

Status of Report:

Public

Agenda Item:

7

Meeting: Combined Fire Authority

Date: 29th September 2016

Subject: Statement of Accounts and Annual Governance Statement 2015/16

Report By: The Treasurer

Author: Adam Stretton (Area Manager Finance and ICT)

For: Decision

1. Purpose

The purpose of this report is to present the External Auditor's opinion on the Combined Fire Authority's (CFA) financial statements and submit the 2015/16 Statement of Accounts for approval and to present the Annual Governance Statement for approval and publication with the final Statement of Accounts.

2. Recommendations

The CFA is asked to:

- a) Note the ISA 260 report presented by KPMG.
- b) Approve the Letter of Representation.
- c) Agree the Statement of Accounts 2015/16.
- d) Approve the Annual Governance Statement 2015/16.

3. Executive Summary

- 3.1. The CFA's External Auditors, KPMG, have completed the audit of the CFA accounts in line with the Code of Audit Practice and Auditing Standards. They plan to issue an unqualified opinion on the financial statements and Value for Money (VFM) conclusion.
- 3.2. KPMG are required to report to the CFA all uncorrected misstatements which they have identified during the course of their audit, other than those of a trivial nature. The audit has not identified any material adjustments and there were no uncorrected misstatements.
- 3.3. KPMG have given recognition that the quality of the financial statements and supporting working papers was good.
- 3.4. Approval and ownership of the Annual Governance Statement (AGS) is required at a corporate level. The AGS is published with the final Statement of Accounts.

KPMG report that the AGS complies with 'Delivering good governance in Local government: A Framework' published by CIPFA/SOLACE and that it is not misleading or inconsistent with information from the audit of the financial statements.

4. Report Detail

Statement of Accounts

- 4.1. The Account and Audit Regulations (England) 2015 state that the accounts must be published with the audit opinion and certificate and be approved by Members by 30th September. The Statement of Accounts was submitted to KPMG on the 29th June 2016.
- 4.2. The External Auditors opinion contained in the ISA 260 report (attached as **Appendix 1**) covers the issues arising from the audit of the financial statements based on processes outlined on the External audit Plan 2015/16. KPMG anticipate issuing an unqualified audit opinion on the 2015/16 financial statements with no material adjustments identified and no uncorrected misstatements.
- 4.3. The report outlines the results of the work undertaken as part of the Value for Money (VFM) risk assessment. This concludes that the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 4.4. The Authority is required to provide the External auditor with representations on specific matters such as the ongoing concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. KPMG have provided a draft Letter of Representation (attached with the ISA 260 report at **Appendix 1**) which requires our confirmation to them that we have disclosed all relevant related parties. The letter needs to be agreed by the CFA and signed by the Treasurer.
- 4.5. KPMG identified an audit risk in relation to the new firefighters' pension scheme in their 2015/16 External Audit Plan. There are no matters of any significance arising as a result of audit work in this key area.
- 4.6. At the date of this report, audit work on the financial statements is substantially complete but subject to finalisation in a number of areas. The areas are identified on page 8 of the ISA260 report at **Appendix 1**.
- 4.7. The ISA260 report includes one key issue and recommendation, which is to plan for an earlier closedown and preparation of the financial statements in 2016/17. A new deadline of 31st May comes into effect from 2017/18.
- 4.8. The Statement of Accounts for 2015/16 attached at **Appendix 2** reports that the final revenue and capital outturn is in accordance with the position reported to the CFA at its meeting of the 22nd June 2016.

Annual Governance Statement

- 4.9. The AGS (attached as **Appendix 3**) has been reviewed by the Corporate Governance Committee at its meeting of the 14th September 2016. The Committee have recommended that the CFA approve the document and for its publication with the Statement of Accounts. KPMG report outlines that in their view, the AGS complies with guidance issued by CIPFA/SOLACE in June 2007. If approved, the AGS will be signed on behalf of the CFA by the Chief Fire and Rescue Officer and the Chair of the CFA.
- 4.10. The Head of Internal Audit Service Annual Report and annual opinion on the overall adequacy and effectiveness of the control environment 2015/16, was approved by the Corporate Governance Committee at its meeting of the 14th September 2016. The assurances contained in this opinion are incorporated into the AGS.

