	56,463	412
Funded by:			
Council tax	(30,753)	(30,812)	(59)
Business rates	(25,298)	(25,402)	(104)
Government grant	(1)	(1)	-
	(56,052)	(56,215)	(163)
Net Overspend	-	248	248

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	0.248
Earmarked reserves utilised/provided for in year	0.038
Accounting for pensions under IAS19	16.431

Revenue Contributions to Capital Outlay	(2.000)
Adjustments between accounting basis and funding basis under regulations	2.470
Deficit on the provision of services	**17.187**
Surplus on revaluation of non-current assets	(4.240)
Actuarial loss on pensions assets and liabilities	(68.245)
Total Comprehensive Income and Expenditure	**(55.298)**
Recognise 25% share in North West FireControl Limited	(0.118)
Total Comprehensive Income and Expenditure	**(55.416)**

The Authority (excluding North West FireControl) transferred £0.3m from the general fund balance and as a result of this the general fund balance now stands at £6.4m, 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 2020/21 budget, shows approx. £2.2m of reserves being used by March 2025, however this position does not allow for any further backdating of pensionable allowances earlier than March 2019. Clearly any such decision would impact the level of the General Fund Balance.

The Authority also holds an additional £7.8m of earmarked revenue reserves and £19.2m of capital reserves and receipts. The Capital reserves and receipts are fully utilised within the medium term financial strategy, reducing to zero by March 2025. 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 £2.9m, as set out below:-

	Spend
Vehicles	
• Pumping Appliances – further stage payment for 7 Pumping Appliances from the 2018/19 capital programme	£0.7m
• Operational Support Vehicles – purchase of Water Tower plus various support vehicles, such as vans and cars	£0.9m
Buildings	
• Training Centre firehouse refurbishment	£0.3m
• Training Centre workshop development initial works	£0.1m
ICT	
• Replacement of the station end mobilising system	£0.4m
• Replacement storage area network	£0.1m
• Replacement wide area network	£0.3m
Total	£2.9m

The Balance Sheet shows that the Authority's Total Net Liabilities have decreased to £693m. 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 £813m is extremely large. If this liability was excluded the Authority's Total Net Assets would be £120m. The pension liability includes estimated costs in relation to the McCloud judgement, further details can be found in note 20.

Long term assets have increased slightly in value to £105m, reflecting the expenditure incurred in year and the net outcome of revaluations.

Future Financial Plans

2019/20 was year is the last of the four year funding settlement. The anticipated 4 year Spending Review actually only covered 2020/21, with a 4 year Review. The Local Government Finance Settlement included a 1.6% increase in the Authority's settlement funding assessment for 2020/21. 2020/21 should have seen the outcome of the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a 75% Business Rates Retention Scheme, however given current economic uncertainty both of these have been put on hold for at least 12 months. The Authority has plans to deliver £0.8m of efficiencies in 2020/21, 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 ongoing recruitment campaigns. Overall these changes result in a revenue budget of £57.8m, however in order to deliver a council tax increase within the referendum limit (2%) the Authority will need to either identify further savings or utilise reserves of £0.4m. Therefore the net revenue budget requirement is £57.3m, an increase of 2.5%, resulting in a council tax of £70.86, an increase of 1.99%. 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.

Given economic uncertainty, particularly surrounding the Covid-19 pandemic, Brexit, 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 had assumed that the funding trajectory in this years' settlement is maintained, ie increases in line with current inflation of 1.5%.

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 £29m 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 review the business cases for replacement of both Preston Fire Station and Service Headquarters.

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.

When the national Emergency Services Mobile Communications Programme (ESMCP) progresses to a stage where we can purchase replacement radio and mobilising equipment we will upgrade our current provision. This project has incurred delays and is outside of our control. It is assumed that any costs to the Authority will be funded by specific capital grant

This can be funded from a combination of revenue contributions, specific capital grant provided by the government, capital reserves and receipts and general reserves. Should the replacements of Preston and Headquarters go ahead, over the five years there is a potential £7m shortfall in funding, however the programme is based on many assumptions which will be refined over time. Over the next three years 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

Financial plans will continue to be reviewed in light of the pandemic with particular reference to Council Tax and Business Rates income funding projections, which are expected to suffer significant shortfalls, although it is worth noting that any deficit can be spread over three year budget period.

Accounting Changes

The accounts have been prepared in accordance with the requirements of the latest Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2019/20 (the Code).

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

Scope of Responsibility

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

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

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

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Ensuring openness and comprehensive stakeholder engagement
Defining outcomes in terms of sustainable economic, social, and environmental benefits
Determining the interventions necessary to optimise the achievement of the intended outcomes
Developing the entity's capacity, including the capability of its leadership and the individuals within it
Managing risks and performance through robust internal control and strong public financial management
Implementing good practices in transparency, reporting, and audit to deliver effective accountability

(A copy of the code, setting out the core and supporting principles, what the Authority commits itself to do and how it will do this can be found on our website at https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Code-of-Corporate-Governance.pdf)

This statement explains how the Authority has complied with the code and also meets the requirements of regulation 6(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Authority for the year ended 31 March 2020 and up to the date of approval of the 2019/20 Statement of Accounts.

The Governance Framework

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

- The Integrated Risk Management Plan (IRMP) describes our aims, priorities, equality objectives and values, setting out our ambitions and how we will deliver them in the medium term. The current plan covering 2017-2022 can be found on our website at https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Integrated-Risk-Management-Plan.pdf

- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan has been extended due to the Coronavirus pandemic and now covers 2020/22 was approved this year and can be found on our website at https://vault.ecloud.co.uk/lancsfire/2020/06/Digital-ASP-20-22.pdf

- A Communication Strategy and the Consultation Strategy;

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

- A Corporate Programme Board provides oversight across 4 areas:-
    - Business Process Improvement Programme
    - Workforce Development Programme
    - Service Delivery Change Programme
    - Capital Projects Programme.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of effectiveness

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

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

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

- The Integrated Risk Management Plan covers the five year period 2017-2022.

- We updated our Strategic Assessment of Risk.

- A revised Annual Service Plan has been agreed, covering 2020/22 (this is now a 2 year plan due to the Coronavirus pandemic), providing clarity, both internally and externally, on our priorities set out in the IRMP and describes what our ambitions are for each priority, as well as setting out the projects and actions that will be delivered, developed or reviewed during the coming year against each of our priorities. This is supported by Local Delivery Plans.

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

- Statement of Intent: Enhanced Collaboration between LFRS and Constabulary approved at Joint Exec Board. Joint Collaboration group established, reporting through to Members.

- An Operational Assurance Team undertake a programme of service wide station assurance visits to identify areas for improvement and track these through to completion, and publicise any improvements through a regular newsletter, thus enhancing operational preparedness, operational response and operational learning.

- Performance appraisal incorporating values is undertaken throughout the Service

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

- We have undertaken an Assurance mapping exercise, with our Internal Auditors, which has confirmed that a strong assurance framework is in place.

- As part of the 2019/20 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can "*provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control*."

- Grant Thornton provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Audit letter did not identify any significant weaknesses in internal control arrangement and provided the following audit conclusions in relation to 2018/19:
  - Financial statements – *"We gave an unqualified opinion on the Authority's financial statements on 30 July 2019."*
  - Value for money conclusion – *"We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources."*

- HMICFRS undertook its first inspection of the Service. Overall the Service was rated as Good, in all categories other than 'Promoting the right values and culture' in which it was rated outstanding. This was the highest overall rating of any Service in the first tranche of inspections, and the only outstanding rating. "*Overall, we commend Lancashire Fire and Rescue Service for its performance. We are confident it is well equipped for this to continue*." and "*It provides an effective service*" and "*It provides an efficient and affordable service by making good use of its resources"*

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

Area for Improvement	Action to date	Complete/ On-going	Owner
Continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning	Work is on-going to build the Assurance Monitoring System that will link into LFRS debrief App and include an action tracker that will track actions from the debriefs and other assurance work (NOL, JOL etc). All communications and evidence will be stored on the system rather than on spreadsheets, folders and individuals email accounts. The action tracker is being built so that it can be used to track actions from meetings	On-going, target date March 21	Head of Digital Transformation
Performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation	A new appraisal process and form was introduced in year for all staff, with appropriate guidance provided. We will develop it further to be delivered online, and provide additional training in relation to the management of performance	On-going, target date March 21	Head of Human Resources
Area for Improvement	Action to date	Complete/ On-going	Owner

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

Significant governance issues

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

Whilst no significant governance issues were identified, the following new areas for improvement, are listed below:

- Develop 360-degree assessments for leaders to inform personal development

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

Signed:

County Councillor F De Molfetta, Chairman,
Lancashire Combined Fire Authority
08 July 2020

J Johnston,
Chief Fire Officer,
Lancashire Fire and Rescue Service
08 July 2020

K Mattinson CPFA,
Treasurer,
Lancashire Combined Fire Authority
08 July 2020

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

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

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

- To approve the Statement of Accounts.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2020.

In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

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

K Mattinson CPFA	Hasina Khan
Treasurer to the Combined Fire Authority	Chair of Audit Committee
27 November 2020	27 November 2020

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

Notes		2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure	2018/19 as Restated Gross Expenditure	2018/19 as Restated Gross Income	2018/19 as Restated Net Expenditure
	Continuing operations:	£000	£000	£000	£000	£000	£000
2	Service Delivery	35,760	(2,022)	33,738	31,304	(3,306)	27,998
2	Strategy and Planning	9,065	(489)	8,576	8,196	(516)	7,680
2	People and Development	1,633	-	1,633	1,604	-	1,604
2	Corporate Services	5,081	(60)	5,021	4,272	(60)	4,212
2	Fire-fighters Pensions	1,310	(27)	1,283	1,242	-	1,242
2	Overheads	6,776	(4,930)	1,846	39,427	(1,784)	37,643
2	Net Cost of Services	59,625	(7,528)	52,097	86,045	(5,666)	80,380
	Gain on disposal of non current assets			(14)			(68)
	Financing & investment income & expenditure						
9	Interest payable and similar charges			1,461			1,479
16	Pensions interest cost and expected return on pensions assets			21,130			20,276
9	Interest receivable and similar Income			(332)			(358)
	Taxation and non-specific grant income						
	Taxation on NW FireControl			-			1
	Council tax			(30,724)			(29,440)
	Revenue Support Grant			-			(9,262)
	Non-domestic rates redistribution			(23,930)			(15,405)
	Capital grant income			(417)			(563)
	Business rates S31 grant			(1,654)			(946)
	Deficit/(Surplus) on the provision of services			17,618			46,094
	(Surplus)/Deficit on revaluation of non-current assets			(4,240)			(4,539)
19	Actuarial (gains)/losses on pensions assets and liabilities			(68,795)			19,884
	Other comprehensive income & expenditure			(73,035)			15,345
	Total Comprehensive Income and Expenditure			**(55,416)**			**61,439**

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MOVEMENT IN RESERVES STATEMENT 2019/20

This statement shows the movement in the year on the different reserves held by the Authority, analysed into ‘Usable Reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Comprehensive Income and Expenditure Statement for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.

	General fund	Earmarked reserves	Total General Fund Balance	Capital funding reserve	Capital grant unapplied reserve	Capital receipts reserve	Total usable reserves	Unusable reserves	Total Authority reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019 carried forwards as restated	6,519	8,020	14,537	17,393	605	1,649	34,185	(782,770)	(748,585)
Movement in reserves during 2019/20									
Surplus/(Deficit) on provision of services	(17,618)	-	(17,618)	-	-	-	(17,618)	-	(17,618)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	73,035	73,035
Total comprehensive income and expenditure	(17,618)	-	(17,618)	-	-	-	(17,618)	73,035	55,416
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,059	-	4,059	-	-	-	4,059	(4,059)	-
Amortisation of intangible assets	135	-	135	-	-	-	135	(135)	-
Disposal of assets	(14)	-	(14)	-	-	14	-	-	-
Capital grants unapplied	167	-	167	-	(167)	-	-	-	-
Provision for the repayment of debt	(576)	-	(576)	-	-	-	(576)	576	-
Capital expenditure charged against General Fund Balance	(2,000)	-	(2,000)	-	-	-	(2,000)	2,000	-
Amount by which the Code and the statutory pension costs differ	16,581	-	16,581	-	-	-	16,581	(16,581)	-
Amount by which the Code and the statutory collection fund income differ	(93)	-	(93)	-	-	-	(93)	93	-
	18,259	-	18,259	-	(167)	14	18,106	(18,106)	-
Net increase/decrease before transfers to earmarked reserves	641	-	641	-	(167)	14	488	54,929	55,416
Transfers (to)/from earmarked reserves	(684)	684	-	-	-	-	-	-	-
Transfers (to)/from capital funding reserve	(172)	(877)	(1,049)	189	-	-	(860)	860	-
Transfers (to)/from accumulated absences adjustment account	47	-	47	-	-	-	47	(47)	-
Net tfr (to)/from earmarked reserves	(809)	(193)	(1,002)	189	-	-	(813)	813	-
Increase/(Decrease) in the year	(168)	(193)	(361)	189	(167)	14	(325)	55,461	55,416
Balance at 31 March 2020 carried forwards	6,350	7,827	14,177	17,582	438	1,663	33,860	(727,029)	(693,169)

MOVEMENT IN RESERVES STATEMENT 2018/19 as Restated

	General fund	Earmarked reserves	Total General Fund Balance	Capital funding reserve	Capital grant unapplied reserve	Capital receipts reserve	Total usable reserves	Unusable reserves	Total Authority reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018 carried forwards as restated	6,392	7,884	14,276	17,745	121	1,582	33,723	(720,870)	(687,147)
Movement in reserves during 2018/19									
Surplus/(Deficit) on provision of services	(46,094)	-	(46,094)	-	-	-	(46,094)	-	(46,094)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(15,345)	(15,345)
Total comprehensive income and expenditure	(46,094)	-	(46,094)	-	-	-	(46,094)	(15,345)	(61,439)
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,268	-	4,268	-	-	-	4,268	(4,268)	-
Amortisation of intangible assets	134	-	134	-	-	-	134	(134)	-
Disposal of assets	(68)	-	(68)	-	-	68	-	-	-
Capital grants unapplied	(484)	-	(484)	-	484	-	-	-	-
Provision for the repayment of debt	(337)	-	(337)	-	-	-	(337)	337	-
Capital expenditure charged against General Fund Balance	(2,030)	-	(2,030)	-	-	-	(2,030)	2,030	-
Amount by which the Code and the statutory pension costs differ	44,741	-	44,741	-	-	-	44,741	(44,741)	-
Amount by which the Code and the statutory collection fund income differ	207	-	207	-	-	-	207	(207)	-
	46,433	-	46,433	-	484	68	46,984	(46,984)	-
Net increase/decrease before transfers to earmarked reserves	338	-	338	-	484	68	890	(62,329)	(61,439)
Transfers (to)/from earmarked reserves	(164)	136	(28)	-	-	-	(28)	28	-
Transfers (to)/from capital funding reserve	-	-	-	(352)	-	-	(352)	352	-
Transfers (to)/from accumulated absences adjustment account	(49)	-	(49)	-	-	-	(49)	49	-
Net tfr (to)/from earmarked reserves	(213)	136	(77)	(352)	-	-	(429)	429	-
Increase/(Decrease) in the year	126	136	261	(352)	484	68	461	(61,900)	(61,439)
Balance at 31 March 2019 carried forwards as restated	6,519	8,020	14,537	17,393	605	1,649	34,185	(782,770)	(748,585)

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, usable reserves are those that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example capital receipts may only be used to fund capital expenditure). The second category is unusable reserves, and includes reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Notes		At 31 March 2020 £000	At 31 March 2019 As Restated £000	At 1 April 2018 As Restated £000
	Long Term Assets			
7	Property, Plant & Equipment	99,314	96,700	93,974
8	Intangible Assets	859	343	472
9	Long-Term Investments	5,000	5,000	5,000
		105,173	102,043	99,266
	Current Assets			
	Inventories	237	239	228
9	Short Term Investments	5,000	15,000	-
10	Short Term Debtors	8,801	9,737	10,760
11	Cash & Cash Equivalents	27,922	14,841	28,768
		41,960	39,817	39,757
	Current Liabilities			
9	Other Short Term Liabilities	(417)	(384)	(329)
12	Short Term Creditors	(10,252)	(8,097)	(8,504)
		(10,668)	(8,480)	(8,833)
	Long Term Liabilities			
13	Provisions	(1,580)	(1,282)	(1,084)
9	Long Term Borrowing	(2,000)	(2,000)	(2,000)
14	Other Long Term Liabilities	(826,053)	(878,683)	(814,251)
		(829,633)	(881,965)	(817,336)
	Net Liabilities	(693,169)	(748,585)	(687,147)
17	Revenue Reserves	(14,177)	(14,538)	(14,276)
17	Capital Funding Reserve	(17,583)	(17,393)	(17,745)
17	Capital Grants Unapplied Account	(438)	(605)	(121)
17	Usable Capital Receipts Reserve	(1,663)	(1,649)	(1,582)
17	**Usable Reserves:**	(33,861)	(34,186)	(33,724)
19	Revaluation Reserve	(46,544)	(43,925)	(40,862)
19	Capital Adjustment Account	(39,325)	(38,461)	(38,641)
14,16&19	Pension Reserve	812,676	864,889	800,264
19	Collection Fund Adjustment Account	(589)	(496)	(704)
19	Accumulated Absences Adjustment Account	811	764	813
19	**Unusable Reserves:**	727,029	782,771	720,871
	Total Reserves	693,169	748,585	687,147

These Financial Statements replace the unaudited financial statements authorised by the Treasurer on 14 July 2020.

This Statement of Accounts is that upon which the Auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the Authority at 31 March 2020 and its income and expenditure for the year then ended.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
27 November 2020

Hasina Khan
Chair of Audit Committee
27 November 2020

CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amounts of net cash flows arising from operating activities is an indicator of the extent to which the operations are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery.

Notes		2019/20		2018/19 as Restated	
		£000	£000	£000	£000
	Net (deficit)/surplus on the provision of services		(17,618)		(46,094)
24	Adjustments to net (deficit)/surplus on the provision of services for non-cash movements		24,150		50,056
	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities		1,255		1,277
	Net cash flows from Operating Activities		**7,786**		**5,238**
	<u>Investing activities</u>				
7&8	Purchase of property plant and equipment & other capital spend	(3,068)		(2,558)	
	(Increase)/Decrease in short term deposits	10,000		(15,000)	
25	Receipts from investing activities	184		181	
	Net cash flows from investing activities		7,116		(17,377)
	<u>Financing activities</u>				
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(384)		(332)	
	Repayment of long term borrowing	-		-	
25	Payments for financing activities	(1,439)		(1,457)	
	Net cash flows from financing activities		(1,823)		(1,789)
	Net increase/(decrease) in cash and cash equivalents		**13,081**		**(13,928)**
11	Cash and cash equivalents at the beginning of the reporting period		14,841		28,769
11	**Cash and cash equivalents at the end of the reporting period**		**27,922**		**14,841**

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Prior Period Adjustment

Following on from the "Norman vs Cheshire" and the subsequent court decision, Smith v Mid and West Wales Fire Authority, in March 2019, the Authority has determined that certain allowances are pensionable and has implemented these arrangements with effect from 1/6/20. The Authority is attempting to resolve the issue of backdating via the collective bargaining arrangements, but this has not yet been concluded. Pending the outcome of these negotiations we have now restated the 2018/19 financial statements allowing for £1.8m of potential backdating. This had previously been disclosed as a contingent liability.

These changes have had the following impact on the comparative figures for 2018/19, compared with those published in the 2018/19 accounts:

Comprehensive Income and Expenditure Statement:

	Original 2018/19 Net Expenditure £000	Prior period adjustment £000	Revised 2018/19 Net Expenditure £000
Service Delivery	27,673	325	27,998
Strategy and Planning	7,680	-	7,680
People and Development	1,604	-	1,604
Corporate Services	4,212	-	4,212
Fire-fighters Pensions	1,242	-	1,242
Overheads	37,643	-	37,643
Net Cost of Services	80,055	325	80,380
(Gain)/Loss on disposal of fixed assets	(68)	-	(68)
Interest payable and similar charges	1,479	-	1,479
Pensions interest cost and expected return on pensions assets	20,276	-	20,276
Interest and investment income	(358)	-	(358)
Taxation on NW FireControl	1	-	1
Council Tax	(29,440)	-	(29,440)
Revenue Support Grant	(9,262)	-	(9,262)
Non-domestic rates redistribution	(15,405)	-	(15,405)
Capital grant income	(563)	-	(563)
Business rates S31 grant	(946)	-	(946)
Deficit on provision of services	45,769	325	46,094
(Surplus) on revaluation of non-current assets	(4,539)	-	(4,539)
Actuarial losses on pensions assets and liabilities	19,884	-	19,884
Other comprehensive income & expenditure	15,345	-	15,345
Total Comprehensive Income and Expenditure	61,114	325	61,439

Extract from the Movement in Reserves Statement:

	Original 2018/19 MIRS Balances					Revised 2018/19 MIRS Balances			
	Total General Fund Balance £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000	Prior period adjustment to General Fund Balance £000	Total General Fund Balance £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2018 carried forwards as restated	15,783	35,231	(720,870)	(685,640)	(1,506)	14,276	33,723	(720,870)	(687,147)
(Deficit) on provision of services	(45,769)	(45,769)	-	(45,769)	(325)	(46,094)	(46,094)	-	(46,094)
Other comprehensive income & expenditure	-	-	(15,345)	(15,345)	-	-	-	(15,345)	(15,345)
Total Comprehensive Income and Expenditure	(45,769)	(45,769)	(15,345)	(61,114)	(325)	(46,094)	(46,094)	(15,345)	(61,439)
Adjustments between accounting basis and funding basis under regulations:	46,433	46,984	(46,984)	-	-	46,433	46,984	(46,984)	-
Net increase/decrease before transfers to earmarked reserves	664	1,215	(62,329)	(61,114)	(325)	338	890	(62,329)	(61,439)
Net tfr to/(from) earmarked reserves	(77)	(429)	429	-	-	(77)	(429)	429	-
Increase/Decrease in the year	586	787	(61,900)	(61,114)	(325)	126	261	(61,900)	(61,439)
Balance as at 31 March 2019	16,369	36,017	(782,770)	(746,754)	(1,831)	14,357	34,185	(782,770)	(748,585)

Balance Sheet:

SUMMARY	Original 2018/19 £000	Prior Period Adjustment £000	Restated 2018/19 £000
Property, plant & equipment	96,700	-	96,700
Intangible assets	343	-	343
Long-term investments	5,000	-	5,000
Total Long Term Assets	**102,043**		**102,043**
Inventories	238	-	238
Short term investments	15,000	-	15,000
Short term debtors	9,737	-	9,737
Cash & cash equivalents	14,841	-	14,841
Current Assets	**39,817**		**39,817**
Other short term liabilities	(384)	-	(384)
Short term creditors	(6,265)	(1,831)	(8,097)
Current Liabilities	**(6,649)**	**(1,831)**	**(8,480)**
Provisions	(1,282)	-	(1,282)
Long term borrowing	(2,000)	-	(2,000)
Other long term liabilities	(878,683)	-	(878,683)
Long Term Liabilities	**(881,965)**		**(881,965)**
TOTAL ASSETS LESS LIABILITIES	**(746,754)**	**(1,831)**	**(748,585)**
FINANCED BY:			
Revenue Reserves	(16,370)	1,831	(14,538)
Capital Funding Reserve	(17,393)	-	(17,393)
Capital grants unapplied	(605)	-	(605)
Usable Capital Receipts Reserve	(1,649)	-	(1,649)
Usable Reserves:	(36,017)	1,831	(34,186)
Revaluation Reserve	(43,926)	-	(43,926)
Capital Adjustment Account	(38,461)	-	(38,461)
Collection Fund Adjustment Account	(496)	-	(496)
Accumulated Absences Adjustment Account	764	-	764
Pensions Reserve	864,889	-	864,889
Unusable Reserves:	782,771		782,771
Total Net Worth	**746,754**	**1,831**	**748,585**

2 Expenditure and Funding Analysis

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

2019/20	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	39,583	-	39,583	(5,845)	33,738
Strategy and Planning	9,070	-	9,070	(494)	8,576
People and Development	1,409	-	1,409	224	1,633
Corporate Services	4,907	-	4,907	114	5,021
Firefighters Pensions	1,283	-	1,283	-	1,283
Overheads	676	38	714	1,132	1,846
Net cost of Services	56,928	38	56,967	**(4,869)**	**52,097**
Other income and expenditure	(56,681)	-	(56,681)	22,202	(34,479)
Surplus on provision of services	248	38	286	**17,332**	**17,618**
Opening General Fund balance			(6,518)		
Surplus on provision of services			286		
NWFC recognise 25% surplus on provision of services			(118)		
Closing General Fund balance			(6,350)		

2018/19	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund as restated £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	36,278	434	36,712	(8,715)	27,673
Strategy and Planning	8,342	-	8,342	(662)	7,680
People and Development	1,396	-	1,396	209	1,604
Corporate Services	4,127	-	4,127	85	4,212
Firefighters Pensions	1,242	-	1,242	-	1,242
Overheads	3,401	(7)	3,394	34,249	37,643
Net cost of Services	54,786	427	55,213	**25,166**	**80,055**
Other income and expenditure	(55,221)	-	(55,221)	20,936	(34,285)
Surplus on provision of services	(435)	427	(8)	**46,102**	**45,769**
Opening General Fund balance as restated			(6,392)		
Surplus on provision of services			(8)		
NWFC recognise 25% surplus on provision of services			(117)		
Closing General Fund balance			(6,518)		

2a Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts **2019/20**	Transfer to/(from) Earmarked Reserves £000	**Total to arrive at amount charged to the General Fund £000**	Adjustments for Capital Purposes (1) £000	Net change for Pensions Adjustments (2) £000	Other Differences (3) £000	**Total adjustment between funding and accounting basis £000**
Service Delivery	-	**-**	95	(5,628)	(311)	**(5,845)**
Strategy and Planning	-	**-**	(37)	(274)	(184)	**(494)**
People and Development	-	**-**	-	214	10	**224**
Corporate Services	-	**-**	-	214	(100)	**114**
Firefighters Pensions	-	**-**	-	-	-	**-**
Overheads	38	**38**	1,388	925	(1,181)	**1,132**
Net cost of Services	38	**38**	**1,446**	**(4,549)**	**(1,766)**	**(4,869)**
Other income and expenditure	-	**-**	(14)	21,130	1,085	**22,202**
Total	38	**38**	**1,432**	**16,581**	**(681)**	**17,332**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Transfer to/(from) Earmarked Reserves	Other Adjustment as restated	**Total to arrive at amount charged to the General Fund as restates**	Adjustments for Capital Purposes (1)	Net change for Pensions Adjustments (2)	Other Differences (note 3)	**Total adjustment between funding and accounting basis**
2018/19	£000	£000	**£000**	£000	£000	£000	**£000**
Service Delivery	109	325	**434**	112	(8,717)	(110)	**(8,715)**
Strategy and Planning	-	-	**-**	(13)	(692)	43	**(662)**
People and Development	-	-	**-**	-	189	20	**209**
Corporate Services	-	-	**-**	-	85	-	**85**
Firefighters Pensions	-	-	**-**	-	-	-	**-**
Overheads	(7)	-	**(7)**	1,936	33,600	(1,288)	**34,249**
Net cost of Services	102	325	**427**	**2,036**	**24,466**	**(1,335)**	**25,166**
Other income and expenditure	-	-	**-**	(68)	20,276	729	**20,936**
Total	102	325	**427**	**1,968**	**44,741**	**(606)**	**46,102**

Note 1 – Adjustments for capital purposes – this column adds in depreciation, impairments and revaluation gains and losses. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written off. MRP is deducted because it is not chargeable under generally accepted accounting practices. Adjustments are also made to recognise capital grant income.

