

**LANCASHIRE COMBINED FIRE AUTHORITY  
RESOURCES COMMITTEE**

Meeting to be held on 21 May 2018

**Core Financial Statement 2017/18  
(Appendices 1, 2, 3, 4 and 5 refer)**

Contact for further information:

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**Executive Summary**

This report presents the Core Financial Statements, which form part of the Statement of Accounts, for the Combined Fire Authority for the financial year ended 31 March 2018.

**Recommendation**

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

**Information**

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

**Narrative Report**

This sets out the financial context in which the Combined Fire Authority operates, and provides an overview of the financial year 2017/18 as well as details of future plans.

**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: -

	2017/18	2016/17	
Service Delivery	27,009	22,775	The cost of Service Delivery shows an increase when compared with the previous year, costs have increased reflecting investment made into RDS pay, Retained Support Officers and Trainers, however the majority of the increase is attributable to changes associated with the adjustment required in respect of pension liabilities under IAS 19.
Strategy & Planning	7,483	6,618	The cost of Strategy & Planning shows an increase when compared with the previous year, with the majority of this also relating to the adjustment required in respect of pension liabilities under IAS 19.
People & Development	1,303	1,123	The cost of People & Development is broadly comparable with last year, with the marginal increase predominantly being due to the adjustment required in respect of pension liabilities under IAS 19.
Corporate Services	4,165	3,162	The cost of Corporate Services shows an increase compared with the previous year, reflecting the transfer of administrative staff from Service Delivery to Corporate Services, the overspend within the Property Department, and adjustment required in respect of pension liabilities under IAS 19.
Fire Fighters Pensions	1,138	1,228	These costs are the ongoing pension's costs relating to previous ill health or injury retirements, which have remained at a similar level to the previous year.
Overheads	4,621	6,953	This heading includes all capital financing charges, previous payments made in respect of the LGPS deficit, and depreciation and impairment charges made in respect of assets. The reduction in Overheads is largely attributable to the previous impairment of Lancaster Fire Station, undertaken in 2016/17
Gain On Disposals Of Fixed Assets	(13)	-	This relates to the sale of surplus land at Penwortham and vehicles
Interest Payable	1,576	1,674	The level of interest payable in respect of current loans has fallen reflecting the early repayments as shown in the Year End Treasury Management Outturn report. In addition to this interest charges associated with the PFI scheme and finance leases totalled £1.4m, in line with the previous years charges.
Pension Interest Cost And Expected Return On Assets	20,983	23,275	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 is resulting in a £21.0m charge to the Income and Expenditure Account.
Interest Receivable	(266)	(304)	The level of interest earned on investments has reduced as a 3 year fixed rate investment matured in July, and the interest rates available for re-investment were lower than those achieved 3 years ago.
Council Tax	(28,233)	(27,506)	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	(10,659)	(13,218)	The level of Revenue Support Grant allocated to the Authority by the Government, the reduction reflecting the cut in Government funding
Non-Domestic Rates Redistribution	(14,605)	(15,050)	Amounts raised through non domestic rates, including the Authority's element of business rates collection fund surplus accumulated during the preceding year by the billing authorities, in addition to top up grant receivable from the Government as part of the localisation of business rates. This amount reflects the total amount due, rather than simply the amount of cash received in year.
Business rates S31 grant	(511)	(447)	This grant is allocated to the Authority by the Government, and relates to small business rates reliefs allowed by the Government as part of the localisation of business rates.
Deficit On The Provision Of Services	<b>13,992</b>	<b>10,281</b>	The overall deficit shows that expenditure incurred exceeded income generated over the last twelve months, and is measured in terms of the resources consumed and generated. However, this includes a number of accounting entries which do not impact on council tax levels, most notably those relating to the pensions schemes. As such this does not show the actual surplus when comparing spend against council tax.
(Surplus)/Deficit On Revaluation Of Non-Current Assets	(5,167)	(9,871)	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	(10,628)	114,465	This is a notional charge arising from the Actuary changing their assumptions on which future pensions liabilities are calculated, such as mortality rates, future interest rates, pay and pension increases, return on assets etc.
Total Comprehensive Income And Expenditure	<b>(1,803)</b>	<b>114,875</b>	This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation.

