



# STATEMENT OF ACCOUNTS

2017/18

# LANCASHIRE COMBINED FIRE AUTHORITY

## STATEMENT OF ACCOUNTS 2017/18

### CONTENTS

	<b>Page</b>
Narrative Report	1
Statement on Annual Governance Arrangements	9
Independent Auditor's Report to the Members of Lancashire Combined Fire Authority	15
Statement of Responsibilities	19
Comprehensive Income and Expenditure Statement	20
Movement on Reserves Statement	21
Balance Sheet	23
Cash Flow Statement	24
Notes to the Core Financial Statements	25
Fire Fighters Pension Fund Account and Net Assets Statement	64
Glossary of Terms	66

## 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 2017/18
- 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 2018 (referred to as 2017/18). 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 2017/18. 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 2017/18, which are set out in the sections shown below.

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

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

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

**Balance Sheet** – This shows information on the financial position of the Fire Authority as at the 31 March 2018, 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.

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 NWAS 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.

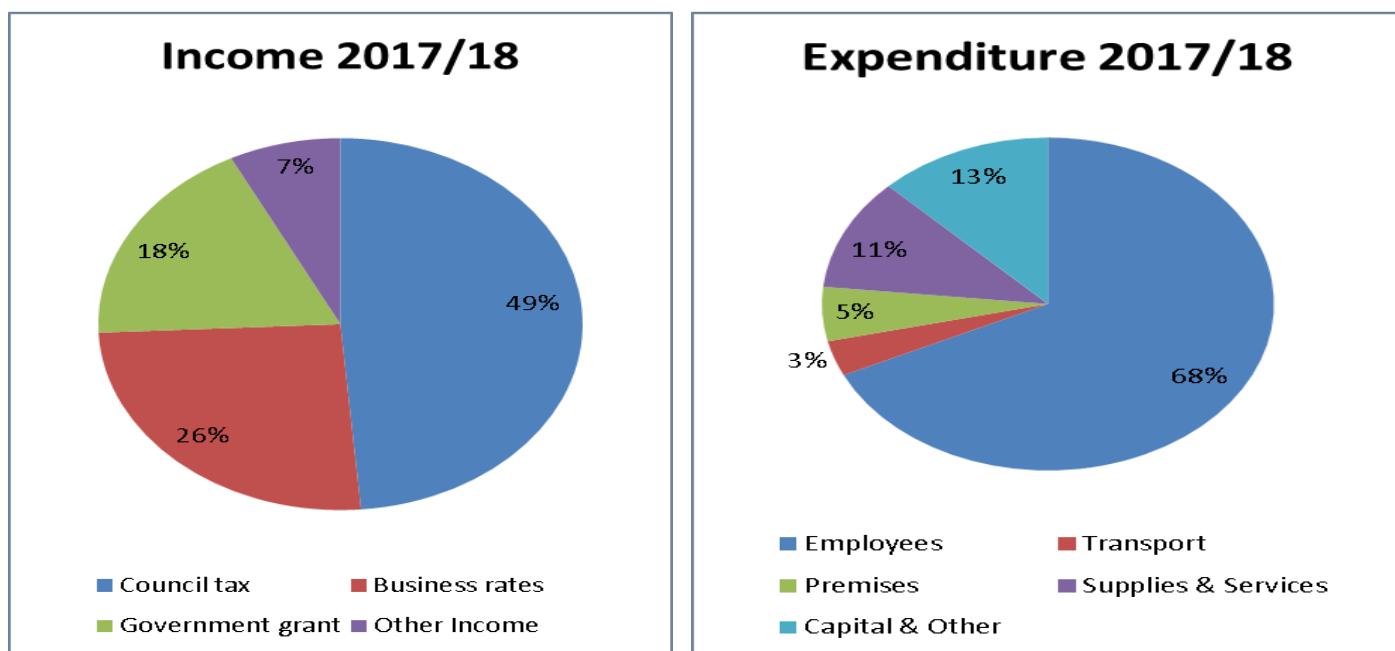
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

- 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 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	(0.010)
Earmarked reserves utilised/provided for in year	0.068
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>
Recognise 25% share in North West FireControl Limited	0.327
Total Comprehensive Income and Expenditure	<b>(1.476)</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 £686m. 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 £800m 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.

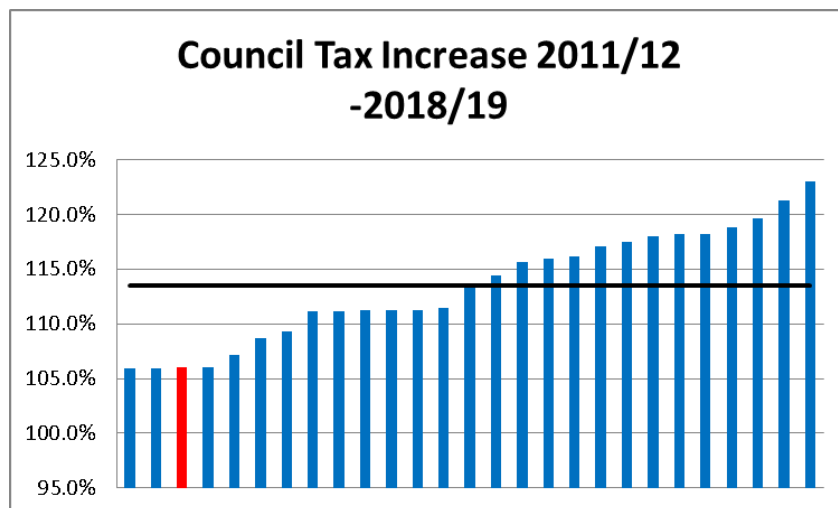
Long term borrowing has reduced to £2m, reflecting the repayment of £0.3m of debt which matured in December, plus the early repayment of £3m of debt in October. The later incurring an early repayment charge of £0.6m, but reducing future interest payments by £0.8m.

**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.

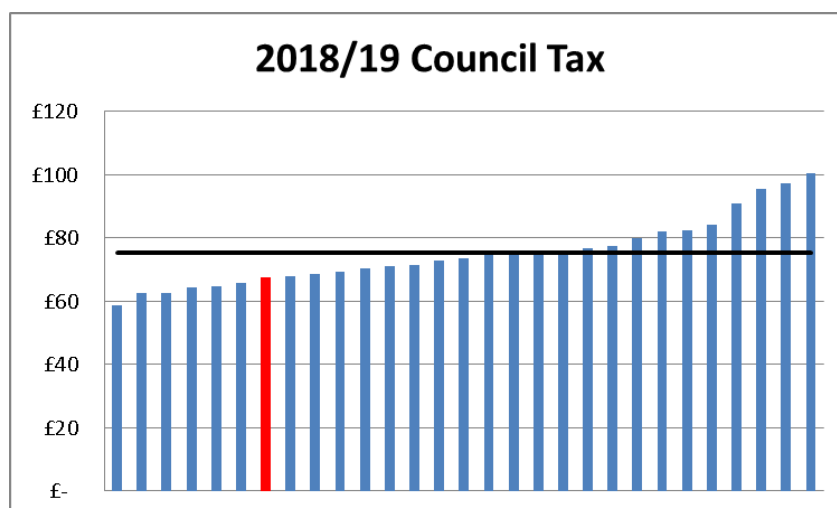
The Authority has plans to deliver £0.8m of efficiencies in 2018/19. These are partly offset by costs associated with pay awards, the full extent of which is not known at the present time. Overall these changes result in a revenue budget of £55.1m, however in order to deliver a council tax increase within 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

### **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 2017/18 (the Code).

The 2016/17 accounts have now been restated to include the Authorities 25% share of the results of North West FireControl Limited, following on from the 2016/17 Audit Findings Report, and 2017/18 has been updated to include the unaudited accounts.

