LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 30 July 2019

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

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

Executive Summary

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

Recommendation

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

Information

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

- the unaudited Statement of Accounts would be signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2019;
- this would be subject to review by the Authority's external auditors, Grant Thornton
- that a further report would be presented to the Audit Committee in July, following completion of the external audit;
- at that meeting the Chair of the Audit Committee would be asked to sign the final statement of accounts, as well as the Treasurer;
- Following this a final audited set of accounts will be presented to the Resources Committee for information.

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

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

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

Adjusted Misstatements

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

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

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

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

Misclassifications and disclosure changes

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

Approval and Signing of the Accounts

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

Financial Implications

As outlined in the report

Business Risk Implications

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

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

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

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

PART 1 ITEM No 8

LANCASHIRE COMBINED FIRE AUTHORITY
RESOURCES COMMITTEE – 29 MAY 2019

Core Financial Statement 2018/19 - Updated
(Appendix 1, 2, 3, 4 and 5 refer)

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

Executive Summary

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

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

Recommendation

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

Information

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

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

Narrative Report

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

Comprehensive Income & Expenditure Account

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

The main points to note are: -

	2018/19	2017/18	
Service Delivery	27,513	27,408	The cost of Service Delivery shows a marginal increase when compared with the previous year, attributable to the net cost of the Winter Hill incident.
Strategy & Planning	7,680	7,466	The cost of Strategy & Planning shows an increase when compared with the previous year, due primarily to pay awards and inflation.
People & Development	1,604	1,304	The cost of People & Development shows an increase when compared with the previous year, mainly due to the underspends during 1718.
Corporate Services	4,212	4,166	The cost of Corporate Services is broadly comparable with last year.
Fire Fighters Pensions	1,242	1,138	These are the ongoing pension costs relating to previous ill health or injury retirements, which have remained at a similar level to the previous year.
Overheads	4,239	4,645	This heading includes all capital financing charges, refunds made in respect of the LGPS surplus, and depreciation and impairment charges made in respect of assets. The reduction is attributable to changes associated with the adjustment required in respect of pension liabilities under IAS 19.
Gain On Disposals Of Fixed Assets	(68)	(13)	This relates to the sale of surplus vehicles.
Interest Payable	1,479	1,576	The level of interest payable in respect of current loans has fallen due to the early repayment of £3.2m of loans during 1718. In addition to this interest charges associated with the PFI scheme and finance leases totalled £1.4m, in line with the previous years charges.
Pension Interest Cost And Expected Return On Assets	20,253	21,005	This relates to adjustments required under IAS 19 requirements, and is designed to show the expected increase in costs of the scheme less the expected increase in asset values. As the Fire-fighters pensions' scheme is unfunded there is no increase in asset value to offset the increase in scheme costs resulting in a £20.3m charge to the Income and Expenditure Account.
Interest Receivable	(358)	(267)	The level of interest earned on investments has increased as we have placed several fixed term investments during the year, and also the call account interest rate increased.
Council Tax	(29,360)	(28,233)	Amounts raised through council tax, including the Authority's element of council tax collection fund surplus accumulated during the preceding year by the billing authorities. This amount reflects the total amount due, rather than simply the amount of cash received in year.

Revenue Support Grant	(9,262)	(10,659)	The level of Revenue Support Grant allocated to the Authority by the Government, the reduction reflecting the cut in Government funding
Non-Domestic Rates Redistribution	(15,485)	(14,605)	Amounts raised through non domestic rates, including the Authority's element of business rates collection fund surplus accumulated during the preceding year by the billing authorities, in addition to top up grant receivable from the Government as part of the localisation of business rates. This amount reflects the total amount due, rather than simply the amount of cash received in year.
Business rates S31 grant	(946)	(511)	This grant is allocated to the Authority by the Government, and relates to small business rates reliefs allowed by the Government as part of the localisation of business rates.
Deficit On The Provision Of Services	**12,745**	**14,421**	The overall deficit shows that expenditure incurred exceeded income generated over the last twelve months, and is measured in terms of the resources consumed and generated. However, this includes a number of accounting entries which do not impact on council tax levels, most notably those relating to the pensions schemes. As such this does not show the actual surplus when comparing spend against council tax.
(Surplus)/Deficit On Revaluation Of Non-Current Assets	(4,539)	(5,167)	This is a notional change in the value of fixed (non-current) assets, based on changes in market conditions etc. No actual change in value will be achieved until such time as the asset is disposed of.
Actuarial (Gains)/ Losses On Pensions Assets And Liabilities	19,849	(10,730)	This is a notional charge arising from the Actuary changing their assumptions on which future pensions liabilities are calculated, such as mortality rates, future interest rates, pay and pension increases, return on assets etc.
Total Comprehensive Income And Expenditure	**28,055**	**(1,476)**	This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation.

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

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

Movement in Reserves Statement

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

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

The main points in respect of are:-

	Usable Reserves	Unusable Reserves	Total Reserves	
Balance at 1 April	35,230	(720,870)	(685,640)	
Deficit on the provision of service	(12,745)	-	(12,745)	This shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. As set out earlier it is not accounted for on the same basis as we account for council tax and hence does not tie in to the actual revenue position set out in the Year End Revenue Outturn report.
Other Comprehensive Income And Expenditure	-	(15,310)	(15,310)	This relates to the surplus on revaluation of non-current assets and the actuarial loss on pensions assets and liabilities
Charges for depreciation and impairment of non-current assets	4,258	(4,258)	-	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year
Amortisation of intangible assets	33	(33)	-	This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year
Amount by which the Code and the statutory pension costs differ	11,228	(11,228)	-	This shows the difference between the change in pension liability from one year to the next and the level of employer pension contributions and retirement benefits allowed for in the revenue budget/council tax calculation.
Amount by which collection fund income in the comprehensive income and expenditure statement is different from collection fund income calculated for the year in accordance with statutory requirements	207	(207)	-	This shows the difference in value between the amount due to be raised from council tax and business rates, as agreed as part of the budget setting process, and the amount collection authorities have actually collected on our behalf in the year, i.e. the difference between the assumed collection rate and the actual collection rate, the deficit in 2018/19 reflecting the fact that authorities have collected less than anticipated.
Provision for the repayment of debt	(337)	337	-	This is the charge made against the revenue budget to reduce future borrowing requirements, and includes an element relating to debt associated with PFI and finance leases

Capital expenditure charged against General Fund Balance	(2,030)	2,030	-	This is the level of capital expenditure which has been funded from contributions from the 2018/19 revenue budget, as agreed as part of the budget setting process and as shown in the Year End Capital Outturn report.
Net increase/decrease before transfers to earmarked reserves	614	(28,669)	(28,055)	This shows the Usable Reserves Balance change in year before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.
Transfers (to)/from earmarked reserves	(28)	28	-	These represents the transfers to specific earmarked reserves referred to in the Year End Usable Reserves and Provisions Outturn report.
Transfers (to)/from capital funding reserves	(352)	352	-	These represents the transfers from the capital funding reserve referred to in the Year End Capital Outturn report and the Year End Usable Reserves and Provisions report.
Amount by which remuneration charged on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(49)	49	-	This represents the movements on the Accumulated Absences Adjustment Account, which reflects the increase in the amount of leave owing to staff as at year end.
Increase/Decrease in the year	185	(28,240)	(28,055)	This is the net change to reserves, comprising the Surplus/Deficit on provision of services, less any adjustments for items which don't affect council tax and any transfers to/from earmarked reserves and ties into the overall change in Usable reserves included in the Year End Usable Reserves and Provisions Outturn report
Balance at 31 March	**35,415**	**(749,110)**	**(713,694)**	These are the final reserve balances which are reflected in the balance sheet in the statement of accounts, and which tie in to the values shown in the Year End Usable Reserves and Provisions Outturn report.