In order to aid understanding the following table shows the comparison between the revenue budget position, as set out in the Year End Revenue Outturn report, and the Total Comprehensive Income and Expenditure figure set out above:-

	£m
Revenue Outturn	0.007
Earmarked reserves utilised/provided for in year	0.050
Transfer from Provisions	(0.691)
Accounting for pensions under IAS19	13.138
Revenue Contributions to Capital Outlay	(2.421)
Adjustments between accounting basis and funding basis under regulations	3.908
Deficit on the provision of services	<b>13.992</b>
Surplus on revaluation of non-current assets	(5.167)
Actuarial loss on pensions assets and liabilities	(10.628)
Total Comprehensive Income and Expenditure	<b>(1.803)</b>

## Movement in Reserves Statement

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

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

The main points in respect of are:-

	Usable Reserves	Unusable Reserves	Total Reserves	
Balance at 1 April	36,540	(723,390)	(686,850)	
Deficit on the provision of service	(13,992)	-	(13,992)	This shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. As set out earlier it is not accounted for on the same basis as we account for council tax and hence does not tie in to the actual revenue position set out in the Year End Revenue Outturn report.
Other Comprehensive Income And Expenditure	-	15,795	15,795	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	4,264	(4,264)	-	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year
Amortisation of intangible assets	122	(122)	-	This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year
Disposal of assets	21	(21)	-	The relates to the revaluation profit on disposal of fixed assets.
Capital grants applied	(505)	505	-	This shows the level of capital grants that have been utilised in the year, these were received from the Government, shown in the Year End Capital Outturn report
Amount by which the Code and the statutory pension costs differ	13,138	(13,138)	-	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	(39)	39	-	This shows the difference in value between the amount due to be raised from council tax and business rates, as

income and expenditure statement is different from collection fund income calculated for the year in accordance with statutory requirements				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 2017/18 reflecting the fact that authorities have collected more than anticipated.
Provision for the repayment of debt	(388)	388	-	This is the charge made against the revenue budget to reduce future borrowing requirements, and includes an element relating to debt associated with POFI and finance leases
Capital expenditure charged against General Fund Balance	(1,493)	1,493	-	This is the level of capital expenditure which has been funded from contributions from the 2017/18 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	1,129	675	1,803	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	(224)	224	-	These represents the transfers to specific earmarked reserves referred to in the Year End Usable Reserves and Provisions Outturn report.
Transfers (to)/from capital funding reserves	(2,416)	2,416	-	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	9	(9)	-	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	(1,502)	3,305	1,803	This is the net change to reserves, comprising the Surplus/Deficit on provision of services, less any adjustments for items which don't affect council tax and any transfers to/from earmarked reserves and ties into the overall change in Usable reserves included in the Year End Usable Reserves and Provisions Outturn report
Balance at 31 March	<b>35,038</b>	<b>(720,085)</b>	<b>(685,047)</b>	These are the final reserve balances which are reflected in the balance sheet in the statement of accounts, and which tie in to the values shown in the Year End Usable Reserves and Provisions Outturn report.

## Balance Sheet

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

The main points to note are: -

	2017/18	2016/17	
<b>Long Term Assets</b>			
Property, Plant & Equipment	93,764	88,223	The value of property, plant & equipment has increased by £5.5m, due to the level of capital expenditure (£4.6m as shown in the Year End Capital Outturn report) and the net revaluation gains of £4.5m compared with depreciation charges of £3.6m.
Intangible assets	106	228	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, ie over 3 months in duration, as shown in the Year End Treasury Management Outturn report. .
<b>Current Assets</b>			
Assets Held for Sale	-	21	The surplus plot of land at Penwortham was sold in the 2017.
Inventories	228	207	The value of stock held has remained broadly in line with last year.
Short-Term Investments	-	5,000	Last year's short term investment matured in 2017.
Short-Term Debtors	10,465	10,746	Debtors represent monies owed to the Authority on 31st March 2018. In order to improve cash flow this figure should be as low as possible, however it is inevitable that there will always be a balance on this due to the timing of invoices and the debt recovery process. The level of debtors at the year-end has remained consistent, with the main debt reacting to Council Tax, Business Rates (which represent our share of debts that billing authorities hold) and amounts owed to the Authority by the FF pension fund in the form of top up grant due during July 2018.
Cash & Cash Equivalents	28,604	29,061	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.
<b>Current Liabilities</b>			
Short-Term Borrowing	-	(333)	Following the repayment of debt in year the Authority does not hold any short term borrowing, i.e. debt repayable within the next 12 months
Other Short-Term Liabilities	(329)	(335)	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	(6,311)	(6,376)	This figure represents the amount of money we owe to