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

### **Scope of Responsibility**

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

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

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

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

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

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

### **The Purpose of the Governance Framework**

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

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

The governance framework has been in place at the Authority for the year ended 31 March 2018 and up to the date of approval of the 2017/18 Statement of Accounts.

## The Governance Framework

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

- The Integrated Risk Management Plan (IRMP) describes our aims, priorities, equality objectives and values, setting out our ambitions and how we will deliver them in the medium term. The current plan covering 2017-2022 was approved last year and can be found on our website at <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Integrated-Risk-Management-Plan.pdf>
- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan covering 2018/19 was approved this year and can be found on our website at <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Integrated-Risk-Management-Plan.pdf>
- A Communication Strategy and the Consultation Strategy;
- A comprehensive performance management framework, with the Performance Committee and Service Management Team receiving regular reports on performance against targets and any corrective action taken to address any variances. On an annual basis the Authority publishes an Annual Performance Report, setting out its overall performance against key performance indicators and including summary financial information;
- A Corporate Programme Board provides oversight across 3 areas:-
  - Business Process Improvement Programme
  - Workforce Development Programme
  - Service Delivery Change Programme.All major projects and reviews follow similar format and report to Corporate Programme Board
- The Authority operates a Committee Structure aligned to strategic objectives, within agreed Terms of Reference, as follows:-
  - The Audit Committee - To advise on the adequacy and effectiveness of the Authority's Internal and External Audit Service and risk management arrangements, which operates in line with the core functions identified in CIPFAs Audit Committees – Practical Guidance for Local Authorities;
  - The Resources Committee - To consider reports and make decisions relating to financial, human resources and property related issues
  - The Planning Committee - To consider reports and make decisions relating to all aspect of planning arrangements, including consultation and communication arrangements
  - The Performance Committee - To consider reports and make recommendations on all aspects of performance management,
  - The Appeals Committee -To hear relevant appeals, grievances and complaints
- Clear management structure within the Service. The Executive Board, comprising the Chief Fire Officer (head of paid service), and 4 Executive Directors, is responsible for determining policy, monitoring performance and developing service plans in line with the Authority's overall strategic objectives and is assisted in this process by the Service Management Team;
- The Combination Scheme Order, Standing Orders, Terms of Reference of individual Committees, Scheme of Delegation and Financial Regulations establish overall arrangements for policy setting and decision making and the delegation of powers to members and officers;
- Comprehensive suite of strategies and policies in place and regularly reviewed
- Codes of Conduct for members and officers, and member/officer protocol, that set out clear expectations for standards of behaviour;

- Both the Monitoring Officer and Treasurer are involved in the Authority's decision making process, and ensure compliance with established policies, procedures, laws and regulations; All Authority reports are considered for human resource, financial, business risk, environmental and equality and diversity implications in order to identify key issues;
- The Treasurer's role and financial management arrangements align with requirements set out in CIPFAs Statement on the Role of the Chief Financial Officer in Local Government;
- Well publicised arrangements for dealing with complaints and whistle-blowing, and for combating fraud and corruption;
- A Risk Management Strategy and framework which ensures that risks to the Service's objectives are identified and appropriately managed
- Comprehensive Business Continuity arrangements in place, and tested on a regular basis
- A framework to review potential partnership arrangements utilising set criteria prior to entering into such arrangements;
- Compliance with data transparency requirements, including publication of all key documents, committee agenda and minutes, pay policy and publication scheme on the internet.
- Regular assessment of training & development needs of both members and officers, including appropriate appraisal system. Sufficient budget to meet relevant training requirements.
- Comprehensive service review process in place, comprising external views in the form of HMICFRS Inspection/Peer Assessment/Operational Assurance review, External Audit reviews, Internal Audit reviews and internal reviews undertaken by our own staff. Ultimately these culminate in the production, and publication, of an Annual Assurance Statement.

### **Review of effectiveness**

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

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

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

- The Integrated Risk Management Plan covers the five year period 2017-2022.
- We updated our Strategic Assessment of Risk and completed an Emergency Cover Review.
- A revised Annual Service Plan has been agreed for 2018/19, 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 has been developed to review potential partnership arrangements utilising the following criteria:
  - Will it make Lancashire Safer?
  - Will undertaking the activity potentially damage our brand?
  - Does it fit with the public image of the FRS?
  - Will it detract from our ability to undertake other operational or preventative functions, if so to what extent?
  - Is there a significant negative financial impact?
  - Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc.)?
- Statement of Intent: Enhanced Collaboration between LFRS and Constabulary drafted and 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.
- A revised performance appraisal incorporating values was implemented and rolled out across 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 2017/18 audit plan the auditors undertook various reviews and gave the overall opinion that they can *"provide substantial assurance over the framework of governance, risk management and control for 2017/18"* and *"that there is a generally sound system of internal control, adequately designed to meet the objectives of Lancashire Combined Fire Authority and controls were generally applied consistently."*
- Grant Thornton provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Audit letter did not identify any significant weaknesses in internal control arrangement and provided the following audit conclusions in relation to 2016/17:
  - Financial statements – *"We gave an unqualified opinion on the Authority's financial statements"*
  - Value for money conclusion – *"We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year"*

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

Area for Improvement	Action to date	Completed/ On-going	Owner
The Services Information Management Strategy needs to be reviewed and updated to take account of changing requirements.	Information Management Strategy and a number of underpinning policies agreed. A road map of work to be undertaken has been produced based around 3 key themes which set the direction of travel for the Service. <ul style="list-style-type: none"> <li>• Governance</li> <li>• Quality</li> <li>• Delivery</li> </ul> Key projects agreed	Complete	Head of Service Development
Undertake a Governance review, including Committee Terms of Reference, Standing Orders, Scheme of Delegation and Financial Regulations	Review of Committees Terms of Reference complete and agreed at CFA in April. Review of Contract Standing Orders and Financial Regulations complete and agreed at Audit Committee in March. Procedural Standing Orders reviewed but no changes identified. Review of Scheme of Delegation complete and due to be reported to Audit Committee in July	Complete	Clerk
Review partnership engagement and opportunities, including develop strategic alliance with Lancashire Constabulary	A framework has been developed to review potential partnership arrangements utilising the following criteria: <ul style="list-style-type: none"> <li>• Will it make Lancashire Safer?</li> <li>• Will undertaking the activity potentially damage our brand?</li> <li>• Does it fit with the public image of the FRS?</li> <li>• Will it detract from our ability to undertake other operational or preventative functions, if so to what extent?</li> <li>• Is there a significant negative financial impact?</li> <li>• Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc)?</li> </ul> Statement of Intent: Enhanced Collaboration between LFRS and Constabulary drafted and approved at Joint Exec Board. Programme managers appointed within both LFRS and Constabulary. Collaboration group established and opportunities for review agreed. This will form part of on-going programme	Complete	Head of Service Delivery
Implement revised staff induction programme	The staff induction programme has been revised and updated. A learn pro induction module has been developed to support this process.	Complete	Head of Human Resources
Implement Leadership Conference	Three Leadership conferences delivered, Spring 2017, Autumn 2017 and Spring 2018. The focus of the Conference was the promotion of a strong culture and one where equality, diversity and Inclusion are valued. The feedback from the Conference was excellent with the majority of participants reflecting on LFRS core values and competencies and their own personal contribution to those values.	Complete	Head of Human Resources

Complete review of staff recognition	Review of staff recognition and development of staff sounding boards has been undertaken. This was placed on hold due to staff changes and pending recruitment of additional resources. The additional resource is now in place and an updated project plan is being developed	On-going, target date for completion December 2018	Head of Corporate Comms
--------------------------------------	--	--	-------------------------

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

### Significant governance issues

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

Whilst no significant governance issues were identified, the following new areas for improvement, and outstanding recommendations from last year's statement, are listed below:

- Complete review of Scheme of Delegation
- Complete review of staff recognition
- Create a new Intranet, incorporating social networking to connect staff across the service

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

### Signed:

County Councillor F  
DeMolfetta, Chairman,  
Lancashire Combined Fire  
Authority  
29 May 2018

C Kenny,  
Chief Fire Officer,  
Lancashire Fire and Rescue  
Service  
29 May 2018

K Mattinson CPFA,  
Treasurer, Lancashire  
Combined Fire Authority  
29 May 2018



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

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Lancashire Combined Fire Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and including the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### **Basis for opinion**

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

#### **Who we are reporting to**

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

#### **Conclusions relating to going concern**

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

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

## **Other information**

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 14, the Narrative Report and the Statement on Annual Governance Arrangements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

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

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

## **Matters on which we are required to report by exception**

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

## **Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

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

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

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

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### **Responsibilities of the Authority**

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

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

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

Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

### **Report on other legal and regulatory requirements – Certificate**

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

*Robin J Baker*

Robin J Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building, Liverpool, L3 1PS

24 July 2018

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of the financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Treasurer to the Fire Authority.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2018.