Balance Sheet

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

The main points to note are: -

	2018/19	2017/18	
Long Term Assets			
Property, Plant & Equipment	96,678	93,794	The value of property, plant & equipment has increased by £2.9m, due to the level of capital expenditure (£2.4m as shown in the Year End Capital Outturn report) and the net revaluation gains of £4.1m compared with depreciation charges of £3.8m.
Intangible assets	439	472	Intangible assets are assets which do not have a physical form, such as software, the reduction in value reflecting the level of amortisation of these assets, representing their usage in year.
Long Term Investments	5,000	5,000	The Authority holds one investment with Local Government bodies which is classed as long term investments, i.e. over 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Current Assets			
Inventories	238	228	The value of stock held has remained broadly in line with last year.
Short-Term Investments	15,000	-	The Authority holds three investments with Local Government bodies which are classed as short term investments, i.e. under 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Short-Term Debtors	9,675	10,760	Debtors represent monies owed to the Authority on 31st March 2019. In order to improve cash flow this figure should be as low as possible, however it is inevitable that there will always be a balance on this due to the timing of invoices and the debt recovery process. The level of debtors at the year-end has remained consistent, with the main debt relating to Council Tax, Business Rates (which represent our share of debts that billing authorities hold) and amounts owed to the Authority by the FF pension fund in the form of top up grant due during July 2019.
Cash & Cash Equivalents	14,865	28,768	This represents the cash book balance at the year end, which is held in a call account by Lancashire County Council (LCC) as shown in the Year End Treasury Management Outturn report. The reduction reflects the placing of several short term investments during the year.
Current Liabilities			
Other Short-Term Liabilities	(384)	(329)	This relates to short term liabilities in respect of the Authorities PFI contracts with PFF Lancashire Ltd and Balfour Beatty Fire and Rescue NW Ltd and in addition the short term element of finance leases.
Short-Term Creditors	(6,789)	(6,998)	This figure represents the amount of money we owe to other bodies at 31st March 2019. The overall balance is broadly in line with last year.
Long Term Liabilities			
Provisions	(1,282)	(1,084)	This shows the outstanding provisions, relating to the potential cost of outstanding insurance claims, which will have to be met by the Authority in future years, the remaining balance of the potential costs associated with Retained Fire-fighters' claims (under the Part-Time Workers (prevention of less favourable treatment)

			Regulations 2000) concerning employment terms, and also the Authorities share of billing authorities business rates outstanding appeals. The increase largely relates to amounts set aside by billing authority's in relation to our share of their Business Rates appeals.
Long-Term Borrowing	(2,000)	(2,000)	This represents the amount of long term debt that the Authority holds which does not mature within the next 12 months. The balance of £2.0m is due to mature between 2035-2037.
Other Long-Term Liabilities	(845,135)	(814,251)	This majority of this relates to adjustments required under IAS 19, and shows the extent to which the authorities liability to pay pension benefits in the future exceeds the value of assets held. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £831m. This also includes liabilities covering the remainder of the contract associated with the two PFI contracts; • PFF Lancashire Ltd for the provision of two fire stations, • Balfour Beatty Fire and Rescue for the provision of four fire stations within Lancashire, as part of the joint contract to provide sixteen stations across Lancashire, Cumbria and Merseyside. In addition, this also includes liabilities relating to an outstanding finance lease.
Total Assets Less Liabilities	**(713,694)**	**(685,640)**	

Financed By			
Usable Reserves:			
Revenue Reserves	(16,253)	(15,783)	This is the level of reserves that the Authority currently holds which can be utilised to offset future revenue expenditure, subject to the need to maintaining a prudent level of reserves and any statutory limitations on their use. It includes the general reserves as well as any earmarked reserves. The increase in year represents the revenue budget surplus for the year, as referred to in the Year End Revenue Outturn report, and the Usable Reserves and Provisions Outturn report.
Capital Funding Reserve	(17,393)	(17,745)	This reserve holds £17.4m of balances to fund future capital expenditure, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.
Capital Grant Unapplied	(121)	(121)	The capital grant unapplied relates to the Authority's share of the NWFC end of year balances, and as such, the 2018/19 balances have not been updated for changes. This will be done prior to the final version being approved.
Usable Capital Receipts Reserve	(1,649)	(1,581)	This represents the proceeds from the sale of fixed assets which are used to finance capital investment. To class as capital receipts the value of the sale must exceed £10,000. The increase in value representing the sale proceeds vehicles, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.

Unusable Reserves:			
Revaluation Reserve	(43,925)	(40,862)	This account holds unrealised revaluation gains, or losses, from holding fixed assets, as such any revaluations that have taken place since 1 April 2007 are reflected in this reserve. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.
Capital Adjustment Account	(38,573)	(38,641)	The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.
Collection Fund Adjustment Account	(496)	(704)	This account reflects the net effect of the adjustments required to show our share of each billing authority's council tax and business rates debtors and creditors at year end, in our case this shows a deficit of £342k.
Accumulated Absences Adjustment Account	764	813	This account represents the value of leave accrued at the year end, but which has not yet been taken, and hence has been carried forward into the new financial year. However given that the leave year for Fire Fighters runs from January to December leave entitlement is calculated on a pro-rata basis which can distort the overall position.
Pensions Reserve	831,341	799,479	This relates to adjustments required under IAS 19, and is a notional reserve required in order to offset the net liability of the Authority in respect of the pension schemes.
	713,694	**685,640**	

Cash Flow Statement

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

The main points to note are:-

	2018/19	2017/18	
Net Cash Flows Arising From Operating Activities	5,224	4,604	This shows the level of net cash generated by revenue activities, i.e. the level of income received in the form of grant, council tax etc., offset by payments made in respect of employee costs and non-pay costs etc.
Investing Activities	(17,339)	221	This shows the cash outflows which have been made for resources that are intended to contribute to the Authority's future service delivery, such as placing £15m on short term deposit, and £2.4m of expenditure on capital assets.
Financing Activities	(1,789)	(5,402)	This relates to the repayment of long term debt, including that associated with PFI and finance leases.
Net increase/(decrease) in cash and cash equivalents	**(13,903)**	**(578)**	This shows the movement in the net cash immediately available within the Authority in a call account with LCC. This shows a significant reduction in year, reflecting the short term investments placed during the year, and ties in to the figure included in the Treasury Management Outturn report

Signing of the Statement of Accounts

The unaudited Statement of Accounts will be signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2019.

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

Financial Implications

As outlined in the report

Business Risk Implications

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

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

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

Paper	*Date*	Contact
SORP and Guidance	February 2019	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	May 2019	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

Appendix 1

NARRATIVE REPORT

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

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

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2018/19
- how these services were paid for
- what assets the Fire Authority owned at the end of the financial year, and
- what was owed, to and by, the Fire Authority at the end of the financial year.