Creditors			other bodies at 31st March 201. The overall balance is broadly in line with last year.
<b>Long Term Liabilities</b>			
Provisions	(1,084)	(1,763)	This shows the outstanding provisions, relating to the potential cost of outstanding insurance claims, which will have to be met by the Authority in future years, the remaining balance of the potential costs associated with Retained Fire-fighters' claims (under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000) concerning employment terms, and also the Authorities share of billing authorities business rates outstanding appeals. The reduction relates to the Insurance Provision, which has been reduced reflecting our excellent claims history
Long-Term Borrowing	(2,022)	(5,243)	This represents the amount of long term debt that the Authority holds which does not mature within the next 12 months. As referred to in the Year End Treasury Management Outturn report the Authority paid off £3.2m of long term debt leaving balance of £2.0m which is due to mature between 2035-2037.
Other Long-Term Liabilities	(813,466)	(811,285)	This majority of this relates to adjustments required under IAS 19, and shows the extent to which the authorities liability to pay pension benefits in the future exceeds the value of assets held. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £799m. This also includes liabilities covering the remainder of the contract associated with the two PFI contracts; <ul style="list-style-type: none"> <li>• PFF Lancashire Ltd for the provision of two fire stations,</li> <li>• Balfour Beatty Fire and Rescue for the provision of four fire stations within Lancashire, as part of the joint contract to provide sixteen stations across Lancashire, Cumbria and Merseyside.</li> </ul> In addition, this also includes liabilities relating to an outstanding finance lease.
<b>Total Assets Less Liabilities</b>	<b>(685,046)</b>	<b>(686,850)</b>	

<b>Financed By</b>			
<b>Usable Reserves:</b>			
Revenue Reserves	(15,712)	(17,902)	This is the level of reserves, £15.7m, 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 transfer of £2.6m to the capital funding reserve in order to meet current and future year's capital costs, as referred to in the Year End Usable Reserves and Provisions Outturn report.
Capital Funding Reserve	(17,745)	(16,633)	This reserve holds £17.7m 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	-	(505)	The capital grant received in 2015/16, has been fully

Unapplied			utilised on the rebuild of Lancaster Fire and Ambulance Station as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.
Usable Capital Receipts Reserve	(1,581)	(1,501)	This represents the proceeds from the sale of fixed assets which are used to finance capital investment. To class as capital receipts the value of the sale must exceed £10,000. The increase in value representing the sale proceeds from the surplus land at Penwortham and vehicles, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.
<b>Unusable Reserves:</b>			
Revaluation Reserve	(40,862)	(36,957)	This account holds unrealised revaluation gains, or losses, from holding fixed assets, as such any revaluations that have taken place since 1 April 2007 are reflected in this reserve. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.
Capital Adjustment Account	(38,641)	(36,762)	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	(704)	(664)	This account reflects the net effect of the adjustments required to show our share of each billing authority's council tax and business rates debtors and creditors at year end, in our case this shows a surplus of £704k
Accumulated Absences Adjustment Account	813	804	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	799,479	796,969	This relates to adjustments required under IAS 19, and is a notional reserve required in order to offset the net liability of the Authority in respect of the pension schemes.
	<b>(685,046)</b>	<b>(686,850)</b>	

## Cash Flow Statement

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

The main points to note are:-

	2017/18	2016/17	
Cash and cash equivalents at 1 April	29,061	28,562	This shows the net cash immediately available within the Authority.
Net Cash Flows Arising From Operating	4,714	5,750	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



Activities			respect of employee costs and non pay costs etc.
Investing Activities	232	(3,081)	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 £4.6m of expenditure on capital assets. This is offset by the decrease in short term deposits
Financing Activities	(5,402)	(2,170)	The majority of this relates to the repayment of long term debt, including that associated with PFI and finance leases
Cash and cash equivalents at 31 March	<b>28,605</b>	<b>29,061</b>	This shows the net cash immediately available within the Authority in a call account with LCC. This shows a marginal reduction, reflecting the level of capital investment and the repayment of debt undertaken in year, and ties in to the figure included in the Treasury Management Outturn report

### **Signing of the Statement of Accounts**

The unaudited Statement of Accounts will be signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2018.

This will be subject to review by the Authority's external auditors, Grant Thornton, which is scheduled to take place in June and July. A further report will be presented to the Audit Committee in July, following completion of the external audit. At this meeting the Chair of the Audit Committee will be asked to sign the final statement of accounts, as well as the Treasurer. Following which a final audited set of accounts will be presented to the Resources Committee for information.

### **Financial Implications**

As outlined in the report

### **Business Risk Implications**

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

### **Environmental Impact**

None

### **Equality and Diversity Implications**

None

### **Human Resource Implications**

None

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

## List of Background Papers

Paper	<i>Date</i>	Contact
SORP and Guidance	February 2018	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	May 2018	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

## **Narrative Report**

### **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.

We have continued to invest in our Retained Duty System personnel, implement an enhanced pay scheme, embedding the Retained Support Officer role and providing greater training opportunities for personnel in development. All of these activities are designed to improve our recruitment, retention and competency within this element of the Service

2017/18 saw our first significant external recruitment campaign for whole-time firefighters in over 10 years. As a result of this the Authority recruited 49 new whole-time firefighters in 2017/18, of which 10% were female and 10% were from a BME background.