In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

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

K Mattinson CPFA  
Treasurer to the Combined Fire Authority  
24 July 2018

Matthew Tomlinson  
Chair of Audit Committee  
24 July 2018

### COMPREHENSIVE INCOME & EXPENDITURE ACCOUNT

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

Notes

		2017/18			2016/17 As restated		
		Gross Expend iture £000	Gross Income £000	Net Expend iture £000	Gross Expend iture £000	Gross Income £000	Net Expend iture £000
Continuing operations:							
1	Service Delivery	29,581	(2,173)	27,408	25,143	(2,103)	23,040
1	Strategy and Planning	8,084	(618)	7,466	7,021	(403)	6,618
1	People and Development	1,303	-	1,303	1,123	-	1,123
1	Corporate Services	4,224	(59)	4,165	3,219	(57)	3,162
1	Fire-fighters Pensions	1,138	-	1,138	1,232	(4)	1,228
1	Overheads	6,436	(1,790)	4,646	8,749	(1,796)	6,953
1	Net Cost of Services	50,766	(4,640)	46,126	46,487	(4,363)	42,124
Loss on disposal of non current assets				(13)			-
Financing & investment income & expenditure							
8	Interest payable and similar charges			1,576			1,674
15	Pensions interest cost and expected return on pensions assets			21,005			23,285
8	Interest receivable and similar Income			(267)			(305)
Taxation and non-specific grant income							
	Taxation on NW FireControl			1			1
	Council tax			(28,233)			(27,800)
	Revenue Support Grant			(10,659)			(13,218)
	Non-domestic rates redistribution			(14,605)			(14,756)
	Capital grant income			-			-
	Business rates S31 grant			(511)			(447)
Deficit/(Surplus) on the provision of services				14,421			10,557
(Surplus)/Deficit on revaluation of non-current assets				(5,167)			(9,871)
18	Actuarial (gains)/losses on pensions assets and liabilities			(10,730)			114,941
Other comprehensive income & expenditure				(15,896)			105,070
Total Comprehensive Income and Expenditure				<b>(1,476)</b>			<b>115,627</b>

**MOVEMENT IN RESERVES STATEMENT 2017/18**

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

**MOVEMENT IN RESERVES STATEMENT 2016/17 – 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 31 March 2016 carried forwards as restated	10,246	9,518	19,764	10,284	3,171	1,501	34,718	(640,926)	(571,490)
Movement in reserves during 2016/17									
Surplus/(Deficit) on provision of services	(10,557)	-	(10,557)	-	-	-	(10,557)	-	(10,557)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(105,070)	(105,070)
Total comprehensive income and expenditure	(10,557)	-	(10,557)	-	-	-	(10,557)	(105,070)	(115,627)
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	6,209	-	6,209	-	-	-	6,209	(6,209)	-
Amortisation of intangible assets	131	-	131	-	-	-	131	(131)	-
Capital grants applied	250	-	250	-	(2,224)	-	(1,974)	1,974	-
Provision for the repayment of debt	(331)	-	(331)	-	-	-	(331)	331	-
Capital expenditure charged against General Fund Balance	(1,534)	-	(1,534)	-	-	-	(1,534)	1,534	-
Amount by which the Code and the statutory pension costs differ	10,940	-	10,940	-	-	-	10,940	(10,940)	-
Amount by which the Code and the statutory collection fund income differ	(599)	-	(599)	-	-	-	(599)	599	-
	15,067	-	15,067	-	(2,224)	-	12,843	(12,843)	-
Net increase/decrease before transfers to earmarked reserves	4,509	-	4,509	-	(2,224)	-	2,286	(117,912)	(115,627)
Transfers (to)/from earmarked reserves	10	(10)	-	-	-	-	-	-	-
Transfers (to)/from capital funding reserve	(4,296)	(2,053)	(6,349)	6,349	-	-	-	-	-
Transfers (to)/from accumulated absences adjustment account	43	-	43	-	-	-	43	(43)	-
Net tfr (to)/from earmarked reserves	(4,244)	(2,063)	(6,306)	6,349	-	-	43	(43)	-
Increase/(Decrease) in the year	266	(2,063)	(1,797)	6,349	(2,224)	-	2,328	(117,955)	(115,627)
Balance at 31 March 2017 carried forwards	10,512	7,455	17,967	16,633	947	1,501	37,048	(724,164)	(687,116)

The 2016/17 statement including opening balances has been restated to include the Authority's 25% share of the balances of North West FireControl Limited.



## 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 2018 £000	At 31 March 2017 As restated £000
	<b>Long Term Assets</b>		
6	Property, Plant & Equipment	93,794	88,264
7	Intangible Assets	472	684
8	Long-Term Investments	5,000	5,000
		<u>99,266</u>	<u>93,948</u>
	<b>Current Assets</b>		
	Assets Held for Sale	-	21
	Inventories	228	206
8	Investments	-	5,000
9	Short Term Debtors	10,760	10,855
10	Cash & Cash Equivalents	28,768	29,347
		<u>39,757</u>	<u>45,430</u>
	<b>Current Liabilities</b>		
8	Short Term Borrowing	-	(333)
8	Other Short Term Liabilities	(329)	(335)
11	Short Term Creditors	(6,998)	(6,824)
		<u>(7,327)</u>	<u>(7,489)</u>
	<b>Long Term Liabilities</b>		
12	Provisions	(1,084)	(1,763)
8	Long Term Borrowing	(2,000)	(5,184)
13	Other Long Term Liabilities	(814,251)	(812,058)
		<u>(817,336)</u>	<u>(819,005)</u>
	<b>Net Liabilities</b>	<u>(685,640)</u>	<u>(687,116)</u>
16	Revenue Reserves	(15,784)	(17,968)
16	Capital Funding Reserve	(17,745)	(16,633)
16	Capital Grants Unapplied Account	(121)	(947)
16	Usable Capital Receipts Reserve	(1,582)	(1,501)
16	<b>Usable Reserves:</b>	<u>(35,231)</u>	<u>(37,048)</u>
18	Revaluation Reserve	(40,862)	(36,957)
18	Capital Adjustment Account	(38,641)	(36,762)
13,15&18	Pension Reserve	800,264	797,742
18	Collection Fund Adjustment Account	(704)	(664)
18	Accumulated Absences Adjustment Account	813	804
18	<b>Unusable Reserves:</b>	<u>720,871</u>	<u>724,164</u>
	<b>Total Reserves</b>	<u>685,640</u>	<u>687,116</u>

The 2016/17 accounts have been restated to include the Authority's 25% share in North West FireControl Limited.

These Financial Statements replace the unaudited financial statements authorised by the Treasurer on 31 May 2018.

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 2018 and its income and expenditure for the year then ended.