Note 2 – Pensions Adjustments - This shows which lines have been affected by the removal of pension contributions and replaced with IAS19 debits and credits.

Note 3 – Other Differences - This column adjusts for timing differences on the amounts chargeable for Business Rates and Council Tax under Statute and the Code.

3 Fire Authority Costs

In 2019/20 Fire Authority costs amounted to £0.266m (2018/19: £0.274m), analysed as follows:

	2019/20	2018/19
	£000	£000
Members allowances/expenses	135	132
Statutory officers	91	97
Subscriptions	-	11
Others	40	34
	266	274

4 Employees Emoluments

Details of the Authority’s employees, out of an estimated 1,015 full-time equivalent, who have received pay and benefits of more than £50,000 are:

	2019/20	2018/19
	No.	No.
£75,000 - £89,999	2	2
£70,000 - £74,999	1	2
£65,000 - £69,999	4	4
£60,000 - £64,999	5	7
£55,000 - £59,999	20	13
£50,000 - £54,999	36	32
	68	60

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

Senior Officers Remuneration

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

Post holder information (post title and name) **2019/20**	Salary	Allowances (estimated based on 2018/19 figures)	Total Remuneration excluding pension contributions	Pension contributions accrued at the standard employer rate for all senior officers	Total Remuneration including pension contributions
Chief Fire Officer – Chris Kenny (1 April 19 – 30 April 19)	13,400	514	13,914	4,998	18,912
Director of Strategy & Planning (1 April 19 – 30 April 19) Chief Fire Officer (1 May 19 to date) – Justin Johnston	144,153	8,040	152,193	41,516	193,709
Director of Service Delivery – David Russel	133,700	5,131	138,831	38,490	177,321
Director of Strategy & Planning – Ben Norman (1 May 19 to date)	102,483	4,216	106,699	24,928	131,627
Director of People & Development – Robert Warren	104,459	-	104,459	15,355	119,814
Director of Corporate Services – Keith Mattinson	104,459	-	104,459	15,355	119,814
	602,654	17,901	620,555	140,642	761,197

Post holder information (post title and name) **2018/19**	Salary	Allowances Restated*	Total Remuneration excluding pension contributions	Pension contributions accrued at the standard employer rate for all senior officers	Total Remuneration including pension contributions
Chief Fire Officer – Chris Kenny	160,016	5,367	165,383	34,723	200,106
Director of Strategy & Planning – Justin Johnston	136,014	4,637	140,651	19,450	160,101
Director of Service Delivery – David Russel	128,012	1,498	129,510	18,306	147,816
Director of People & Development – Robert Warren	102,410	-	102,410	15,054	117,464
Director of Corporate Services – Keith Mattinson	102,410	-	102,410	15,054	117,464
	628,862	11,502	640,364	102,587	742,951

* The 2018/19 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2018/19 Statement of Accounts.

Exit Packages

There were no exit packages in 2019/20 or 2018/19.

5 External Auditors Fees

In 2019/20, the Fire Authority paid a total of £0.028m to its external auditors, Grant Thornton (2018/19: £0.028m), as follows:

	2019/20	2018/19 Restated*
	£000	£000
Audit fees – Grant Thornton	28	28

* The 2018/19 fee has been restated to include an additional charge in respect of work carried out on pensions following the McCloud judgement, and P,P&E following a change in national audit requirements.

6 Related Parties Transactions

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

Central Government

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

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in note 2. As required under Section 81 of the Local Government Act 2000, members' outside interests are recorded in a formal register and the Code of Conduct operated by the Authority requires members to declare any related interests they have, and to take no part in meetings or decisions on issues concerning those related interests.

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

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

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

Officers

In 2019/20 one Senior Officer declared a family relationship with a Senior Officer in one of our major precepting authorities. Although there are significant transactions between the two parties in relation to business rates (£0.629m received from the precepting authority, 2018/19: £0.402m), and council tax

(£2.421m received from the precepting authority, 2018/19 £2.317m), the administration of these is strictly defined by a statutory framework.

7 Property, Plant & Equipment

Details on policies can be seen in note 30, Accounting Policies.

Movements during the Year

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

Movements in Property, Plant and Equipment analysed into their different categories for 2019/20 are:

Movement during the year	**Other Land & Buildings** £000	**PFI Assets – land & buildings** £000	**Vehicles, Plant & Equipment** £000	**Total Property, Plant & Equipment** £000
Cost or valuation				
At 1 April 2019	57,641	28,889	23,644	110,174
Additions	420	-	2,012	2,432
Disposals	-	-	(1,308)	(1,308)
Impairment losses recognised in the Revaluation Reserve	(1,322)	(405)	-	(1,727)
Impairment losses recognised in the Deficit on the Provision of Services	(143)	-	(5)	(148)
Derecognition – other	-	-	(392)	(392)
Revaluations	2,395	1,156	-	3,551
As at 31 March 2020	58,991	29,640	23,951	112,582
Depreciation and impairments				
At 1 April 2019	-	-	(13,474)	(13,474)
Depreciation charge for 2019/20	(1,743)	(674)	(1,494)	(3,911)
Disposals	-	-	1,308	1,308
Derecognition – other	-	-	392	392
Revaluations	1,743	674	-	2,417
As at 31 March 2020	-	-	(13,268)	(13,268)
Balance sheet at 31 March 2020	58,991	29,640	10,683	99,314
Balance sheet at 31 March 2019	57,641	28,889	10,170	96,700
Nature of asset holding				
Owned	58,721	-	10,529	69,250
Finance lease	270	-	154	424
PFI	-	29,640	-	29,640
	58,991	29,640	10,683	99,314
Carried at historical cost	-	-	10,657	10,657
Valued at current value as at:				
31 March 2020	58,991	29,640	-	88,631
31 March 2010	-	-	26	26
Total cost or valuation	58,991	29,640	10,683	99,314

On 31 March 2020 the Authority undertook a full revaluation review on approximately one fifth of its land and buildings, and in addition carried out a desktop revaluation exercise on the remainder, which resulted in a net revaluation gain of £5.967m (2018/19: net gain of £6.706m).

The comparative figures detailing the movement during 2018/19:

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

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

Heritage Assets

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

Capital Expenditure

The total capital expenditure in 2019/20 is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2019/20 £000	2018/19 £000
Opening Capital Financing Requirement	14,374	14,518
Capital investment:		
Property, Plant & Equipment*	2,432	2,635
Intangible assets*	651	5
Sources of Finance:		
Government Grant	-	-
Capital Reserves	(860)	(352)
Earmarked Reserves	-	(28)
Revenue contributions to capital*	(2,223)	(2,068)
MRP	(575)	(337)
Closing Capital Financing Requirement	13,799	14,374
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow (supported by Government financial assistance)	(575)	(337)
Assets acquired under finance lease	-	193
	(575)	(144)

* Includes NWFC balances

Details of Assets Held

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

	2019/20	2018/19
Headquarters	1	1
Fire Stations (including Area Headquarters)	39	39
Training School	1	1
Fire houses	1	1

Capital Commitments

Capital projects often take several years to complete, which means that the Authority is committed to capital expenditure in following years arising from contracts entered into at the Balance Sheet date, but on which all or part of the capital work has yet to be undertaken. The estimated capital expenditure committed at 31 March 2020 is £0.318m (2018/19: £2.806m).

8 Intangible Assets

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

Movement during	2019/20 £000	2018/19 £000
Cost or valuation		
At 1 April	2,092	2,087
Additions	651	5
Derecognised	(365)	-
As at 31 March	2,378	2,092
Amortisation & impairment		
At 1 April	(1,749)	(1,615)
Amortisation charge for the year	(135)	(134)
Derecognised	365	-
As at 31 March	(1,519)	(1,749)
Balance sheet at 31 March 2020	859	343
Balance sheet at 31 March 2019	472	472

9 Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. No-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments.

Financial assets – balances

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Authority. The financial assets held by the Authority during the year are all accounted for under the amortised cost, comprising:

- Investments, which are loans to other local authorities
- Cash in hand and bank current and deposit accounts
- Trade receivables for goods and services provided

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long-Term		Current	
	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000
Loans and receivables - Investments	5,000	5,000	5,000	15,000
Cash & cash equivalents	-	-	27,922	14,841
Other trade receivables	-	-	171	170

Financial liabilities – balances

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority.

All of the Authority's financial liabilities held during the year are measured at amortised cost, and comprise:

- Long term loans from the Public Work Loans Board
- Private Finance Initiative (PFI) contracts, detailed in note 14
- Lease payables
- Trade payables for goods and services received

	Long-Term		Current	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
Borrowings	2,022	2,021	-	-
PFI and finance lease arrangements	13,377	13,793	417	384
Trade payables	-	-	4,255	4,560

Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	2019/20	2018/19	2019/20	2018/19
Financial Liabilities at amortised cost	£000	£000	£000	£000
Interest payable relating to PFI	1,362	1,380	-	-
Interest payable relating to Borrowing	90	89	-	-
Interest payable relating to finance leases	9	10	-	-
Total expense in Deficit on the Provision of Services	1,461	1,479	-	-
Financial Assets at amortised cost				
Interest income	-	-	(332)	(358)
Total income in Deficit on the Provision of Services	-	-	(332)	(358)
Net gain/(loss) for the year	1,461	1,479	(332)	(358)

Fair Values of Financial Instruments

In accordance with IFRS 9, financial liabilities, financial assets represented by loans and receivables and long term creditors, are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2020 of 4.48% to 4.49% for loans from the PWLB
- This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and

period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.
- The fair value of the PFI liabilities has been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated bond yield rates.

The fair values calculated are as follows:

	31 March 2020		31 March 2019	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£000	£000	£000	£000
Loans from the Public Works Loan Board	2,022	2,725	2,021	2,687
Cash deposits invested and classed as loans and receivables	-	-	-	-
PFI Liabilities	13,575	16,636	13,917	16,954

Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2020 is £2.000 million (2018/19: £2.000m) and it is due for repayment as shown in the following table:

	2019/20	2018/19
	£000	£000
Over 10 years	2,000	2,000
	2,000	2,000

10 Debtors

	2019/20	2018/19
	£000	£000
Trade debtors	962	2,406
VAT	215	176
Local taxation debtors	3,566	3,161
Other debtors	4,058	3,994
	8,801	9,737

11 Cash & Cash Equivalents

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

	2019/20	2018/19
	£000	£000
Cash held by the Authority	54	54
Cash held by North West FireControl (25% share)	462	141
Call account balance	27,406	14,646
	27,922	14,841

The call account balance is placed with Lancashire Country Council. Interest on these balances is paid to the Authority. The investments have an amortised cost at 31 March 2020 equal to their nominal value.

12 Creditors

	2019/20	2018/19 Restated
	£000	£000
Goods and services creditors	3,188	4,106
PAYE/NI	854	964
Local taxation creditors	1,942	1,907
Other creditors	1,158	871
Receipts in advance	1,278	249
	8,420	8,097

13 Provisions

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

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

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

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

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

	Insurance Liabilities		Part time workers		Business rates appeals		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April	502	434	22	22	758	628	1,282	1,084
Amounts utilised	(64)	(38)	-	-	-	-	(64)	(38)
Unused amounts reversed	(93)	(41)	-	-	-	-	(93)	(41)
Additional provision	178	147	-	-	278	130	456	277
Balance at 31 March	522	502	22	22	1,036	758	1,580	1,282

14 Other Long Term Liabilities

Other long term liabilities comprise the following:

	2019/20 £000	2018/19 £000
Finance Lease Liability	115	154
PFI Liability (see note 14)	13,202	13,575
PFI Contractor Loan (see note 14)	60	65
Pension Liability (see note 15)	812,676	864,889
	826,053	878,683

15 PFI Schemes

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

PFF Lancashire Limited

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

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

Under the contract PFF Lancashire Limited made a contribution of £0.150m towards the development costs, which is repaid through the annual unitary charge on the life of the 30-year contract commencing in 2005/06. In accordance with recommended accounting practice, the reimbursement has been classed as a loan and the liability reflected as such in the Authority's accounts. At 31 March 2020 the total outstanding loan was £0.065m (2018/19: £0.070m).

Balfour Beatty Fire and Rescue NW Limited

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

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

All PFI Schemes

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

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

Payments remaining to be made under both PFI contracts and Government Subsidies to be received at 31 March 2020 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total	Government Subsidy
	£000	£000	£000	£000	£000
Payable in 1 year	731	373	1,340	2,444	1,734
Payable within 2-5 years	3,132	1,862	5,073	10,067	6,935
Payable within 6-10 years	4,427	3,575	5,214	13,216	8,668
Payable within 11-15 years	4,273	4,538	3,322	12,133	7,683
Payable within 16-20 years	2,384	3,226	964	6,574	4,119
Total	14,947	13,575	15,914	44,435	29,139

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

	2019/20	2018/19
	£000	£000
Balance outstanding at the start of the year	13,917	14,231
Payments during the year	(342)	(314)
Balance outstanding at year end	13,575	13,917

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

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

The Authority participates in two pension schemes:

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

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000
Comprehensive Income & Expenditure Statement				
Cost of Services:				
• Current service cost	2,067	1,801	15,970	10,660
• Administrative expenses	33	26	-	-
• Past service cost	242	434	350	32,970
	2,342	2,261	16,320	43,630
Financing and Investment Income and Expenditure:				
• Interest cost	1,659	1,625	20,950	20,100
• Interest on scheme assets	(1,479)	(1,449)	-	-
	180	176	20,950	20,100
Total post employment benefit charged to the deficit on provision of services	**2,522**	**2,437**	**37,270**	**63,730**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
• Actuarial (gains) and losses	(2,424)	(1,156)	(66,370)	21,040
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**98**	**1,281**	**(29,100)**	**84,770**
Movement in reserves statement				
• Reversal of net charges made to the deficit on provision of services in accordance with the code	483	(726)	51,730	(63,900)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to the scheme	(581)	(555)	-	-
Net retirement benefits payable to pensioners	-	-	(22,630)	(20,870)
	-	-	-	-

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

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

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

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

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

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

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

Retirement benefits payable to pensioners – the net payments made in respect of the Firefighter pension scheme. Note, the fund also received a top up grant of £14.657m (2018/19: £16.511m) in addition to these, which can be seen in the Firefighters Pension Fund Account on page 63.

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

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
Opening balance at 1 April	(69,436)	(62,839)	(857,236)	(793,336)
Current service cost	(2,068)	(1,801)	(15,680)	(10,500)
Interest on liabilities	(1,659)	(1,625)	(20,950)	(20,100)
Contributions by scheme participants	(392)	(371)	(3,310)	(3,240)
Remeasurements (liabilities):				
Experience (gain)/loss	(856)	-	4,600	900
Gain/(Loss) on financial assumptions	1,454	(3,808)	35,670	(21,940)
Gain/(Loss) on demographic assumptions	2,567	-	26,100	-
Benefits/transfers paid	1,529	1,441	25,650	23,950
Past service cost	(242)	(434)	(350)	(32,970)
Closing balance at 31 March	(69,102)	(69,436)	(805,506)	(857,236)

Reconciliation of the fair value of the scheme assets:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
Opening balance at 1 April	61,783	55,910	-	-
Interest on scheme assets	1,479	1,449	-	-
Remeasurements (assets)	(741)	4,964	-	-
Administrative expenses	(33)	(26)	-	-
Employer contributions	581	556	22,340	20,710
Contributions by scheme participants	392	371	3,310	3,240
Benefits paid	(1,529)	(1,441)	(25,650)	(23,950)
Closing balance at 31 March	61,932	61,783	-	-

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

The actual return on scheme assets in the year was a gain of £0.507m (2018/19: gain of £6.239m). The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2020 is a gain of £0.219m (2018/19: cumulative gain of £0.287m).

Scheme history

	2019/20	2018/19	2017/18	2016/17	2015/16
	£000	£000	£000	£000	£000
Present value of liabilities:					
Local Government Pension Scheme (LGPS)	(69,102)	(69,436)	(62,839)	(62,912)	(49,267)
Firefighters Pension Scheme	(805,506)	(857,236)	(793,336)	(788,856)	(666,356)
Fair value of assets in LGPS	61,932	61,783	55,910	54,025	44,027
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(7,170)	(7,653)	(6,929)	(8,887)	(5,240)
Firefighters Pension Scheme	(805,506)	(857,236)	(793,336)	(788,856)	(666,356)
Total	(812,676)	(864,889)	(800,265)	(797,743)	(671,596)

The liabilities show the underlying commitments that the Authority has in the long-term to pay post-employment benefits. The total liability of both schemes, £812.676m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £691.437m (2018/19: £746.754m). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

- Any surplus/deficit on the Local Government Pensions scheme will be recovered by annual repayments from/to the fund, as assessed by the scheme actuary, throughout the agreed surplus recovery period. Although the year end deficit above shows a £7m deficit, the latest actuarial valuation was actually a surplus of £9.7m as at 31 March 2019, which is being recovered by annual receipts of £0.8m from the pension fund.

- Finance is only required to be raised to cover fire fighter pensions when the pensions are actually paid.

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

	Local Government Pension Scheme*	Firefighters' Pension Scheme**	Total
	£000	£000	£000
Estimated contributions	1,420	7,069	8,489

*LGPS contributions shown are gross of the surplus recovery referred above.
** Firefighters contributions are partly funded by £3.1m government grant

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The Firefighters' Scheme has been assessed by GAD (the Government Actuarial Department), an independent firm of actuaries. Estimates for the Firefighters pension scheme are based on a 'roll forward approach' which updates the last full valuation on 31 March 2016, taking account of any significant changes since this. The figures include an estimate of the potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The Local Government Fund liabilities have been assessed by Mercer Resource Consulting Limited, an independent firm of actuaries. Estimates for the LGPS are based on a 'roll forward approach' which updates the last full valuation as at 31 March 2019, taking account of any significant changes since this. The LGPS figures also include a past service cost in relation to a potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The principal assumptions used by the actuary have been:

	NWFC Local Government Pension Scheme		LCFA Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
Mortality assumptions:	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Longevity at 65 for current pensioners:						
Men	21.2	22.3	22.3	22.8	21.3	22.0
Women	23.6	24.5	25.0	25.5	21.3	22.0
Longevity at 65 for future pensioners:						
Men	21.9	23.9	23.8	25.1	23.0	23.9
Women	25.0	26.5	26.8	28.2	23.0	23.9
Rate of CPI inflation	1.80%	2.40%	2.10%	2.20%	2.00%	2.35%
Rate of increase in salaries	2.50%	2.70%	3.60%	3.70%	4.00%	4.35%
Rate of increase in pensions	1.80%	2.40%	2.20%	2.30%	2.00%	2.35%
Rate for discounting scheme liabilities	2.30%	2.50%	2.40%	2.40%	2.25%	2.45%
Take up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%	50%	50%

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

	Quoted in active market	Assets at 31 March 2020		Assets at 31 March 2019	
		Fair Value £000	%	Fair Value £000	%
Equities	Y	997	1.6	1,094	1.8
Bonds	Y	2,688	4.3	3,876	6.3
Property	N	1,040	1.7	5,726	9.3
Cash/Liquidity	N	863	1.4	395	0.6
Other	N	56,344	91.0	50,692	82.0
		61,932	100.0	61,783	100.0

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2019/20 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2020:

Local Government Pensions Scheme (LGPS) inc NWFC:	2019/20	2018/19	2017/18	2016/17	2015/16
	%	%	%	%	%
Experience Gains and losses on assets	1.2	8.0	1.0	12.3	1.3
Gains and losses on liabilities	(4.6)	(5.5)	4.2	16.6	(6.2)

Firefighters Pension Scheme:	2019/20	2018/19	2017/18	2016/17	2015/16
	%	%	%	%	%
Experience Gains and losses on assets	-	-	-	-	-
Gains and losses on liabilities	(8.2)	2.5	(0.9)	14.4	(4.8)

Total of LGPS and Fire Pension Schemes:	2019/20	2018/19	2017/18	2016/17	2015/16
	%	%	%	%	%
Experience Gains and losses on assets	1.2	8.0	1.0	12.3	1.3
Gains and losses on liabilities	(8.0)	1.9	(0.6)	14.6	(4.9)

17 Usable Reserves

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

	2019/20		2018/19 Restated	
	£000	£000	£000	£000
Revenue Reserves:				
General Fund		(6,350)		(6,518)
Earmarked Reserves	(3,344)		(3,607)	
PFI Equalisation Reserve	(4,483)		(4,413)	
Total Earmarked Reserves		(7,827)		(8,020)
Total Revenue Reserves		(14,177)		(14,538)
Capital Reserves:				
Capital Funding Reserve		(17,583)		(17,393)
Capital Grants Unapplied		(438)		(605)
Usable Capital Receipts		(1,663)		(1,649)
Total Usable Reserves		(33,861)		(34,186)

18 Transfers (to)/from Earmarked Reserves

	Balance at 31.3.18 Restated	Transfers in 2018/19 Restated	Transfers out 2018/19 Restated	Balance at 31.3.19 Restated	Transfers in 2019/20	Transfers out 2019/20	Balance at 31.3.20
General fund	(6,392)	(126)	-	(6,518)	(118)	286	(6,350)
Earmarked Reserves	(3,556)	(240)	189	(3,607)	(727)	990	(3,344)
PFI Equalisation Reserves	(4,327)	(125)	40	(4,413)	(140)	70	(4,483)
Total Earmarked Reserves	(7,884)	(365)	229	(8,020)	(867)	1,060	(7,827)
Capital funding reserve	(17,745)	-	352	(17,393)	(1,049)	860	(17,582)
Capital grants unapplied	(121)	(563)	79	(605)	(417)	584	(438)
Usable capital receipts	(1,582)	(68)	-	(1,649)	(14)	-	(1,663)
Total Usable Reserves	(33,724)	(1,122)	660	(34,186)	(2,465)	2,790	(33,861)

19 Unusable Reserves

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

	2019/20 £000	2018/19 £000
Revaluation Reserve	(46,544)	(43,925)
Capital Adjustment Account	(39,325)	(38,461)
Pensions Reserve	812,676	864,889
Collection Fund Adjustment Account	(589)	(496)
Accumulated Absences Adjustment Account	811	764
Total Unusable Reserves	727,029	782,771

Revaluation Reserve

	2019/20 £000	2018/19 £000
Balance at 1 April	(43,925)	(40,862)
Upward revaluation of assets	(5,967)	(6,706)
Downward revaluation of assets and impairment losses not charged to Net cost of Services	1,727	2,167
Difference between fair value depreciation and historical cost depreciation	1,595	1,476
Amount written off to the Capital Adjustment Account	26	-
	(46,544)	(43,925)

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

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

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

Capital Adjustment Account

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

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

	2019/20		2018/19	
	£000	£000	£000	£000
Balance at 1 April		(38,461)		(38,641)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
• Charges for depreciation and impairment of non-current assets	2,315		2,328	
• Revaluation losses on Property, Plant & Equipment	148		465	
• Amortisation of intangible assets	135		134	
		2,598		2,927
Disposal of assets via the Comprehensive Income & Expenditure Statement		-		-
Adjusting amounts written out of the Revaluation Reserve		(26)		-
Net amount written out of the cost of non-current assets consumed in the year		2,572		2,927
Capital financing applied in the year:				
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-		-	
• Statutory provision for financing of capital investment charged against General Fund	(386)		(335)	
• Voluntary provision for financing of capital investment charged against General Fund	(189)		(2)	
• Use of capital reserves to fund expenditure	(860)		(352)	
• Use of earmarked reserves to fund expenditure	-		(28)	
• Capital expenditure charged to General Fund Balance	(2,000)		(2,030)	
		(3,435)		(2,747)
Balance as at 31 March		(39,325)		(38,461)

Pensions Reserve

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

	2019/20	2018/19
	£000	£000
Balance at 1 April	864,889	800,264
Actuarial (gains) or losses on pensions assets and liabilities	(68,795)	19,884
Reversal of items relating to retirement benefits debited or credited to Net Cost of Services in the Comprehensive Income & Expenditure Statement	39,793	66,166
Net payments to pensioners payable in the year	(22,630)	(20,870)
Employers pension contributions	(581)	(555)
	812,676	864,889

Collection Fund Adjustment Account

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

	Council Tax		Business Rates		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000
Balance at 1 April	(474)	(601)	(23)	(103)	(496)	(704)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	88	127	-	-	88	127
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	-	-	(181)	80	(181)	80
Balance at 31 March	(386)	(474)	(203)	(23)	(589)	(496)

Accumulated Absences Adjustment Account

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

	2019/20	2018/19
	£000	£000
Balance at 1 April	764	813
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	47	(49)
Balance at 31 March	811	764

20 Contingent Liability

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

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

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

<u>Norman v Cheshire Fire & Rescue Service/Pensionability of allowances</u>
Following on from the "Norman vs Cheshire" case a review of allowances paid to staff working certain duty systems was carried out to determine if they should be pensionable. Although the Service has not concluded an agreement with the trade union, following a subsequent court decision (Smith v Mid and West Wales Fire Authority) clarifying some of the detail, we have determined that certain allowances are pensionable and are implementing these arrangements with effect from 1/6/20.