Our Operational Assurance Team is now fully embedded in the Service, focusing on reviewing preparedness, response and learning, in order to enhance service delivery.

Training facilities have been improved with the completion of a Multi Compartment Fire-Fighting prop at our Training Centre, which has enhanced our ability to replicate and train against national learning and a wide range of scenarios.

We have continued to invest in providing the best operational equipment, introducing a new type of vehicle, the AT Stinger (the first of its kind in the UK), which has increased capability to deal with fires in roof spaces more effectively, as well as providing a safer operational environment at incidents. We have also replaced our Thermal Imaging Cameras with new state of the art cameras, improving search facilities as well as firefighter safety.

We undertook an Emergency Cover Review, to ensure that our emergency response provision matches fire risk in Lancashire. The review confirmed that we are able to respond safely and effectively and that no changes to staffing or fire stations were required.

We launched a Leadership conference in April, with a second one taking place mid-year, and with further conferences planned for the new financial year. This has enabled us to focus more clearly on developing a strong organisational culture based on clear values and leadership.

We have continued to develop collaborative opportunities, signing a Statement of Intent and establishing a joint collaboration group with the Constabulary to explore further opportunities. The joint Fire and Ambulance station at Lancaster is nearing completion, and we are continuing to review further opportunities for site sharing with both NWS and Lancashire Constabulary.

The Safe and Well visit has now been fully incorporated into our Home Fire Safety Check Service. All our visits to householders now have additional checks, supplementary to our primary Fire advice, to identify and mitigate risk factors that impact on health and wellbeing. These additional strands have been subjected to and approved through a national Standard Evaluation Framework that focuses on providing best practise for Fire and Rescue

Services. Training has now been completed for all LFRS personnel who carry out these duties. The process in place now ensures that LFRS personnel can signpost those in need of assistance with health or wellbeing issues to the relevant partner agency in the respective geographical area.

Non-financial performance has remained strong. 2017/18 activity has increased by 4.5% to almost 15,900 incidents, a greater count than any of the previous 5 years. The number of accidental dwelling fires saw a 10% increase; however the overall casualty numbers decreased to the lowest level in the last 10 years to 43, a 10% reduction. Deliberate dwelling fires saw a slight decrease and is also at a 10 year low. A total of 601 gaining entry incidents were undertaken in 2017/18, an increase of 29% over the 467 recorded in 2016/17.

## **The 2017/18 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.

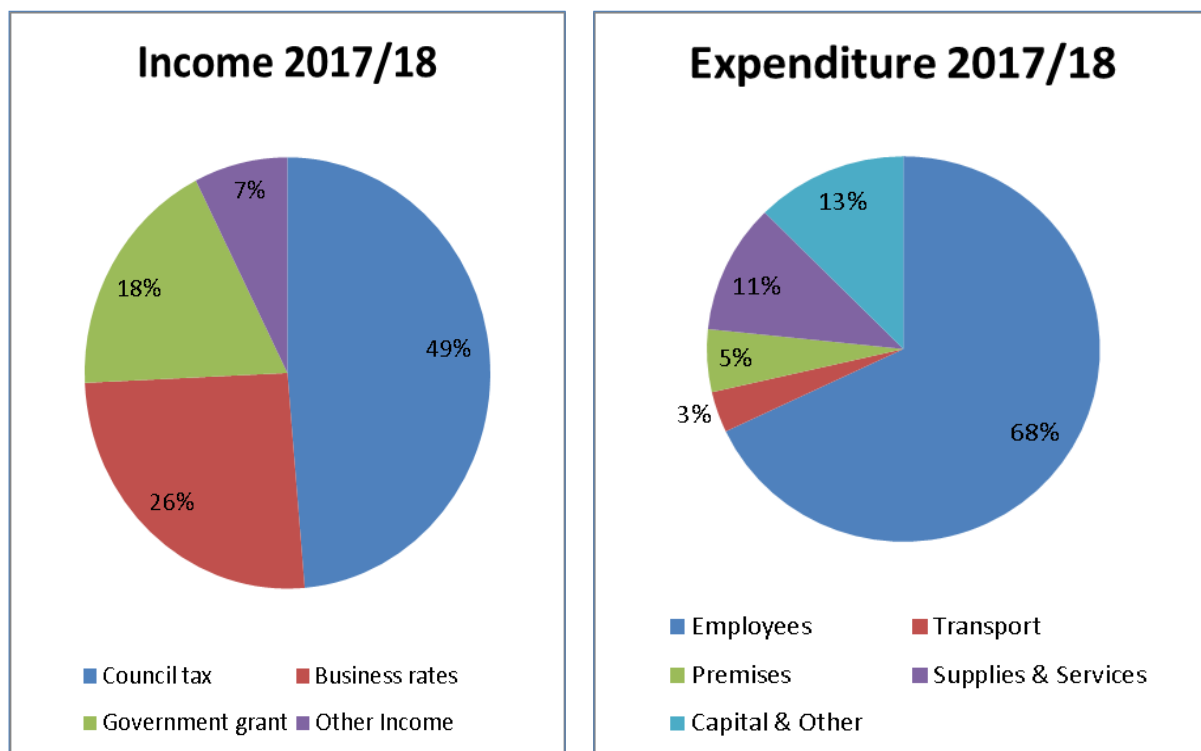
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