This narrative report gives a guide to the most important matters included in the Statement of Accounts.

Contents of this Statement of Accounts

This Statement of Accounts covers the financial year ended on 31 March 2019 (referred to as 2018/19). It has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The Statement contains:

Statement on Annual Governance Arrangements – Sets out the Authority's responsibilities with regard to the system of internal control and corporate governance.

Independent Auditor's Report to the Members of Lancashire Combined Fire Authority – The Auditor's report to the CFA on the accounts for 2018/19, which are set out in the sections shown below.

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

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

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

Balance Sheet – This shows information on the financial position of the Fire Authority as at the 31 March 2019, including the level of balances and reserves at the Fire Authority's disposal, its long term indebtedness and the value of the assets held by the Fire Authority.

Cash Flow Statement – This shows the cash and cash equivalent movements in and out of the Fire Authority due to transactions with third parties for revenue and capital purposes.

Fire Fighters Pension Fund Account and Net Assets Statement – Shows the financial position of the fire fighters pension fund account, showing whether the Authority owes, or is owed, money by the Government in order to balance the account, together with details of its net assets.

Review of the Year

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

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

2018/19 also saw the first independent inspection of the Fire Service for several years, with Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) undertaking an inspection of Lancashire in July, whilst the Winter Hill fire was still burning. The inspection assesses how effectively and efficiently the Service prevents, protects the public against and responds to fires, as well as how well the Service looks after staff. The outcome of the inspection was that Lancashire was the only fire and rescue service to be given an 'outstanding' in any category. The Service was in the first tranche of fire and rescue services to be inspected, was rated as 'outstanding' for promoting its values and culture, and was rated as 'good' in all other areas, with no areas that 'require improvement'. This was the highest rating of any Service in the first tranche of inspections, with the outcome of the second and third tranche expected in2019/20.

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

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

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

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

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

The 2018/19 Financial Overview

The Authority's spending is planned and controlled by an annual budget process, which leads to the setting of its budget requirement. Expenditure on the day-to-day running costs of the service is determined through the Revenue Budget and is recorded in the Comprehensive Income and Expenditure Statement.

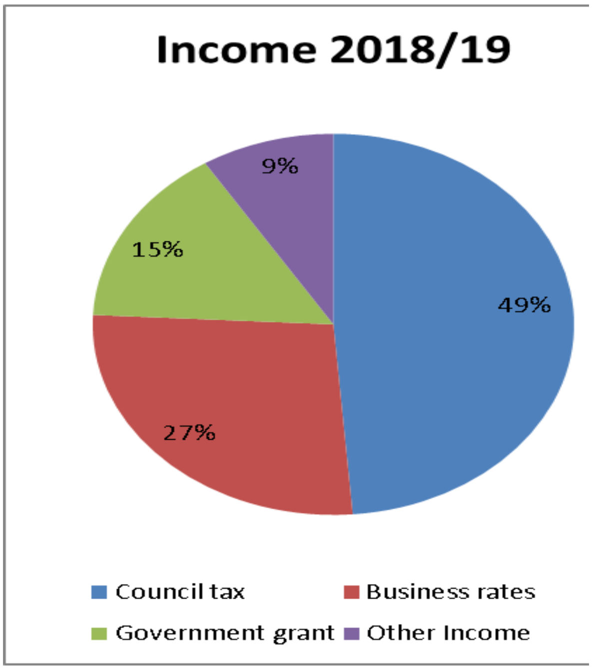
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

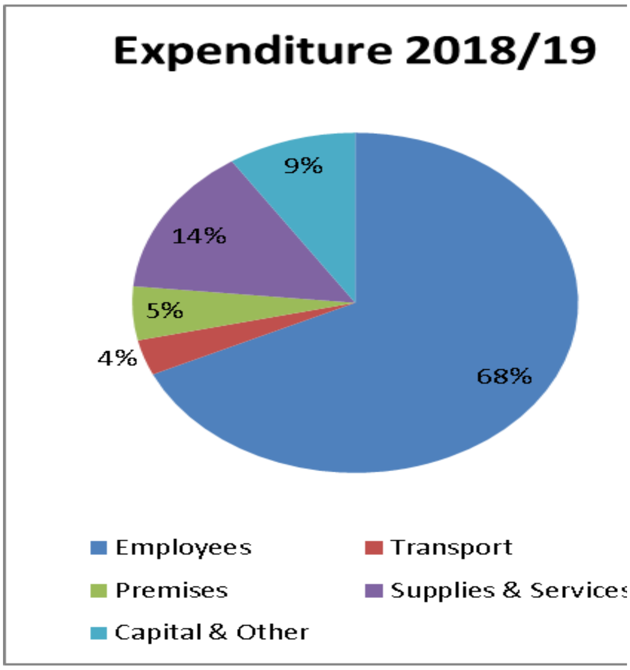
- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account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

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

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

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





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

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

The following reconciliation shows the comparison between the revenue budget position, as set out above, and the Total Comprehensive Income and Expenditure figure reported in the accounts on page 19.

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

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

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

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

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

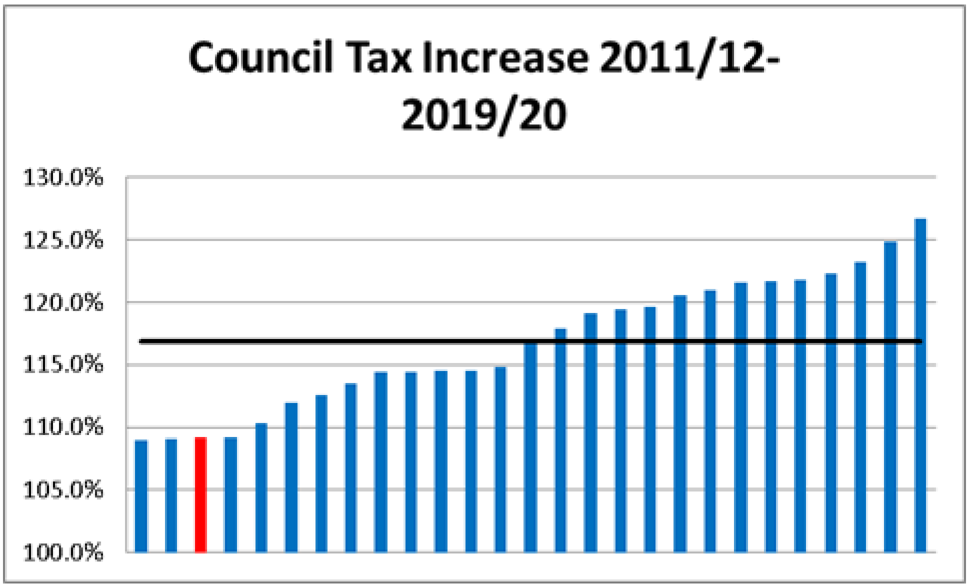
The Balance Sheet shows that the Authorities Total Net Liabilities have increased to £715m. This reflects the Authorities compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme is partly funded the Fire-fighters Pension Scheme is unfunded, i.e. there are no assets from which future liabilities will be paid, and hence the Authority's overall pension liability of £831m is extremely large. If this liability was excluded the Authorities Total Net Assets would be £116m.