K Mattinson CPFA  
Treasurer to the Combined Fire Authority  
24 July 2018

Matthew Tomlinson  
Chair of Audit Committee  
24 July 2018

## 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	2017/18		2016/17 As restated*	
	£000	£000	£000	£000
		(14,421)		(10,557)
Net (deficit)/surplus on the provision of services				
23		17,569		14,725
Adjustments to net (deficit)/surplus on the provision of services for non-cash movements				
		1,455		1,493
Adjustments for items included in the net (deficit) on the provision of services that are investing and financing activities				
<b>Net cash flows from Operating Activities</b>		<b>4,603</b>		<b>5,662</b>
<u>Investing activities</u>				
6&7		(4,879)		(3,247)
Purchase of property plant and equipment & other capital spend				
		5,000		-
Decrease in short term deposits				
24		99		119
Receipts from investing activities				
Net cash flows from investing activities		221		(3,128)
<u>Financing activities</u>				
		(335)		(308)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts				
		(3,514)		(250)
24		(1,553)		(1,612)
Repayment of long term borrowing				
Payments for financing activities				
Net cash flows from financing activities		(5,402)		(2,170)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(578)</b>		<b>363</b>
10		29,347		28,984
Cash and cash equivalents at the beginning of the reporting period				
10		<b>28,769</b>		<b>29,347</b>
<b>Cash and cash equivalents at the end of the reporting period</b>				

\* The 2016/17 balances have been restated to include the Authority's 25% share of North West FireControl Limited.

**NOTES TO THE CORE FINANCIAL STATEMENTS**

**1 Expenditure and Funding Analysis**

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

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

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

<b>2016/17 – restated *</b>	As reported for resource management £000	Adjustment to arrive at the amount chargeable to the General Fund (note 1a) £000	Net chargeable to the General Fund £000	Adjustments between the Funding and Accounting basis (note 1a) £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Service Delivery	34,130	-	34,130	(11,089)	23,040
Strategy and Planning	7,950	-	7,950	(1,332)	6,618
People and Development	1,112	-	1,112	11	1,123
Corporate Services	3,376	-	3,376	(215)	3,162
Firefighters Pensions	1,228	-	1,228	-	1,228
Overheads	7,760	(193)	7,568	(615)	6,953
<b>Net cost of Services</b>	<b>55,557</b>	<b>(193)</b>	<b>55,364</b>	<b>(13,240)</b>	<b>42,124</b>
Other income and expenditure	(55,623)	-	(55,623)	24,056	(31,567)
<b>Surplus on provision of services</b>	<b>(67)</b>	<b>(193)</b>	<b>(260)</b>	<b>10,816</b>	<b>10,556</b>
Opening General Fund balance*			(10,246)		
Surplus on provision of services			(260)		
NWFC recognise 25% surplus on provision of services			(6)		
Closing General Fund balance			<u>(10,512)</u>		

\* The 2016/17 balances have been restated to recognise the Authority's 25% share in North West FireControl Limited.

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

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts <b>2017/18</b>	Transfer to/(from) Earmarked Reserves £000	<b>Total to arrive at amount charged to the General Fund £000</b>	Adjustments for Capital Purposes (1) £000	Net change for Pensions Adjustments (2) £000	Other Differences (3) £000	<b>Total adjustment between funding and accounting basis £000</b>
Service Delivery	-	-	(16)	(7,869)	57	<b>(7,828)</b>
Strategy and Planning	-	-	(41)	(750)	(125)	<b>(916)</b>
People and Development	-	-	-	137	-	<b>137</b>
Corporate Services	-	-	-	55	-	<b>55</b>
Firefighters Pensions	-	-	-	-	-	<b>-</b>
Overheads	(17)	<b>(17)</b>	1,597	582	(1,459)	<b>720</b>
<b>Net cost of Services</b>	<b>(17)</b>	<b>(17)</b>	<b>1,540</b>	<b>(7,845)</b>	<b>(1,527)</b>	<b>(7,832)</b>

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

Other income and expenditure	-	-	(13)	21,005	1,270	<b>22,263</b>
<b>Total</b>	<b>(17)</b>	<b>(17)</b>	<b>1,527</b>	<b>13,160</b>	<b>(257)</b>	<b>14,430</b>

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts <b>2016/17</b>	Transfer to/(from) Earmarked Reserves £000	<b>Total to arrive at amount charged to the General Fund £000</b>	Adjustments for Capital Purposes (1) £000	Net change for Pensions Adjustments (2) £000	Other Differences (note 3) £000	<b>Total adjustment between funding and accounting basis £000</b>
Service Delivery	-	-	-	(11,368)	279	<b>(11,089)</b>
Strategy and Planning	-	-	-	(1,309)	(24)	<b>(1,332)</b>
People and Development	-	-	-	11	-	<b>11</b>
Corporate Services	-	-	-	(215)	-	<b>(215)</b>
Firefighters Pensions	-	-	-	-	-	<b>-</b>
Overheads	(193)	<b>(193)</b>	222	514	(1,350)	<b>(615)</b>
<b>Net cost of Services</b>	<b>(193)</b>	<b>(193)</b>	<b>222</b>	<b>(12,367)</b>	<b>(1,095)</b>	<b>(13,240)</b>
Other income and expenditure	-	-	-	23,285	771	<b>24,056</b>
<b>Total</b>	<b>(193)</b>	<b>(193)</b>	<b>222</b>	<b>10,918</b>	<b>(324)</b>	<b>10,816</b>

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

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

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

## 2 Fire Authority Costs

In 2017/18 Fire Authority costs amounted to £0.268m (2016/17: £0.260m), analysed as follows:

	2017/18	2016/17
	£000	£000
Members allowances/expenses	123	126
Statutory officers	98	95
Statutory reports/publications	1	1
Subscriptions	11	13
Others	35	25
	<u>268</u>	<u>260</u>

## 3 Employees Emoluments

Details of the Authority's employees, out of an estimated 1,089 full-time equivalent, who have received pay and benefits of more than £50,000 are:

	2017/18	2016/17
	No.	No.
£70,000 - £74,999	2	1
£65,000 - £69,999	4	2
£60,000 - £64,999	6	6
£55,000 - £59,999	10	6
£50,000 - £54,999	19	31
	<u>41</u>	<u>46</u>

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

**Senior Officers Remuneration**

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

<b>Post holder information (post title and name)</b>	<b>Salary</b>	<b>Allowances (estimated based on 2016/17 figures)</b>	<b>Total Remuneration excluding pension contributions</b>	<b>Pension contributions accrued at the standard employer rate for all senior officers</b>	<b>Total Remuneration including pension contributions</b>
<b>2017/18</b>					
Chief Fire Officer – Chris Kenny	157,261	2,543	159,804	34,126	193,930
Director of Service Delivery – Justin Johnston	133,672	2,571	136,243	19,115	155,359
Director of Strategy & Planning – David Russel	125,809	3,723	129,532	17,991	147,523
Director of People & Development – Robert Warren	100,647	-	100,647	12,883	113,530
Director of Corporate Services – Keith Mattinson	100,647	-	100,647	12,883	113,530
	<b>618,036</b>	<b>8,838</b>	<b>626,874</b>	<b>96,997</b>	<b>723,871</b>

<b>Post holder information (post title and name)</b>	<b>Salary</b>	<b>Allowances Restated*</b>	<b>Total Remuneration excluding pension contributions</b>	<b>Pension contributions accrued at the standard employer rate for all senior officers</b>	<b>Total Remuneration including pension contributions</b>
<b>2016/17</b>					
Chief Fire Officer – Chris Kenny	155,704	2,459	158,163	33,788	191,951
Director of Service Delivery – Justin Johnston	132,349	2,670	135,019	18,926	153,945
Director of Strategy & Planning – David Russel	124,563	3,710	128,273	17,813	146,086
Director of People & Development – Robert Warren	99,651	-	99,651	12,755	112,406
Director of Corporate Services – Keith Mattinson	99,651	-	99,651	12,755	112,406
	<b>611,917</b>	<b>8,838</b>	<b>620,757</b>	<b>96,037</b>	<b>716,794</b>

\* The 2016/17 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2016/17 Statement of Accounts.