- 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

2017/18 was the second 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 £2.3m to £25.3m. The Authority had to identify efficiencies of £1.6m in order to offset financial pressures and deliver an acceptable budget. This resulted in a gross revenue budget of £53.9m, a reduction of 3%, and a council tax of £65.50, which is just under £1.26 per week. This represented a freeze on council tax, with Lancashire being the only Fire Authority in the country to achieve this. 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 Authority maintained its process of targeting reductions in expenditure, in order to enhance its financial position to deal with on-going funding reductions, generating savings of £2.0m in year against an anticipated target of £1.6m. The net revenue position shows an underspend on pay, as a result of staffing vacancies being held pending recruitment, which was utilised to fund the procurement of a Water Tower, which the Service had initially leased on a 12 month trial. Hence the overall budget broke-even, with net expenditure matching the budget at £53.9m.

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:

	Budget £000	Spend £000	(Under)/ over spend £000
<b>Expenditure</b>			
Employees: pay costs	39,543	39,155	(388)
Other employee related costs	548	476	(72)
Premises	2,910	3,062	153
Transport	1,995	1,999	4
Supplies & services	7,566	6,350	(1,216)
Capital financing costs & other	5,507	7,262	1,755
<b>Total Expenditure</b>	<b>58,068</b>	<b>58,305</b>	<b>237</b>
Other Income	(4,100)	(4,347)	(247)
<b>Budget requirement</b>	<b>53,968</b>	<b>53,958</b>	<b>(10)</b>
<b>Funded by:</b>			
Council tax	(28,366)	(28,366)	(0)
Business rates	(14,943)	(14,943)	0
Government grant	(10,659)	(10,659)	-
	<b>(53,968)</b>	<b>(53,968)</b>	<b>(0)</b>
<b>Net underspend</b>	<b>-</b>	<b>(10)</b>	<b>(10)</b>

The Authority transferred £2.6m from the general fund balance to the capital funding reserve, in order to meet future capital commitments. As a result of this the general fund balance fell to £7.8m, still within the target level identified by the Treasurer (a minimum of £2.5m 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 2018/19 budget, shows approx. £5m of reserves being used by March 2022 meaning that we will be approaching our minimum reserve level at that time.

The Authority also holds an additional £8m of earmarked revenue reserves and £19m of capital reserves and receipts. Again, the majority of these are utilised within the medium term financial strategy, reducing to a level of £7.5m and £0.5m respectively by March 2022. 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 £4.6m, as set out below:-

	Spend
Vehicles	
<ul style="list-style-type: none"> <li>Pumping Appliances – completion of 5 Pumping Appliances from the 2016/17 capital programme plus 6 Pumping Appliances from the 2017/18 capital programme</li> </ul>	£1.7m
<ul style="list-style-type: none"> <li>Operational Support Vehicles – purchase of Water Tower plus various support vehicles, such as vans and cars</li> </ul>	£0.7m
Operational Equipment	
<ul style="list-style-type: none"> <li>Purchase of Thermal Imaging Cameras and various innovations in firefighting equipment, such as Fog Spikes</li> </ul>	£0.3m
Buildings	
<ul style="list-style-type: none"> <li>Training Centre site works, including work relating to onsite training props and the replacement water main</li> </ul>	£0.2m
<ul style="list-style-type: none"> <li>Stage payments relating to the new joint Fire/Ambulance Station project in Lancaster, which is due completion by June 2018.</li> </ul>	£1.5m
<ul style="list-style-type: none"> <li>Other</li> </ul>	£0.2m
Total	£4.6m

The Balance Sheet shows that the Authorities Total Net Liabilities remaining broadly consistent at £685m. This reflects the Authorities compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme is partly funded the Fire-fighters Pension Scheme is unfunded, i.e. there are no assets from which future liabilities will be paid, and hence the Authority's overall pension liability of £799m is extremely large. If this liability was excluded the Authorities Total Net Assets would be £114m.