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

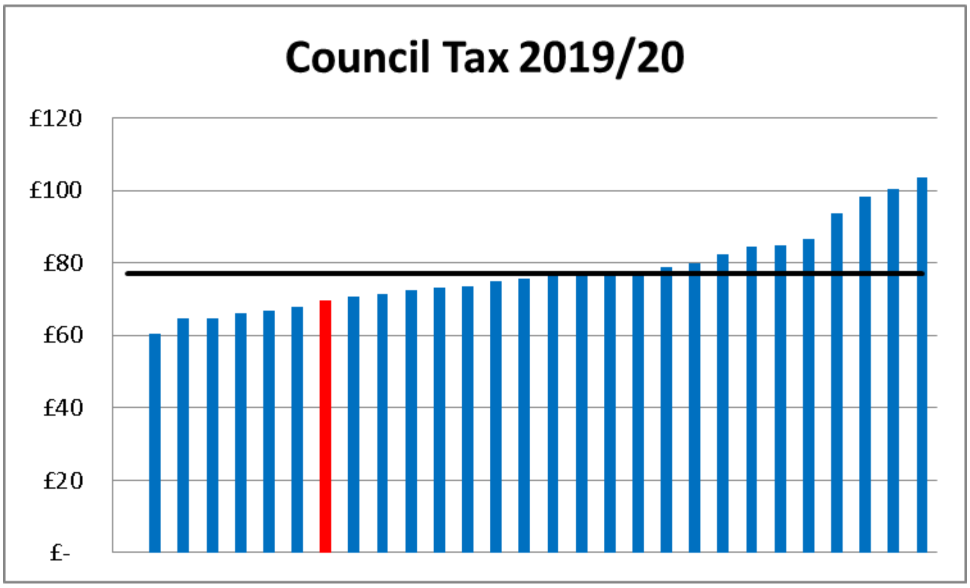
Future Financial Plans

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

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



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



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

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

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

The capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, new IT requirements and new operational equipment. This gives rise to a capital program of £27m over the next five years.

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

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

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

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

- Reductions in funding levels over and above those forecast;
- Reduction in funding via Business Rates retention scheme;
- Reduction in council tax funding due to changes in localisation of council tax support, reducing tax base and/or council tax referendum limits;
- Higher than anticipated inflation;
- Larger increases in future pension costs/contributions;
- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements

Appendix 2

Comprehensive Income & Expenditure Account

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

Appendix 3

Movement in Reserves Statement

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

Appendix 4

Balance Sheet

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

Cash Flow Statement

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

Appendix 2

Lancashire Fire and Rescue Service

STATEMENT OF ACCOUNTS

2018/19

LANCASHIRE COMBINED FIRE AUTHORITY

STATEMENT OF ACCOUNTS 2018/19

CONTENTS

NARRATIVE REPORT

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

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

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2018/19
- how these services were paid for
- what assets the Fire Authority owned at the end of the financial year, and
- what was owed, to and by, the Fire Authority at the end of the financial year.

This narrative report gives a guide to the most important matters included in the Statement of Accounts.

Contents of this Statement of Accounts

This Statement of Accounts covers the financial year ended on 31 March 2019 (referred to as 2018/19). It has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The Statement contains:

Statement on Annual Governance Arrangements – Sets out the Authority's responsibilities with regard to the system of internal control and corporate governance.

Independent Auditor's Report to the Members of Lancashire Combined Fire Authority – The Auditor's report to the CFA on the accounts for 2018/19, which are set out in the sections shown below.

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

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

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

Balance Sheet – This shows information on the financial position of the Fire Authority as at the 31 March 2019, including the level of balances and reserves at the Fire Authority's disposal, its long term indebtedness and the value of the assets held by the Fire Authority.

Cash Flow Statement – This shows the cash and cash equivalent movements in and out of the Fire Authority due to transactions with third parties for revenue and capital purposes.

Fire Fighters Pension Fund Account and Net Assets Statement – Shows the financial position of the fire fighters pension fund account, showing whether the Authority owes, or is owed, money by the Government in order to balance the account, together with details of its net assets.

Review of the Year

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

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

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

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

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

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

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

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

The 2018/19 Financial Overview

The Authority’s spending is planned and controlled by an annual budget process, which leads to the setting of its budget requirement. Expenditure on the day-to-day running costs of the service is determined through the Revenue Budget and is recorded in the Comprehensive Income and Expenditure Statement.

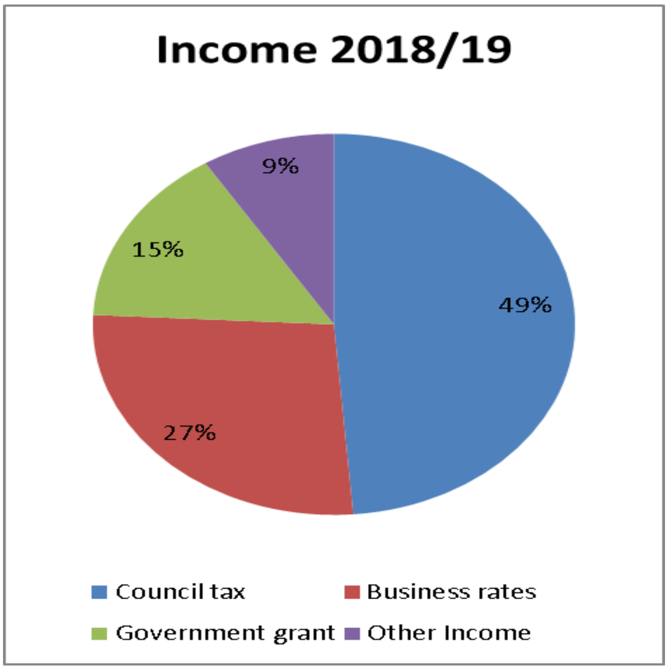
In setting its budget the Authority aims to balance the public’s requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

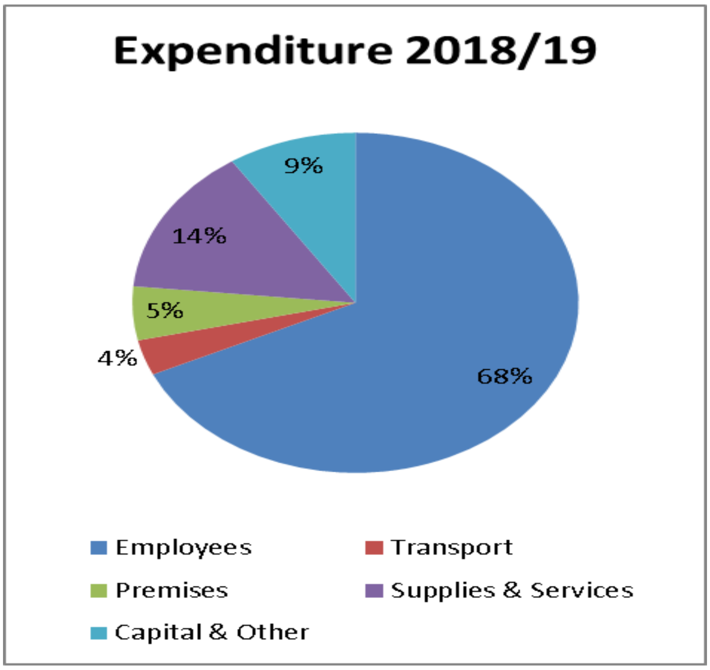
- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account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

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

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

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





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

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

The following reconciliation shows the comparison between the revenue budget position, as set out above, and the Total Comprehensive Income and Expenditure figure reported in the accounts on page 19.