5. Report Implications / Impact

5.1. *Legal (including crime and disorder)*

- a) The Accounts and Audit (England) Regulations 2015 require that the responsible financial officer (the Treasurer) certifies the initial Statement of Accounts within three months of the financial year end i.e. by 30th June. The Accounting Code of Practice on Local Authority Accounts largely dictates the format of the Statement of Accounts. The Statement of Accounts 2015/16 meets this statutory obligation. The Statement of Accounts must be published by 30th September preferably with an auditor's certificate or opinion.
- b) There is a statutory requirement in England under the revised Accounts and Audit (England) Regulations 2015, for a Local Authority to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the CFA relies on, to be brought together and reviewed, from both a departmental and corporate view.

5.2. *Financial (including value for money, benefits and efficiencies)*

KPMG as our new External Auditors from 2015/16 agreed an annual audit fee of £29,247.

5.3. *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

- a) The initial Statement of Accounts was prepared based on the final Revenue and Capital Outturn 2015/16 report. KPMG commenced their audit on the accounts over two weeks in July and August to try and ensure that any changes necessary prior to the final publication of the Statement of Accounts could be reported and completed on time.
- b) The Accounts and Audit (England) Regulations 2015 require the approved AGS to accompany the Statement of Accounts. The statement is separate from the

accounts for the purposes of external audit.

5.4. ***Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

- a) The External Auditors have commented that both the quality and timeliness of the draft financial statements and supporting working papers was good.
- b) The arrangements and changes for the posts of Treasurer, Monitoring Officer and Chief Fire Officer are reflected within the AGS.

5.5. ***Environmental***

Hard copies of the Annual Report (which will include the Statement of Accounts) are only produced on request. An electronic copy is available on the CFA's website.

5.6. ***Impact upon Our Plan Objectives***

- a) It is important to ensure that the budget set by the CFA reflects and enables progress to be made against the CFA's corporate objectives. The Medium Term Financial Plan for 2016/20 reflects the CFA's strategic plan, "Our Plan". It also reflects national and regional strategies and policies at the time of issue.
- b) One of the CFA's corporate aims is achieving excellence in managing our Service. This is underpinned by the objective of efficiency and provision of a Value For Money service. The production of the AGS supports both the aim and objective.

6. **Background Papers**

- a) External Audit Plan 2015/16 (Corporate Governance Committee Report – 23rd March 2016)
- b) Final Outturn 2015/16 (CFA Report – 22nd June 2016)
- c) Annual Governance Statement 2015/16 (Corporate Governance Committee Report – 14th September 2016)
- d) Head of Internal Audit Service Annual Report 2015-16 (Corporate Governance Committee Report – 14th September 2016)

7. **Appendices**

- 1. Draft ISA 260 and Letter of Representation
- 2. Combined Fire Authority 2015/16 Statement of Accounts
- 3. Draft Annual Governance Statement 2015/16



External Audit Report 2015/16

**Leicester, Leicestershire and Rutland
Combined Fire Authority**

Draft September 2016



Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Cardoza, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.



Section one: Introduction



This document summarises:

- The key issues identified during our audit of the 2015/16 financial statements for the year ended 31 March 2016 for the Authority; and
- Our assessment of the Authority's 2015/16 arrangements to secure value for money (VFM).

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Leicester, Leicestershire and Rutland Combined Fire Authority ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on-site work for this took place during August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now almost completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



Section two: Headlines



This table summarises the 2015/16 headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's 2015/16 financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We are pleased to report that our audit of your 2015/16 financial statements has not identified any material adjustments and there are no uncorrected misstatements. We have agreed a number of minor presentational changes to the accounts with the Finance team. Overall, the quality of the financial statements was good and we would like to thank the Finance team for their hard work in producing the accounts.
Key financial statements audit risks	We identified one key financial statements audit risk relating to the new firefighters' pension scheme in our 2015/16 External Audit Plan issued in March 2016. We have worked with officers throughout the year to discuss this risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in this key risk area.