Long term assets have increased in value to £99m, reflecting the expenditure incurred in year and the net outcome of revaluations.

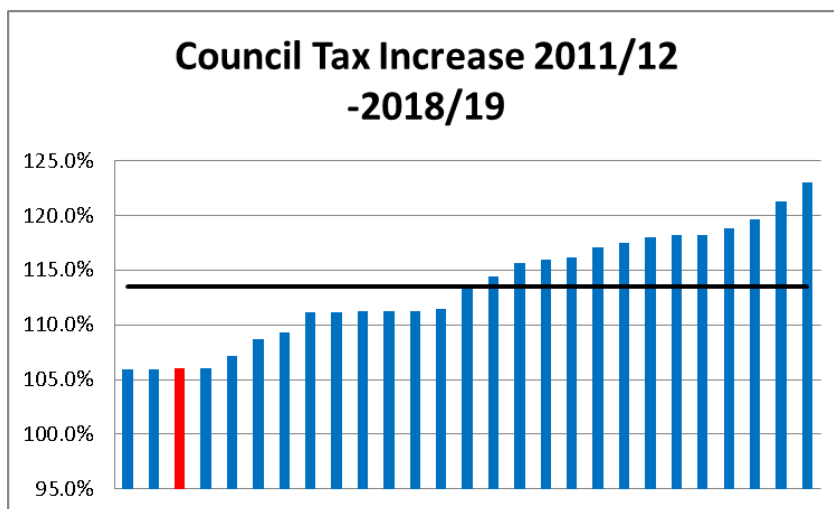
Long term borrowing has reduced to £2m, reflecting the repayment of £0.3m of debt which matured in December, plus the early repayment of £3m of debt in October. The later incurring an early repayment charge of £0.6m, but reducing future interest payments by £0.8m.

## Future Financial Plans

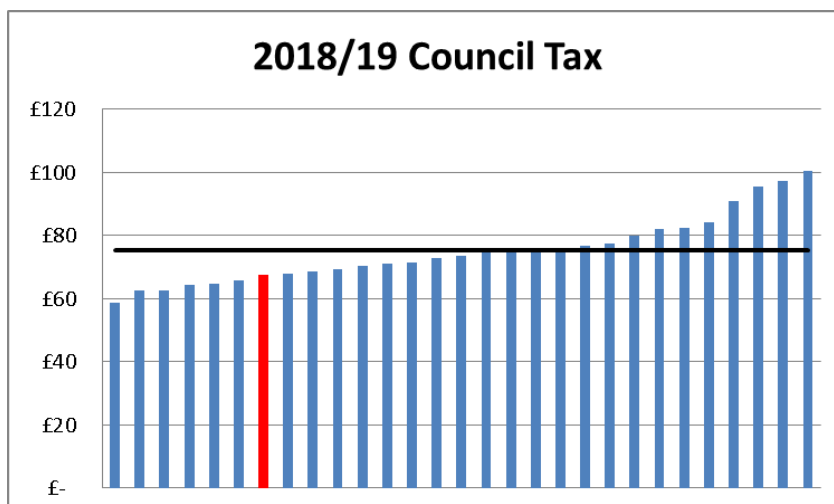
The next two years will be the last of the four year funding settlement. As such we are able to predict the scale of future Government funding cuts at £1.0m in 2018/19 and £0.5m in 2019/20. As part of this year's settlement the Government relaxed its council tax referendum principles, allowing for increased inflationary pressures, which resulted in a threshold of 3% being agreed for the next 2 years.

The Authority has plans to deliver £0.8m of efficiencies in 2018/19. These are partly offset by costs associated with pay awards, the full extent of which is not known at the present time. Overall these changes result in a revenue budget of £55.1m, however in order to deliver a council tax increase within the referendum limit (3%) an additional, as yet unidentified, savings target of £0.3m was agreed. Therefore the net revenue budget requirement is £54.8m, an increase of 1.5%, resulting in a council tax of £67.46, an increase of 2.99%. Based on this the budget, as presented, is considered affordable, prudent and sustainable, whilst ensuring that the Authority is able to deliver against its corporate priorities.

However it is worth noting that our council tax has increased by just 6.0% since 2010/11, the joint second lowest of any Authority and considerably lower than the average increase of 13.5%:-



Our 2018/19 council tax of £67.46 is still below the national average of £75.15, and is the seventh lowest of any Fire Authority



2019/20 will be the last year of the four year settlement with a further funding cut of £0.5m being expected. We will continue to deliver a further £0.3m of savings but this will not keep pace with inflationary pressures or anticipated increase in pension costs. As a result we are currently anticipating a £1m funding gap and hence we will continue to utilise reserves and identify further savings in order to deliver a balanced budget in the medium term.