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

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

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

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

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

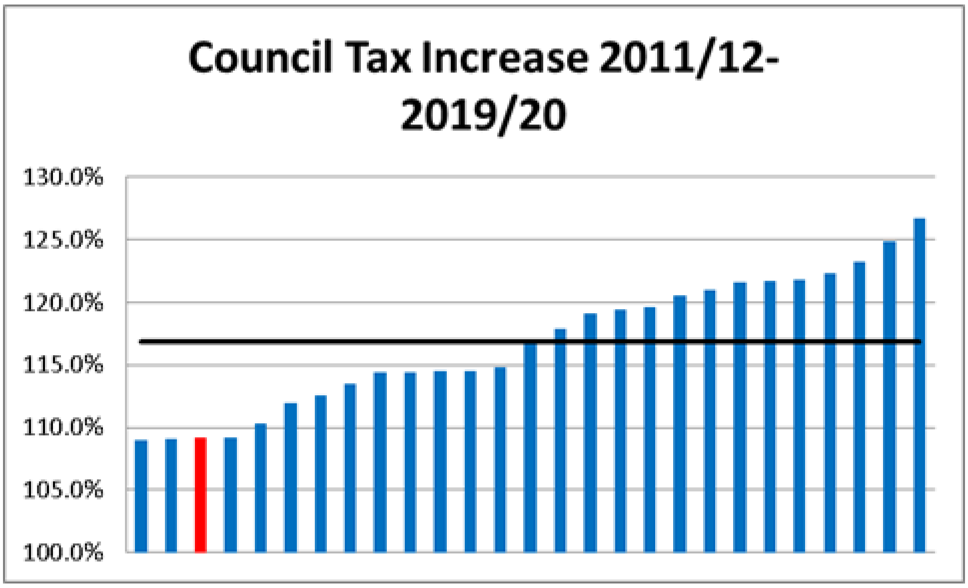
The Balance Sheet shows that the Authorities Total Net Liabilities have increased to £747m. This reflects the Authorities compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme is partly funded the Fire-fighters Pension Scheme is unfunded, i.e. there are no assets from which future liabilities will be paid, and hence the Authority's overall pension liability of £865m is extremely large. If this liability was excluded the Authorities Total Net Assets would be £119m. The pension liability includes estimated costs in relation to the McCloud judgement, further details can be found in note 19.

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

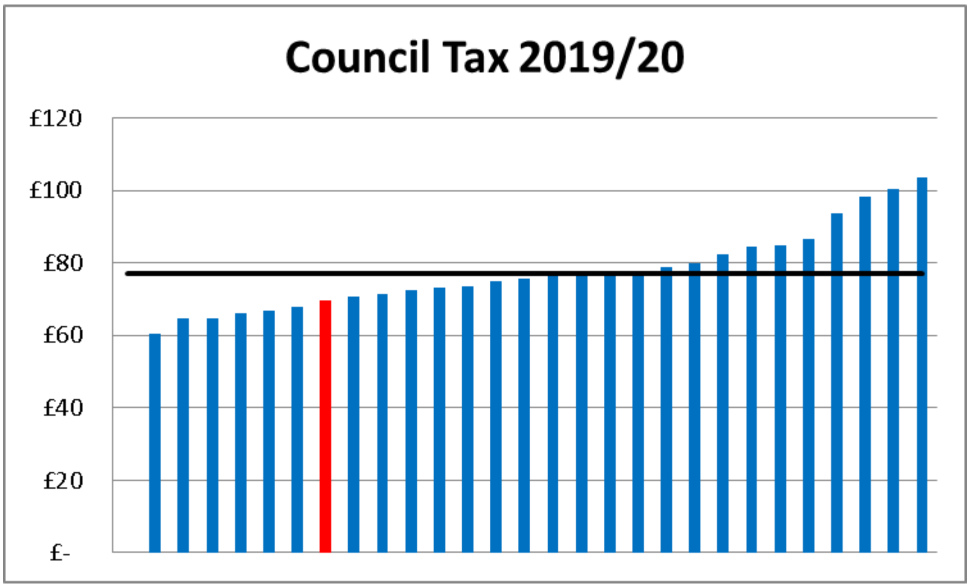
Future Financial Plans

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

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



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



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

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

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

The capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, new IT requirements and new operational equipment. This gives rise to a capital program of £27m over the next five years.

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

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

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

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

- Reductions in funding levels over and above those forecast;
- Reduction in funding via Business Rates retention scheme;
- Reduction in council tax funding due to changes in localisation of council tax support, reducing tax base and/or council tax referendum limits;
- Higher than anticipated inflation;
- Larger increases in future pension costs/contributions;
- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spate conditions or major equipment replacement requirements;
- Increased cost of partnership arrangements;
- Inadequacy of insurance arrangements

Accounting Changes

The accounts have been prepared in accordance with the requirements of the latest Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2018/19 (the Code). The code included the following change:

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

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

Scope of Responsibility

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

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

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

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

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

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

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Authority for the year ended 31 March 2019 and up to the date of approval of the 2018/19 Statement of Accounts.

The Governance Framework

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

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

- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan covering 2019/20 was approved this year and can be found on our website at https://vault.ecloud.co.uk/lancsfire/2019/05/2019-2020_Annual_Service_Plan_ASP.pdf

- A Communication Strategy and the Consultation Strategy;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review of effectiveness

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

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

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

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

- We updated our Strategic Assessment of Risk.

- A revised Annual Service Plan has been agreed for 2019/20, providing clarity, both internally and externally, on our priorities set out in the IRMP and describes what our ambitions are for each priority, as well as setting out the projects and actions that will be delivered, developed or reviewed during the coming year against each of our priorities. This is supported by Local Delivery Plans.

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

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

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

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

- Performance appraisal incorporating values is undertaken throughout the Service

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

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

- As part of the 2018/19 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can "*provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control*."

- Grant Thornton provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Audit letter did not identify any significant weaknesses in internal control arrangement and provided the following audit conclusions in relation to 2017/18:
  - Financial statements – "*We gave an unqualified opinion on the Authority's financial statements*"
  - Value for money conclusion – "*We were satisfied that in all significant respects the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year*"

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

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

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

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

Significant governance issues

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

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

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

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

Signed:

County Councillor F De Molfetta, Chairman, Lancashire Combined Fire Authority 29 May 2019	J Johnston, Chief Fire Officer, Lancashire Fire and Rescue Service 28 May 2019	K Mattinson CPFA, Treasurer, Lancashire Combined Fire Authority 28 May 2019

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

This page is deliberately left blank until the audit it completed

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

This page is deliberately left blank until the audit it completed

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

This page is deliberately left blank until the audit it completed

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

This page is deliberately left blank until the audit it completed

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

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

- To approve the Statement of Accounts.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2019.