### Exit Packages

The number of exit packages with a total cost per band and total cost of voluntary redundancies are set out in the table below:

Exit package cost band (including special payments)	2017/18		2016/17	
	Number of departures agreed	Total cost of exit packages in each band £000	Number of departures agreed	Total cost of exit packages in each band £000
£0 - £20,000	-	-	1	7
£20,001 - £40,000	1	38	-	-
£40,001 - £60,000	-	-	-	-
	<u>1</u>	<u>38</u>	<u>1</u>	<u>7</u>

#### 4 External Auditors Fees

In 2017/18, the Fire Authority paid a total of £0.031m to its external auditors, Grant Thornton (2016/17: £0.031m), as follows:

	2017/18 £000	2016/17 £000
Audit fees – Grant Thornton	31	31

#### 5 Related Parties Transactions

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

##### Central Government

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

##### Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2017/18 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 2017/18 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 (£0.393m received from the precepting authority, 2016/17: £0.468m), and council tax (£2.221m received from the precepting authority, 2016/17 £2.184m), the administration of these is strictly defined by a statutory framework.

## 6 Property, Plant & Equipment

Details on policies can be seen in note 28, 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 2017/18 are:

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

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

Carried at historical cost	-	-	10,294	4,698	14,992
Valued at current value as at:					
31 March 2018	50,120	28,620	-	-	78,740
31 March 2010	-	-	62	-	62
Total cost or valuation	50,120	28,620	10,356	4,698	93,794

On 31 March 2018 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 £7.629m (2016/17: net gain of £8.398m).

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

The comparative figures detailing the movement during 2016/17 (Restated to include the Authority's 25% share in North West FireControl Limited):

<b>Movement during the year</b>	<b>Other Land &amp; Buildings £000</b>	<b>PFI Assets – land &amp; buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Surplus Assets £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or valuation</b>					
At 1 April 2016 – as restated	50,036	23,143	22,381	20	95,580
Additions	2,574	-	893	-	3,468
Disposals	-	-	(1,592)	-	(1,592)
Impairment losses recognised in the Revaluation Reserve	(1,792)	(383)	-	-	(2,175)
Impairment losses recognised in the Deficit on the Provision of Services	(1,058)	(178)	(238)	-	(1,474)
Reclassifications	-	-	-	(21)	(21)
Revaluations	3,496	3,028	-	1	6,525
As at 31 March 2017	53,256	25,610	21,445	-	100,310
<b>Depreciation and impairments</b>					
At 1 April 2016 – as restated	(2,002)	(535)	(11,874)	-	(14,410)
Depreciation charge for 2016/17	(2,720)	(414)	(1,615)	-	(4,749)
Disposals	-	-	1,592	-	1,592
Revaluations	4,573	949	-	-	5,522
As at 31 March 2017	(149)	-	(11,897)	-	(12,046)
Balance sheet at 31 March 2017 – as restated	53,107	25,610	9,548	-	88,264
Balance sheet at 31 March 2016 – as restated	48,034	22,608	10,508	20	81,170
<b>Nature of asset holding</b>					
Owned	52,727	-	9,500	-	62,226
Finance lease	380	-	48	-	428
PFI	-	25,610	-	-	25,610
	53,107	25,610	9,548	-	88,264

### 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 2017/18 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.

	2017/18 £000	2016/17 £000
Opening Capital Financing Requirement	14,906	15,237

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

Capital investment:

Property, Plant & Equipment	4,638	3,445
Intangible assets	-	63

Sources of Finance:

Government Grant	(505)	(1,974)
Capital Reserves	(2,416)	-
Earmarked Reserves	(224)	-
Revenue contributions to capital	(1,493)	(1,534)
MRP	(388)	(331)

Closing Capital Financing Requirement	14,518	14,906
---------------------------------------	--------	--------

Explanation of movements in year

(Decrease)/Increase in underlying need to borrow (supported by Government financial assistance)	(388)	(331)
	(388)	(331)

**Details of Assets Held**

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

	2017/18	2016/17
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 2018 is £0.545m (2016/17: £3.959m).

## 7 Intangible Assets

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

Movement during	2017/18	2016/17
	£000	As restated £000
<b>Cost or valuation</b>		
At 1 April	2,131	2,044
Additions	10	87
Disposals	(54)	-
As at 31 March	2,087	2,131
<b>Amortisation &amp; impairment</b>		
At 1 April	(1,447)	(1,217)
Amortisation charge for the year	(222)	(230)
Disposals	54	-
As at 31 March	(1,615)	(1,447)
Balance sheet at 31 March 2018	472	684
Balance sheet at 31 March 2017	684	827

The 2016/17 note has been restated to include the Authority's 25% share in North West FireControl Limited

## 8 Financial Instruments

### Categories of Financial Instruments

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

	Long-Term		Current	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
<u>Investments</u>				
Loans and receivables	5,000	5,000	-	5,000
<u>Debtors</u>				
Financial assets carried at contract amounts	-	-	59	51
<u>Borrowings</u>				
PWLB Borrowings at amortised cost	2,023	5,243	-	333
<u>Other Long Term Liabilities</u>				
PFI and finance lease liabilities	13,987	14,316	329	335
<u>Creditors</u>				
Financial liabilities carried at amortised cost	-	-	2,869	2,639

### Income, Expense, Gains and Losses

	Financial assets: Loans and receivables			
	2017/18	2016/17	2017/18	2016/17
	£000	£000	£000	£000
Interest expense	1,576	1,674	-	-
Total expense in Deficit on the Provision of Services	1,576	1,674	-	-
Interest income	-	-	(266)	(304)
Total income in Deficit on the Provision of Services	-	-	(266)	(304)
Net gain/(loss) for the year	1,576	1,674	(266)	(304)

### Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2018 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 2018		31 March 2017	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£000	£000	£000	£000
Loans from the Public Works Loan Board	2,023	2,663	5,577	7,301
Cash deposits invested and classed as loans and receivables	-	-	-	-
PFI Liabilities	14,231	16,277	14,519	15,483

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2018 is £2.000 million (2016/17: £5.514m) and it is due for repayment as shown in the following table:

	2017/18	2016/17
	£000	£000
Within one year	-	330
Within two to five years	-	1,184
Within six to ten years	-	2,000
Over 10 years	2,000	2,000
	<u>2,000</u>	<u>5,514</u>

**9 Debtors**

	2017/18	2016/17
	£000	£000
Central government bodies	223	202
Other local authorities	3,665	3,918
Public corporations	183	241
Other entities and individuals	6,689	6,494
	<u>10,760</u>	<u>10,855</u>

**10 Cash & Cash Equivalents**

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

	2017/18	2016/17
	£000	£000
Cash held by the Authority	49	46
Cash held by North West FireControl (25% share)	164	286
Call account balance	28,555	29,015
	<u>28,768</u>	<u>29,347</u>

The call account balance is placed with Lancashire Country Council. Interest on these balances is paid to the Authority. The investments have an amortised cost at 31 March 2018 equal to their nominal value.