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

Based on this we will be faced with a funding gap in future years, the extent of which depends on future council tax decisions, and we will continue to utilise reserves and identify savings in order to deliver a balanced budget in the medium term.

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

The capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, new IT requirements and new operational equipment. This gives rise to a capital program of £21m over the next five years.

This includes the re-build of Preston Fire Station, and we will finalise options for this in 2018/19, with building works likely to start the following year and last over 18 months.

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

We will continue to invest in our operational equipment to ensure that our staff have the best equipment available, and the programme includes the replacement of our Breathing Apparatus sets and telemetry, our cutting/extrication equipment, defibrillators and light portable pumps over the next five years.

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

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

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



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

## Appendix 2

## Comprehensive Income &amp; Expenditure Account

	2017/18			2016/17		
				Restated		
	Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure £000	Income £000	Net Expenditure £000
<b>Continuing operations</b>						
Service Delivery	28,892	(1,883)	27,009	24,594	(1,819)	22,775
Strategy & Planning	8,097	(614)	7,483	7,021	(403)	6,618
People & Development	1,303	(1)	1,303	1,123	0	1,123
Corporate Services	4,224	(59)	4,165	3,219	(57)	3,162
FF Pensions	1,138	(1)	1,138	1,232	(4)	1,228
Overheads	6,411	(1,790)	4,621	8,749	(1,796)	6,953
<b>Net cost of services</b>	<b>50,067</b>	<b>(4,347)</b>	<b>45,720</b>	<b>45,938</b>	<b>(4,079)</b>	<b>41,859</b>
<b>Other operating expenditure</b>						
(Gain)/Loss on disposal of fixed assets			(13)			0
<b>Financing &amp; investment income &amp; expenditure</b>						
Interest payable and similar charges			1,576			1,674
Pensions interest cost and expected return on pensions assets			20,983			23,275
Interest and investment income			(266)			(304)
<b>Taxation and non-specific grant income</b>						
Council tax			(28,233)			(27,506)
Revenue support grant			(10,659)			(13,218)
Non-domestic rates redistribution			(14,605)			(15,050)
Non specific grant income:						
Capital grant			-			0
Business rates S31 grant			(511)			(447)
<b>Deficit on provision of services</b>			<b>13,992</b>			<b>10,281</b>
(Surplus)/Deficit on revaluation of fixed assets			(5,167)			(9,871)
Actuarial (gains)/losses on pension fund assets			(10,628)			114,465
<b>Other comprehensive income &amp; expenditure</b>			<b>(15,795)</b>			<b>104,594</b>
<b>Total Comprehensive Income and Expenditure</b>			<b>(1,803)</b>			<b>114,875</b>