The Authority is attempting to resolve this issue via the collective bargaining arrangements, but this has not yet been concluded. Pending the outcome of this we have included an estimate of £0.6m for potential backdating to April 2019, and a prior period adjustment of £1.8m to reflect the potential for this to go back 6 years. However until such time as agreement is reached, and the final costs are known, we have not included this in the Fire-fighters pension scheme liabilities.

<u>Firefighters Pension Scheme Transitional protection arrangements (McCloud / Sargeant)</u>
Claims have been made in relation in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015 and in December 2018 the Court of Appeal (McCloud / Sargeant) ruled that the 'transitional protection' offered to some members as part

of the reform to public sector pensions amounts to unlawful discrimination. On 27 June 2019 the Supreme Court refused leave to appeal on the McCloud case. In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes. This would lead to an increase in Firefighters Pension Scheme liabilities and our actuaries (The Government Actuarial Department (GAD)) using specific assumptions and applying these across the Firefighters schemes reflected this in the IAS19 disclosure (note 15) as a Past Service Cost in 2018/19. The actuaries have highlighted that this estimate is based on one potential remedy and that the figures are highly sensitive to assumptions around short term earnings growth. HM Treasury published a consultation on the remedy in July 2020, the effect of which was to reduce the overall Firefighters pension scheme liability by £4.1m from the amount included in the unaudited accounts.

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

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

Local Government Pension Scheme (LGPS) (McCloud / Sargeant)
With regard to the LGPS a similar adjustment to past service costs within the IAS19 disclosure (note 15) was made in 2018/19 for the McCloud judgement. The impact of an increase in scheme liabilities arising from the McCloud/Sargeant judgement, once fully known, will be measured through the pension valuation process, which determines employer and employee contribution rates.

Local Government Pension Scheme (LGPS) - The Brewster Judgement
The Supreme Court ruled that a particular regulation requiring a signed nomination form from a member of the Northern Ireland Local Government Pension Scheme, in order to entitle an unmarried partner to survivor benefits in the scheme was unlawful (the Brewster judgement). The Government will consider what, if any, implications this ruling may have for other public service pension schemes. No allowance has been made for any potential cost implications in the scheme that may arise from the judgement.

21 Post Balance Sheet Events

The Treasurer approved the unaudited accounts on 14 July 2020, however on 16 July 2020 HM Treasury published a consultation on the proposed remedy for the McCloud / Sargeant case. The details contained in the consultation led to a recalculation of the past service costs recognised in the unaudited accounts, reducing the overall FF pension liability by £4.1m. As the consultation was a clarification of a situation that existed prior to the date of issue, the accounts were updated for this amendment.

22 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

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

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

Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.006m of the £0.176m balance is past due date for payment. On a prudent basis the Authority has created a provision for bad debts to cover any potential loss arising from this, which currently stands at £0.005m and which is considered sufficient for this purpose.

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

	2019/20 £000	2018/19 £000
0 to 30 days	170	165
31 to 60 days	-	10
61 to 90 days	5	1
91 to 180 days	1	1
	176	177

Liquidity Risk

The Authority has a comprehensive cash flow management system (administered by Lancashire County Council's Treasury Management Team) that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from Lancashire County Council at current market rates. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.
The maturity profile of our remaining debt is shown in the table below.

Value of PWLB loans maturing in future years	
As at 31 March 2020	
Year	Loan value £000
2036	650
2037	650
2038	700
Total	2,000

Market risk

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

- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the deficit on the provision of services will rise

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

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

Our financial assets are the cash deposits placed in a call account with Lancashire County Council. Interest received on them is linked to the base rate. Each working day the balance on the Authority's Call Account is invested to ensure that the interest received on surplus balances is maximised. The average balance within this account throughout the year was £25.8 million and, with no change in that level of balances, a 1% increase in the market rate of interest, if sustained over the whole year would give rise to additional interest earned of £258,000 and a 1% fall would give a reduction of the same amount.

23 Local Authority Controlled Company – NW FireControl Limited

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

During May 2014 all four services transferred their Control Room functions into the regionalised service provided by NW FireControl Limited. The cost of the service is charged out to the four FRAs on an agreed pro rata basis agreed by a Service Level Agreement. The implementation phase continued to be funded by a section 31 grant from the Department for Communities and Local Government plus an ongoing grant to fund 66% of the lease costs for the building. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required. From 8th May 2017 Greater Manchester Fire and Rescue Service transferred into the Greater Manchester Combined Authority and the ownership of NW FireControl Limited therefore also transfers.

An assessment for Group Accounting requirements has taken place during 2019/20 in respect of NW FireControl Limited. This is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

It has been determined that the company is governed by Joint Control due to the fact that unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement, and on this basis, the Authority's 25% share of the transactions and balances of NW FireControl Limited have been recognised within the accounts.

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

Key Information	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Total assets less Current Liabilities	311	304
Net assets*	(2,349)	(3,953)
(Loss) Before Taxation	(594)	(411)
(Loss) After Taxation	(594)	(417)
Debtor Balance (LFRS)	-	-
Creditor Balance (LFRS)	-	-
Invoices raised by NW FireControl to LFRS	1,191	1,175
Invoices raised by LFRS to NW FireControl	-	-

*Net assets includes the future pension liabilities under FRS17 reported by the Cheshire Pension Fund actuaries.
All figures are shown net of VAT.
Transactions between LFRS and NW FireControl Limited include Invoices Raised by NW FireControl to LFRS for the Control Room service and use of facilities in the building.
The Company's Financial Statements can be obtained from Companies House with the deadline for submission as 31/12/2020 for the final audited 2019/20 accounts.

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

	2019/20	2018/19 Restated
	£000	£000
Depreciation	3,911	3,803
Impairment & downwards valuations	148	465
Amortisation	135	134
Increase/(decrease) in provisions	298	198
Increase/(decrease) in creditors	2,410	(297)
(Increase)/decrease in debtors	936	1,023
(Increase)/decrease in stock	1	(10)
Movement in pension liability	16,581	44,741
	24,150	50,057

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

	2019/20	2018/19
	£000	£000
Interest received	184	181
Interest paid	(1,439)	(1,457)

Interest paid includes interest payments in respect of both finance leases and PFI schemes (see accounting policy note 30, section j)

26 Reconciliation of liabilities arising from financing activities -

	Long Term borrowings £000	Short Term borrowings £000	Lease liabilities £000	Total £000
1 April 2019	15,575	342	190	16,107
Cash flows:				
Repayment	(373)	31	(37)	(379)
Proceeds	-	-	-	-
Non-cash:				
Acquisition	-	-	-	-
31 March 2020	15,202	373	153	15,728

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

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

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment Carrying value £99.2m	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.1m for every year that useful lives had to be reduced.
Property, Plant & Equipment Carrying value £99.2m	The outbreak of the Novel Coronavirus (COVID-19) has impacted global financial markets. As at the valuation date, RICS consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The emphasis is on the current degree of uncertainty, rather than adjusting those valuations.	The majority of the Authorities Property assets are valued under the Depreciated Replacement Cost (DRC) method, as specialised assets. There is the possibility that DRC valuations will increase due to shortages of raw materials and labour. It is estimated that a 1% increase in DRC valuations would increase the assets values by £0.9m.
Fair Value Measurements – PFI schemes Carrying value (£13.6m)	When the fair values of financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using the Discounted Cash Flow (DCF) model.	The Authority uses the DCF model to measure the fair value of its PFI liabilities. Fair value is calculated using the bond yield rates against the annual net cash flows. It is estimated that a 1% decrease in the discount rate would increase the fair value by £1.6m.

Pension Liability Carrying value (£812.7m)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied to each scheme.	The effects on the net pension liability of changes in individual assumptions can be measured as follows: A 0.1% increase in these assumptions has the following effect on the net pension liability: • Discount rate – decrease of £15.8m • Inflation rate – increase of £13.1m • Pay growth – increase of £2.0m A 1 year increase in life expectancy will increase the net pension liability by £6.6m.
Fire-fighters Pension Liability & LGPS Liability Carrying value (£812.7m)	Estimate of the impact on future liabilities arising from the potential remedy awarded to affected employees relating to the McCloud/Sargeant judgement.	Past service costs were recognised in 2018/19 (see Note 15), however these are based on one potential remedy and are very sensitive to the assumptions made. The past service cost recognised in the 2019/20 accounts has been updated to reflect the details contained within the HM Treasury consultation on the McCloud/Sargeant remedy. Full details can be seen in note 19 Contingent Liabilities.
Local Government Pension scheme Assets Carrying value £61.9m	The pension fund assets are subject to the same material valuation uncertainty as our Property, Plant & Equipment assets reported above, therefore we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The emphasis is on the current degree of uncertainty, rather than adjusting those valuations.	Both the direct and indirect property assets held by the Lancashire Pension Fund carry a risk that these assets may be over / understated in the accounts. Full details can be found within the Lancashire Pension Fund annual report 2019-20.

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

28 Accounting Standards issued but not yet adopted

For 2019/20 the following accounting policy changes that need to be reported relate to:

- IFRS 16 Accounting for leases is anticipated to have a non-material impact on the Authority's Accounts. This standard, however, has been deferred from 2020/21 to 2021/22 due to pressures on Local Government due to the Pandemic. The only assets deemed affected by standard would be three leased properties which we cannot reliably measure the value of. These properties will be valued in 2020/21 to provide a more accurate position.
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

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

29 Expenditure and Income Analysed by Nature

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

	2019/20 £000	2018/19 Restated £000
Expenditure		
Employee benefits expenses	42,582	67,716
Other services expenses	12,850	13,925
Support service recharges	-	4
Depreciation, amortisation and impairment	4,194	4,402
Interest payments	22,611	21,755
Gain on disposal of fixed assets	(14)	(68)
Total expenditure	82,203	107,733
Income		
Fees, charges and other service income	(7,528)	(5,666)
Interest and investment income	(332)	(358)
Income from council tax and business rates	(54,653)	(44,845)
Government grants and contributions	(2,072)	(10,771)
Total Income	(64,585)	(61,640)
Deficit on the provision of services	17,618	46,094

30 Critical Judgements

McCloud/Sargeant Judgement
In updating the Firefighters pension liability for the HM Treasury consultation details, the Authority has made a critical judgement that the consultation publication was an adjusting Post Balance Sheet event (see note 20).

Norman v Cheshire Fire & Rescue Service/Pensionability of allowances
The Authority has accrued for the backdating of employers pension contributions following the high court ruling in March 2019. Whilst negotiations with the Fire Brigades Union on the extent of any backdating have not yet concluded the accounts allow for 6 years potential backdating.

31 Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom – 2019/20, supported by International Financial Reporting Standards (IFRS).

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

b Accruals of income and expenditure

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

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

c Cash & cash equivalents

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

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

d Charges to Revenue for Non-Current Assets

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

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

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

e Employee Benefits

Benefits Payable During Employment

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

Post Employment Benefits

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

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

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

<u>The Firefighters' Scheme</u>

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

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

In calculating the liability for 2019/20, the actuary based the valuation on a roll forwards approach.

Top up grant received during the year from the Home Office to cover the pension costs of the above scheme are recognized in the Comprehensive Income and Expenditure Statement via adjustments in respect of the actuarial valuation.

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

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

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

In calculating the liability for 2019/20, the actuary based the valuation on a roll forwards approach.

In valuing the pension scheme assets for 2019/20, the actuaries used fair value basis for both derivatives and investments.

f Financial Liabilities

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

g Financial Assets measured at amortised cost

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

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

h Government Grants & Contributions

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

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

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

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

i Non Current Assets

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

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

i) Recognition

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

ii) Measurement

Land and buildings are revalued on a rolling five year basis by a suitably qualified surveyor. As at 31 March 2019, Amcat Limited, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, carried out revaluations on the identified properties. All valuations are on the basis of depreciated replacement cost, with the exception of one property used as offices, valued at Existing Use Value.

All other Non current assets are valued at historic cost.

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

iii) Impairment

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

iv) Disposals

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

v) Depreciation

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

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

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

vi) Componentisation

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

vii) Derecognition

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

viii) Non Current Assets Held for Sale

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

j Private Finance Initiative (PFI) and similar contracts

Current status

The Authority has two existing PFI arrangements:

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

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

Accounting for PFI

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

Recognition of assets and liabilities

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

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

Minimum Revenue Provision (MRP)

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

Unitary Payment

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

Deductions from the Unitary Payment

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

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

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

k PFI Equalisation Reserve

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

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

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

l Provisions

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

m Reserves

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

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

n Contingent liabilities

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

o Going Concern

These accounts are prepared on a going concern basis, on the assumption that the Authority's functions will continue in operational existence for the foreseeable future. We anticipate a budgetary underspend during 2020/21, due to scaled back non-emergency operations as a result of the pandemic. In addition, the potential impacts of both Brexit and the Fair Funding review uncertainties were included in the assessment of reserves levels carried out for the 2021 budget setting exercise concluded in February 2020, and are not considered to have changed significantly at this time.

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

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

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

FIRE FIGHTERS PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

Fund Account	2019/20 Total £000	2018/19 Total £000
Income to the fund		
Contributions receivable:		
- From employer		
- contributions in relation to pensionable pay	(6,889)	(3,699)
- other contributions	(297)	(266)
- Members contributions	(3,022)	(3,074)
Transfers in:		
- Individual transfers from other schemes	(309)	(168)
Total Income to the Fund	**(10,517)**	**(7,207)**
Spending by the fund		
Benefits payable:		
- Pension payments	20,436	19,297
- Commutations of pensions and lump-sum retirement benefits	4,735	4,418
Transfers out:		
- Individual transfers out to other schemes	-	3
- Refunds of contributions	2	-
Total Spending by the fund	**25,174**	**23,718**
Net amount receivable for the year before top up grant receivable from central government	**14,657**	**16,511**
Top up grant receivable from central government	(14,657)	(16,511)
Net amount receivable for the year	**-**	**-**

Net Assets Statement	2019/20 £000	2018/19 £000
Net current assets and liabilities:		
- pensions top up grant receivable from central government	(4,156)	(3,765)
- other current assets and liabilities (other than liabilities and other than benefits in the future)	4,156	3,765
Net current assets at the end of the year	**-**	**-**

Firefighters Pension Fund Notes

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

The above statement shows the financial position of the total fire fighters pension fund account, showing that as at 31 March 2020 the Authority is owed £4.156m (2018/19: £3.765m) by the Home Office in order to balance the account. The fund statements do not take account of liabilities after the period end, the Authority's long term pension obligations can be found in the Authority's main statements, and also note 15 to the accounts. The fund was established under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The statement was prepared according to International Financial Reporting Standards (IFRS).

The note has been prepared in line with general accounting policies set in Note 30 – accounting policies, in particular section e.

<u>Contribution Rates</u>
Under the firefighters pension regulations the contribution rates during 2019/20 were as follows:

- for the 1992 scheme were circa 51.5% on average of pensionable pay (37.3% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2006 scheme were circa 37.8% on average of pensionable pay (27.4% for employers and between 9.4% and 10.9% for employees dependent on salary)
- for special members of the 2006 scheme were circa 51.5% of pensionable pay (37.3% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2015 scheme were circa 41.0% on average of pensionable pay (28.8% for employers and between 10.5% and 14.5% for employees dependent on salary)

These contribution levels are set nationally by the Government, and are subject to triennial revaluations by the Government Actuary's Department. Three ill health retirements were recognised during 2019/20, and four in 2018/19.

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UPDATED VERSION

STATEMENT OF ACCOUNTS

2019/20

LANCASHIRE COMBINED FIRE AUTHORITY

STATEMENT OF ACCOUNTS 2019/20

CONTENTS

NARRATIVE REPORT

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

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

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2019/20
- 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 2020 (referred to as 2019/20). 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 2019/20. 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 2019/20, which are set out in the sections shown below.

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

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

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

Balance Sheet – This shows information on the financial position of the Fire Authority as at the 31 March 2020, 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.

2019/20 saw the completion of the third and final tranche of independent inspections of the Fire Service by Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS), following on from the first tranche done in 2018/19 which included the Authority. We remain one of only two services in the country to receive an outstanding rating along with all other areas rated as good, and no areas requiring improvement in any of the 11 categories assessed. We have remained focussed on continuous improvement since our inspection in 2018 and progress is being made in areas including improving protection services, identifying high potential staff and aspiring leaders and prioritising our risk-based inspection programme.

In March 2020 the Authority won the UK Fire Service of the Year at the iESE 2020 public sector award ceremony when nominated alongside three other fire services. The judges were impressed by the service's longstanding commitment to offering the best equipment and training. The judges also remarked that the service has some of the most innovative and outstanding facilities in the country.

The Authority took part in the Lancashire business rates pool pilot during 2019/20, which was expected to retain an additional £7m of business rates income within Lancashire, rather than pay over to Central Government, therefore providing opportunities to promote further economic growth as well as building financial resilience. As such, we did not receive Revenue Support Grant (RSG) in 2019/20, but instead received a larger share of business rates income and associated Section 31 grant.

In the first months of 2020 we began to face the unprecedented effects of the Covid-19 pandemic and invoked our Business Continuity Plan to ensure we responded appropriately and proportionately. In terms of the impact on our provision of services, we continue to attend fires and road traffic collisions as before, but have had to temporarily cease some activities, such as Home Fire Safety checks where a member of staff enters the home, and the Fire Cadets programme. We continue to monitor the latest guidance and have prepared detailed plans to bring back on line all ceased activities when it is safe to do so.

Whilst operational crews continued to attend fire stations and provide services, the majority of non-operational staff were, where possible, provided with equipment to enable them to work from home. Where staff could not carry out their ordinary role from home, we utilised them to assist the Lancashire Resilience Forum in various duties benefitting the public of Lancashire, such as assistance with distribution of food parcels and maintaining telephone contact with vulnerable adults.

Although the full financial impact of the pandemic on future funding streams is still uncertain, we have carried out some initial modelling and believe that we are in a strong position to cope with potential reduced income in the next and coming financial years.

The Authority recruited 14 new whole-time firefighters and 69 new on call firefighters, of which 11% were female and 5% were from a BME background.

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. We are continuing to review further opportunities for site sharing with both North West Ambulance Service and Lancashire Constabulary. We continue to support Lancashire Constabulary by use of a shared drone, as well as assisting in missing persons searches.

2019/20 activity has increased by 0.8% to just over 17,200 incidents, and the number of accidental dwelling fires increased by 1 from the previous year. Deliberate dwelling fires remained at 124. A total of 452 gaining entry incidents were undertaken in 2019/20, a decrease of 40% over the previous year.

The 2019/20 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.

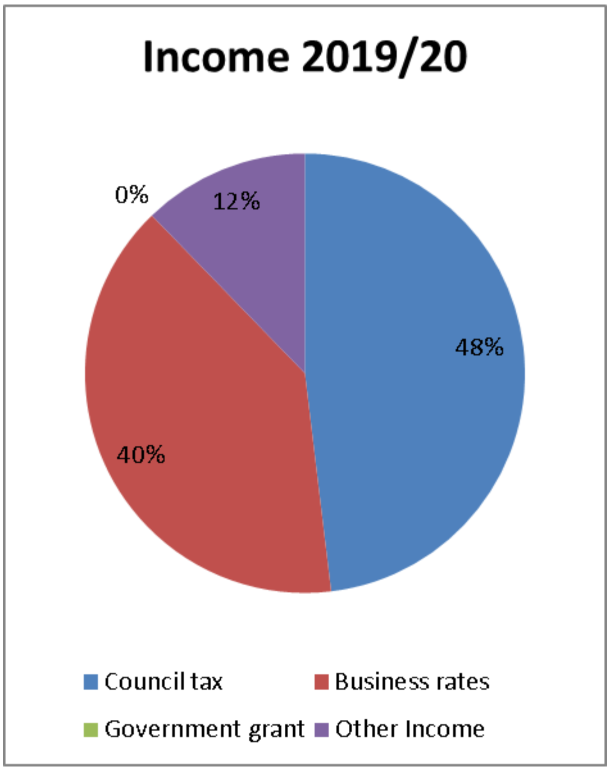
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

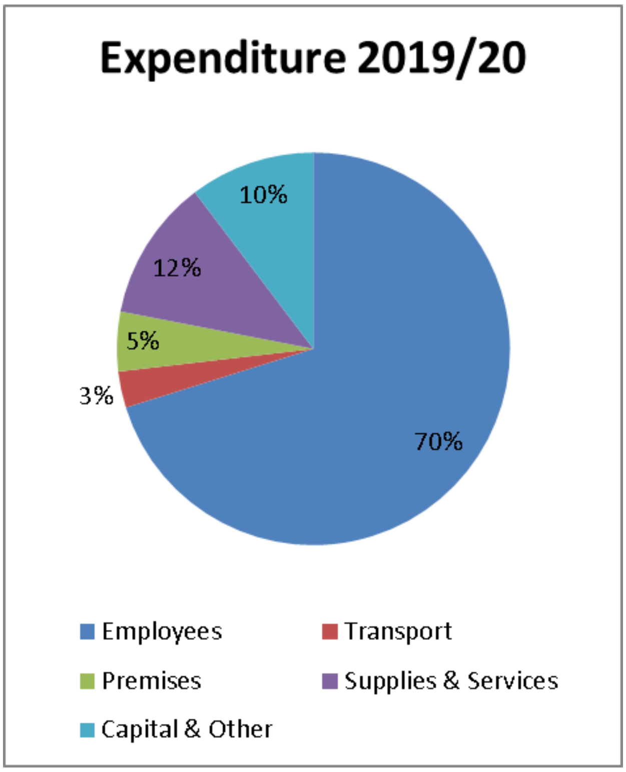
- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account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

2019/20 was the final 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 £0.5m to £23.8m. The Authority had to identify efficiencies of £1.4m and draw down £0.3m reserves in order to offset financial pressures and deliver an acceptable budget. This resulted in a gross revenue budget of £56.0m, an increase of just over 2%, and a council tax of £69.48, which is just under £1.34 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 overspend of £0.2m. reflecting backdating of various pensionable allowances to March 2019.

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	44,122	44,349	227
Other employee related costs	800	774	(26)
Premises	3,123	3,157	35
Transport	1,910	1,924	14
Supplies & services	7,834	7,484	(350)
Capital financing costs & other	5,773	6,624	851
Total Expenditure	63,562	64,312	750
Other Income	(7,511)	(7,849)	(338)
Budget requirement	56,052	56,463	412
Funded by:			
Council tax	(30,753)	(30,812)	(59)
Business rates	(25,298)	(25,402)	(104)
Government grant	(1)	(1)	-
	(56,052)	(56,215)	(163)
Net Overspend	-	248	248

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	0.248
Earmarked reserves utilised/provided for in year	0.038
Accounting for pensions under IAS19	16.431

Revenue Contributions to Capital Outlay	(2.000)
Adjustments between accounting basis and funding basis under regulations	2.470
Deficit on the provision of services	**17.187**
Surplus on revaluation of non-current assets	(4.240)
Actuarial loss on pensions assets and liabilities	(68.245)
Total Comprehensive Income and Expenditure	**(55.298)**
Recognise 25% share in North West FireControl Limited	(0.118)
Total Comprehensive Income and Expenditure	**(55.416)**

The Authority (excluding North West FireControl) transferred £0.3m from the general fund balance and as a result of this the general fund balance now stands at £6.4m, 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 2020/21 budget, shows approx. £2.2m of reserves being used by March 2025, however this position does not allow for any further backdating of pensionable allowances earlier than March 2019. Clearly any such decision would impact the level of the General Fund Balance.

The Authority also holds an additional £7.8m of earmarked revenue reserves and £19.2m of capital reserves and receipts. The Capital reserves and receipts are fully utilised within the medium term financial strategy, reducing to zero by March 2025. 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 £2.9m, as set out below:-

	Spend
Vehicles • Pumping Appliances – further stage payment for 7 Pumping Appliances from the 2018/19 capital programme • Operational Support Vehicles – purchase of Water Tower plus various support vehicles, such as vans and cars	 £0.7m £0.9m
Buildings • Training Centre firehouse refurbishment • Training Centre workshop development initial works	 £0.3m £0.1m
ICT • Replacement of the station end mobilising system • Replacement storage area network • Replacement wide area network	 £0.4m £0.1m £0.3m
Total	£2.9m

The Balance Sheet shows that the Authority's Total Net Liabilities have decreased to £693m. 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 £813m is extremely large. If this liability was excluded the Authority's Total Net Assets would be £120m. The pension liability includes estimated costs in relation to the McCloud judgement, further details can be found in note 20.

Long term assets have increased slightly in value to £105m, reflecting the expenditure incurred in year and the net outcome of revaluations.

Future Financial Plans

2019/20 was year is the last of the four year funding settlement. The anticipated 4 year Spending Review actually only covered 2020/21, with a 4 year Review. The Local Government Finance Settlement included a 1.6% increase in the Authority's settlement funding assessment for 2020/21. 2020/21 should have seen the outcome of the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a 75% Business Rates Retention Scheme, however given current economic uncertainty both of these have been put on hold for at least 12 months. The Authority has plans to deliver £0.8m of efficiencies in 2020/21, 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 ongoing recruitment campaigns. Overall these changes result in a revenue budget of £57.8m, however in order to deliver a council tax increase within the referendum limit (2%) the Authority will need to either identify further savings or utilise reserves of £0.4m. Therefore the net revenue budget requirement is £57.3m, an increase of 2.5%, resulting in a council tax of £70.86, an increase of 1.99%. 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.

Given economic uncertainty, particularly surrounding the Covid-19 pandemic, Brexit, 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 had assumed that the funding trajectory in this years' settlement is maintained, ie increases in line with current inflation of 1.5%.

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 £29m 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 review the business cases for replacement of both Preston Fire Station and Service Headquarters.

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.