**11 Creditors**

	2017/18	2016/17
	£000	£000
Central government bodies	1,068	1,066
Other local authorities	2,108	2,571
Other entities and individuals	3,822	3,187
	<u>6,998</u>	<u>6,824</u>

## 12 Provisions

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

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

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

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

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

	Insurance Liabilities		Part time workers		Business rates appeals		Total	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Balance at 1 April	1,129	1,147	21	22	613	960	1,763	2,129
Amounts utilised	(6)	(20)	-	(1)	-	-	(6)	(21)
Unused amounts reversed	(799)	(347)	-	-	-	(347)	(799)	(694)
Additional provision	110	349	1	-	15	-	125	349
Balance at 31 March	434	1,129	22	21	628	613	1,084	1,763

## 13 Other Long Term Liabilities

Other long term liabilities comprise the following:

	2017/18 £000	2016/17 £000
Finance Lease Liability	-	10
PFI Liability (see note 14)	13,917	14,231
PFI Contractor Loan (see note 14)	70	75
Pension Liability (see note 15)	800,264	797,742
	<u>814,251</u>	<u>812,058</u>



## 14 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 2018 the outstanding loan was £0.075m (2016/17: £0.080m).

### 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.

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

Payments remaining to be made under both PFI contracts, and Government Subsidies to be received at 31 March 2018 are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000	Government Subsidy £000
Payable in 1 year	676	314	1,379	2,369	1,734
Payable within 2-5 years	2,893	1,566	5,290	9,749	6,935
Payable within 6-10 years	4,091	2,893	5,857	12,841	8,668
Payable within 11-15 years	4,693	4,620	4,130	13,443	8,648
Payable within 16-20 years	3,380	4,580	1,916	9,876	6,246
Payable within 21-25 years	262	258	12	532	365
Total	15,995	14,231	18,586	48,810	32,596

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:

	2017/18 £000	2016/17 £000
Balance outstanding at the start of the year	14,519	14,782
Payments during the year	(288)	(263)
Balance outstanding at year end	14,231	14,519

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

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	
	2017/18	2016/17 Restated*	2017/18	2016/17
	£000	£000	£000	£000
<b>Comprehensive Income &amp; Expenditure Statement</b>				
<b>Cost of Services:</b>				
• Current service cost	1,774	1,057	10,690	8,450
• Administrative expenses	24	22	-	-
• Past service cost	-	-	510	450
	<b>1,798</b>	<b>1,079</b>	<b>11,200</b>	<b>8,900</b>
<b>Financing and Investment Income and Expenditure:</b>				
• Interest cost	1,570	1,828	20,790	23,100
• Interest on scheme assets	(1,354)	(1,643)	-	-
	<b>216</b>	<b>185</b>	<b>20,790</b>	<b>23,100</b>
<b>Total post employment benefit charged to the deficit on provision of services</b>	<b>2,014</b>	<b>1,264</b>	<b>31,990</b>	<b>32,000</b>
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>				
• Actuarial (gains) and losses	(3,200)	3,011	(7,530)	111,930
<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>(1,186)</b>	<b>4,275</b>	<b>24,460</b>	<b>143,930</b>
<b>Movement in reserves statement</b>				
• Reversal of net charges made to the deficit on provision of services in accordance with the code	1,958	(3,381)	(4,480)	(122,500)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employers' contributions payable to the scheme	(772)	(894)	-	-
Retirement benefits payable to pensioners	-	-	(19,980)	(21,430)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* The LGPS scheme includes the Authority's 25% share in North West FireControl Limited

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

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

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

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

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

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

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

**Retirement benefits payable to pensioners** – the net payments made in respect of the Firefighter pension scheme. Note, the fund also received a top up grant of £15.195m (2016/17: £15.827m) in addition to these, which can be seen in the Firefighters Pension Fund Account on page 62.

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 2018	31 March 2017 Restated	31 March 2018	31 March 2017
	£000	£000	£000	£000
Opening balance at 1 April	(70,99)	(56,415)	(788,856)	(666,356)
Current service cost	(2,351)	(1,373)	(10,649)	(8,450)
Interest on liabilities	(1,797)	(2,028)	(20,789)	(23,100)
Contributions by scheme participants	(478)	(416)	(2,964)	(2,880)
Remeasurements (liabilities):				
Experience (gain)/loss	-	3,534	9,258	22,650
Gain/(Loss) on financial assumptions	2,863	(15,562)	(21,922)	(144,600)
Gain/(Loss) on demographic assumptions	-	229	20,190	10,020
Benefits/transfers paid	1,191	1,032	22,904	24,310
Past service cost	-	-	(508)	(450)
Closing balance at 31 March	(71,571)	(70,999)	(793,336)	(788,856)

Reconciliation of the fair value of the scheme assets:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters' Pension Scheme	
	31 March 2018	31 March 2017 Restated	31 March 2018	31 March 2017
	£000	£000	£000	£000
Opening balance at 1 April	59,792	50,114	-	-
Interest on scheme assets	1,515	1,813	-	-
Remeasurements (assets)	641	7,360	-	-
Administrative expenses	(24)	(22)	-	-
Employer contributions	1,075	1,143	19,940	21,430
Contributions by scheme participants	478	416	2,964	2,880
Benefits paid	(1,191)	(1,032)	(22,904)	(24,310)
Closing balance at 31 March	62,286	59,792	-	-

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 £1.869m (2016/17: gain of £8.558m). The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2018 is a gain of £0.267m (2016/17: cumulative gain of £0.278m).

**Scheme history**

	2017/18	2016/17 Restated	2015/16	2014/15	2013/14
	£000	£000	£000	£000	£000
Present value of liabilities:					
Local Government Pension Scheme (LGPS)	(71,571)	(70,999)	(49,267)	(50,503)	(41,224)
Firefighters Pension Scheme	(793,336)	(788,856)	(666,356)	(687,420)	(595,539)
Fair value of assets in LGPS	62,286	59,792	44,027	39,099	33,135
Surplus/(Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(9,285)	(11,207)	(5,240)	(11,404)	(8,089)
Firefighters Pension Scheme	(793,336)	(788,856)	(666,356)	(687,420)	(595,539)
Total	(802,621)	(800,063)	(671,596)	(698,824)	(603,628)

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, £802.621m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £685.640m (2016/17 Restated: £687.116m). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

- Any surplus/deficit on the Local Government Pensions scheme will be recovered by annual repayments from/to the fund, as assessed by the scheme actuary, throughout the agreed surplus recovery period. Although the year end deficit above shows an £6m deficit, the latest actuarial

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

valuation was actually a surplus of £4.3m as at 31 March 2016, which is being recovered by annual receipts of £0.3m from the pension fund.

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

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

	Local Government Pension Scheme*	Firefighters' Pension Scheme	Total
	£000	£000	£000
Estimated contributions	1,101	3,843	4,540

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

### Basis for Estimating Assets and Liabilities

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

The Firefighters' Scheme has been assessed by GAD (the Government Actuarial Department), an independent firm of actuaries. Estimates for the Firefighters pension scheme are based on a 'roll forward approach' which updates the last full valuation on 31 March 2015, taking account of any significant changes since this.

The Local Government Fund liabilities have been assessed by Mercer Resource Consulting Limited, an independent firm of actuaries. Estimates for the LGPS are based on a 'roll forward approach' which updates the last full valuation as at 31 March 2016, taking account of any significant changes since this.

The principal assumptions used by the actuary have been:

	NWFC Local Government Pension Scheme		LCFA Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017	31 March 2018	31 March 2017
Mortality assumptions:						
Longevity at 65 for current pensioners:						
Men	22.3	22.3	22.7	22.6	21.9	22.4
Women	24.5	24.5	25.4	25.2	21.9	22.4
Longevity at 65 for future pensioners:						
Men	23.9	23.9	25.0	24.9	23.9	24.7
Women	26.5	26.5	28.0	27.9	23.9	24.7
Rate of CPI inflation	2.40%	2.40%	2.10%	2.30%	2.30%	2.35%
Rate of increase in salaries	2.60%	2.70%	3.60%	3.80%	4.30%	4.35%
Rate of increase in pensions	2.30%	2.40%	2.20%	2.30%	2.30%	2.35%
Rate for discounting scheme liabilities	2.70%	2.70%	2.6%	2.5%	2.55%	2.65%
Take up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%	50%	50%

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

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 2018		Assets at 31 March 2017 Restated	
		Fair Value £000	%	Fair Value £000	%
Equities	Y	3,567	5.7	4,225	7.1
Bonds	Y	6,189	9.9	4,652	7.8
Property	N	5,739	9.2	5,129	8.6
Cash/Liquidity	N	115	0.2	695	1.2
Other	N	46,676	75.0	45,092	75.3
		<u>53,793</u>	<u>100.0</u>	<u>52,111</u>	<u>100.0</u>

### History of experience gains and losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2017/18 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2018:

<b>Local Government Pensions Scheme (LGPS) inc NWFC:</b>	2017/18	2016/17 Restated *	2015/16	2014/15	2013/14
	%	%	%	%	%
Experience Gains and losses on assets	1.0	12.3	1.3	6.9	(2.0)
Gains and losses on liabilities	4.0	16.6	(6.2)	14.9	(18.5)
<b>Firefighters Pension Scheme:</b>	2017/18	2016/17	2015/16	2014/15	2013/14
	%	%	%	%	%
Experience Gains and losses on assets	-	-	-	-	-
Gains and losses on liabilities	(0.9)	14.4	(4.8)	11.0	(3.3)
<b>Total of LGPS and Fire Pension Schemes:</b>	2017/18	2016/17	2015/16	2014/15	2013/14
	%	%	%	%	%
Experience Gains and losses on assets	1.0	12.3	1.3	6.9	(2.0)
Gains and losses on liabilities	(0.5)	14.6	(4.9)	11.2	(4.2)

The 2016/17 note has been restated to include the balances of the North West FireControl LGPS.