In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

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

K Mattinson CPFA	Nikki Hennessy
Treasurer to the Combined Fire Authority	Chair of Audit Committee
30 July 2019	30 July 2019

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

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

Notes		2018/19 Gross Expenditure £000	2018/19 Gross Income £000	2018/19 Net Expenditure £000	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000
	Continuing operations:						
1	Service Delivery	30,979	(3,306)	27,673	29,581	(2,173)	27,408
1	Strategy and Planning	8,196	(516)	7,680	8,084	(618)	7,466
1	People and Development	1,604	-	1,604	1,303	-	1,303
1	Corporate Services	4,272	(60)	4,212	4,224	(59)	4,165
1	Fire-fighters Pensions	1,242	-	1,242	1,138	-	1,138
1	Overheads	39,427	(1,784)	37,643	6,436	(1,790)	4,646
1	Net Cost of Services	85,720	(5,666)	80,055	50,766	(4,640)	46,126
	Loss on disposal of non current assets			(68)			(13)
	Financing & investment income & expenditure						
8	Interest payable and similar charges			1,479			1,576
15	Pensions interest cost and expected return on pensions assets			20,276			21,005
8	Interest receivable and similar Income			(358)			(267)
	Taxation and non-specific grant income						
	Taxation on NW FireControl			1			1
	Council tax			(29,440)			(28,233)
	Revenue Support Grant			(9,262)			(10,659)
	Non-domestic rates redistribution			(15,405)			(14,605)
	Capital grant income			(563)			-
	Business rates S31 grant			(946)			(511)
	Deficit/(Surplus) on the provision of services			45,769			14,421
	(Surplus)/Deficit on revaluation of non-current assets			(4,539)			(5,167)
18	Actuarial (gains)/losses on pensions assets and liabilities			19,884			(10,730)
	Other comprehensive income & expenditure			15,345			(15,896)
	Total Comprehensive Income and Expenditure			**61,114**			**(1,476)**

MOVEMENT IN RESERVES STATEMENT 2018/19

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

	General fund	Earmarked reserves	Total General Fund Balance	Capital funding reserve	Capital grant unapplied reserve	Capital receipts reserve	Total usable reserves	Unusable reserves	Total Authority reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018 carried forwards	7,899	7,884	15,783	17,745	121	1,582	35,230	(720,870)	(685,640)
Movement in reserves during 2018/19									
Surplus/(Deficit) on provision of services	(45,769)	-	(45,769)	-	-	-	(45,769)	-	(45,769)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	(15,345)	(15,345)
Total comprehensive income and expenditure	(45,769)	-	(45,769)	-	-	-	(45,769)	(15,345)	(61,114)
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,268	-	4,268	-	-	-	4,268	(4,268)	-
Amortisation of intangible assets	134	-	134	-	-	-	134	(134)	-
Disposal of assets	(68)	-	(68)	-	-	68	-	-	-
Capital grants unapplied	(484)	-	(484)	-	484	-	-	-	-
Provision for the repayment of debt	(337)	-	(337)	-	-	-	(337)	337	-
Capital expenditure charged against General Fund Balance	(2,030)	-	(2,030)	-	-	-	(2,030)	2,030	-
Amount by which the Code and the statutory pension costs differ	44,741	-	44,741	-	-	-	44,741	(44,741)	-
Amount by which the Code and the statutory collection fund income differ	207	-	207	-	-	-	207	(207)	-
	46,433	-	46,433	-	484	68	46,984	(46,984)	-
Net increase/decrease before transfers to earmarked reserves	664	-	664	-	484	68	1,216	(62,329)	(61,114)
Transfers (to)/from earmarked reserves	(164)	136	(28)	-	-	-	(28)	28	-
Transfers (to)/from capital funding reserve	-	-	-	(352)	-	-	(352)	352	-
Transfers (to)/from accumulated absences adjustment account	(49)	-	(49)	-	-	-	(49)	49	-
Net tfr (to)/from earmarked reserves	(213)	136	(77)	(352)	-	-	(429)	429	-
Increase/(Decrease) in the year	451	136	587	(352)	484	68	787	(61,900)	(61,114)
Balance at 31 March 2019 carried forwards	8,350	8,020	16,370	17,393	605	1,649	36,017	(782,770)	(746,754)

MOVEMENT IN RESERVES STATEMENT 2017/18

	General fund	Earmarked reserves	Total General Fund Balance	Capital funding reserve	Capital grant unapplied reserve	Capital receipts reserve	Total usable reserves	Unusable reserves	Total Authority reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2017 carried forwards	10,512	7,455	17,967	16,633	947	1,501	37,048	(724,164)	(687,116)
Movement in reserves during 2017/18									
Surplus/(Deficit) on provision of services	(14,421)	-	(14,421)	-	-	-	(14,421)	-	(14,421)
Other comprehensive income and expenditure	-	-	-	-	-	-	-	15,896	15,896
Total comprehensive income and expenditure	(14,421)	-	(14,421)	-	-	-	(14,421)	15,896	1,476
Adjustments between accounting basis and funding basis under regulations									
Charges for depreciation and impairment of non-current assets	4,264	-	4,264	-	-	-	4,264	(4,264)	-
Amortisation of intangible assets	122	-	122	-	-	-	122	(122)	-
Disposal of assets	(60)	-	(60)	-	-	81	21	(21)	-
Capital grants applied	321	-	321	-	(826)	-	(505)	-	-
Provision for the repayment of debt	(388)	-	(388)	-	-	-	(388)	388	-
Capital expenditure charged against General Fund Balance	(1,493)	-	(1,493)	-	-	-	(1,493)	1,493	-
Amount by which the Code and the statutory pension costs differ	13,251	-	13,251	-	-	-	13,251	(13,251)	-
Amount by which the Code and the statutory collection fund income differ	(39)	-	(39)	-	-	-	(39)	39	-
	15,979	-	15,979	-	(826)	81	15,234	(15,234)	-
Net increase/decrease before transfers to earmarked reserves	1,558	-	1,558	-	(826)	81	813	663	1,476
Transfers (to)/from earmarked reserves	(652)	428	(224)	-	-	-	(224)	224	-
Transfers (to)/from capital funding reserve	(3,528)	-	(3,528)	1,112	-	-	(2,416)	2,416	-
Transfers (to)/from accumulated absences adjustment account	9	-	9	-	-	-	9	(9)	-
Net tfr (to)/from earmarked reserves	(4,171)	428	(3,743)	1,112	-	-	(2,631)	2,631	-
Increase/(Decrease) in the year	(2,613)	428	(2,184)	1,112	(826)	81	(1,818)	3,293	1,476
Balance at 31 March 2018 carried forwards	7,899	7,884	15,783	17,745	121	1,582	35,230	(720,870)	(685,640)

BALANCE SHEET

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

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

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

This Statement of Accounts is that upon which the Auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the Authority at 31 March 2019 and its income and expenditure for the year then ended.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
30 July 2019

Nikki Hennessy
Chair of Audit Committee
30 July 2019

CASH FLOW STATEMENT

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

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

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.