When the national Emergency Services Mobile Communications Programme (ESMCP) progresses to a stage where we can purchase replacement radio and mobilising equipment we will upgrade our current provision. This project has incurred delays and is outside of our control. It is assumed that any costs to the Authority will be funded by specific capital grant

This can be funded from a combination of revenue contributions, specific capital grant provided by the government, capital reserves and receipts and general reserves. Should the replacements of Preston and Headquarters go ahead, over the five years there is a potential £7m shortfall in funding, however the programme is based on many assumptions which will be refined over time. Over the next three years 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

Financial plans will continue to be reviewed in light of the pandemic with particular reference to Council Tax and Business Rates income funding projections, which are expected to suffer significant shortfalls, although it is worth noting that any deficit can be spread over three year budget period.

Accounting Changes

The accounts have been prepared in accordance with the requirements of the latest Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2019/20 (the Code).

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

Scope of Responsibility

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

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

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

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Ensuring openness and comprehensive stakeholder engagement
Defining outcomes in terms of sustainable economic, social, and environmental benefits
Determining the interventions necessary to optimise the achievement of the intended outcomes
Developing the entity’s capacity, including the capability of its leadership and the individuals within it
Managing risks and performance through robust internal control and strong public financial management
Implementing good practices in transparency, reporting, and audit to deliver effective accountability

(A copy of the code, setting out the core and supporting principles, what the Authority commits itself to do and how it will do this can be found on our website at https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Code-of-Corporate-Governance.pdf)

This statement explains how the Authority has complied with the code and also meets the requirements of regulation 6(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Authority for the year ended 31 March 2020 and up to the date of approval of the 2019/20 Statement of Accounts.

The Governance Framework

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

- The Integrated Risk Management Plan (IRMP) describes our aims, priorities, equality objectives and values, setting out our ambitions and how we will deliver them in the medium term. The current plan covering 2017-2022 can be found on our website at https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Integrated-Risk-Management-Plan.pdf

- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan has been extended due to the Coronavirus pandemic and now covers 2020/22 was approved this year and can be found on our website at https://vault.ecloud.co.uk/lancsfire/2020/06/Digital-ASP-20-22.pdf

- A Communication Strategy and the Consultation Strategy;

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

- A Corporate Programme Board provides oversight across 4 areas:-
    - Business Process Improvement Programme
    - Workforce Development Programme
    - Service Delivery Change Programme
    - Capital Projects Programme.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of effectiveness

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

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

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

- The Integrated Risk Management Plan covers the five year period 2017-2022.

- We updated our Strategic Assessment of Risk.

- A revised Annual Service Plan has been agreed, covering 2020/22 (this is now a 2 year plan due to the Coronavirus pandemic), providing clarity, both internally and externally, on our priorities set out in the IRMP and describes what our ambitions are for each priority, as well as setting out the projects and actions that will be delivered, developed or reviewed during the coming year against each of our priorities. This is supported by Local Delivery Plans.

- A framework exists to review potential partnership arrangements utilising the following criteria:

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

- Statement of Intent: Enhanced Collaboration between LFRS and Constabulary approved at Joint Exec Board. Joint Collaboration group established, reporting through to Members.

- An Operational Assurance Team undertake a programme of service wide station assurance visits to identify areas for improvement and track these through to completion, and publicise any improvements through a regular newsletter, thus enhancing operational preparedness, operational response and operational learning.

- Performance appraisal incorporating values is undertaken throughout the Service

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

- We have undertaken an Assurance mapping exercise, with our Internal Auditors, which has confirmed that a strong assurance framework is in place.

- As part of the 2019/20 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can "*provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control*."

- Grant Thornton provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Audit letter did not identify any significant weaknesses in internal control arrangement and provided the following audit conclusions in relation to 2018/19:
    - Financial statements – *"We gave an unqualified opinion on the Authority's financial statements on 30 July 2019."*
    - Value for money conclusion – *"We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources."*

- HMICFRS undertook its first inspection of the Service. Overall the Service was rated as Good, in all categories other than 'Promoting the right values and culture' in which it was rated outstanding. This was the highest overall rating of any Service in the first tranche of inspections, and the only outstanding rating. "*Overall, we commend Lancashire Fire and Rescue Service for its performance. We are confident it is well equipped for this to continue*." and "*It provides an effective service*" and "*It provides an efficient and affordable service by making good use of its resources"*

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

Area for Improvement	Action to date	Complete/ On-going	Owner
Continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning	Work is on-going to build the Assurance Monitoring System that will link into LFRS debrief App and include an action tracker that will track actions from the debriefs and other assurance work (NOL, JOL etc). All communications and evidence will be stored on the system rather than on spreadsheets, folders and individuals email accounts. The action tracker is being built so that it can be used to track actions from meetings	On-going, target date March 21	Head of Digital Transformation
Performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation	A new appraisal process and form was introduced in year for all staff, with appropriate guidance provided. We will develop it further to be delivered online, and provide additional training in relation to the management of performance	On-going, target date March 21	Head of Human Resources
Area for Improvement	Action to date	Complete/ On-going	Owner

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

Significant governance issues

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

Whilst no significant governance issues were identified, the following new areas for improvement, are listed below:

- Develop 360-degree assessments for leaders to inform personal development

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

Signed:

County Councillor F De Molfetta, Chairman, Lancashire Combined Fire Authority 08 July 2020	J Johnston, Chief Fire Officer, Lancashire Fire and Rescue Service 08 July 2020	K Mattinson CPFA, Treasurer, Lancashire Combined Fire Authority 08 July 2020

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

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

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

- To approve the Statement of Accounts.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2020.

In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

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

K Mattinson CPFA	Hasina Khan
Treasurer to the Combined Fire Authority	Chair of Audit Committee
27 November 2020	27 November 2020

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

Notes		2019/20			2018/19 as Restated		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
	Continuing operations:	£000	£000	£000	£000	£000	£000
2	Service Delivery	35,760	(2,022)	33,738	31,304	(3,306)	27,998
2	Strategy and Planning	9,065	(489)	8,576	8,196	(516)	7,680
2	People and Development	1,633	-	1,633	1,604	-	1,604
2	Corporate Services	5,081	(60)	5,021	4,272	(60)	4,212
2	Fire-fighters Pensions	1,310	(27)	1,283	1,242	-	1,242
2	Overheads	6,776	(4,930)	1,846	39,427	(1,784)	37,643
2	Net Cost of Services	59,625	(7,528)	52,097	86,045	(5,666)	80,380
	Gain on disposal of non current assets			(14)			(68)
	Financing & investment income & expenditure						
9	Interest payable and similar charges			1,461			1,479
16	Pensions interest cost and expected return on pensions assets			21,130			20,276
9	Interest receivable and similar Income			(332)			(358)
	Taxation and non-specific grant income						
	Taxation on NW FireControl			-			1
	Council tax			(30,724)			(29,440)
	Revenue Support Grant			-			(9,262)
	Non-domestic rates redistribution			(23,930)			(15,405)
	Capital grant income			(417)			(563)
	Business rates S31 grant			(1,654)			(946)
	Deficit/(Surplus) on the provision of services			17,618			46,094
	(Surplus)/Deficit on revaluation of non-current assets			(4,240)			(4,539)
19	Actuarial (gains)/losses on pensions assets and liabilities			(68,795)			19,884
	Other comprehensive income & expenditure			(73,035)			15,345
	Total Comprehensive Income and Expenditure			**(55,416)**			**61,439**

MOVEMENT IN RESERVES STATEMENT 2019/20

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the provision of services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Comprehensive Income and Expenditure Statement for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.

	General fund	Earmarked reserves	Total General Fund Balance	Capital funding reserve	Capital grant unapplied reserve	Capital receipts reserve	Total usable reserves	Unusable reserves	Total Authority reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019 carried forwards as restated	6,519	8,020	14,537	17,393	605	1,649	34,185	(782,770)	(748,585)
Movement in reserves during 2019/20									
Surplus/(Deficit) on provision of services	(17,618)	-	(17,618)	-	-	-	(17,618)	-	(17,618)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	73,035	73,035
Total comprehensive income and expenditure	(17,618)	-	(17,618)	-	-	-	(17,618)	73,035	55,416
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,059	-	4,059	-	-	-	4,059	(4,059)	-
Amortisation of intangible assets	135	-	135	-	-	-	135	(135)	-
Disposal of assets	(14)	-	(14)	-	-	14	-	-	-
Capital grants unapplied	167	-	167	-	(167)	-	-	-	-
Provision for the repayment of debt	(576)	-	(576)	-	-	-	(576)	576	-
Capital expenditure charged against General Fund Balance	(2,000)	-	(2,000)	-	-	-	(2,000)	2,000	-
Amount by which the Code and the statutory pension costs differ	16,581	-	16,581	-	-	-	16,581	(16,581)	-
Amount by which the Code and the statutory collection fund income differ	(93)	-	(93)	-	-	-	(93)	93	-
	18,259	-	18,259	-	(167)	14	18,106	(18,106)	-
Net increase/decrease before transfers to earmarked reserves	641	-	641	-	(167)	14	488	54,929	55,416
Transfers (to)/from earmarked reserves	(684)	684	-	-	-	-	-	-	-
Transfers (to)/from capital funding reserve	(172)	(877)	(1,049)	189	-	-	(860)	860	-
Transfers (to)/from accumulated absences adjustment account	47	-	47	-	-	-	47	(47)	-
Net tfr (to)/from earmarked reserves	(809)	(193)	(1,002)	189	-	-	(813)	813	-
Increase/(Decrease) in the year	(168)	(193)	(361)	189	(167)	14	(325)	55,461	55,416
Balance at 31 March 2020 carried forwards	6,350	7,827	14,177	17,582	438	1,663	33,860	(727,029)	(693,169)

MOVEMENT IN RESERVES STATEMENT 2018/19 as Restated

	General fund £000	Earmarked reserves £000	Total General Fund Balance £000	Capital funding reserve £000	Capital grant unapplied reserve £000	Capital receipts reserve £000	Total usable reserves £000	Unusable reserves £000	Total Authority reserves £000
Balance at 1 April 2018 carried forwards as restated	6,392	7,884	14,276	17,745	121	1,582	33,723	(720,870)	(687,147)
Movement in reserves during 2018/19									
Surplus/(Deficit) on provision of services	(46,094)	-	(46,094)	-	-	-	(46,094)	-	(46,094)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(15,345)	(15,345)
Total comprehensive income and expenditure	(46,094)	-	(46,094)	-	-	-	(46,094)	(15,345)	(61,439)
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,268	-	4,268	-	-	-	4,268	(4,268)	-
Amortisation of intangible assets	134	-	134	-	-	-	134	(134)	-
Disposal of assets	(68)	-	(68)	-	-	68	-	-	-
Capital grants unapplied	(484)	-	(484)	-	484	-	-	-	-
Provision for the repayment of debt	(337)	-	(337)	-	-	-	(337)	337	-
Capital expenditure charged against General Fund Balance	(2,030)	-	(2,030)	-	-	-	(2,030)	2,030	-
Amount by which the Code and the statutory pension costs differ	44,741	-	44,741	-	-	-	44,741	(44,741)	-
Amount by which the Code and the statutory collection fund income differ	207	-	207	-	-	-	207	(207)	-
	46,433	-	46,433	-	484	68	46,984	(46,984)	-
Net increase/decrease before transfers to earmarked reserves	338	-	338	-	484	68	890	(62,329)	(61,439)
Transfers (to)/from earmarked reserves	(164)	136	(28)	-	-	-	(28)	28	-
Transfers (to)/from capital funding reserve	-	-	-	(352)	-	-	(352)	352	-
Transfers (to)/from accumulated absences adjustment account	(49)	-	(49)	-	-	-	(49)	49	-
Net tfr (to)/from earmarked reserves	(213)	136	(77)	(352)	-	-	(429)	429	-
Increase/(Decrease) in the year	126	136	261	(352)	484	68	461	(61,900)	(61,439)
Balance at 31 March 2019 carried forwards as restated	6,519	8,020	14,537	17,393	605	1,649	34,185	(782,770)	(748,585)

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories, usable reserves are those that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example capital receipts may only be used to fund capital expenditure). The second category is unusable reserves, and includes reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Notes		At 31 March 2020 £000	At 31 March 2019 As Restated £000	At 1 April 2018 As Restated £000
	Long Term Assets			
7	Property, Plant & Equipment	99,314	96,700	93,974
8	Intangible Assets	859	343	472
9	Long-Term Investments	5,000	5,000	5,000
		105,173	102,043	99,266
	Current Assets			
	Inventories	237	239	228
9	Short Term Investments	5,000	15,000	-
10	Short Term Debtors	8,801	9,737	10,760
11	Cash & Cash Equivalents	27,922	14,841	28,768
		41,960	39,817	39,757
	Current Liabilities			
9	Other Short Term Liabilities	(417)	(384)	(329)
12	Short Term Creditors	(10,252)	(8,097)	(8,504)
		(10,668)	(8,480)	(8,833)
	Long Term Liabilities			
13	Provisions	(1,580)	(1,282)	(1,084)
9	Long Term Borrowing	(2,000)	(2,000)	(2,000)
14	Other Long Term Liabilities	(826,053)	(878,683)	(814,251)
		(829,633)	(881,965)	(817,336)
	Net Liabilities	(693,169)	(748,585)	(687,147)
17	Revenue Reserves	(14,177)	(14,538)	(14,276)
17	Capital Funding Reserve	(17,583)	(17,393)	(17,745)
17	Capital Grants Unapplied Account	(438)	(605)	(121)
17	Usable Capital Receipts Reserve	(1,663)	(1,649)	(1,582)
17	**Usable Reserves:**	(33,861)	(34,186)	(33,724)
19	Revaluation Reserve	(46,544)	(43,925)	(40,862)
19	Capital Adjustment Account	(39,325)	(38,461)	(38,641)
14,16&19	Pension Reserve	812,676	864,889	800,264
19	Collection Fund Adjustment Account	(589)	(496)	(704)
19	Accumulated Absences Adjustment Account	811	764	813
19	**Unusable Reserves:**	727,029	782,771	720,871
	Total Reserves	693,169	748,585	687,147

These Financial Statements replace the unaudited financial statements authorised by the Treasurer on 14 July 2020.

This Statement of Accounts is that upon which the Auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the Authority at 31 March 2020 and its income and expenditure for the year then ended.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
27 November 2020

Hasina Khan
Chair of Audit Committee
27 November 2020

CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amounts of net cash flows arising from operating activities is an indicator of the extent to which the operations are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery.

Notes		2019/20		2018/19 as Restated	
		£000	£000	£000	£000
	Net (deficit)/surplus on the provision of services		(17,618)		(46,094)
24	Adjustments to net (deficit)/surplus on the provision of services for non-cash movements		24,150		50,056
	Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities		1,255		1,277
	Net cash flows from Operating Activities		**7,786**		**5,238**
	<u>Investing activities</u>				
7&8	Purchase of property plant and equipment & other capital spend	(3,068)		(2,558)	
	(Increase)/Decrease in short term deposits	10,000		(15,000)	
25	Receipts from investing activities	184		181	
	Net cash flows from investing activities		7,116		(17,377)
	<u>Financing activities</u>				
	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(384)		(332)	
	Repayment of long term borrowing	-		-	
25	Payments for financing activities	(1,439)		(1,457)	
	Net cash flows from financing activities		(1,823)		(1,789)
	Net increase/(decrease) in cash and cash equivalents		**13,081**		**(13,928)**
11	Cash and cash equivalents at the beginning of the reporting period		14,841		28,769
11	**Cash and cash equivalents at the end of the reporting period**		**27,922**		**14,841**

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Prior Period Adjustment

Following on from the “Norman vs Cheshire” and the subsequent court decision, Smith v Mid and West Wales Fire Authority, in March 2019, the Authority has determined that certain allowances are pensionable and has implemented these arrangements with effect from 1/6/20. The Authority is attempting to resolve the issue of backdating via the collective bargaining arrangements, but this has not yet been concluded. Pending the outcome of these negotiations we have now restated the 2018/19 financial statements allowing for £1.8m of potential backdating. This had previously been disclosed as a contingent liability.

These changes have had the following impact on the comparative figures for 2018/19, compared with those published in the 2018/19 accounts:

Comprehensive Income and Expenditure Statement:

	Original 2018/19 Net Expenditure £000	Prior period adjustment £000	Revised 2018/19 Net Expenditure £000
Service Delivery	27,673	325	27,998
Strategy and Planning	7,680	-	7,680
People and Development	1,604	-	1,604
Corporate Services	4,212	-	4,212
Fire-fighters Pensions	1,242	-	1,242
Overheads	37,643	-	37,643
Net Cost of Services	80,055	325	80,380
(Gain)/Loss on disposal of fixed assets	(68)	-	(68)
Interest payable and similar charges	1,479	-	1,479
Pensions interest cost and expected return on pensions assets	20,276	-	20,276
Interest and investment income	(358)	-	(358)
Taxation on NW FireControl	1	-	1
Council Tax	(29,440)	-	(29,440)
Revenue Support Grant	(9,262)	-	(9,262)
Non-domestic rates redistribution	(15,405)	-	(15,405)
Capital grant income	(563)	-	(563)
Business rates S31 grant	(946)	-	(946)
Deficit on provision of services	45,769	325	46,094
(Surplus) on revaluation of non-current assets	(4,539)	-	(4,539)
Actuarial losses on pensions assets and liabilities	19,884	-	19,884
Other comprehensive income & expenditure	15,345	-	15,345
Total Comprehensive Income and Expenditure	61,114	325	61,439

Extract from the Movement in Reserves Statement:

	Original 2018/19 MIRS Balances					Revised 2018/19 MIRS Balances			
	Total General Fund Balance £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000	Prior period adjustment to General Fund Balance £000	Total General Fund Balance £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31 March 2018 carried forwards as restated	15,783	35,231	(720,870)	(685,640)	(1,506)	14,276	33,723	(720,870)	(687,147)
(Deficit) on provision of services	(45,769)	(45,769)	-	(45,769)	(325)	(46,094)	(46,094)	-	(46,094)
Other comprehensive income & expenditure	-	-	(15,345)	(15,345)	-	-	-	(15,345)	(15,345)
Total Comprehensive Income and Expenditure	(45,769)	(45,769)	(15,345)	(61,114)	(325)	(46,094)	(46,094)	(15,345)	(61,439)
Adjustments between accounting basis and funding basis under regulations:	46,433	46,984	(46,984)	-	-	46,433	46,984	(46,984)	-
Net increase/decrease before transfers to earmarked reserves	664	1,215	(62,329)	(61,114)	(325)	338	890	(62,329)	(61,439)
Net tfr to/(from) earmarked reserves	(77)	(429)	429	-	-	(77)	(429)	429	-
Increase/Decrease in the year	586	787	(61,900)	(61,114)	(325)	126	261	(61,900)	(61,439)
Balance as at 31 March 2019	16,369	36,017	(782,770)	(746,754)	(1,831)	14,357	34,185	(782,770)	(748,585)

Balance Sheet:

SUMMARY	Original 2018/19 £000	Prior Period Adjustment £000	Restated 2018/19 £000
Property, plant & equipment	96,700	-	96,700
Intangible assets	343	-	343
Long-term investments	5,000	-	5,000
Total Long Term Assets	**102,043**		**102,043**
Inventories	238	-	238
Short term investments	15,000	-	15,000
Short term debtors	9,737	-	9,737
Cash & cash equivalents	14,841	-	14,841
Current Assets	**39,817**		**39,817**
Other short term liabilities	(384)	-	(384)
Short term creditors	(6,265)	(1,831)	(8,097)
Current Liabilities	**(6,649)**	**(1,831)**	**(8,480)**
Provisions	(1,282)	-	(1,282)
Long term borrowing	(2,000)	-	(2,000)
Other long term liabilities	(878,683)	-	(878,683)
Long Term Liabilities	**(881,965)**		**(881,965)**
TOTAL ASSETS LESS LIABILITIES	**(746,754)**	**(1,831)**	**(748,585)**
FINANCED BY:			
Revenue Reserves	(16,370)	1,831	(14,538)
Capital Funding Reserve	(17,393)	-	(17,393)
Capital grants unapplied	(605)	-	(605)
Usable Capital Receipts Reserve	(1,649)	-	(1,649)
Usable Reserves:	(36,017)	1,831	(34,186)
Revaluation Reserve	(43,926)	-	(43,926)
Capital Adjustment Account	(38,461)	-	(38,461)
Collection Fund Adjustment Account	(496)	-	(496)
Accumulated Absences Adjustment Account	764	-	764
Pensions Reserve	864,889	-	864,889
Unusable Reserves:	782,771		782,771
Total Net Worth	**746,754**	**1,831**	**748,585**

2 Expenditure and Funding Analysis

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

2019/20	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	39,583	-	39,583	(5,845)	33,738
Strategy and Planning	9,070	-	9,070	(494)	8,576
People and Development	1,409	-	1,409	224	1,633
Corporate Services	4,907	-	4,907	114	5,021
Firefighters Pensions	1,283	-	1,283	-	1,283
Overheads	676	38	714	1,132	1,846
Net cost of Services	56,928	38	56,967	**(4,869)**	**52,097**
Other income and expenditure	(56,681)	-	(56,681)	22,202	(34,479)
Surplus on provision of services	248	38	286	**17,332**	**17,618**
Opening General Fund balance			(6,518)		
Surplus on provision of services			286		
NWFC recognise 25% surplus on provision of services			(118)		
Closing General Fund balance			(6,350)		

2018/19	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund as restated £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	36,278	434	36,712	(8,715)	27,673
Strategy and Planning	8,342	-	8,342	(662)	7,680
People and Development	1,396	-	1,396	209	1,604
Corporate Services	4,127	-	4,127	85	4,212
Firefighters Pensions	1,242	-	1,242	-	1,242
Overheads	3,401	(7)	3,394	34,249	37,643
Net cost of Services	54,786	427	55,213	**25,166**	**80,055**
Other income and expenditure	(55,221)	-	(55,221)	20,936	(34,285)
Surplus on provision of services	(435)	427	(8)	**46,102**	**45,769**
Opening General Fund balance as restated			(6,392)		
Surplus on provision of services			(8)		
NWFC recognise 25% surplus on provision of services			(117)		
Closing General Fund balance			(6,518)		

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2a Note to the Expenditure and Funding Analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts **2019/20**	Transfer to/(from) Earmarked Reserves £000	**Total to arrive at amount charged to the General Fund £000**	Adjustments for Capital Purposes (1) £000	Net change for Pensions Adjustments (2) £000	Other Differences (3) £000	**Total adjustment between funding and accounting basis £000**
Service Delivery	-	**-**	95	(5,628)	(311)	**(5,845)**
Strategy and Planning	-	**-**	(37)	(274)	(184)	**(494)**
People and Development	-	**-**	-	214	10	**224**
Corporate Services	-	**-**	-	214	(100)	**114**
Firefighters Pensions	-	**-**	-	-	-	**-**
Overheads	38	**38**	1,388	925	(1,181)	**1,132**
Net cost of Services	38	**38**	**1,446**	**(4,549)**	**(1,766)**	**(4,869)**
Other income and expenditure	-	**-**	(14)	21,130	1,085	**22,202**
Total	38	**38**	**1,432**	**16,581**	**(681)**	**17,332**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Transfer to/(from) Earmarked Reserves	Other Adjustment as restated	**Total to arrive at amount charged to the General Fund as restates**	Adjustments for Capital Purposes (1)	Net change for Pensions Adjustments (2)	Other Differences (note 3)	**Total adjustment between funding and accounting basis**
2018/19	£000	£000	**£000**	£000	£000	£000	**£000**
Service Delivery	109	325	**434**	112	(8,717)	(110)	**(8,715)**
Strategy and Planning	-	-	**-**	(13)	(692)	43	**(662)**
People and Development	-	-	**-**	-	189	20	**209**
Corporate Services	-	-	**-**	-	85	-	**85**
Firefighters Pensions	-	-	**-**	-	-	-	**-**
Overheads	(7)	-	**(7)**	1,936	33,600	(1,288)	**34,249**
Net cost of Services	102	325	**427**	**2,036**	**24,466**	**(1,335)**	**25,166**
Other income and expenditure	-	-	**-**	(68)	20,276	729	**20,936**
Total	102	325	**427**	**1,968**	**44,741**	**(606)**	**46,102**

Note 1 – Adjustments for capital purposes – this column adds in depreciation, impairments and revaluation gains and losses. It also adjusts for capital disposals with a transfer of the income on the disposal and the amounts written off. MRP is deducted because it is not chargeable under generally accepted accounting practices. Adjustments are also made to recognise capital grant income.

Note 2 – Pensions Adjustments - This shows which lines have been affected by the removal of pension contributions and replaced with IAS19 debits and credits.

Note 3 – Other Differences - This column adjusts for timing differences on the amounts chargeable for Business Rates and Council Tax under Statute and the Code.

3 Fire Authority Costs

In 2019/20 Fire Authority costs amounted to £0.266m (2018/19: £0.274m), analysed as follows:

	2019/20	2018/19
	£000	£000
Members allowances/expenses	135	132
Statutory officers	91	97
Subscriptions	-	11
Others	40	34
	266	274

4 Employees Emoluments

Details of the Authority’s employees, out of an estimated 1,015 full-time equivalent, who have received pay and benefits of more than £50,000 are:

	2019/20	2018/19
	No.	No.
£75,000 - £89,999	2	2
£70,000 - £74,999	1	2
£65,000 - £69,999	4	4
£60,000 - £64,999	5	7
£55,000 - £59,999	20	13
£50,000 - £54,999	36	32
	68	60

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

Senior Officers Remuneration

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

Post holder information (post title and name) **2019/20**	Salary	Allowances (estimated based on 2018/19 figures)	Total Remuneration excluding pension contributions	Pension contributions accrued at the standard employer rate for all senior officers	Total Remuneration including pension contributions
Chief Fire Officer – Chris Kenny (1 April 19 – 30 April 19)	13,400	514	13,914	4,998	18,912
Director of Strategy & Planning (1 April 19 – 30 April 19)	144,153	8,040	152,193	41,516	193,709
Chief Fire Officer (1 May 19 to date) – Justin Johnston					
Director of Service Delivery – David Russel	133,700	5,131	138,831	38,490	177,321
Director of Strategy & Planning – Ben Norman (1 May 19 to date)	102,483	4,216	106,699	24,928	131,627
Director of People & Development – Robert Warren	104,459	-	104,459	15,355	119,814
Director of Corporate Services – Keith Mattinson	104,459	-	104,459	15,355	119,814
	602,654	17,901	620,555	140,642	761,197

Post holder information (post title and name) **2018/19**	Salary	Allowances Restated*	Total Remuneration excluding pension contributions	Pension contributions accrued at the standard employer rate for all senior officers	Total Remuneration including pension contributions
Chief Fire Officer – Chris Kenny	160,016	5,367	165,383	34,723	200,106
Director of Strategy & Planning – Justin Johnston	136,014	4,637	140,651	19,450	160,101
Director of Service Delivery – David Russel	128,012	1,498	129,510	18,306	147,816
Director of People & Development – Robert Warren	102,410	-	102,410	15,054	117,464
Director of Corporate Services – Keith Mattinson	102,410	-	102,410	15,054	117,464
	628,862	11,502	640,364	102,587	742,951

* The 2018/19 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2018/19 Statement of Accounts.