**16 Usable Reserves**

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

	2017/18		2016/17 Restated	
	£000	£000	£000	£000
Revenue Reserves:				
General Fund		(7,899)		(10,512)
Earmarked Reserves	(3,556)		(3,919)	
PFI Equalisation Reserve	<u>(4,327)</u>		<u>(3,537)</u>	
Total Earmarked Reserves		(7,883)		(7,456)
Total Revenue Reserves		<u>(15,784)</u>		<u>(17,967)</u>
Capital Reserves:				
Capital Funding Reserve		(17,745)		(16,633)
Capital Grants Unapplied		(121)		(947)
Usable Capital Receipts		(1,582)		(1,501)
Total Usable Reserves		<u>(35,231)</u>		<u>(37,048)</u>

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

	Balance at 31.3.16 Restated	Transfers in 2016/17 Restated	Transfers out 2016/17 Restated	Balance at 31.3.17 Restated	Transfers in 2017/18	Transfers out 2017/18	Balance at 31.3.18
General fund	(10,246)	(266)	-	(10,512)	(16)	2,629	(7,899)
Earmarked Reserves	(6,078)	(249)	2,408	(3,919)	(1,054)	1,417	(3,556)
PFI Equalisation Reserves	<u>(3,440)</u>	<u>(125)</u>	<u>28</u>	<u>(3,537)</u>	<u>(1,061)</u>	<u>271</u>	<u>(4,327)</u>
Total Earmarked Reserves	(9,518)	(374)	2,436	(7,456)	(2,115)	1,688	(7,884)
Capital funding reserve	(10,284)	(6,349)	-	(16,633)	(3,528)	2,416	(17,745)
Capital grants unapplied	(3,171)	-	2,224	(947)	-	826	(121)
Usable capital receipts	(1,501)	-	-	(1,501)	(81)	-	(1,582)
Total Usable Reserves	<u>(34,719)</u>	<u>(6,989)</u>	<u>4,659</u>	<u>(37,048)</u>	<u>(5,740)</u>	<u>7,558</u>	<u>(35,231)</u>



**18 Unusable Reserves**

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

	2017/18 £000	2016/17 £000
Revaluation Reserve	(40,862)	(36,957)
Capital Adjustment Account	(38,641)	(36,762)
Pensions Reserve	800,264	797,742
Collection Fund Adjustment Account	(704)	(664)
Accumulated Absences Adjustment Account	813	804
<b>Total Unusable Reserves</b>	<u>720,871</u>	<u>724,164</u>

**Revaluation Reserve**

	2017/18 £000	2016/17 £000
Balance at 1 April	(36,957)	(28,480)
Upward revaluation of assets	(7,629)	(12,047)
Downward revaluation of assets and impairment losses not charged to Net cost of Services	2,462	2,175
Difference between fair value depreciation and historical cost depreciation	1,215	1,395
Amount written off to the Capital Adjustment Account	47	-
	<u>(40,862)</u>	<u>(36,957)</u>

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

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

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

**Capital Adjustment Account**

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

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

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.

	2017/18		2016/17	
	£000	£000	£000	£000
Balance at 1 April		(36,762)		(37,868)
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	2,351		3,337	
• Revaluation losses on Property, Plant & Equipment	699		1,477	
• Amortisation of intangible assets	122		132	
		3,172		4,945
Disposal of assets via the Comprehensive Income & Expenditure Statement		21		-
Adjusting amounts written out of the Revaluation Reserve		(47)		-
Net amount written out of the cost of non-current assets consumed in the year		3,146		4,945
Capital financing applied in the year:				
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(505)		(1,974)	
• Statutory provision for financing of capital investment charged against General Fund	(340)		(303)	
• Voluntary provision for financing of capital investment charged against General Fund	(48)		(28)	
• Use of capital reserves to fund expenditure	(2,416)		-	
• Use of earmarked reserves to fund expenditure	(224)		-	
• Capital expenditure charged to General Fund Balance	(1,493)		(1,534)	
		(5,026)		(3,839)
Balance as at 31 March		<u>(38,641)</u>		<u>(36,762)</u>

**Pensions Reserve**

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

	2017/18	2016/17 Restated
	£000	£000
Balance at 1 April	797,742	671,861
Actuarial (gains) or losses on pensions assets and liabilities	(10,729)	114,941
Reversal of items relating to retirement benefits debited or credited to Net Cost of Services in the Comprehensive Income & Expenditure Statement	21,579	23,797
Employers pension contributions and direct payments to pensioners payable in the year	(8,328)	(12,857)
	800,264	797,742

**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	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Balance at 1 April	(734)	(792)	70	727	(664)	(65)
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	133	58	-	-	133	58
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	-	-	(173)	(657)	(173)	(657)
Balance at 31 March	(601)	(734)	(103)	70	(704)	(664)

### 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.

	2017/18	2016/17
	£000	£000
Balance at 1 April	804	761
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	9	43
Balance at 31 March	<u>813</u>	<u>804</u>

## 19 Contingent Liability

### Municipal Mutual Insurance Limited

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

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

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

### Norman v Cheshire Fire & Rescue Service

As a result of the "Norman vs Cheshire" case there is a possibility that some allowances paid to staff working certain duty systems maybe pensionable. It is not yet clear if this ruling applies to our staff, nor how the calculation would be made, however there is a potential cost which may arise in the future if it is found that this ruling does apply. No allowance has been made in the accounts for this potential cost. The service is attempting to resolve this issue via the collective bargaining arrangements, but this has not yet been concluded.

### Firefighters Pension Scheme Transitional protection arrangements

In July 2015, the Fire Brigades Union (FBU) launched a collective legal challenge against the Government over the transitional protections under the new pension arrangements, which came into force on 1st April 2015. Their claim relates to alleged age, sex and race discrimination and possible equal pay complaints. This challenge was partly upheld at the Employment Appeal Tribunal, but this determination has been appealed by both parties. There is presently no indication of the final determination. The Firefighters Pension Scheme would meet any additional costs, rather than them being an additional cost to the Authority.

## 20 Post Balance Sheet Events

As at the date the Treasurer signed the accounts, 31 May 2018, there were no post balance sheet events to report.

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

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

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

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

### Credit Risk

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

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

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

### Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.004m of the £0.062m 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 £0.003m and which is considered sufficient for this purpose.

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

	2017/18 £000	2016/17 £000
0 to 30 days	58	40
31 to 60 days	2	4
61 to 90 days	1	2
91 to 180 days	-	13
Over 180 days	1	10
	<u>62</u>	<u>69</u>

## Liquidity Risk

The Authority has a comprehensive cash flow management system (administered by Lancashire County Council's Treasury Management Team) that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from Lancashire County Council at current market rates. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. During 2017/18 £3.2m of debt was repaid, leaving a balance of £2m.