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

2017/18	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
Net cost of Services	53,975	(17)	53,958	**(7,832)**	**46,126**
Other income and expenditure	(53,968)	-	(53,968)	22,263	(31,706)
Surplus on provision of services	7	(17)	(10)	**14,430**	**14,420**
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			(7,899)		

1a Note to the Expenditure and Funding Analysis

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

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

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts **2017/18**	Transfer to/(from) Earmarked Reserves £000	**Total to arrive at amount charged to the General Fund £000**	Adjustments for Capital Purposes (1) £000	Net change for Pensions Adjustments (2) £000	Other Differences (note 3) £000	**Total adjustment between funding and accounting basis £000**
Service Delivery	-	**-**	(16)	(7,869)	57	**(7,828)**
Strategy and Planning	-	**-**	(41)	(750)	(125)	**(916)**
People and Development	-	**-**	-	137	-	**137**
Corporate Services	-	**-**	-	55	-	**55**
Firefighters Pensions	-	**-**	-	-	-	**-**
Overheads	(17)	**(17)**	1,597	582	(1,459)	**720**
Net cost of Services	(17)	**(17)**	**1,540**	**(7,845)**	**(1,527)**	**(7,832)**
Other income and expenditure	-	**-**	(13)	21,005	1,270	**22,263**
Total	(17)	**(17)**	**1,527**	**13,160**	**(257)**	**14,430**

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

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

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

2 Fire Authority Costs

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

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

3 Employees Emoluments

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

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

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

Senior Officers Remuneration

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

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

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

* The 2017/18 allowances have been restated to include the actual amounts reported to HMRC as taxable benefits since the approval of the 2017/18 Statement of Accounts.

Exit Packages

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

Exit package cost band (including special payments)	2018/19 Number of departures agreed	2018/19 Total cost of exit packages in each band £000	2017/18 Number of departures agreed	2017/18 Total cost of exit packages in each band £000
£0 - £20,000	-	-	-	-
£20,001 - £40,000	-	-	1	38
£40,001 - £60,000	-	-	-	-
	-	-	1	38

4 External Auditors Fees

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

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

5 Related Parties Transactions

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

Central Government

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

Members

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

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

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

- roles with voluntary organisations;

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

Officers

In 2018/19 one Senior Officer declared a family relationship with a Senior Officer in one of our major precepting authorities. Although there are significant transactions between the two parties in relation to business rates (£0.402m received from the precepting authority, 2017/18: £0.393m), and council tax (£2.317m received from the precepting authority, 2017/18 £2.221m), the administration of these is strictly defined by a statutory framework.

6 Property, Plant & Equipment

Details on policies can be seen in note 29, Accounting Policies.

Movements during the Year

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

Movements in Property, Plant and Equipment analysed into their different categories for 2018/19 are:

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

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

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

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

On 31 March 2019 the Authority undertook a full revaluation review on approximately one fifth of its land and buildings, and in addition carried out a desktop revaluation exercise on the remainder, which resulted in a net revaluation gain of £6.706m (2017/18: net gain of £7.629m).

The comparative figures detailing the movement during 2017/18:

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

Heritage Assets

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

Capital Expenditure

The total capital expenditure in 2018/19 is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

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

* Includes NWFC balances

Details of Assets Held

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

	2018/19	2017/18
Headquarters	1	1
Fire Stations (including Area Headquarters)	39	39
Training School	1	1
Fire houses	1	1

Capital Commitments

Capital projects often take several years to complete, which means that the Authority is committed to capital expenditure in following years arising from contracts entered into at the Balance Sheet date, but on which all or part of the capital work has yet to be undertaken. The estimated capital expenditure committed at 31 March 2019 is £2.806m (2017/18: £0.545m).

7 Intangible Assets

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

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

8 Financial Instruments

Categories of Financial Instruments

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

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

Income, Expense, Gains and Losses

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

Fair Values of Assets and Liabilities

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

- Estimated ranges of interest rates at 31 March 2019 of 4.48% to 4.49% for loans from the PWLB
- This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced amount.
- The fair value of the PFI liabilities has been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated bond yield rates.

The fair values calculated are as follows:

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

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

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

9 Debtors

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

10 Cash & Cash Equivalents

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

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

The call account balance is placed with Lancashire Country Council. Interest on these balances is paid to the Authority. The investments have an amortised cost at 31 March 2019 equal to their nominal value.

11 Creditors

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

12 Provisions

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

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

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

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

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

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

13 Other Long Term Liabilities

Other long term liabilities comprise the following:

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

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

Balfour Beatty Fire and Rescue NW Limited

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

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

All PFI Schemes

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

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

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

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

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

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

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

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

The Authority participates in two pension schemes:

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

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

Transactions Relating to Post-employment Benefits

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

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

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

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

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

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

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

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

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

Retirement benefits payable to pensioners – the net payments made in respect of the Firefighter pension scheme. Note, the fund also received a top up grant of £16.511m (2017/18: £15.195m) in addition to these, which can be seen in the Firefighters Pension Fund Account on page 63.

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

Assets and Liabilities in Relation to Post-employment Benefits

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

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

Reconciliation of the fair value of the scheme assets:

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

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

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

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

Scheme history

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

The liabilities show the underlying commitments that the Authority has in the long-term to pay post-employment benefits. The total liability of both schemes, £864.889m, has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £746.754m (2017/18: £685.640m). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

- Any surplus/deficit on the Local Government Pensions scheme will be recovered by annual repayments from/to the fund, as assessed by the scheme actuary, throughout the agreed surplus recovery period. Although the year end deficit above shows a £7m deficit, the latest actuarial valuation was actually a surplus of £4.3m as at 31 March 2016, which is being recovered by annual receipts of £0.3m from the pension fund.

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

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

	Local Government Pension Scheme*	Firefighters' Pension Scheme	Total
	£000	£000	£000
Estimated contributions	1,156	3,846	5,002

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

Basis for Estimating Assets and Liabilities

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

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

The Local Government Fund liabilities have been assessed by Mercer Resource Consulting Limited, an independent firm of actuaries. Estimates for the LGPS are based on a 'roll forward approach' which updates the last full valuation as at 31 March 2016, taking account of any significant changes since this. The LGPS figures also include a past service cost in relation to a potential increase in liabilities as a result of the recent legal action surrounding the transitional protection arrangements – see note 19 Contingent Liabilities for more details.