Exit Packages

There were no exit packages in 2019/20 or 2018/19.

5 External Auditors Fees

In 2019/20, the Fire Authority paid a total of £0.028m to its external auditors, Grant Thornton (2018/19: £0.028m), as follows:

	2019/20	2018/19 Restated*
	£000	£000
Audit fees – Grant Thornton	28	28

* The 2018/19 fee has been restated to include an additional charge in respect of work carried out on pensions following the McCloud judgement, and P,P&E following a change in national audit requirements.

6 Related Parties Transactions

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

Central Government

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

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in note 2. As required under Section 81 of the Local Government Act 2000, members' outside interests are recorded in a formal register and the Code of Conduct operated by the Authority requires members to declare any related interests they have, and to take no part in meetings or decisions on issues concerning those related interests.

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

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

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

Officers

In 2019/20 one Senior Officer declared a family relationship with a Senior Officer in one of our major precepting authorities. Although there are significant transactions between the two parties in relation to business rates (£0.629m received from the precepting authority, 2018/19: £0.402m), and council tax

(£2.421m received from the precepting authority, 2018/19 £2.317m), the administration of these is strictly defined by a statutory framework.

7 Property, Plant & Equipment

Details on policies can be seen in note 30, Accounting Policies.

Movements during the Year

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

Movements in Property, Plant and Equipment analysed into their different categories for 2019/20 are:

Movement during the year	**Other Land & Buildings** £000	**PFI Assets – land & buildings** £000	**Vehicles, Plant & Equipment** £000	**Total Property, Plant & Equipment** £000
Cost or valuation				
At 1 April 2019	57,641	28,889	23,644	110,174
Additions	420	-	2,012	2,432
Disposals	-	-	(1,308)	(1,308)
Impairment losses recognised in the Revaluation Reserve	(1,322)	(405)	-	(1,727)
Impairment losses recognised in the Deficit on the Provision of Services	(143)	-	(5)	(148)
Derecognition – other	-	-	(392)	(392)
Revaluations	2,395	1,156	-	3,551
As at 31 March 2020	58,991	29,640	23,951	112,582
Depreciation and impairments				
At 1 April 2019	-	-	(13,474)	(13,474)
Depreciation charge for 2019/20	(1,743)	(674)	(1,494)	(3,911)
Disposals	-	-	1,308	1,308
Derecognition – other	-	-	392	392
Revaluations	1,743	674	-	2,417
As at 31 March 2020	-	-	(13,268)	(13,268)
Balance sheet at 31 March 2020	58,991	29,640	10,683	99,314
Balance sheet at 31 March 2019	57,641	28,889	10,170	96,700
Nature of asset holding				
Owned	58,721	-	10,529	69,250
Finance lease	270	-	154	424
PFI	-	29,640	-	29,640
	58,991	29,640	10,683	99,314
Carried at historical cost	-	-	10,657	10,657
Valued at current value as at:				
31 March 2020	58,991	29,640	-	88,631
31 March 2010	-	-	26	26
Total cost or valuation	58,991	29,640	10,683	99,314

On 31 March 2020 the Authority undertook a full revaluation review on approximately one fifth of its land and buildings, and in addition carried out a desktop revaluation exercise on the remainder, which resulted in a net revaluation gain of £5.967m (2018/19: net gain of £6.706m).

The comparative figures detailing the movement during 2018/19:

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

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

Heritage Assets

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

Capital Expenditure

The total capital expenditure in 2019/20 is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2019/20	2018/19
	£000	£000
Opening Capital Financing Requirement	14,374	14,518
Capital investment:		
Property, Plant & Equipment*	2,432	2,635
Intangible assets*	651	5
Sources of Finance:		
Government Grant	-	-
Capital Reserves	(860)	(352)
Earmarked Reserves	-	(28)
Revenue contributions to capital*	(2,223)	(2,068)
MRP	(575)	(337)
Closing Capital Financing Requirement	13,799	14,374
Explanation of movements in year		
(Decrease)/Increase in underlying need to borrow (supported by Government financial assistance)	(575)	(337)
Assets acquired under finance lease	-	193
	(575)	(144)

* Includes NWFC balances

Details of Assets Held

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

	2019/20	2018/19
Headquarters	1	1
Fire Stations (including Area Headquarters)	39	39
Training School	1	1
Fire houses	1	1

Capital Commitments

Capital projects often take several years to complete, which means that the Authority is committed to capital expenditure in following years arising from contracts entered into at the Balance Sheet date, but on which all or part of the capital work has yet to be undertaken. The estimated capital expenditure committed at 31 March 2020 is £0.318m (2018/19: £2.806m).

8 Intangible Assets

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

Movement during	2019/20 £000	2018/19 £000
Cost or valuation		
At 1 April	2,092	2,087
Additions	651	5
Derecognised	(365)	-
As at 31 March	2,378	2,092
Amortisation & impairment		
At 1 April	(1,749)	(1,615)
Amortisation charge for the year	(135)	(134)
Derecognised	365	-
As at 31 March	(1,519)	(1,749)
Balance sheet at 31 March 2020	859	343
Balance sheet at 31 March 2019	472	472

9 Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. No-exchange transactions such as those relating to taxes and government grants do not give rise to financial instruments.

Financial assets – balances

A financial asset is a right to future economic benefits controlled by the Authority that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Authority. The financial assets held by the Authority during the year are all accounted for under the amortised cost, comprising:

- Investments, which are loans to other local authorities
- Cash in hand and bank current and deposit accounts
- Trade receivables for goods and services provided

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

	Long-Term		Current	
	31 March 2020 £000	31 March 2019 £000	31 March 2020 £000	31 March 2019 £000
Investments	5,000	5,000	5,000	15,000
Cash & cash equivalents	-	-	27,922	14,841
Other trade receivables	-	-	171	170

Financial liabilities – balances

A financial liability is an obligation to transfer economic benefits controlled by the Authority and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Authority.

All of the Authority's financial liabilities held during the year are measured at amortised cost, and comprise:

- Long term loans from the Public Work Loans Board
- Private Finance Initiative (PFI) contracts, detailed in note 14
- Lease payables
- Trade payables for goods and services received

	Long-Term		Current	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
Borrowings	2,022	2,021	-	-
PFI and finance lease arrangements	13,377	13,793	417	384
Trade payables	-	-	4,255	4,560

Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	2019/20	2018/19	2019/20	2018/19
Financial Liabilities at amortised cost	£000	£000	£000	£000
Interest payable relating to PFI	1,362	1,380	-	-
Interest payable relating to Borrowing	90	89	-	-
Interest payable relating to finance leases	9	10	-	-
Total expense in Deficit on the Provision of Services	1,461	1,479	-	-
Financial Assets at amortised cost				
Interest income	-	-	(332)	(358)
Total income in Deficit on the Provision of Services	-	-	(332)	(358)
Net gain/(loss) for the year	1,461	1,479	(332)	(358)

Fair Values of Financial Instruments

In accordance with IFRS 9, financial liabilities, financial assets represented by investments and long term creditors, are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates at 31 March 2020 of 4.48% to 4.49% for loans from the PWLB
- This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and

period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.
- The fair value of the PFI liabilities has been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated bond yield rates.

The fair values calculated are as follows:

	31 March 2020		31 March 2019	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£000	£000	£000	£000
Loans from the Public Works Loan Board	2,022	2,725	2,021	2,687
Cash deposits invested and classed as investments	-	-	-	-
PFI Liabilities	13,575	16,636	13,917	16,954

Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2020 is £2.000 million (2018/19: £2.000m) and it is due for repayment as shown in the following table:

	2019/20	2018/19
	£000	£000
Over 10 years	2,000	2,000
	2,000	2,000

10 Debtors

	2019/20	2018/19
	£000	£000
Trade debtors	962	2,406
VAT	215	176
Local taxation debtors	3,566	3,161
Other debtors	4,058	3,994
	8,801	9,737

11 Cash & Cash Equivalents

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

	2019/20	2018/19
	£000	£000
Cash held by the Authority	54	54
Cash held by North West FireControl (25% share)	462	141
Call account balance	27,406	14,646
	27,922	14,841

The call account balance is placed with Lancashire Country Council. Interest on these balances is paid to the Authority. The investments have an amortised cost at 31 March 2020 equal to their nominal value.

12 Creditors

	2019/20	2018/19 Restated
	£000	£000
Goods and services creditors	5,020	4,106
PAYE/NI	854	964
Local taxation creditors	1,942	1,907
Other creditors	1,158	871
Receipts in advance	1,278	249
	10,252	8,097

13 Provisions

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

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

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

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

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

	Insurance Liabilities		Part time workers		Business rates appeals		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April	502	434	22	22	758	628	1,282	1,084
Amounts utilised	(64)	(38)	-	-	-	-	(64)	(38)
Unused amounts reversed	(93)	(41)	-	-	-	-	(93)	(41)
Additional provision	178	147	-	-	278	130	456	277
Balance at 31 March	522	502	22	22	1,036	758	1,580	1,282

14 Other Long Term Liabilities

Other long term liabilities comprise the following:

	2019/20 £000	2018/19 £000
Finance Lease Liability	115	154
PFI Liability (see note 14)	13,202	13,575
PFI Contractor Loan (see note 14)	60	65
Pension Liability (see note 15)	812,676	864,889
	826,053	878,683

15 PFI Schemes

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

PFF Lancashire Limited

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

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

Under the contract PFF Lancashire Limited made a contribution of £0.150m towards the development costs, which is repaid through the annual unitary charge on the life of the 30-year contract commencing in 2005/06. In accordance with recommended accounting practice, the reimbursement has been classed as a loan and the liability reflected as such in the Authority’s accounts. At 31 March 2020 the total outstanding loan was £0.065m (2018/19: £0.070m).

Balfour Beatty Fire and Rescue NW Limited

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

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

All PFI Schemes

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

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

Payments remaining to be made under both PFI contracts and Government Subsidies to be received at 31 March 2020 are as follows:

	Payment for Services	Reimbursement of Capital Expenditure	Interest	Total	Government Subsidy
	£000	£000	£000	£000	£000
Payable in 1 year	731	373	1,340	2,444	1,734
Payable within 2-5 years	3,132	1,862	5,073	10,067	6,935
Payable within 6-10 years	4,427	3,575	5,214	13,216	8,668
Payable within 11-15 years	4,273	4,538	3,322	12,133	7,683
Payable within 16-20 years	2,384	3,226	964	6,574	4,119
Total	14,947	13,575	15,914	44,435	29,139

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

	2019/20	2018/19
	£000	£000
Balance outstanding at the start of the year	13,917	14,231
Payments during the year	(342)	(314)
Balance outstanding at year end	13,575	13,917

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

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

The Authority participates in two pension schemes:

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

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

Transactions Relating to Post-employment Benefits

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

	Local Government Pension Scheme 2019/20 £000	Local Government Pension Scheme 2018/19 £000	Uniformed Firefighters' Pension Scheme 2019/20 £000	Uniformed Firefighters' Pension Scheme 2018/19 £000
Comprehensive Income & Expenditure Statement				
Cost of Services:				
• Current service cost	2,067	1,801	15,970	10,660
• Administrative expenses	33	26	-	-
• Past service cost	242	434	350	32,970
	2,342	2,261	16,320	43,630
Financing and Investment Income and Expenditure:				
• Interest cost	1,659	1,625	20,950	20,100
• Interest on scheme assets	(1,479)	(1,449)	-	-
	180	176	20,950	20,100
Total post employment benefit charged to the deficit on provision of services	**2,522**	**2,437**	**37,270**	**63,730**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
• Actuarial (gains) and losses	(2,424)	(1,156)	(66,370)	21,040
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**98**	**1,281**	**(29,100)**	**84,770**
Movement in reserves statement				
• Reversal of net charges made to the deficit on provision of services in accordance with the code	483	(726)	51,730	(63,900)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to the scheme	(581)	(555)	-	-
Net retirement benefits payable to pensioners	-	-	(22,630)	(20,870)
	-	-	-	-

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

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

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

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

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

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

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

Retirement benefits payable to pensioners – the net payments made in respect of the Firefighter pension scheme. Note, the fund also received a top up grant of £14.657m (2018/19: £16.511m) in addition to these, which can be seen in the Firefighters Pension Fund Account on page 63.

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

Assets and Liabilities in Relation to Post-employment Benefits

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
Opening balance at 1 April	(69,436)	(62,839)	(857,236)	(793,336)
Current service cost	(2,068)	(1,801)	(15,680)	(10,500)
Interest on liabilities	(1,659)	(1,625)	(20,950)	(20,100)
Contributions by scheme participants	(392)	(371)	(3,310)	(3,240)
Remeasurements (liabilities):				
Experience (gain)/loss	(856)	-	4,600	900
Gain/(Loss) on financial assumptions	1,454	(3,808)	35,670	(21,940)
Gain/(Loss) on demographic assumptions	2,567	-	26,100	-
Benefits/transfers paid	1,529	1,441	25,650	23,950
Past service cost	(242)	(434)	(350)	(32,970)
Closing balance at 31 March	(69,102)	(69,436)	(805,506)	(857,236)

Reconciliation of the fair value of the scheme assets:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£000	£000	£000	£000
Opening balance at 1 April	61,783	55,910	-	-
Interest on scheme assets	1,479	1,449	-	-
Remeasurements (assets)	(741)	4,964	-	-
Administrative expenses	(33)	(26)	-	-
Employer contributions	581	556	22,340	20,710
Contributions by scheme participants	392	371	3,310	3,240
Benefits paid	(1,529)	(1,441)	(25,650)	(23,950)
Closing balance at 31 March	61,932	61,783	-	-

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

The actual return on scheme assets in the year was a gain of £0.507m (2018/19: gain of £6.239m). The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2020 is a gain of £0.219m (2018/19: cumulative gain of £0.287m).

Scheme history

	2019/20	2018/19	2017/18	2016/17	2015/16
	£000	£000	£000	£000	£000
Present value of liabilities:					
Local Government Pension Scheme (LGPS)	(69,102)	(69,436)	(62,839)	(62,912)	(49,267)
Firefighters Pension Scheme	(805,506)	(857,236)	(793,336)	(788,856)	(666,356)
Fair value of assets in LGPS	61,932	61,783	55,910	54,025	44,027
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(7,170)	(7,653)	(6,929)	(8,887)	(5,240)
Firefighters Pension Scheme	(805,506)	(857,236)	(793,336)	(788,856)	(666,356)
Total	(812,676)	(864,889)	(800,265)	(797,743)	(671,596)

The liabilities show the underlying commitments that the Authority has in the long-term to pay post-employment benefits. The total liability of both schemes, £812.676m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £691.437m (2018/19: £746.754m). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

- Any surplus/deficit on the Local Government Pensions scheme will be recovered by annual repayments from/to the fund, as assessed by the scheme actuary, throughout the agreed surplus recovery period. Although the year end deficit above shows a £7m deficit, the latest actuarial valuation was actually a surplus of £9.7m as at 31 March 2019, which is being recovered by annual receipts of £0.8m from the pension fund.

- Finance is only required to be raised to cover fire fighter pensions when the pensions are actually paid.

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

	Local Government Pension Scheme*	Firefighters' Pension Scheme**	Total
	£000	£000	£000
Estimated contributions	1,420	7,069	8,489

*LGPS contributions shown are gross of the surplus recovery referred above.
** Firefighters contributions are partly funded by £3.1m government grant

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The Firefighters' Scheme has been assessed by GAD (the Government Actuarial Department), an independent firm of actuaries. Estimates for the Firefighters pension scheme are based on a 'roll forward approach' which updates the last full valuation on 31 March 2016, taking account of any significant changes since this. The figures include an estimate of the potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The Local Government Fund liabilities have been assessed by Mercer Resource Consulting Limited, an independent firm of actuaries. Estimates for the LGPS are based on a 'roll forward approach' which updates the last full valuation as at 31 March 2019, taking account of any significant changes since this. The LGPS figures also include a past service cost in relation to a potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The principal assumptions used by the actuary have been:

	NWFC Local Government Pension Scheme		LCFA Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
Mortality assumptions:	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Longevity at 65 for current pensioners:						
Men	21.2	22.3	22.3	22.8	21.3	22.0
Women	23.6	24.5	25.0	25.5	21.3	22.0
Longevity at 65 for future pensioners:						
Men	21.9	23.9	23.8	25.1	23.0	23.9
Women	25.0	26.5	26.8	28.2	23.0	23.9
Rate of CPI inflation	1.80%	2.40%	2.10%	2.20%	2.00%	2.35%
Rate of increase in salaries	2.50%	2.70%	3.60%	3.70%	4.00%	4.35%
Rate of increase in pensions	1.80%	2.40%	2.20%	2.30%	2.00%	2.35%
Rate for discounting scheme liabilities	2.30%	2.50%	2.40%	2.40%	2.25%	2.45%
Take up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%	50%	50%

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

	Quoted in active market	Assets at 31 March 2020		Assets at 31 March 2019	
		Fair Value £000	%	Fair Value £000	%
Equities	Y	997	1.6	1,094	1.8
Bonds	Y	2,688	4.3	3,876	6.3
Property	N	1,040	1.7	5,726	9.3
Cash/Liquidity	N	863	1.4	395	0.6
Other	N	56,344	91.0	50,692	82.0
		61,932	100.0	61,783	100.0

History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2019/20 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2020:

Local Government Pensions Scheme (LGPS) inc NWFC:	2019/20	2018/19	2017/18	2016/17	2015/16
	%	%	%	%	%
Experience Gains and losses on assets	1.2	8.0	1.0	12.3	1.3
Gains and losses on liabilities	(4.6)	(5.5)	4.2	16.6	(6.2)

Firefighters Pension Scheme:	2019/20	2018/19	2017/18	2016/17	2015/16
	%	%	%	%	%
Experience Gains and losses on assets	-	-	-	-	-
Gains and losses on liabilities	(8.2)	2.5	(0.9)	14.4	(4.8)

Total of LGPS and Fire Pension Schemes:	2019/20	2018/19	2017/18	2016/17	2015/16
	%	%	%	%	%
Experience Gains and losses on assets	1.2	8.0	1.0	12.3	1.3
Gains and losses on liabilities	(8.0)	1.9	(0.6)	14.6	(4.9)

17 Usable Reserves

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

	2019/20		2018/19 Restated	
	£000	£000	£000	£000
Revenue Reserves:				
General Fund		(6,350)		(6,518)
Earmarked Reserves	(3,344)		(3,607)	
PFI Equalisation Reserve	(4,483)		(4,413)	
Total Earmarked Reserves		(7,827)		(8,020)
Total Revenue Reserves		(14,177)		(14,538)
Capital Reserves:				
Capital Funding Reserve		(17,583)		(17,393)
Capital Grants Unapplied		(438)		(605)
Usable Capital Receipts		(1,663)		(1,649)
Total Usable Reserves		(33,861)		(34,186)

18 Transfers (to)/from Earmarked Reserves

	Balance at 31.3.18 Restated	Transfers in 2018/19 Restated	Transfers out 2018/19 Restated	Balance at 31.3.19 Restated	Transfers in 2019/20	Transfers out 2019/20	Balance at 31.3.20
General fund	(6,392)	(126)	-	(6,518)	(118)	286	(6,350)
Earmarked Reserves	(3,556)	(240)	189	(3,607)	(727)	990	(3,344)
PFI Equalisation Reserves	(4,327)	(125)	40	(4,413)	(140)	70	(4,483)
Total Earmarked Reserves	(7,884)	(365)	229	(8,020)	(867)	1,060	(7,827)
Capital funding reserve	(17,745)	-	352	(17,393)	(1,049)	860	(17,582)
Capital grants unapplied	(121)	(563)	79	(605)	(417)	584	(438)
Usable capital receipts	(1,582)	(68)	-	(1,649)	(14)	-	(1,663)
Total Usable Reserves	(33,724)	(1,122)	660	(34,186)	(2,465)	2,790	(33,861)

19 Unusable Reserves

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

	2019/20 £000	2018/19 £000
Revaluation Reserve	(46,544)	(43,925)
Capital Adjustment Account	(39,325)	(38,461)
Pensions Reserve	812,676	864,889
Collection Fund Adjustment Account	(589)	(496)
Accumulated Absences Adjustment Account	811	764
Total Unusable Reserves	727,029	782,771

Revaluation Reserve

	2019/20 £000	2018/19 £000
Balance at 1 April	(43,925)	(40,862)
Upward revaluation of assets	(5,967)	(6,706)
Downward revaluation of assets and impairment losses not charged to Net cost of Services	1,727	2,167
Difference between fair value depreciation and historical cost depreciation	1,595	1,476
Amount written off to the Capital Adjustment Account	26	-
	(46,544)	(43,925)

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

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

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

Capital Adjustment Account

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

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

	2019/20		2018/19	
	£000	£000	£000	£000
Balance at 1 April		(38,461)		(38,641)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
• Charges for depreciation and impairment of non-current assets	2,315		2,328	
• Revaluation losses on Property, Plant & Equipment	148		465	
• Amortisation of intangible assets	135		134	
		2,598		2,927
Disposal of assets via the Comprehensive Income & Expenditure Statement		-		-
Adjusting amounts written out of the Revaluation Reserve		(26)		-
Net amount written out of the cost of non-current assets consumed in the year		2,572		2,927
Capital financing applied in the year:				
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-		-	
• Statutory provision for financing of capital investment charged against General Fund	(386)		(335)	
• Voluntary provision for financing of capital investment charged against General Fund	(189)		(2)	
• Use of capital reserves to fund expenditure	(860)		(352)	
• Use of earmarked reserves to fund expenditure	-		(28)	
• Capital expenditure charged to General Fund Balance	(2,000)		(2,030)	
		(3,435)		(2,747)
Balance as at 31 March		(39,325)		(38,461)

Pensions Reserve

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

	2019/20	2018/19
	£000	£000
Balance at 1 April	864,889	800,264
Actuarial (gains) or losses on pensions assets and liabilities	(68,795)	19,884
Reversal of items relating to retirement benefits debited or credited to Net Cost of Services in the Comprehensive Income & Expenditure Statement	39,793	66,166
Net payments to pensioners payable in the year	(22,630)	(20,870)
Employers pension contributions	(581)	(555)
	812,676	864,889

Collection Fund Adjustment Account

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

	Council Tax		Business Rates		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£000	£000	£000	£000	£000	£000
Balance at 1 April	(474)	(601)	(23)	(103)	(496)	(704)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	88	127	-	-	88	127
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	-	-	(181)	80	(181)	80
Balance at 31 March	(386)	(474)	(203)	(23)	(589)	(496)

Accumulated Absences Adjustment Account

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

	2019/20	2018/19
	£000	£000
Balance at 1 April	764	813
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	47	(49)
Balance at 31 March	811	764

20 Contingent Liability

Municipal Mutual Insurance Limited

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

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

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

Norman v Cheshire Fire & Rescue Service/Pensionability of allowances

Following on from the “Norman vs Cheshire” case a review of allowances paid to staff working certain duty systems was carried out to determine if they should be pensionable. Although the Service has not concluded an agreement with the trade union, following a subsequent court decision (Smith v Mid and West Wales Fire Authority) clarifying some of the detail, we have determined that certain allowances are pensionable and are implementing these arrangements with effect from 1/6/20.

The Authority is attempting to resolve this issue via the collective bargaining arrangements, but this has not yet been concluded. Pending the outcome of this we have included an estimate of £0.6m for potential backdating to April 2019, and a prior period adjustment of £1.8m to reflect the potential for this to go back 6 years. However until such time as agreement is reached, and the final costs are known, we have not included this in the Fire-fighters pension scheme liabilities.

Firefighters Pension Scheme Transitional protection arrangements (McCloud / Sargeant)

Claims have been made in relation in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015 and in December 2018 the Court of Appeal (McCloud / Sargeant) ruled that the ‘transitional protection’ offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. On 27 June 2019 the Supreme Court refused leave to appeal on the McCloud case. In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes. This would lead to an increase in Firefighters Pension Scheme liabilities and our actuaries (The Government Actuarial Department (GAD)) using specific assumptions and applying these across the Firefighters schemes reflected this in the IAS19 disclosure (note 15) as a Past Service Cost in 2018/19. The actuaries have highlighted that this estimate is based on one potential remedy and that the figures are highly sensitive to assumptions around short term earnings growth. HM Treasury published a consultation on the remedy in July 2020, the effect of which was to reduce the overall Firefighters pension scheme liability by £4.1m from the amount included in the unaudited accounts.

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

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

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

With regard to the LGPS a similar adjustment to past service costs within the IAS19 disclosure (note 15) was made in 2018/19 for the McCloud judgement. The impact of an increase in scheme liabilities arising from the McCloud/Sargeant judgement, once fully known, will be measured through the pension valuation process, which determines employer and employee contribution rates.

Local Government Pension Scheme (LGPS) - The Brewster Judgement

The Supreme Court ruled that a particular regulation requiring a signed nomination form from a member of the Northern Ireland Local Government Pension Scheme, in order to entitle an unmarried partner to survivor benefits in the scheme was unlawful (the Brewster judgement). The Government will consider what, if any, implications this ruling may have for other public service pension schemes. No allowance has been made for any potential cost implications in the scheme that may arise from the judgement.