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

Value of PWLB loans maturing in future years	
As at 31 March 2018	
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 £34.2 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 £342,000 and a 1% fall would give a reduction of the same amount.

## 22 Local Authority Controlled Company – NW FireControl Limited

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

Lancashire Combined Fire Authority  
Statement of Accounts 2017/18

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.

A detailed assessment for Group Accounting requirements has taken place during 2017/18 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.

- Previously the NWFC accounts had not been recognised within the Authority's financial statements, however following on from the 2016/17 Audit Findings Report, we have now restated the 2016/17 accounts for these, and also included within the 2017/18 accounts since the draft accounts were presented in May. This change has inevitably changed almost every single note to the accounts, in addition to the four core statements.

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

Key Information	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Total assets less Current Liabilities	285	263
Net assets*	(2,859)	(2,831)
(Loss) Before Taxation	(427)	(99)
(Loss) After Taxation	(432)	(105)
Debtor Balance (LFRS)	296	287
Creditor Balance (LFRS)	-	-
Invoices raised by NW FireControl to LFRS	1,144	1,093
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.

Invoices are raised quarterly in advance for the service to the Fire Authorities, the advance invoices in respect of Quarter 1 2018/19 are included in the above figures.

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 31/12/2018 for the final audited 2017/18 accounts.

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

	2017/18	2016/17
	£000	£000
Depreciation	3,578	4,749
Impairment & downwards valuations	699	1,477
Amortisation	222	227
Increase/(decrease) in provisions	(679)	(366)
Increase/(decrease) in creditors	403	168
(Increase)/decrease in debtors	95	(2,462)
(Increase)/decrease in stock	(21)	(9)
Movement in pension liability	13,251	10,940
Net book value of fixed assets sold	21	-
	17,569	14,725

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

	2017/18	2016/17
	£000	£000
Interest received	99	119
Interest paid	(1,553)	(1,612)

Interest paid includes interest payments in respect of both finance leases and PFI schemes (see accounting policy note 28, section j)



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

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

The items in the Authority's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.  It is estimated that the annual depreciation charge for buildings would increase by £0.2m for every year that useful lives had to be reduced.
Fair Value Measurements	When the fair values of financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using the Discounted Cash Flow (DCF) model.	The Authority uses the DCF model to measure the fair value of its PFI liabilities. Fair value is calculated using the bond yield rates against the annual net cash flows. It is estimated that a 1% decrease in the discount rate would increase the fair value by £1.7m.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied to each scheme.	The effects on the net pension liability of changes in individual assumptions can be measured as follows: A 0.1% increase in these assumptions has the following effect on the net pension liability: <ul style="list-style-type: none"> <li>• Discount rate – decrease of £16.3m</li> <li>• Inflation rate – increase of £13.4m</li> <li>• Pay growth – increase of £1.7m</li> </ul> A 1 year increase in life expectancy will increase the net pension liability by £5.3m.

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

## 26 Accounting Standards issued but not yet adopted

For 2017/18 the following accounting policy changes that need to be reported relate to:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

## 27 Expenditure and Income Analysed by Nature

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

	2017/18 £000	2016/17 £000
Expenditure		
Employee benefits expenses	33,678	28,459
Other services expenses	12,584	11,575
Support service recharges	8	1
Depreciation, amortisation and impairment	4,499	6,453
Interest payments	22,581	24,959
Gain on disposal of fixed assets	(13)	-
Total expenditure	73,337	71,448
Income		
Fees, charges and other service income	(4,640)	(4,363)
Interest and investment income	(267)	(305)
Income from council tax and business rates	(42,838)	(42,557)
Government grants and contributions	(11,170)	(13,666)
Total Income	(58,916)	(60,891)
Deficit on the provision of services	14,421	10,557

## 28 Accounting Policies

### a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. 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 – 2017/18, supported by International Financial Reporting Standards (IFRS).

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

### b Accruals of income and expenditure

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

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

**c Cash & cash equivalents**

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

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

**d Charges to Revenue for Non-Current Assets**

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

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

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

**e Employee Benefits**

**Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial

year. The accrual is made at the wage and salary rates applicable in the current financial year (the best estimate of future rates at the time of the accounts). The accrual is charged to the surplus or deficit on provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Post Employment Benefits**

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

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

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

#### The Firefighters' Scheme

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

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

In calculating the liability for 2017/18, the actuary based the valuation on a roll forwards approach.

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

#### The Local Government Pension Scheme

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

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

In calculating the liability for 2017/18, the actuary based the valuation on a roll forwards approach.

In valuing the pension scheme assets for 2017/18, 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**

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 2018, 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 derecognise 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 13 to the Balance Sheet.

#### **m Reserves**

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

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

#### **n Contingent liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain



future events not wholly within the control of the Authority. Contingent liabilities are not recognised in the Balance Sheet, but disclosed in a note to the accounts.

**O Going Concern**

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

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

<b>Fund Account</b>	2017/18 Total £000	2016/17 Total £000
<b>Income to the fund</b>		
<b>Contributions receivable:</b>		
- From employer		
- contributions in relation to pensionable pay	(3,692)	(3,790)
- other contributions	(179)	(247)
- Members contributions	(2,923)	(2,946)
<b>Transfers in:</b>		
- Individual transfers from other schemes	(52)	(44)
<b>Total Income to the Fund</b>	<b>(6,846)</b>	<b>(7,027)</b>
<b>Spending by the fund</b>		
<b>Benefits payable:</b>		
- Pension payments	18,446	17,915
- Commutations of pensions and lump-sum retirement benefits	3,593	4,937
<b>Transfers out:</b>		
- Individual transfers out to other schemes	-	-
- Refunds of contributions	2	447
<b>Total Spending by the fund</b>	<b>22,041</b>	<b>23,299</b>
<b>Net amount receivable for the year before top up grant receivable from central government</b>	<b>15,195</b>	<b>16,272</b>
Top up grant receivable from central government	(15,195)	(16,272)
<b>Net amount receivable for the year</b>	<b>-</b>	<b>-</b>
<b>Net Assets Statement</b>	2017/18 £000	2016/17 £000
Net current assets and liabilities:		
- pensions top up grant receivable from central government	(4,275)	(4,321)
- other current assets and liabilities (other than liabilities and other than benefits in the future)	4,275	4,321
<b>Net current assets at the end of the year</b>	<b>-</b>	<b>-</b>

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

The above statement shows the financial position of the total fire fighters pension fund account, showing that as at 31 March 2018 the Authority is owed £4,275m (2016/17: £4.321m) 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 28 – accounting policies, in particular section e.

#### Contribution Rates

Under the firefighters pension regulations the contribution rates during 2017/18 were as follows:

- for the 1992 scheme were circa 35.9% on average of pensionable pay (21.7% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2006 scheme were circa 22.3% on average of pensionable pay (11.9% for employers and between 9.4% and 10.9% for employees dependent on salary)
- for special members of the 2006 scheme were circa 35.9% of pensionable pay (21.7% for employers and between 11% and 14.7% for employees dependent on salary)
- for the 2015 scheme were circa 26.5% on average of pensionable pay (14.3% for employers and between 10.5% and 14.5% for employees dependent on salary)

These contribution levels are set nationally by the CLG, and are subject to triennial revaluations by the Government Actuary's Department. Two ill health retirements were recognised during 2017/18, and three in 2016/17.

#### Benefits Paid

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

#### Home Office Grant

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

#### Future Liabilities

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

## GLOSSARY OF TERMS

### **Accrual**

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

### **Amortised cost**

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

### **Budget**

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

### **Capital Expenditure**

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

### **Capital Receipts**

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

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

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

### **Creditors**

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

### **Debtors**

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

### **Fair Value**

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

### **Financial Instrument**

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

**Financial Year**

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

**Financing Charges**

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

**Premiums and Discounts**

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

**Public Works Loan Board (PWLB)**

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

**Revenue Contribution to Capital Outlay**

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

**Revenue Expenditure**

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