The principal assumptions used by the actuary have been:

	NWFC Local Government Pension Scheme		LCFA Local Government Pension Scheme		Uniformed Firefighters' Pension Scheme	
Mortality assumptions:	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018
Longevity at 65 for current pensioners:						
Men	22.3	22.3	22.8	22.7	22.0	21.9
Women	24.5	24.5	25.5	25.4	22.0	21.9
Longevity at 65 for future pensioners:						
Men	23.9	23.9	25.1	25.0	23.9	23.9
Women	26.5	26.5	28.2	28.0	23.9	23.9
Rate of CPI inflation	2.40%	2.30%	2.20%	2.10%	2.35%	2.30%
Rate of increase in salaries	2.70%	2.60%	3.70%	3.60%	4.35%	4.30%
Rate of increase in pensions	2.40%	2.30%	2.30%	2.20%	2.35%	2.30%
Rate for discounting scheme liabilities	2.50%	2.70%	2.40%	2.60%	2.45%	2.55%
Take up of option to convert annual pension into retirement lump sum	50%	50%	50%	50%	50%	50%

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

	Quoted in active market	Assets at 31 March 2019		Assets at 31 March 2018 Restated*	
		Fair Value £000	%	Fair Value £000	%
Equities	Y	1,094	1.8	889	1.6
Bonds	Y	3,876	6.3	3,256	5.8
Property	N	5,726	9.3	5,229	9.4
Cash/Liquidity	N	395	0.6	(140)	(0.3)
Other	N	50,692	82.0	46,676	83.5
		61,783	100.0	55,910	100.0

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

History of experience gains and losses

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

Local Government Pensions Scheme (LGPS) inc NWFC:	2018/19	2017/18	2016/17	2015/16	2014/15
	%	%	%	%	%
Experience Gains and losses on assets	8.0	1.0	12.3	1.3	6.9
Gains and losses on liabilities	(5.5)	4.2	16.6	(6.2)	14.9

Firefighters Pension Scheme:	2018/19	2017/18	2016/17	2015/16	2014/15
	%	%	%	%	%
Experience Gains and losses on assets	-	-	-	-	-
Gains and losses on liabilities	2.5	(0.9)	14.4	(4.8)	11.0

Total of LGPS and Fire Pension Schemes:	2018/19	2017/18	2016/17	2015/16	2014/15
	%	%	%	%	%
Experience Gains and losses on assets	8.0	1.0	12.3	1.3	6.9
Gains and losses on liabilities	1.9	(0.6)	14.6	(4.9)	11.2

16 Usable Reserves

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

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

17 Transfers (to)/from Earmarked Reserves

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

18 Unusable Reserves

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

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

Revaluation Reserve

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

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

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

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

Capital Adjustment Account

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

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

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

Pensions Reserve

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

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

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

Collection Fund Adjustment Account

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

	Council Tax		Business Rates		Total	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000	£000	£000
Balance at 1 April	(601)	(734)	(103)	70	(704)	(664)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	127	133	-	-	127	133
Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	-	-	80	(173)	80	(173)
Balance at 31 March	(474)	(601)	(23)	(103)	(496)	(704)

Accumulated Absences Adjustment Account

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

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

19 Contingent Liability

Municipal Mutual Insurance Limited

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

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

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

Norman v Cheshire Fire & Rescue Service

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

Firefighters Pension Scheme Transitional protection arrangements (McCloud / Sargeant)

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

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

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

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

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

20 Post Balance Sheet Events

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

21 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

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

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

Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.012m of the £0.177m balance is past due date for payment. On a prudent basis the Authority has created a provision for bad debts to cover any potential loss arising from this, which currently stands at £0.007m and which is considered sufficient for this purpose.

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

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

Liquidity Risk

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

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

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

Market risk

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

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

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

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

Our financial assets are the cash deposits placed in a call account with Lancashire County Council. Interest received on them is linked to the base rate. Each working day the balance on the Authority's Call Account is invested to ensure that the interest received on surplus balances is maximised. The average balance within this account throughout the year was £27.3 million and, with no change in that level of balances, a 1% increase in the market rate of interest, if sustained over the whole year would give rise to additional interest earned of £273,000 and a 1% fall would give a reduction of the same amount.

22 Local Authority Controlled Company – NW FireControl Limited

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

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

An assessment for Group Accounting requirements has taken place during 2018/19 in respect of NW FireControl Limited. This is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom Based on International Financial Reporting Standards (IFRS 10, 11 & 12).

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

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

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

*Net assets includes the future pension liabilities under FRS17 reported by the Cheshire Pension Fund actuaries.
All figures are shown net of VAT.
Transactions between LFRS and NW FireControl Limited include Invoices Raised by NW FireControl to LFRS for the Control Room service and use of facilities in the building.
The Company's Financial Statements can be obtained from Companies House with the deadline for submission as 31/12/2019 for the final audited 2018/19 accounts.

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

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

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

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

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

25 Reconciliation of liabilities arising from financing activities -

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

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

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

The items in the Authority's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.1m for every year that useful lives had to be reduced.
Fair Value Measurements	When the fair values of financial liabilities cannot be measured based on quoted prices in active markets, their fair value is measured using the Discounted Cash Flow (DCF) model.	The Authority uses the DCF model to measure the fair value of its PFI liabilities. Fair value is calculated using the bond yield rates against the annual net cash flows. It is estimated that a 1% decrease in the discount rate would increase the fair value by £1.7m.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consulting actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied to each scheme.	The effects on the net pension liability of changes in individual assumptions can be measured as follows: A 0.1% increase in these assumptions has the following effect on the net pension liability: • Discount rate – decrease of £17.7m • Inflation rate – increase of £14.9m • Pay growth – increase of £2.1m

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

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

27 Accounting Standards issued but not yet adopted

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

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

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

28 Expenditure and Income Analysed by Nature

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

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

29 Accounting Policies

a General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom – 2018/19, supported by International Financial Reporting Standards (IFRS).

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

b Accruals of income and expenditure

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

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

c Cash & cash equivalents

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

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

d Charges to Revenue for Non-Current Assets

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

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

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

e Employee Benefits

Benefits Payable During Employment

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

Post Employment Benefits

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

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

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

<u>The Firefighters' Scheme</u>

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

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

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

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

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

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

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

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

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

f Financial Liabilities

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

g Financial Assets measured at amortised cost

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

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

h Government Grants & Contributions

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

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

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

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

i Non Current Assets

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

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

i) Recognition

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

ii) Measurement

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

All other Non current assets are valued at historic cost.

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

iii) Impairment

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

iv) Disposals

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

v) Depreciation

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

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

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

vi) Componentisation

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

vii) Derecognition

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

viii) Non Current Assets Held for Sale

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

j Private Finance Initiative (PFI) and similar contracts

Current status

The Authority has two existing PFI arrangements:

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

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

Accounting for PFI

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

Recognition of assets and liabilities

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

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

Minimum Revenue Provision (MRP)

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

Unitary Payment

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

Deductions from the Unitary Payment

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

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

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

k PFI Equalisation Reserve

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

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

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

l Provisions

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

m Reserves

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

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

n Contingent liabilities

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

O Going Concern

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

FIRE FIGHTERS PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

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

Net Assets Statement	2018/19 £000	2017/18 £000
Net current assets and liabilities:		
- pensions top up grant receivable from central government	(3,765)	(4,275)
- other current assets and liabilities (other than liabilities and other than benefits in the future)	3,765	4,275
Net current assets at the end of the year	**-**	**-**

Firefighters Pension Fund Notes

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

The above statement shows the financial position of the total fire fighters pension fund account, showing that as at 31 March 2019 the Authority is owed £3.765m (2017/18: £4.275m) by the Home Office in order to balance the account. The fund statements do not take account of liabilities after the period end, the Authority's long term pension obligations can be found in the Authority's main statements, and also note 15 to the accounts. The fund was established under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The statement was prepared according to International Financial Reporting Standards (IFRS).

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

Contribution Rates

Under the firefighters pension regulations the contribution rates during 2018/19 were as follows:

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

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

Benefits Paid

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

Home Office Grant

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

Future Liabilities

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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