21 Post Balance Sheet Events

The Treasurer approved the unaudited accounts on 14 July 2020, however on 16 July 2020 HM Treasury published a consultation on the proposed remedy for the McCloud / Sargeant case. The details contained in the consultation led to a recalculation of the past service costs recognised in the unaudited accounts, reducing the overall FF pension liability by £4.1m. As the consultation was a clarification of a situation that existed prior to the date of issue, the accounts were updated for this amendment.

22 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

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

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

Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.006m of the £0.176m balance is past due date for payment. On a prudent basis the Authority has created a provision for bad debts to cover any potential loss arising from this, which currently stands at £0.005m and which is considered sufficient for this purpose.

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

	2019/20 £000	2018/19 £000
0 to 30 days	170	165
31 to 60 days	-	10
61 to 90 days	-	1
91 to 180 days	5	1
Over 180 days	1	-
	176	177

Liquidity Risk

The Authority has a comprehensive cash flow management system (administered by Lancashire County Council's Treasury Management Team) that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from Lancashire County Council at current market rates. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.
The maturity profile of our remaining debt is shown in the table below.

Value of PWLB loans maturing in future years As at 31 March 2020	
Year	Loan value £000
2036	650
2037	650
2038	700
Total	2,000

Market risk

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

- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the deficit on the provision of services will rise

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

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

Our financial assets are the cash deposits placed in a call account with Lancashire County Council. Interest received on them is linked to the base rate. Each working day the balance on the Authority's Call Account is invested to ensure that the interest received on surplus balances is maximised. The average balance within this account throughout the year was £25.8 million and, with no change in that level of balances, a 1% increase in the market rate of interest, if sustained over the whole year would give rise to additional interest earned of £258,000 and a 1% fall would give a reduction of the same amount.

23 Local Authority Controlled Company – NW FireControl Limited

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

During May 2014 all four services transferred their Control Room functions into the regionalised service provided by NW FireControl Limited. The cost of the service is charged out to the four FRAs on an agreed pro rata basis agreed by a Service Level Agreement. The implementation phase continued to be funded by a section 31 grant from the Department for Communities and Local Government plus an ongoing grant to fund 66% of the lease costs for the building. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required. From 8th May 2017 Greater Manchester Fire and Rescue Service transferred into the Greater Manchester Combined Authority and the ownership of NW FireControl Limited therefore also transfers.

An assessment for Group Accounting requirements has taken place during 2019/20 in respect of NW FireControl Limited. This is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

It has been determined that the company is governed by Joint Control due to the fact that unanimous consent exists for key decisions and that each Authority has equal voting rights. This joint arrangement has been deemed to be a Joint Operation as the parties have rights to the assets, and obligations for the liabilities relating to the arrangement, and on this basis, the Authority’s 25% share of the transactions and balances of NW FireControl Limited have been recognised within the accounts.

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

Key Information	Year ended 31 March 2020 £000	Year ended 31 March 2019 £000
Total assets less Current Liabilities	311	304
Net assets*	(2,349)	(3,953)
(Loss) Before Taxation	(594)	(411)
(Loss) After Taxation	(594)	(417)
Debtor Balance (LFRS)	-	-
Creditor Balance (LFRS)	-	-
Invoices raised by NW FireControl to LFRS	1,191	1,175
Invoices raised by LFRS to NW FireControl	-	-

*Net assets includes the future pension liabilities under FRS17 reported by the Cheshire Pension Fund actuaries.
All figures are shown net of VAT.
Transactions between LFRS and NW FireControl Limited include Invoices Raised by NW FireControl to LFRS for the Control Room service and use of facilities in the building.
The Company's Financial Statements can be obtained from Companies House with the deadline for submission as 31/12/2020 for the final audited 2019/20 accounts.

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

	2019/20	2018/19 Restated
	£000	£000
Depreciation	3,911	3,803
Impairment & downwards valuations	148	465
Amortisation	135	134
Increase/(decrease) in provisions	298	198
Increase/(decrease) in creditors	2,410	(297)
(Increase)/decrease in debtors	936	1,023
(Increase)/decrease in stock	1	(10)
Movement in pension liability	16,581	44,741
	24,150	50,057

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

	2019/20	2018/19
	£000	£000
Interest received	184	181
Interest paid	(1,439)	(1,457)

Interest paid includes interest payments in respect of both finance leases and PFI schemes (see accounting policy note 30, section j)

26 Reconciliation of liabilities arising from financing activities -

	Long Term borrowings £000	Short Term borrowings £000	Lease liabilities £000	Total £000
1 April 2019	15,575	342	190	16,107
Cash flows:				
Repayment	(373)	31	(37)	(379)
Proceeds	-	-	-	-
Non-cash:				
Acquisition	-	-	-	-
31 March 2020	15,202	373	153	15,728

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

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

The items in the Authority's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment Carrying value £99.2m	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.1m for every year that useful lives had to be reduced.
Property, Plant & Equipment Carrying value £99.2m	The outbreak of the Novel Coronavirus (COVID-19) has impacted global financial markets. As at the valuation date, RICS consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The emphasis is on the current degree of uncertainty, rather than adjusting those valuations.	The majority of the Authorities Property assets are valued under the Depreciated Replacement Cost (DRC) method, as specialised assets. There is the possibility that DRC valuations will increase due to shortages of raw materials and labour. It is estimated that a 1% increase in DRC valuations would increase the assets values by £0.9m.
Fair Value Measurements – PFI schemes Carrying value (£13.6m)	When the fair values of financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using the Discounted Cash Flow (DCF) model.	The Authority uses the DCF model to measure the fair value of its PFI liabilities. Fair value is calculated using the bond yield rates against the annual net cash flows. It is estimated that a 1% decrease in the discount rate would increase the fair value by £1.6m.

Pension Liability Carrying value (£812.7m)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied to each scheme.	The effects on the net pension liability of changes in individual assumptions can be measured as follows: A 0.1% increase in these assumptions has the following effect on the net pension liability: • Discount rate – decrease of £15.8m • Inflation rate – increase of £13.1m • Pay growth – increase of £2.0m A 1 year increase in life expectancy will increase the net pension liability by £6.6m.
Fire-fighters Pension Liability & LGPS Liability Carrying value (£812.7m)	Estimate of the impact on future liabilities arising from the potential remedy awarded to affected employees relating to the McCloud/Sargeant judgement.	Past service costs were recognised in 2018/19 (see Note 15), however these are based on one potential remedy and are very sensitive to the assumptions made. The past service cost recognised in the 2019/20 accounts has been updated to reflect the details contained within the HM Treasury consultation on the McCloud/Sargeant remedy. Full details can be seen in note 19 Contingent Liabilities.
Local Government Pension scheme Assets Carrying value £61.9m	The pension fund assets are subject to the same material valuation uncertainty as our Property, Plant & Equipment assets reported above, therefore we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The emphasis is on the current degree of uncertainty, rather than adjusting those valuations.	Both the direct and indirect property assets held by the Lancashire Pension Fund carry a risk that these assets may be over / understated in the accounts. Full details can be found within the Lancashire Pension Fund annual report 2019-20.

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

28 Accounting Standards issued but not yet adopted

For 2019/20 the following accounting policy changes that need to be reported relate to:

- IFRS 16 Accounting for leases is anticipated to have a non-material impact on the Authority's Accounts. This standard, however, has been deferred from 2020/21 to 2021/22 due to pressures on Local Government due to the Pandemic. The only assets deemed affected by standard would be three leased properties which we cannot reliably measure the value of. These properties will be valued in 2020/21 to provide a more accurate position.
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

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

29 Expenditure and Income Analysed by Nature

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

	2019/20 £000	2018/19 Restated £000
Expenditure		
Employee benefits expenses	42,582	67,716
Other services expenses	12,850	13,925
Support service recharges	-	4
Depreciation, amortisation and impairment	4,194	4,402
Interest payments	22,611	21,755
Gain on disposal of fixed assets	(14)	(68)
Total expenditure	82,203	107,733
Income		
Fees, charges and other service income	(7,528)	(5,666)
Interest and investment income	(332)	(358)
Income from council tax and business rates	(54,653)	(44,845)
Government grants and contributions	(2,072)	(10,771)
Total Income	(64,585)	(61,640)
Deficit on the provision of services	17,618	46,094

30 Critical Judgements

McCloud/Sargeant Judgement
In updating the Firefighters pension liability for the HM Treasury consultation details, the Authority has made a critical judgement that the consultation publication was an adjusting Post Balance Sheet event (see note 20).

Norman v Cheshire Fire & Rescue Service/Pensionability of allowances
The Authority has accrued for the backdating of employers pension contributions following the high court ruling in March 2019. Whilst negotiations with the Fire Brigades Union on the extent of any backdating have not yet concluded the accounts allow for 6 years potential backdating.

31 Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom – 2019/20, supported by International Financial Reporting Standards (IFRS).

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

b Accruals of income and expenditure

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

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

c Cash & cash equivalents

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

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

d Charges to Revenue for Non-Current Assets

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

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

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

e Employee Benefits

Benefits Payable During Employment

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

Post Employment Benefits

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

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

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

<u>The Firefighters' Scheme</u>

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

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

In calculating the liability for 2019/20, the actuary based the valuation on a roll forwards approach.

Top up grant received during the year from the Home Office to cover the pension costs of the above scheme are recognized in the Comprehensive Income and Expenditure Statement via adjustments in respect of the actuarial valuation.

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

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

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

In calculating the liability for 2019/20, the actuary based the valuation on a roll forwards approach.

In valuing the pension scheme assets for 2019/20, the actuaries used fair value basis for both derivatives and investments.

f Financial Liabilities

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

g Financial Assets measured at amortised cost

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

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

h Government Grants & Contributions

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

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

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

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

i Non Current Assets

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

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

i) <u>Recognition</u>

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

ii) <u>Measurement</u>

Land and buildings are revalued on a rolling five year basis by a suitably qualified surveyor. As at 31 March 2019, Amcat Limited, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, carried out revaluations on the identified properties. All valuations are on the basis of depreciated replacement cost, with the exception of one property used as offices, valued at Existing Use Value.

All other Non current assets are valued at historic cost.

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

iii) <u>Impairment</u>

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

iv) <u>Disposals</u>

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

v) <u>Depreciation</u>

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

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

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

vi) Componentisation

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

vii) Derecognition

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

viii) Non Current Assets Held for Sale

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

j Private Finance Initiative (PFI) and similar contracts

Current status

The Authority has two existing PFI arrangements:

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

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

Accounting for PFI

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

Recognition of assets and liabilities

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

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

Minimum Revenue Provision (MRP)

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

Unitary Payment

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

Deductions from the Unitary Payment

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

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

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

k PFI Equalisation Reserve

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

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

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

l Provisions

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

m Reserves

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

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

n Contingent liabilities

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

o Going Concern

These accounts are prepared on a going concern basis, on the assumption that the Authority's functions will continue in operational existence for the foreseeable future. We anticipate a budgetary underspend during 2020/21, due to scaled back non-emergency operations as a result of the pandemic. In addition, the potential impacts of both Brexit and the Fair Funding review uncertainties were included in the assessment of reserves levels carried out for the 2021 budget setting exercise concluded in February 2020, and are not considered to have changed significantly at this time.

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

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

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

FIRE FIGHTERS PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

Fund Account	2019/20 Total £000	2018/19 Total £000
Income to the fund		
Contributions receivable:		
- From employer		
- contributions in relation to pensionable pay	(6,889)	(3,699)
- other contributions	(297)	(266)
- Members contributions	(3,022)	(3,074)
Transfers in:		
- Individual transfers from other schemes	(309)	(168)
Total Income to the Fund	**(10,517)**	**(7,207)**
Spending by the fund		
Benefits payable:		
- Pension payments	20,436	19,297
- Commutations of pensions and lump-sum retirement benefits	4,735	4,418
Transfers out:		
- Individual transfers out to other schemes	-	3
- Refunds of contributions	2	-
Total Spending by the fund	**25,174**	**23,718**
Net amount receivable for the year before top up grant receivable from central government	**14,657**	**16,511**
Top up grant receivable from central government	(14,657)	(16,511)
Net amount receivable for the year	**-**	**-**

Net Assets Statement	2019/20 £000	2018/19 £000
Net current assets and liabilities:		
- pensions top up grant receivable from central government	(4,156)	(3,765)
- other current assets and liabilities (other than liabilities and other than benefits in the future)	4,156	3,765
Net current assets at the end of the year	**-**	**-**

Firefighters Pension Fund Notes

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

The above statement shows the financial position of the total fire fighters pension fund account, showing that as at 31 March 2020 the Authority is owed £4.156m (2018/19: £3.765m) by the Home Office in order to balance the account. The fund statements do not take account of liabilities after the period end, the Authority’s long term pension obligations can be found in the Authority’s main statements, and also note 15 to the accounts. The fund was established under the Firefighters’ Pension Scheme (Amendment) (England) Order 2006. The statement was prepared according to International Financial Reporting Standards (IFRS).

The note has been prepared in line with general accounting policies set in Note 30 – accounting policies, in particular section e.

<u>Contribution Rates</u>
Under the firefighters pension regulations the contribution rates during 2019/20 were as follows:

- for the 1992 scheme were circa 51.5% on average of pensionable pay (37.3% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2006 scheme were circa 37.8% on average of pensionable pay (27.4% for employers and between 9.4% and 10.9% for employees dependent on salary)
- for special members of the 2006 scheme were circa 51.5% of pensionable pay (37.3% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2015 scheme were circa 41.0% on average of pensionable pay (28.8% for employers and between 10.5% and 14.5% for employees dependent on salary)

These contribution levels are set nationally by the Government, and are subject to triennial revaluations by the Government Actuary’s Department. Three ill health retirements were recognised during 2019/20, and four in 2018/19.

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 27 November 2020

EXTERNAL AUDIT – LETTER OF REPRESENTATION
(Appendix 1 refers)

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

Executive Summary

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

Recommendation

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

Information

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

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

Financial Implications

None.

Human Resource Risk Implications

None.

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

None

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

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

Grant Thornton UK LLP
4 Hardman Square
Gartside St
MANCHESTER
M3 3EB

Please ask for: Keith Mattinson
Telephone: 01772 866804
Email: keithmattinson@lancsfirerescue.org.uk
Your Ref:
Our Ref: KM/JLW
Date: 27 November 2020

Dear Sirs

LANCASHIRE COMBINED FIRE AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

This representation letter is provided in connection with the audit of the financial statements of Lancashire Combined Fire Authority for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Authority has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Authority's needs. We believe that no further disclosures relating to the

Authority's ability to continue as a going concern need to be made in the financial statements.

xiv. The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries.

As a consequence, market activity is being impacted in many sectors. As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

The Authority's valuation of their Land and Buildings and their share of the Lancashire County Pension Fund's direct and indirect property investments are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations of the Authority's land and building than would normally be the case. For avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

xv. We consider our accounting for the backdating of pension contributions on day crew plus and other allowances as a prior period adjustment to be appropriate based on the information held by the Authority and legal advice received to date.

<u>Information Provided</u>

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. access to persons within the Authority via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have provided you with complete and accurate information that is relevant to the issue of backdating pension contributions on day crew plus allowances.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority, and involves:
  a. management;
  b. employees who have significant roles in internal control; or
  c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Authority's Audit Committee at its meeting on 27 November 2020.

Yours faithfully

Keith Mattinson Director of Corporate Services 27 November 2020	Councillor Hasina Khan Chair of the Audit Committee 27 November 2020

Signed on behalf of the Authority

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UPDATED VERSION

Grant Thornton UK LLP
4 Hardman Square
Gartside St
MANCHESTER
M3 3EB

Please ask for: Keith Mattinson
Telephone: 01772 866804
Email: keithmattinson@lancsfirerescue.org.uk
Your Ref:
Our Ref: KM/JLW
Date: 27 November 2020

Dear Sirs

LANCASHIRE COMBINED FIRE AUTHORITY
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

This representation letter is provided in connection with the audit of the financial statements of Lancashire Combined Fire Authority for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Financial Statements

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viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. The prior period adjustments disclosed in Note 1 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Authority's needs. We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

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   a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. access to persons within the Authority via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

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xix. We have communicated to you all deficiencies in internal control of which management is aware.

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xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Authority's Audit Committee at its meeting on 27 November 2020.

Yours faithfully

Keith Mattinson Director of Corporate Services 27 November 2020	Councillor Hasina Khan Chair of the Audit Committee 27 November 2020

Signed on behalf of the Authority

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LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 27 November 2020

EXTERNAL AUDIT – AUDIT FINDINGS REPORT
(Appendix 1 refers)

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

Executive Summary

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

The report for the financial year ended 31 March 2020 is attached which does not identify any significant issues or recommendations.

Recommendation

The Committee is asked to:-

- Note and endorse the matters raised in the report;
- Note the unqualified opinion on the financial statements;
- Note the value for money conclusion;
- Note that fees will increase as a result of additional work undertaken and authorise the Treasurer to agree an amended fee with the auditors.

Information

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

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

As such the anticipated audit opinions are:-
- Our anticipated audit report opinion will be unqualified
- We anticipate issuing an unqualified value for money conclusion

As reported earlier on the agenda (Revisions to the Statement of Accounts 2019/20) there were three adjusted mis-statements (as set out on page 21 of the Audit findings Report) relating to
- McCloud – IAS 19 adjustment for HM Treasury Consultation remedy
- Difference between valuers report and fixed asset register
- Backdating of pension contributions of day crew plus and other allowances

In addition there were seven minor disclosure changes which were required (as set out on page 22 of the Audit findings Report).

It is worth noting that the auditor report highlights

- All information and explanations requested from management was provided.
- The financial statements were received on 15 July 2020, and published in advance of the statutory deadline.
- The financial statements were prepared to a good standard with embedded quality review processes in place.
- Working papers were available at the start of the audit and were detailed, and clear to understand.
- The responses to our audit samples and queries were comprehensive and timely.

Audit Action Plan

Grant Thornton have not made any recommendations following the audit.

Financial Implications

A draft audit fee of £28.4k was originally agreed as part of the Audit Plan.

Additional audit work has been required to review the critical judgement on the backdating of pension contributions on day crew plus allowances.

In addition Covid-19 has impacted on the audit of your financial statements in several ways, including:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment – we are required to consider the financial resilience of audited bodies. Whilst the impact on the Authority has not been as significant as on other parts of the local government sector, there has been a small increase in the amount of work that we need to undertake on going concern and value for money (financial sustainability).
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and Authority premises over the autumn of this year, as originally anticipated

The auditors are currently reviewing the impact of this on fees, and it is proposed that the Treasurer is authorised to agree an amended fee with the auditors in due course, and to report this at the next Audit Committee.

Human Resource Risk Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

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

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

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

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The Audit Findings for Lancashire Combined Fire Authority

Year ended 31 March 2020

18 November 2020

Contents

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

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire Combined Fire Authority (‘the Authority’) and the preparation of the Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority. These included the redeployment of frontline uniformed fire and rescue staff to support local ambulance services and local authorities in their response to Covid-19, including the distribution of food parcels and maintaining contact with vulnerable adults. For the finance team there was the difficulty of remote working. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	Our audit risk assessment considered the impact of the pandemic on our audit. We reported an financial statement risk in respect of Covid -19. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Authority and audit staff have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced by the entity. The draft statement of accounts were published on the Authority’s website on 15 July 2020.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements: • give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely between August and November. Our findings are summarised on pages 5 to 17. There has been three adjustments to the financial statements. Two that have resulted in a £4.12m adjustment to the Authority’s Comprehensive Income and Expenditure Statement for 2019/20 and the third is a prior period adjustment of £1.83m to restate the 2018/19 figures. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters listed on page 5. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting material valuation uncertainties in land and building. See page 8 for further details.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire Combined Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Lancashire Combined Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified as detailed in a separate item on the Audit Committee agenda. Our findings are summarised on pages 18 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 November 2020. These outstanding items include:

- final quality assurance procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,270,00	This equates to around 2% of your draft account gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	952,500	Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	63,500	This equates to 5% of materiality.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence Our audit work has not identified any issues in respect of the Covid-19 risk. We have drawn the attention of users of the statement of accounts to the inclusion of the disclosure of a material uncertainty regarding to the valuation of the Authority's Land and Buildings and the value of the net pension liability by means of an emphasis of matter in our audit opinion as detailed in relation to our response to the significant risk of the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Combined Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Lancashire Combined Fire Authority.	We rebutted this risk as part of our risk assessment process. This assessment remains appropriate. In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Authority, after consideration of the following: • The staff preparing and approving the accounts are consistent with those in previous years. • There have been no changes in accounting processes and controls in the year. • There have been no significant unexplained movements in funding position. • There have been no changes in the methodology for calculation of estimates. • There have been no instances of adjustments being posted by a senior finance officer without independent authorisation. There are no issues to bring to your attention.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Auth faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis with assets not valued in year subject to a desktop valuation This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£86.5m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The valuer reported their valuations on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in their valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work has not identified any other issues in respect of the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£864.9 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • obtained assurances from the auditor of the Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; and • obtained assurances from PwC in respect of the valuation of the Firefighters' Pension Scheme liability valuation by Government Actuary's Department (GAD). Lancashire County Pension Fund (the LGPS scheme) is reporting their valuations of direct and indirect property on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Consequently, the auditor of the pension fund is planning to include an Emphasis of Matter (EOM) paragraph in their audit report drawing attention to the disclosure made in the pension fund statement of accounts. Given the Authority's share of the pension fund's direct and indirect property valuations are material to the Authority, and the caveat made by the valuer in their valuation report and Emphasis of Matter in the pension fund's audit report, we will highlight the material uncertainty to the Authority in our audit report, in an Emphasis of Matter paragraph, drawing attention to the disclosure made in the Authority's statement of accounts. The Emphasis of Matter paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the pension fund's accounts included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work has not identified any issues in respect of valuation of the net liability

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year The public sector was due to implement this standard from 1 April 2020. However, this has been deferred for one year due to the Covid-19 pandemic. When it is implemented, it will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements, or if that impact is not known or reasonably estimable, a statement to that effect should be made.	In the draft accounts, Note 27 - *Accounting Standards issued but not yet adopted* did not include any reference to IFRS 16.	In respect of IFRS 16, in Note 27, we would expect to see the title of the standard and the date of initial application, the nature of the changes in accounting policy for leases and, if known, an assessment on the of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves. Management have agreed to include this disclosure. See Appendix B for the disclosure omission.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Firefighters' Pension Scheme Net pension liability – £809.626m **LGPS Net pension liability – £7.170m** **Total Net pension liability – £816.796m**	The Authority's total net pension liability at 31 March 2020 is £816.796m (PY £864.889m) comprising the unfunded defined benefit pension obligations of the Firefighters Pension Scheme and the Lancashire County Pension Fund Local Government Pension Scheme. **Firefighter's Pension Scheme** The Authority uses Government Actuary's Department (GAD) to provide actuarial valuations of the Authority's liabilities derived from the Firefighters' Pension Scheme. A full actuarial valuation is required every four years. The latest full actuarial valuation was completed as at 31 March 2016. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £47.6m net actuarial gain during 2019/20. **Local Government Pension Scheme** The Authority uses Mercers to provide actuarial valuations of the Authority's assets and liabilities derived from the LGPS. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.5m net actuarial gain/ during 2019/20.	• We have assessed the Authority's actuaries, GAD and Mercer, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial	Green

Assumption	Actuary Value - LGPS	Within PwC range?	Actuary Value - FFPS	Within PwC range?	Assessment
Discount rate	2.40%	Yes	2.25%	Yes	●
Pension increase rate	2.20%	Yes	2.00%	Yes	●
Salary growth	3.60%	Yes	4.00%	Yes	●
Life expectancy – Males currently aged 45 / 65	23.8 years / 22.3 years	Yes	23.0 years / 21.3 years	Yes	●
Life expectancy – Females currently aged 45 / 65	26.8 years / 25.0 years	Yes	23.0 years / 21.3 years	Yes	●

- As part of the procedures we undertook to review the actuarial assumptions we performed additional procedures, in particular reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update.
- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2019/20 to the valuation method.
- We conducted an analytical review to confirm reasonableness of the Authority's share of LGPS pension assets.
- Our work confirms that the decrease in the IAS 19 estimates are reasonable.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land & Buildings – £58.891m **PFI Assets – Land & Buildings – £29.640m** **Total Land & Buildings – £88.531m**	Land and buildings comprises £88.450m of specialised assets such as fire stations, the Fire HQ and other operational buildings, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£0.081m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Authority has engaged Amcat Limited to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 20% of total assets were fully revalued during 2019/20 with the remaining 80% subject to a desktop valuation exercise. In line with RICS guidance, the Authority's valuer disclosed a material uncertainty in the valuation of the Authority's land and buildings at 31 March 2020 as a result of Covid-19. The Authority has included disclosures on this issue in Note 26 - Assumptions made about the future and other major sources of estimation and uncertainty. The valuation of properties valued by the valuer has resulted in a net increase of £2.001m from 2018/19.	We reviewed the estimate, considering: • We have assessed the valuer used as management's expert, Amcat Limited, to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate. • The valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. • the consistency of your estimate against near neighbours and available indices; • the reasonableness of the overall increase in estimate; • challenged the sensitivities used by the valuer to assess completeness and consistency with our understanding; and • the adequacy of disclosure of estimate in the financial statements.	Green

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Assessment

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

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
Pension contributions on allowances The Authority had disclosed a contingent liability in respect of the backdating of pension contributions on certain allowances paid to firefighters. The Authority also included an accrual of £600k in the 2019/20 accounts for pension contributions. Discussions with the Fire Brigade Union continue to determine the whether there will be any backdating of pension contributions.	When preparing the draft accounts, the Authority believed it was probable that pension contributions would need to be paid on certain allowances since the High Court ruling in March 2019. As a result, it has included an £600k accrual in the 2019/20 accounts for this. In terms of backdating of pension contributions, the Authority is still in discussions with the Fire Brigade Union (FBU) on the basis that it had a local agreement in place unlike other fire and rescue services across the country. Based on legal advice, at the time of preparing the accounts, the Authority believed it was not yet probable that it would incur further costs relating to prior years. The legal advice states that the Pensions Ombudsman has not gone beyond the simple point of determining whether the allowance should be pensionable. It was therefore the Authority's view that without further court proceedings being instigated the Authority did not believe that the need to backdate pension contributions had any legitimacy. However, in mid-November 2020, further evidence increased the probability that the Authority will need to backdate pension contributions on day crew plus and other allowances. In line with other authorities, the Authority has gone back six years from the March 2019 High Court ruling in its calculation of the liability. Management have adjusted the draft accounts to include £1.8m provision. As the estimated value is material and the obligation relates to events prior to the start of the financial year, management has included disclosed a prior period adjustment in relation to this matter.	The key judgement to be made is whether the backdating of pension contributions should be included as a provision or a contingent liability in the 2019/20 accounts. As part of our audit, we challenged management on this judgement and reviewed the available evidence. We also reviewed the completeness and accuracy of management's estimation of the potential liability. Based on the evidence, we initially agreed with management that there was still uncertainty over whether any payment is required given the local agreement that the Authority has in place with the FBU. However, that uncertainty was removed by the further evidence. Therefore, we concur with management's decision to adjust the draft accounts to include a new provision and disclose a prior period adjustment. See Appendix A for details of the prior period adjustment. We have reviewed management's estimation of the potential liability and the estimate was within our expected range. As the liability is over our materiality level, we have asked management to disclose their judgement on this issue within the critical judgements note.