## Movement in Reserves Statement

	Usable Reserves							Unusable Reserves						Total reserves
	General Fund	Earmarked Reserves	Total General Fund Balance	Capital Fund	Capital grant unapplied	Usable Capital Receipts	Usable Reserves	Reval Reserve	CAA	AAAA	Coll Fund	Pension Reserve	Unusable Reserves	
Bal at 1.4.17	10,446	7,455	17,901	16,633	505	1,501	36,540	36,957	36,762	(804)	664	(796,969)	(723,390)	(686,850)
Surplus/(Deficit) on provision of services	(13,992)		(13,992)				(13,992)						-	(13,992)
Other comprehensive income &			-				-	5,167				10,628	15,795	15,795
Total comprehensive income &	(13,992)	-	(13,992)	-	-	-	(13,992)	5,167	-	-	-	10,628	15,795	1,803
Adjustments between accounting basis and funding basis under regulations:														
Depreciation & impairment of non-current assets	4,264		4,264				4,264	(1,214)	(3,050)				(4,264)	0
Amortisation of intangible assets	122		122				122		(122)				(122)	-
Write off of assets disposed	(60)		(60)			81	21	(47)	26				(21)	0
Utilisation of capital grant unapplied			-		(505)		(505)		505				505	-
Amount by which the code & statutory pension costs differ	13,138		13,138				13,138				(13,138)		(13,138)	-
Amount by which the collection fund income in CI&E is different to the amount taken from the GFB	(39)		(39)				(39)				39		39	-
Statutory provision for the repayment of debt	(330)		(330)				(330)		330				330	-
Capital expenditure charged to the GFB	(1,493)		(1,493)				(1,493)		1,493				1,493	-
Voluntary provision for the repayment of debt	(58)		(58)				(58)		58				58	-
	15,545	-	15,545	-	(505)	81	15,120	(1,261)	(760)	-	39	(13,138)	(15,120)	0
<b>Net increase/decrease before transfers to earmarked reserves</b>	<b>1,553</b>	<b>-</b>	<b>1,553</b>	<b>-</b>	<b>(505)</b>	<b>81</b>	<b>1,129</b>	<b>3,905</b>	<b>(760)</b>	<b>-</b>	<b>39</b>	<b>(2,510)</b>	<b>675</b>	<b>1,803</b>
Tfr to/(from) earmarked reserves	(652)	428	(224)				(224)		224				224	-
Tfr to/(from) capital fund	(3,528)		(3,528)	1,112			(2,416)		2,416				2,416	-
Postings between the GFB and AAAA	9		9				9			(9)			(9)	-
Net tfr to/(from) earmarked reserves	(4,171)	428	(3,743)	1,112	-	-	(2,631)	-	2,640	(9)	-	-	2,631	-
<b>Increase/Decrease in the year</b>	<b>(2,618)</b>	<b>428</b>	<b>(2,190)</b>	<b>1,112</b>	<b>(505)</b>	<b>81</b>	<b>(1,502)</b>	<b>3,905</b>	<b>1,880</b>	<b>(9)</b>	<b>39</b>	<b>(2,510)</b>	<b>3,305</b>	<b>1,803</b>
<b>Bal at 31.3.18</b>	<b>7,828</b>	<b>7,883</b>	<b>15,711</b>	<b>17,745</b>	<b>-</b>	<b>1,581</b>	<b>35,038</b>	<b>40,862</b>	<b>38,642</b>	<b>(813)</b>	<b>704</b>	<b>(799,479)</b>	<b>(720,085)</b>	<b>(685,047)</b>

**Balance Sheet**

	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
Property, plant & equipment	93,764	88,223
Intangible assets	106	228
Long-term investments	5,000	5,000
<b>Total Long Term Assets</b>	<b>98,870</b>	<b>93,451</b>
Assets held for sale		21
Inventories	228	207
Short term investments		5,000
Short term debtors	10,465	10,746
Cash & cash equivalents	28,604	29,061
<b>Current Assets</b>	<b>39,297</b>	<b>45,035</b>
Short term borrowing		(333)
Other short term liabilities	(329)	(335)
Short term creditors	(6,311)	(6,376)
<b>Current Liabilities</b>	<b>(6,641)</b>	<b>(7,044)</b>
Provisions	(1,084)	(1,763)
Long term borrowing	(2,022)	(5,243)
Other long term liabilities	(813,466)	(811,285)
<b>Long Term Liabilities</b>	<b>(816,573)</b>	<b>(818,291)</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>(685,046)</b>	<b>(686,850)</b>
<b>FINANCED BY:</b>		
Revenue Reserves	(15,712)	(17,902)
Capital Funding Reserve	(17,745)	(16,633)
Capital grants unapplied		(505)
Usable Capital Receipts Reserve	(1,581)	(1,501)
<b>Usable Reserves:</b>	<b>(35,039)</b>	<b>(36,541)</b>
Revaluation Reserve	(40,862)	(36,957)
Capital Adjustment Account	(38,641)	(36,762)
Collection Fund Adjustment Account	(704)	(664)
Accumulated Absences Adjustment Account	813	804
Pensions Reserve	799,479	796,969
<b>Unusable Reserves:</b>	<b>720,085</b>	<b>723,390</b>
<b>Total Net Worth</b>	<b>685,046</b>	<b>686,850</b>

**Cash Flow Statement**

	<b>2017/18</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
Net deficit on the provision of services	(13,992)	(10,281)
Adjustments to net deficit on the provision of services for non-cash movements	17,251	14,538
Adjustments to net deficit on the provision of services for investing/financing activities	1,455	1,493
<b>Net cash inflows from operating activities</b>	<b>4,714</b>	<b>5,750</b>
Investing activities		
Purchase of fixed assets & other capital spend	(4,868)	(3,200)
Increase in long term deposits	-	-
Decrease in short term deposits	5,000	-
Receipts from investing activities	99	119
	232	(3,081)
Financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(335)	(308)
Repayment of long term borrowing	(3,514)	(250)
Payments for financing activities	(1,553)	(1,612)
	(5,402)	(2,170)
<b>Net increase or (decrease) in cash and cash equivalents</b>	<b>(456)</b>	<b>499</b>
Cash and cash equivalents at the beginning of the reporting period	29,061	28,562
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>28,605</b>	<b>29,061</b>