Significant findings – matters discussed with management

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

Significant matter	Commentary	Auditor view
Restitution for McCloud In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.	In 2018/19, the Authority included a past service cost for the potential impact of the McCloud/Sargeant ruling in their Statement of Accounts. For 2019/20, the Authority had an initial discussion with GAD, the Firefighter Pension Scheme actuary, and requested updated IAS 19 calculations for the additional McCloud/Sargeant liability to allow for Authority specific membership data, rather than using data for the Fire scheme as a whole. In line with CIPFAs guidance the Authority have included this change in the remeasurement item. This resulted in a reduction of £4.1m to the Firefighter Pension Scheme liability. In addition, the production of the statements Mercer made an allowance for McCloud as a past service cost (as well as the 2019 valuation). GAD's and Mercer's calculations of the additional liabilities and service costs have generally been done in line with the proposed underpin in the consultation.	The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from the Government Actuary Department (GAD) indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated. The auditor has concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is enacted, and as the outcome is unclear the firm does not regard publication of the consultation to be an adjusting event. In the 2019/20 accounts we expect the Authority to remeasure the pension liability, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. The Authority has adjusted in line with the consultation remedy. However, we believe that the estimate that management has made is reasonable and not materially misstated. We asked management to disclose this adjustment as a critical judgement in calculating the pension liability.

Significant findings – going concern

Our responsibility

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

Going concern commentary	Auditor commentary
Management's assessment process In order to assess their going concern basis management have: • Prepared a cash flow forecast to the end of November 2021 • Considered events or conditions that may impact their going concern assumption • Considered the impact of Covid-19 Management concluded it is appropriate to prepare their accounts on going concern basis and that no material uncertainty exists.	• The Authority’s use of the going concern basis of accounting is appropriate • The Authority has provided us with its assumptions and supporting working paper for its assessment of going concern. • The disclosure of the going concern basis within the draft financial statements was very brief and cross-referred to the future financial plans section of the narrative report. A fuller explanation of management’s assessment of the going concern basis on which the statement of accounts are prepared would be useful. Management agreed to provide further explanation. See Appendix B for adjustment.
Work performed We discussed the financial standing of the Authority with the Treasurer and Head of Finance. We reviewed management’s assessment of going concern and the assumptions and supporting information.	• No material uncertainty identified. • We reviewed the assumptions used by management in the forecasting their cash position to the end of November 2020. We considered they had used reasonable assumptions, and that the forecasting process and underlying data used were reliable. • We considered the reliability of the forecasting process and the underlying data
Concluding comments The Authority’s use of going concern basis of accounting is appropriate.	• Our opinion is unmodified in respect of the going concern conclusion. • The Authority has adequate cash and reserves 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 impact of Covid-19 is not considered material to the assessment of going concern.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, which is included in the Audit Committee papers. Specific representations have been requested from management in respect of the valuation of land and buildings being reported on a material valuation uncertainty basis and the completeness and accuracy of the information provided to us in relation to the backdating of pension contributions on day crew plus and other allowances.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks, lenders and local authorities who had borrowed from the Authority. These permissions were granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	The disclosure of critical judgements in applying accounting policies was omitted from the draft accounts. Additionally, we identified improvements that could be made to the disclosures of post balance sheet events, accounting standards issued but not yet adopted and going concern. See Appendix B for details.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The financial statements were received on 15 July 2020, and published in advance of the statutory deadline. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required as the Authority does not exceed the threshold of £500m.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Lancashire Combined Fire Authority in the audit report.

Value for Money

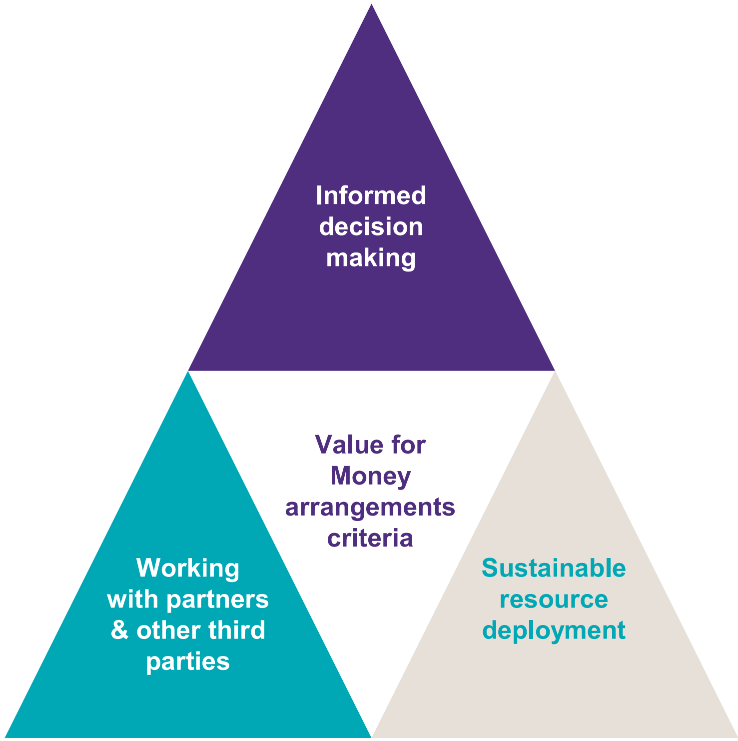
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in May 2020 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan at the Audit Committee on 28 July 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. We have not identified any new VfM risks in relation to Covid-19, as we do not consider Covid-19 to be a significant risk given the pandemic impacted so late in the financial year.

Value for Money

Our work

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

We have focused our work on identifying whether there are any significant risks to our VfM conclusion that we identified in the Authority's arrangements. We reported to you in our audit plan that we had not identified any risks at that stage.

We updated our review of your arrangements as part of our audit. Our work included reviewing key documents and discussing issues with your officers. Among the documents reviewed was the Head of Internal Audit Annual Report for 2019/20 and your own Statement on Governance Arrangements. Internal Audit Provided substantial assurance and identified no significant areas of weakness in governance, risk management or control. Our updated risk assessment die not identify any significant VFM risks.

Commentary on finances

The net budget for 2019/20 was £56.1m, and increase of £1.3m compared to the 2018/19 budget. The increase was largely due to forecast pay awards and revised pension contributions, offset by an efficiency savings target of £1.2m.

The Authority has a good track record of delivering savings, over £20m of efficiency savings has been made between April 2011 and March 2020. The Authority overspent against its planned budget by £0.25m for 2019/20 despite exceeding its efficiency savings target. This was mostly due to backdating of various pensionable allowances to March 2019.

The Authority has adequate reserves. In 2019/20 the Authority’s General Fund decreased by £0.2m from £8.4m to £8.2m, and its Earmarked reserves by £0.2m from £8.0m to £7.8m. The General Fund balance remains within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m) which will provide capacity to cope with anticipated funding cuts in the short term and funding uncertainty whilst all local authorities await the result of the Fair Funding Review. £2.2m of General Fund and £1.5m of Earmarked Reserves are expected to be utilised within the life of the Medium Term Financial Strategy, reducing them to £6.0m and £6.3m respectively by March 2025. This does not include any potential impact of backdating of pensionable allowances earlier than March 2019 which would further deplete the General Fund balance. Whilst this would still leave sufficient reserves, utilising reserves each year is not sustainable in the longer term.

Overall conclusion

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

The text of our report, which confirms this can be found as a separate committee paper.

Recommendations for improvement

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified which were charged from the beginning of the financial year to September 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
McCloud – IAS 19 adjustment for HM Treasury Consultation remedy	(4,120)	4,120	(4,120)
Difference between valuers report and fixed asset register	Nil	100	Nil
Overall impact	**(4,120)**	**4,220**	**(4,120)**

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Impact of prior year adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Backdating of pension contributions of day crew plus and other allowances	1,831	(1,831)	1,831
Overall impact	**1,831**	**(1,831)**	**1,831**

Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2019/20 audit.

Impact of prior year unadjusted misstatements

There are no prior year adjusted misstatements identified as part of the 2019/20 audit.

Audit adjustments

Misclassification and disclosure changes (continued)

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

Disclosure changes	Detail	Auditor recommendations	Adjusted?
Note 27 - Accounting Standards issued but not yet adopted – IFRS 16	A disclosure, in line with the requirements of IAS 8, about IFRS 16 was not included in the draft statement of accounts.	Add a disclosure that meets the requirement of IAS 8 that includes the title of the standard and the date of initial application, the nature of the changes in accounting policy for leases and, if known, an assessment on the of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves.	✓
Accounting Policies - O – Going Concern	The disclosure in the draft accounts was very short and lacking in detail.	Provide a fuller explanation of management's assessment of the going concern basis on which the statement of accounts are prepared.	✓
Critical Judgements In Applying Accounting Policies	In the draft accounts, there was no disclosure of the critical judgements the Authority has made in applying accounting policies or lack thereof.	Include critical judgements for recognising HM Treasury's consultation as an adjusting post balance sheet event and the provision for backdating pension contributions following a ruling by the High Court in March 2019.	✓
Note 26 - Assumptions made about the future and other major sources of estimation and uncertainty	In the draft accounts, carrying amount at the balance sheet date was not included within the disclosure. Additionally, disclosure should be made of the uncertainty arising from the HM Treasury consultation remedies for the McCloud issue. Furthermore, disclosure should be made of the material valuation uncertainty of the Authority's share of the Lancashire County Pension Fund's property investments as this information was not available at the time the Authority's draft accounts were published.	For each item in the disclosure, the carrying amounts as at the balance sheet date should be added to the disclosure so support users of the accounts understanding of the quantum of the uncertainty. Disclosure should be made of the uncertainty deriving from the HM Treasury consultation remedies for the McCloud issue. Disclosure should be made of the uncertainty relating to the Authority's share of the Lancashire County Pension Fund's property investments .	✓
Note 20 - Post Balance Sheet Events	In the draft accounts, no post balance sheet events were identified.	Subsequent to the accounts being signed by the Treasurer, the Authority have recognised HM Treasury's consultation on the remedies for McCloud as an adjusting post balance sheet event. This should be disclosed as such.	✓
Note 8 – Financial Instruments	In the draft accounts, the financial instruments were categorised under IAS 39 categories. IAS 39 has been replaced by IFRS 9.	Financial instruments should be categorised under IFRS 9 categories.	✓
Prior Period Adjustment	A disclosure note, in line with the requirements of IAS 1, detailing the impact of the prior period adjustment on the statement of the accounts	Add a disclosure that meets the requirement of IAS 1, that includes a third balance sheet.	✓

Fees

We confirm below our final fees charged for the audit. No non-audit or audited related services have been undertaken for the Authority.

Audit fees	Proposed fee	Final fee
Authority Audit	£28,419	TBC
Total audit fees (excluding VAT)	**£28,419**	**TBC**

Additional audit work has been required to review the critical judgement on the backdating of pension contributions on day crew plus allowances.

In addition, Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

1. Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
2. Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
3. Financial resilience assessment – we are required to consider the financial resilience of audited bodies. Whilst the impact on the Authority has not been as significant as on other parts of the local government sector, there has been a small increase in the amount of work that we need to undertake on going concern and value for money (financial sustainability).
4. Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and Authority premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms.

Pleased be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Authority's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Corporate Services before reporting to the Audit Committee at its next meeting.

LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 27 November 2020

INTERNAL AUDIT MONITORING REPORT
(Appendix 1 refers)

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

Executive Summary

The attached report sets out the current position in respect of the internal audit plan for 2020/21.

Recommendation

The Committee is asked to note/endorse the report.

Information

The internal auditors produce a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 6 November 2020 is attached as Appendix 1, and will be presented by the Head of Internal Audit.

Clearly Coivid19 has had a significant impact on the delivery of audit services so far this year however, we are confident that this will be caught up in the second half of the year.

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

None

Environmental Impact

None

Local Government (Access to Information) Act 1985

List of Background Papers

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

Appendix 1

Lancashire Combined Fire Authority

Internal Audit Service

Monitoring report for the period ended

6 November 2020

1 Purpose of this report

1.1 The Internal Audit Plan for 2020/21 was approved by the Audit Committee in July 2020. This report details the progress to date in undertaking the agreed coverage and the planned schedule of audit dates for the remainder of the financial year.

2 Internal audit work undertaken

2.1 As a result of the Covid-19 pandemic, which resulted in the redeployment of the internal audit service onto activities geared towards the pandemic response, no internal audit activity was carried out between April and mid-September 2020. Since the re-commencement of internal audit activity, our focus has been on agreeing a firm timetable for the individual audit assignments, and commencing our follow up audits and operational reviews.

2.2 To date, 7 days have been spent this financial year on completion of the 2020/21 plan, equating to 10% of the total planned audit activity of 70 days.

2.3 An outline of the scope and findings from the work completed to date is included in the following paragraphs.

Business Continuity - follow up

2.4 Our previous review (February 2019) considered whether the business continuity arrangements operated across Lancashire Fire and Rescue Service were adequately designed and operating effectively and consistent with the Business Continuity Institute Good Practice guidelines.

2.5 Our audit provided *moderate* assurance that the framework of control was adequately designed overall to manage business continuity in the event of a disruptive event. A small number of areas for improvement were identified, primarily around the creation of a test record and expanding the provision of training to Station Managers.

2.6 Based on the information and explanations provided to us we are satisfied that all actions have been appropriately implemented.

Home Fire Safety Checks – follow up

2.7 Our initial review (July 2020) examined the effectiveness of the case management arrangements operated by Lancashire Fire and Rescue Service in relation to the scheduling of Home Fire Safety Checks and assessed the adequacy of the arrangements in place to manage demand.

2.8 Overall, we provided *moderate* assurance that the framework of control was adequately designed and effectively operated, although some actions were required, primarily around the recording of outcomes to enhance aspects of it and ensure it is operated effectively throughout.

2.9 We are pleased to note that each of the actions raised have been satisfactorily implemented.

3 Overall summary and assurance provided

3.1 We have set out in the table on the following pages a brief summary of the position of each review during the period. This sets out the planned and actual days we have spent on each review to date.

3.2 We also provide a summary of the assurance we are able to provide in relation to each system or operational area of business where work has been finalised.

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

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

3.3 The assurance we provide over any area of control falls into one of four categories and these are defined at Appendix 1.

Use of this report

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

<table>
<tr><th rowspan="2">Review area</th><th colspan="3">Audit days</th><th colspan="2">Assurance</th><th rowspan="2">Comments</th></tr>
<tr><th>Planned</th><th>Actual</th><th>Variation</th><th>Adequacy</th><th>Effectiveness</th></tr>
<tr><td colspan="7">Governance and business effectiveness</td></tr>
<tr><td>Governance, risk management and control arrangements</td><td>3</td><td>0</td><td>3</td><td>O/S</td><td>O/S</td><td>An overall opinion on the adequacy and effectiveness of governance, risk management and control arrangements will be reported as part of the 2020/21 Annual Report of the Head of Internal Audit. The work to support this will be completed during quarter 4.</td></tr>
<tr><td colspan="7">Service delivery and support</td></tr>
<tr><td>Safeguarding</td><td>10</td><td>4</td><td>6</td><td>O/S</td><td>O/S</td><td>Audit fieldwork is currently progressing.</td></tr>
<tr><td>Compliance with General Data Protection Regulations and data protection standards</td><td>10</td><td>0</td><td>10</td><td>O/S</td><td>O/S</td><td>We have just commenced our audit scoping and planning arrangements. We have agreed with the client that this work can be progressed this quarter.</td></tr>
<tr><td colspan="7">Business processes</td></tr>
<tr><td>Accounts payable</td><td>7</td><td rowspan="3">0.5</td><td rowspan="3">14.5</td><td rowspan="3">O/S</td><td rowspan="3">O/S</td><td rowspan="3">Audit fieldwork is scheduled to start late November.</td></tr>
<tr><td>Accounts receivable</td><td>4</td></tr>
<tr><td>General ledger</td><td>4</td></tr>
</table>

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
HR and Payroll	10	0	10	O/S	O/S	We have agreed that this audit will commence in January 2021.
Pensions administration	1	0	1	O/S	O/S	Assurance will be obtained from the work completed by the internal auditors of the Local Pension Partnership Limited, as well as from the annual assurance report, to be prepared by the Local Pensions Partnership Administration Limited in relation to compliance with the Code of Practice 14: Governance and administration of public service pension schemes, issued by the Pensions Regulator in April 2015.
Treasury management	4	0.5	3.5	O/S	O/S	Our audit fieldwork is ready to start, and therefore will be completed this quarter.
Follow up audit activity						
Business Continuity Planning	1	0.5	0.5	We have obtained appropriate information and evidence to confirm that the two medium and two low risk actions raised in our audit report dated February 2019 have been implemented.		Our audit report was issued in October 2020.

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Home Fire Safety Checks	2	0.5	1.5	We have obtained appropriate information and evidence to confirm that the two medium and four low risk actions raised in our audit report dated July 2020 have been implemented.		Our audit report was issued in November 2020.
Optimising rota management project	1	0	1	N/A		This work is scheduled for completion during quarter 4.
Other components of the audit plan						
Management activity	10	1	9	N/A	N/A	Work in the period has included: • Production of the 2019/20 Annual Report of the Head of Internal Audit; and • Preparation of this quarterly monitoring report. • Reissue of the Internal Audit Charter and Engagement Letter.
National Fraud Initiative	3	0	3	N/A	N/A	Work during the period has involved support with the data collection process, with data matches being anticipated by the end of January 2021.
Total days	**70**	**7**	**63**			

Audit assurance levels and residual risks **Appendix 1**

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

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

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

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

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

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

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

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

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

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

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LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 27 November 2020

RISK MANAGEMENT
(Appendix 1 refers)

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

Executive Summary

The report highlights action taken in respect of corporate risk since these were last reported to the Audit Committee.

Recommendation

The Committee is asked to note the actions taken and endorse the revised corporate risk register.

Information

The latest review of the corporate risk register has not identified any new risks which warrant consideration for inclusion on the corporate risk register.

Existing Risks

Of the existing risks 4 have been reviewed, and an updated corporate risk register is attached as appendix 1, with changes summarised below: -

		Update since last meeting	Proposed Risk Score	
1	Insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as RDS pensions etc., plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget	No change, not due to report till 31/3/21	16	High
2	Premises Risk Information: That operational staff do not have available adequate and reliable premises information to efficiently resolve operational incidents: Risk information is provided to operational staff based on	A key priority through 20 / 21 is the maintenance via an agreed position developed with the FBU of a review programme of SSRI plans associated with built environment risks. Agreement was reached that this aspect of Service	Remains at 9	Medium

	premises information and premises risk are identified on a continuous basis although this is not consistent throughout the Service.	Delivery remained a Core Function and should be safeguarded during the Covid-19 pandemic, given the potential that risk sites may very well have reviewed their own operating procedures and policies in light of the impact of the national crisis. REP is in addition undertaking assurance (dip samples) of Level 4 PORIS sites and have subsequently developed a series of best practice templates (L4 Tactical Plans), along with a series of proposals to introduce such plans across the organisation.		
3	Insufficient staffing resources, due to Industrial Action, to deal with operational demand and fulfil statutory responsibilities	No change, not due to report till 31/7/21	12	Medium
4	Lack of availability of water supplies for fire fighting prevents effective fire fighting resulting in additional damage to property and increased risk to life.	Previously discharged		
5	The increasing age profile of operational staff could adversely affect our ability to deliver effective emergency response.	Previously discharged		
6	Operational staff do not have the required skills to operate safely at an incident with the potential to result in F/F injuries or fatalities.	No change, not due to report till 31/7/21	9	Medium
7	Failure of key ICT systems resulting in disruption to services	No change, not due to report till 31/7/21	9	Medium
8	Loss of corporate reputation through negative publicity	No change, not due to report till 31/3/21	9	Medium

9	Retention and recruitment of RDS staff impacts on RDS appliance availability	No change, not due to report till 31/3/21	9	Medium
10	Lack of workforce planning resulting in significant over/under provision of staff and resulting impact on service and finances	Previously discharged		Medium
11	Lack of compliance with legislation resulting in prosecution or compliance order	Previously discharged		
12	Ineffective Health and Safety in the workplace, resulting in prosecution, intervention fees etc.	A further independent audit of Health and Safety and Environmental Management Systems was carried out as part of our ISO 45001 and ISO 14001 certification process. Non-conformances and opportunities for improvement are collated together into the SHE Audit Improvement Action Plan and monitored to conclusion through the Health, Safety and Environment Advisory Group. The audit did not identify any non-conformance issues or any opportunities for improvement	Remains at 9	Medium
13	Lack of effective Information management impacting on service delivery and support or leading to a breach of data protection/freedom of information or a loss of sensitive/personal information	No change, not due to report till 31/3/21	9	Medium
14	Delayed mobilisation, impacting on service delivery	New road speed algorithms have been deployed at NWFC, ensuring a more accurate travel time is factored into mobilisation decisions. The system is also being updated to reflect historic turn-in times.	Remains at 9	Medium

		Both of these changes should enhance mobilisation and ensure that the appropriate appliance is deployed to incidents.		
15	High levels of staff absence due to outbreak of ebola.	Previously discharged		
16	Lack of clarity on future of FRS, leading to inertia	Previously discharged		
17	Failure of ESMCP to deliver a viable communication facility.	No change, not due to report till 31/7/21	9	Medium
18	Inability to maintain service provision in spate conditions	Previously discharged		
19	Failure to maximise the opportunities that technological advances present due to a lack of capacity within the ICT department, and an inability of staff to keep pace with new development that are implemented	No change, not due to report till 31/7/21	9	Medium
20	Loss of support for Vector Incident Command product with the product name Command Support System (CSS) leading to ineffective command function at large incidents	No change, not due to report till 31/3/21	9	Medium
21	Risk of rapid external fire spread in high rise premise resulting in a major incident	National policy reform is underway, involving revised Building Regulations, amendments to the Fire Safety Order in 2012 (giving FRS enforcement powers for cladding and flat front doors) and the new Building Safety Bill in 2022 (making FRS a joint regulator with HSE and Building Controls). LFRS Inspectors are undertaking the MHCLG commissioned 'Building Risk Review' of all 75 High Rise residential premises in Lancashire to identify if any	10	Medium

		hazards exist beyond the use of ACM cladding. Such hazards include other unsatisfactory cladding systems, combustible balconies, and compartmentation breaches etc. Where issues are identified interim measures are put in place, including an enhanced operational response. All High-Rise owners and managers have been written to signposting the Government Cladding Remediation Fund. A Protection Transformation Team has been established which includes responsibility to oversee the Building Risk Review (BRR). Revised governance for Fire Protection will be introduced to drive reform with introduction of dedicated AM for P&P and GMs for Prevention and Protection. Comprehensive programme is in place to fill all roles and upskill the Protection Workforce to meet the complex demands of the FSO and FSB Future Risk Based Inspection Programmes will be informed by the findings of the BRR. Inspectors will work with building owners, managers, and residents, to secure appropriate risk mitigation resorting to enforcement only when justified and necessary to do so.		
22	Failure to maximise collaborative opportunities presented by Policing and Crime Act 2017	No change, not due to report till 30/11/21	9	Medium

23	Lack of leadership capacity impacting on delivery of services	No change, not due to report till 31/3/21	9	Medium
24	Insufficient preparation for inspection programme leading to opportunities being lost in terms of national learning and Lancashire's ability to effectively communicate its progress and awareness	Previously discharged		
25	The outcome of the EU court ruling on the Matzak case relating to on-call arrangements in Belgium has a detrimental impact on service provision and/or cost.	Previously discharged		
26	Increase in costs of and/or lack of availability of goods and services, following Brexit	No change, not due to report till 31/3/21	12	Medium
27	Increase in costs associated with changes to pensionability of allowances	No change, not due to report till 31/3/21	16	High
28	Discontinued or long-term malfunction in the KPI management software product (CORVU)	No change, not due to report till 30/11/21	6	Low
29	High levels of staff absence due to pandemic.	No change, not due to report till 31/3/21	25	High

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

The improvement in risk management arrangements should result in reduced business risk

Local Government (Access to Information) Act 1985

List of Background Papers

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

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CORPORATE RISK REGISTER **Nov 20**

	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
1	Insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as pay, pensions etc., plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget.	The Government has confirmed that the multi-year settlement offers have been agreed with all single purpose fire and rescue authorities (19/20 is the final year of this). The Final Settlement for 19/20 was in line with the four year settlement previously agreed. However there still remains a great deal of uncertainty surrounding the impact of Brexit. Funding in 2020 and beyond will be determined by the Governments overall budget and the 2019 Spending Review. The Budget will set overall total for public sector spending which will then be allocated out to departments as part of the Spending Review. Until such time as the outcome of this is known it is impossible to accurately predict future funding levels In addition the Government is currently consulting on a Fair Funding Review and changes to the Business Rates Retention Scheme, both of which may impact on future funding. The draft budget assume future funding is frozen. The Authority will continue to review opportunities for further savings. The Authority holds sufficient reserves to enable it to meet anticipated funding gaps in the short to medium term.	4	4	**16**	Continue to monitor position and review implications arising from Brexit, Spending Review, Fair funding review and Local Retention of Business Rates. Continue to identify savings opportunities	31/03/2021	DoCS	DoCS	Corp Serv
2	Premises Risk Information: That operational staff do not have available adequate and reliable premises information to efficiently resolve operational incidents: Risk information is provided to operational staff based on premises information and premises risk are identified on a continuous basis although this is not consistent throughout the Service.	The gathering of operational risk information is a key activity within LFRS. The service has adopted an integrated approach to managing the risk; thereby ensuring safe systems of work for all employees. LFRS will undertake incident pre planning and the gathering of operational risk information to enable: *The prevention of injury and ill health of firefighters and other emergency responders *Management and mitigation of risks in the community *Continual improvement in the provision of, accurate, relevant and timely operational information *Compliance with the legal duties on Fire and Rescue Authorities in relation to operational risk information *Compliance with formal guidance and "best practice" models; and Audit and review mechanisms. Premises based risks are assessed using the Provision of Risk Information to Staff (PORIS) methodology. The risk based information is formulated via an application on the iPad and categorised from Level 1 through to Level 5 (e.g. Top Tier COMAH Sites.) All known high risk premises are recorded on the system.	3	3	**9**	A key priority through 20 / 21 is the maintainence via an agreed position developed with the FBU of a review programme of SSRI plans associated with built environment risks. Agreement was reached that this aspect of Service Delivery remained a Core Function and should be safeguarded during the C19 pandemic, given the potential that risk sites may very well have reviewed there own operating procedures and policies in light of the impact of the national crisis. REP are in addition undertaking assurance (dip samples) of Level 4 PORIS sites and have subsequently developed a series of best practice templates (L4 Tactical Plans) , along with a series of proposals to introduce such plans across the organisation.	30/11/2021	HoSD	DoSD	Serv Delivery

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3	Insufficient staffing resources, due to Industrial Action, to deal with operational demand and fulfil statutory responsibilities.	LFRS has a separate contingency plan in place that is specific to industrial action. This has been reviewed and reissued to all SMT and relevant staff. The Home Office has undertaken an audit of our arrangements, with the final reported noting our arrangements.	3	4	12	Continue to monitor the position regarding national pay awards, pensions and related role map reviews.	31/07/2021	HoSD	DoSP	Strategy & Planning
4	Lack of availability of water supplies for fire fighting prevents effective fire fighting resulting in additional damage to property and increased risk to life.	The Service commissions, adopts, systematically inspects and repairs mains fed fire fighting hydrants across the County. We maintain operational plans that display the location of available hydrants and open water supplies. Accurate hydrant information now provided to FES. Hydrant inspections moved to a risk based programme. New SSI Hydrant Manager update - Central system (within FES) is now up and running with current information being available on appliance MDT's. Hydrant tech's now moved over to Toughbook's for hydrant management and reporting of defects. We have Strategic Hydrants (those with a flow rate of above 1,500 litres per minute), then Risk Category 1, 2 and 3. Strategic are tested annually, Risk 1 annually, Risk 2 every two years, and Risk 3 every three years. Defects are repaired either in-house by the Hydrant Technicians, or reported to United Utilities (Strategic being marked urgent). Strategic Hydrants are always flow tested and this is recorded on the hydrant asset in SSI. Other hydrants are dry tested Increased use of HVP for larger incidents.	2	3	6	Discharged				
5	The increasing age profile of operational staff could adversely affect our ability to deliver effective emergency response.	Fitness Assessments introduced and included as part of the Crew Training as of 1st April 14. Remedial action to ensure that acceptable levels of fitness are developed and maintained. Provision of facilities for physical exercise and training on operational stations. Currently staff are timetabled to take a fitness test, are subject to health monitoring and managers can refer staff to OHU if they have concerns. The Service provides a physiotherapy service, critical incident debriefing and counselling if needed.	3	2	6	Discharged				

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6	Operational staff do not have the required skills to operate safely at an incident with the potential to result in F/F injuries or fatalities.	Recruitment of Whole-time and RDS staff is undertaken against national standards. Initial and Continuation training delivery is based on National Occupational Standards (NOS), National Operational Guidance (NOG) and Training Specifications. Role related competencies have been identified and recorded within the PDR Pro system with appropriate retraining frequencies identified. Initial and Refresher training delivered to cover a wide range of specialist skills. Particularly risk Critical areas such as Breathing Apparatus are centrally assessed to ensure uniformity. An Operational Assurance policy is in place delivered through a dedicated Operational Assurance Team that continually assesses operational readiness through station visits, incident / exercise monitoring and debriefing. The team publishes a quarterly performance report to promote staff awareness of key operational performance issues. As well as internal learning sources, the team receives National Operational Learning (NOL) in relation to nationwide incidents, Rule 43 Letters and Joint Operational Learning from other blue light Services and Resilience Forum Partners. Such learning results in a range of actions including REC1 safety bulletins, changes to operational policy and training content (both courses and e-learning) and thus constant evolution/improvement in safety and effectiveness. A dedicated Incident Command Training team exists recognising the vital importance of this skill to safe and effective operations. Incident Commanders are now required to maintain a command license. Retained Support Officers have been appointed and their responsibilities include recruitment and training. The Service continues to invest in training props to ensure realistic hot fire training conditions. Through the Operational Assurance Group, Prevention, Protection and Response Task and Strategic Groups along with the Health, Safety and Environment Advisory Groups, internal and external learning are monitored and fed into the Training and Operational Review department to influence operational training.	3	3	**9**	Monitor effectiveness of Operational Assurance Performance Report in disseminating information	31/07/2021	HoTOR	DoSD	Serv Delivery

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
7	Failure of key ICT systems resulting in disruption to services.	Separate BCP plans developed, including backup and recovery procedures, desktop exercise completed. Asset replacement policy in place, regularly reviewed. IT Firewall to prevent inappropriate access, moisture detection loop installed in SHQ plant room to identify any early threat of flooding Secondary ICT site constructed at STC to provide enhanced resilience, implementation of Active Directory to enhance security and control of user access, improved virus protection. Strategy to control use of USB devices implemented. Patch and update policy place to ensure servers and workstations are up to date with latest security developments. Wide Area Network (WAN) to all administrative and operations site. New Storage Area Network (SAN) to replicate all essential servers and data to the disaster recovery site at STC. Installed resilient link from STC to County Hall in order to maintain LCC/OCL supplied services in the event of a failure at SHQ or the link to County and also have extended the network to include the new control facility in Warrington.	3	3	**9**	Complete the implementation of the new WAN Start work to consolidate our 3 data centres to facilitate any potential SHQ relocation.Extend the use of Cloud services where appropriate. Achieve Cyber Essentials Plus. Upgrade Exchange infrastructure. Complete migration to windows 10 and Office 2019	31/07/2021	HoICT	HoICT	Strategy & Planning
8	Loss of corporate reputation through negative publicity.	Emergency communication plan and toolkit covers all aspects of risk including business continuity issues, emergencies and broader reputational risk, and fulfils requirements of the Lancashire Resilience Forum emergency communications plan. Documents were updated in September 2018 following Winter Hill moorland fire learning. Plan regularly tested during exercises. Effective reactive press office and proactive media activity to build positive reputation including on-call arrangements for out-of-hours cover. Media and social media training forms part of middle manager development programme and is delivered to individuals and teams as required throughout the year. A social media management tool was procured in February 2018 which provides ability to monitor and manage, if required, social media activity by stations. Communication plans for all corporate projects include internal communication to ensure staff are well informed to reduce risk of misinformation. Corporate use of social media is embedded in communication plans with policy and guidance in place. Scanning and planning function helps anticipate and plan for specific reputational risks and daily media monitoring highlights inaccurate reporting and emerging issues that that need to be addressed or corrected.	3	3	**9**	Revised image consent forms have been produced in line with GDPR however social media guidelines are yet to be updated in respect of images and personal data, as a preferred method of processing and storing images has yet to be determined by the Service. Revised media and social media training to be delivered	31/03/2021	HoCC	HoCC	People & Development

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9	Retention and recruitment of RDS staff impacts on RDS appliance availability.	RDS recruitment and retention working group established. Increased RDS basic recruits course population from12 to 24. Quicker access to BA course on completion of recruit training. TOR support throughout the RDS probationary period. Enhanced retained pay scheme introduced and reviewed regularly. The service allows shorter RDS contracts to improve appliance availability. Encourages dual contract staff to contribute to the RDS. RDS availability targets now reduced to 95%. Proactive recruitment by SDM's. Joint working between HR and service delivery to enhance current recruitment processes. RDS Strengthening & Improving programme in place with the focus on supporting staff through their developmental stages and improving efficiency and effectiveness of recruitment work. A new Recruitment Vehicle has been established. RSO activity around both development and recruitment are paying off with improved levels of support being given across all required skill sets to those in the Service and those looking to join us.	3	3	9	RSO's continue to embed 'core skills' workshops on stations and STC staff routinely delivering Incident Command skills across a variety of topics to RDS staff to improve competency as well as sense of feeling valued. Activity around RDS recruitment campaigns will continue to develop. For those who fail the RDS course the RSO's maintain contact and developmental work with a view to attendance on subsequent course. Monitor success of initiatives.	31/03/2021	HoSD	HoSD	Serv Delivery
10	Lack of workforce planning resulting in significant over/under provision of staff and resulting impact on service and finances.	A mechanism of workforce planning has now been agreed and this will be reviewed on annual basis. As part of the development of the workforce plan a review of retirement profile is considered which is the main reason for turnover for those staff on grey book terms and conditions, this information is used to plan recruitment and enables us to plan effectively ensuring enough staff. Further to the turnover last year, an internal recruitment campaign and associated recruitment resulted in recruitment to 27 posts. A further recruitment campaign is being conducted for 2017/18 which will be completed by mid-May. Our approach to training and organisational development ensures that staff have the necessary ability, skills and training in order to able to undertake the job role. In terms of managing the risks associated with over establishment, all posts are checked against the post book prior to advertising. Where a post is not established it needs to go through specific authorisation and establishment process which ensures that we control the number of posts we recruit.	2	3	6	Discharged				
11	Lack of compliance with legislation resulting in prosecution or compliance order.	Clerk of Authority reviews all Committee reports for legality and advises CFA. Clerk and Solicitor review new legislation. Government notify of all new requirements Horizon scanning.	2	2	4	Discharged				

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12	Ineffective Health and Safety in the workplace, resulting in prosecution, intervention fees etc.	• Health and Safety Management System (HSMS) in place certified to ISO 45001:2018 to develop, maintain and continuously improve the HSMS. • Operational Assurance Programme. • HSA3 – workplace inspection programme. • Publication of risk information – Health and Safety Risk and Opportunities Register resulting in service objectives and targets, Generic Risk Assessments, Service Orders, Standard Operating Procedures etc. • External audit and scrutiny through External Auditors. • Health, Safety and Environment Advisory Group / Health and Safety Consultation Meeting monitor performance. • Annual SHE Report presented to CFA. • LFRS SHE Audit and Development Plan to develop, maintain, ensure compliance, review and continuously improve the HSMS.	3	3	**9**	Following the independent audit of Health and Safety and Environmental Management Systems carried out as part of our ISO 45001 and ISO 14001 certification process non-conformances and opportunities for improvement are collated together into the SHE Audit Improvement Action Plan and monitored to conclusion through the Health, Safety and Environment Advisory Group.	30/11/2021	HoSHE	HoSHE	People & Development
13	Lack of effective Information management impacting on service delivery and support or leading to a breach of data protection/freedom of information or a loss of sensitive/personal information.	A revised structure to deliver Information Management has been implemented. Nominated Data Protection and Freedom of Information Lead Officers to ensure legal obligations met. All freedom of information requests considered by Exec Board. Data encryption in place. Information Management related projects are progressing as scheduled with governance from Programme Board and DCFO as Sponsor. Compliance with the Data Protection Act (DPA) and General Data Protection Regulation (GDPR) remains a priority. A data protection LearnPro module; this will further support the Service in effective information management by increasing staff awareness. The Service has also provided specialist data protection and GDPR training to increase staff knowledge and engagement with the subject matter. Data protection has been added as a standard agenda item to several key Papers in the Service. The appointment of a DPO not only aligns the Service with legislative obligations but also provides the oversight inherent to that post.	3	3	**9**	Work remains ongoing in order to deliver performance management integration within our District Plan, the first stage of which is to prototype a CorVu replacement If successful, this should be developed further to automate the wider District Plan Key Performance Indicators (KPI's).The Information Management Strategy has been supported by the recruitment of a Data Management Officer and a fixed-term Records Officer.	31/03/2021	HoServ Develop	DoSP	Strategy & Planning

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14	Delayed mobilisation, impacting on service delivery.	System uses AVLS to locate the nearest available pump, based on anticipated 'run time'. 2014 saw the implementation of a new Global ITN road speed setting developed from historical evidence provided by Cheshire FRS. This implementation along with changes to Station geographical locations, the removal of road restrictions (imposed on the ITN by the developers) and the development of new response plans has seen an improvement in mobilising with appliances arriving with greater accuracy between the proposed and actual run times. Restrictions have been imposed on the system to ensure non critical incidents are attended by the host station whilst preventing a lengthy run time and/or a slow response time. This restriction ensures both the spread of resources is maintain and the continued use of RDS whilst preventing Whole time appliances being taken out of higher risk areas, this also reduces the need for standby/closing in moves.	3	3	9	New road speed algorithms have been deployed at NWFC, ensuring a more accurate travel time is factored into mobilisation decisions. The system is also being updated to reflect historic turn-in times. Both of these changes should enhance mobilisation and ensure that the appropriate appliance is deployed to incidents.	30/11/2021	HoServ Develop	DoSP	Strategy & Planning
15	High levels of staff absence due to outbreak of Ebola.	On-going liaison with LCC Emergency Planning Dept and LRF. Separate BCP plans developed re large scale staff absence. Enhanced sickness and absence policy implemented. OHU department to provide advice to managers/staff.	1	4	4	Discharged				
16	Lack of clarity on future of FRS, leading to inertia.	The Sir Ken Knight review highlighted a need to review governance arrangements relating to FRAs identified several potential governance models, regional, national, mergers, ambulance, police etc. responsibility for Fire Service has transferred from CLG to Home Office The Policing and Crime Bill (which is currently going through Parliament) introduces measures which require the police, fire and rescue, and ambulance services to collaborate with one another. As a minimum, the legislation requires PCCs to be represented on the relevant fire and rescue authority (FRA) (or its committees) with full voting rights, subject to the consent of the FRA. Alternatively, PCCs have the option of putting forward a business case which may include arrangements to take on responsibility for the governance of fire and rescue; or to become the single employer for fire and police, to deliver greater improvements through the integration of back office functions and maximise the benefits of workforce flexibility. As such future options now appear to be:- • remain as we are • move towards a PCC	2	3	6	Discharged				

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17	Failure of ESMCP to deliver a viable communication facility.	Emergency Services Mobile Communication Programme (ESMCP) is a national project which will deliver a replacement communications and data service using 4G technology. The new broadband data services will replace the existing private mobile radio system provided by Airwave. Main contracts awarded to EE and Motorola for the network and network equipment respectively. Since the signing of the contract, there has been considerable work done by the suppliers, central programme team and emergency services in the regions. In 2019/20 the Programme awarded contracts to 2 suppliers for the creation and delivery of fixed vehicle devices for use in the fire appliances and wider fleet. The NW region is working closely with these providers to ensure the equipment meets our technical and end user requirements. In April 2020 the Programme made available equipment that has enabled LFRS to commence with the testing of coverage in order to gain the required assurances that the provision of network coverage is to contractual criteria and fit for purpose.	3	3	**9**	Work is ongoing at both a service and regional level in order to prepare for transition to ESMCP. This is focussed upon coverage, transition planning, device support requirements and integration with existing systems such as MDT. LFRS is managing the project with a dedicated Project Manager through Home Office allocated funding and key staff members such as Head of ICT are aligned to relevant work packages. Significant progress cannot be achieved until after the HO issue the revised National Transition Plan.	31/07/2021	DoSP	DoSP	Strategy & Planning
18	Inability to maintain service provision in spate conditions	Robust Business Continuity arrangements The published 2017-2022 LFRS Integrated Risk Management Plan recognises the impacts of wide area flooding (P2 increasing weather related events) as does our SOR for 2017. Ensure ESMCP specification recognises communication needs identified Training for LFRS FDOs regarding National Resilience Asset mobilisation and associated Command Support has been delivered, testing via an exercise to be completed LFRS vehicle fleet amended with multi-purpose (4x4) vehicles suitable for use in wide area flooding placed within the fleet, further purchases to follow in 2017/18 to extend the provision to 10. The enhancement of staff PPE with provision of flood suits and associated training is complete. The Lancaster accommodation side (not appliance bay etc.) has been built with flood defences and other mitigation works as per flood risk assessment. Other works include elevating all Station Mobilisation Cabinets that are in Flood risk areas.	3	2	**6**	Discharged				

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19	Failure to maximise the opportunities that technological advances present due to a lack of capacity within the ICT department, and an inability of staff to keep pace with new development that are implemented	ICT Asset Mgt Plan in place, which identifies replacement timeframes for existing systems. Revised ICT Strategy presented to Resources Committee in March 2018 and includes work stream to improve user experience. BPIP consider all new ICT systems/developments, as part of this consideration is given to capacity planning in terms of ICT resource and impact on end users CPB consider outcomes from BPIP Additional Systems Engineering posts are now filled with the individuals already having a positive impact on the back log of work.Creation of Digital Transformation as a standalone department will allow ICT to focus on core infrastructure and increase development capacity once fully staffed.	3	3	**9**	Upgrade Exchange infrastructure. Complete migration to windows 10 and Office 2019 They have continued to develop bespoke packages, such as Assurance Monitoring System. Currently recruiting additional staff for Digital Transformation department created in June 2020 Introducing 4 apprentice roles across ICT and DT.	31/07/2021	HoICT	DoSP	Strategy & Planning
20	Loss of support for Vector Incident Command product with the product name Command Support System (CSS) leading to ineffective command function at large incidents	The CSS software application (Vector Incident Command) we run on our command units to manage the incident command system, went into administration and the Intellectual Property Rights (IPR) for the software were bought at auction by Telent, who are the prime contractor for the NWFC ICT mobilising and communication. Telent have presented to say they will ensure that the original Vector developments as promised under the NWFC contract will be delivered. However developments have been very slow	3	3	**9**	A new project has now commenced to deliver a new command software solution and work is on-going to develop the specifications to move the Service forward towards procurement.	31/03/2021	HoServ Develop	DoSP	Strategy & Planning

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21	Risk of rapid external fire spread in high rise premise resulting in a major incident	Understanding the range of hazards present in the high rise built environment continues to evolve with new and emerging risks continually being identified both locally and nationally. The latter are shared by the NFCC Protection Policy Reform Unit (incorporating the Building Safety Team), Home Office and MHCLG. Intelligence which in turn steers targeting and inspection activity. Albeit with restrictions on LFRS' ability to fully manage risk in this area due to limitations imposed by current legislation. National policy reform is underway, but still has considerable distance to travel, involving revised Building Regulations, amendments to the Fire Safety Order in 2012 (giving FRS enforcement powers for cladding and flat front doors) and the new Building Safety Bill in 2022 (making FRS a joint regulator with HSE and Building Controls). In 2020/21 (until Dec) LFRS Inspectors are undertaking the MHCLG commissioned 'Building Risk Review' of all 75 High Rise residential premises in Lancashire to identify if any hazards exist beyond the use of ACM cladding. Such hazards include other unsatisfactory cladding systems, combustible balconies, and compartmentation breaches etc . All High Rise owners and managers have been written to signposting the Government Cladding Remediation Fund.	2	5	**10**	A Protection Transformation Team has been established which includes responsibility to oversee the Building Risk Review (BRR). Revised governance for Fire Protection will be introduced to drive reform with introduction of dedicated AM for P&P and GMs for Prevention and Protection. Comprehensive program is in place to fill all roles and upskill the Protection Workforce to meet the complex demands of the FSO and FSB Future Risk Based Inspection Programs will be informed by the findings of the BRR. Inspectors will work with building owners, managers, and residents, to secure appropriate risk mitigation resorting to enforcement only when justified and necessary to do so. Comprehensive program is in place to fill all roles and upskill the Protection Workforce to meet the complex demands of the FSO and FSB.	30/11/2021	HoServ Develop	DoSP	Strategy & Planning

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22	Failure to maximise collaborative opportunities presented by Policing and Crime Act 2017	Well-developed relationships with Lancashire Constabulary and NWAS Regular meetings to discuss issues/opportunities Collaboration already taking place i.e. EMR, Gaining Entry, Missing Persons, Air Support (Drone), Site Sharing etc. Statement of Intent agreed and signed off at Deputy Chief Officer level between LFRS and Lancashire Constabulary External training for both organisations Senior Management Teams delivered by Shares Services Architects. Work areas considered and a 32 item collaboration log has been created. Blue Light Collaboration Board has been extended to NWAS and both Programme and Sponsor level attendance at meetings is from the 3 blue light services	3	3	**9**	3 core projects to be progressed to scope report status:- • multi officer role • response arrangements • public order training at Washington hall Further roll out of EMR is dependent upon outcome of national pay negotiations In order to evaluate the effectiveness of the collaboration work to date consultants have been commissioned to carryout a review of the work to date. This work has been delayed due to the ongoing Covid 19 Pandemic and findings will be considered once the report is completed.	30/11/2021	HoSD	DoSP	Strategy & Planning
23	Lack of leadership capacity impacting on delivery of services	Workforce plan agreed and implemented which clearly identifies our challenges and workforce profile Recruitment policy in place which reviews the success of recruitment campaigns against the knowledge and skills gap Appraisal system in place, to establish opportunities for development feedback, identification of training needs, development opportunities and talent Leadership Development programmes in place, including in house leadership development, ILM (Institute of Leadership and Management) ELP (Executive Leadership Programme), Leading into the Future (A cross sectoral leadership programme) etc. Coaching and mentoring system introduced Action Learning Sets introduced Leadership Conferences delivered Promotion Board in place with clear development and promotion pathways established for operational staff	3	3	**9**	New performance management/appraisal system introduced. A more formal approach to Talent Management has been introduced which aspires to be an open, transparent approach and encourages individuals and line managers to reflect on their current position, for feedback to be given and opportunities for development identified through a lifetime/career conversation if this is something the individual wishes to pursue. Leadership development programmes continue to be delivered. Future workforce needs are reviewed on an ongoing basis, this is particular relevant in light of potential impact of transitional pension arrangements	31/03/2021	HoHR	DoPD	People & Development

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24	Insufficient preparation for inspection programme leading to opportunities being lost in terms of national learning and Lancashire's ability to effectively communicate its progress and awareness	Resources allocated to the required preparatory work to meet the needs of the HMICFRS inspection process. Creation of an internal review and subsequent self-assessment against the draft inspection criteria including the collation of key evidence and identification of any shortfalls of evidence. Completion of the HMICFRS returns including a corporate narrative overview, statements against the diagnostics covering effectiveness, efficiency and people including the submission of associated evidence. Inspection completed week commencing 9 July. Report due completion October (released at same time as other Tranche 1 reports)	1	3	**3**	Discharged				
25	The outcome of the EU court ruling on the Matzak case relating to on-call arrangements in Belgium has a detrimental impact on service provision and/or cost.	The case looked at the applicability of Working Time in connection with the Belgian Fire Service and their version of On Call Controls. Legal opinion is being sought in connection with the case to identify its impact in the UK. On more detailed examination, the case was not directly applicable to the UK, the issue in question was also resolved before further consideration by the Belgium Courts.	1	5	**5**	Discharged				
26	Increase in costs of and/or lack of availability of goods and services, following Brexit	We are continuing to monitor any trends in terms of this, with a view to identifying the extent of any impact. If costs increase significantly in the short term we will need to drawdown reserves in order to deliver a balanced budget. We have not seen any evidence that the availability of essential goods/services has been affected at this moment in time.	3	4	**12**	Continue to monitor impact	31/03/2021	HoProc	DoCS	Corporate Services
27	Increase in costs associated with changes to pensionability of allowances	Following a High Court decision on the pensionability of allowances, which provides a different interpretation to both the historical basis and to previous decisions of the Pensions Ombudsman, the pensionability of various allowances will change with associated cost implications. The position is unclear and the fire service (including LFRS) is awaiting guidance from the LGE. Issues to be determined include:- • What is the correct interpretation • The impact in respect of each of the three pension schemes • Does backdating apply • How to treat both employee and employer contributions • The position of representative bodies on this	4	4	**16**	Continue to monitor guidance	31/03/2021	DoPD	DoPD	People & Development

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28	Discontinued or long term malfunction in the KPI management software product (CORVU)	Close contract management with the provider to ensure that the product remains functional and fit for purpose. Staff member will lead responsibility is highly trained in the product and can carryout some maintenance in order to support functionality. Some alternative work arounds identified that will be resource intensive and may not provide the existing quality of data and subsequent analysis.	3	2	6	Continue to review the systems utilised in the sector and comparable users in order to identify a replacement product in a timely manner. Carryout a review of alternative work solutions in order to ensure that CFA Performance reports and Service Delivery District level reports remain deliverable. Priorities the upskilling of the new GIS / analyst to reduce the single point of failure risk.	30/11/2021	HoSDD	DoSP	Strategy and Planning
29	High levels of staff absence due to pandemic.	The pandemic BCP was implemented from March 2020 in response to Covid-19. IMT and various sub-groups were implemented to manage impacts including – enhanced monitoring of staff absence levels, notification processes, H & S guidance, appliance crewing models, increased home and remote working, re-defined core activities and support to LRF work streams. OHU department to provide advice to managers/staff. On-going liaison with LRF/Emergency Planning Depts. To date staff absence as a result of the pandemic has been low and hence appliance availability has been maintained throughout the period to date	5	5	25	Full internal and LRF debriefs to be progressed once BCP arrangements stood down.	31/03/2021	HoSDD	DoSP	Strategy and Planning

29

HIGH	3
MEDIUM	16
MEDIUM/LOW	7
LOW	3
	29

31/03/2021	9
31/07/2021	5
30/11/2021	6

Scores

Likelihood		**Impact**
5	Certain, see next sheet	Minor, see next sheet
4	Very Likely, see next sheet	Noticeable, see next sheet
3	Likely, see next sheet	Significant, see next sheet
2	Unlikely, see next sheet	Critical, see next sheet
1	Rare, see next sheet	Catastrophic, see next sheet

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