Section two

Headlines (cont.)



This table summarises the 2015/16 headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Accounts production and audit process	<p>We received complete draft 2015/16 accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers.</p> <p>We will debrief with the Finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority officers who were available throughout the audit visit to answer our queries.</p>
VFM conclusion and risk areas	<p>We identified the following 2015/16 VFM risk as part of our VFM risk assessment.</p> <ul style="list-style-type: none">— Financial resilience <p>We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work on this VFM risk area.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified 2015/16 VFM conclusion by 30 September 2016.</p>



This table summarises the 2015/16 headline messages for the Authority.

Sections three and four of this report provide further details on each area.

Completion

At the date of this report our audit of the financial statements is substantially complete subject to finalisation of the following areas:

- Finalisation of the work on the VFM conclusion;
- Related party transactions;
- Minimum Revenue Provision;
- Tax and NNDR;
- Usable and Non Usable Reserves;
- Receiving assurance from the auditor of Leicestershire Pension Fund; and
- Checking and agreeing the final set of financial statements.

You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We have provided a draft of this representation letter to the Area Manager - Finance. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2015/16 financial statements.



Section three: Financial Statements

Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

The wording of your 2015/16 Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's 2015/16 financial statements following approval of the Statement of Accounts by the Authority on 29 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level (see Appendix two for more information on materiality) for this year's audit was set at £500k. Audit differences below £25k are not considered significant.

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management and we have identified no uncorrected misstatements above our reporting threshold.

There were no significant audit adjustments to the accounts but we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a small number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in March 2016, we identified one significant risk affecting the Authority's 2015/16 financial statements. We have almost completed our testing of this area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risk that is specific to the Authority.

Significant Risk 1

— New pension fund

A new pension fund has been introduced for firefighters from 1 April 2015 and the 2015/16 accounts will now include this scheme as well as the previous two pension schemes and the injury benefit scheme, adding to the complexity of the disclosure. The new arrangements provide for different membership categories, depending on factors such as age and the number of years to retirement. There is a risk that the data provided to the actuary for such factors is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.

— Findings

- We have reviewed the Authority's arrangements for providing the relevant information for the actuarial assessment. The Authority provides limited information to the pension fund administrators at Leicestershire County Council but we have agreed this information to source data. We have also agreed the pension disclosures in the accounts to the information from the independent actuary and have found no errors.
- We have liaised with the auditor of the pension fund at Leicestershire County Council who will provide assurance on the operation of the pension fund. This work is still underway but we do not anticipate any issues arising.

Significant audit risks



We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16 we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus



In our External Audit Plan 2015/16, presented to you in March 2016, we identified one area of audit focus. This was not considered as a significant risk but an area of importance where we would carry out some audit procedures to ensure there is no risk of material misstatement.

We have now reviewed this issue. The table sets out our findings for the area of audit focus.

Area of focus 1

Changes to accounting standards

Our audit will consider changes to accounting standards, for example the measurement at fair value of any surplus assets which are not held for sale and when you should recognise a liability for a levy imposed by a government.

Findings

The Authority does not have any surplus assets and we have not identified any issues in respect of the recognition of liabilities from levies.

Judgements



We always consider the level of prudence within key judgements in your 2015/16 financial statements. We have summarised our view below using the following range of judgement:



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
Provisions	3	3	£670k (PY: £349k)	The Authority's 2015/16 provision balance comprises the losses expected for insurance, redundancy and for business rate appeals. We consider the overall accounting basis to be appropriate.
Property, Plant and Equipment (valuations / asset lives)	3	3	£49 million (PY: £47 million)	We have agreed PPE valuations carried out in 2015/16 back to valuation certificates, carried out by the Authority's valuer. We have concluded that the Authority values its assets in accordance with accounting standards and the Code,
Pensions	3	3	£369 million (PY: £402 million)	The 2015/16 pension deficit has decreased over the year mainly due to the actuarial assumptions that have been applied. We consider the overall accounting basis to be appropriate.

Accounts production and audit process



We have noted that the quality of the accounts and the working papers met the required standard.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales Officers dealt efficiently with audit queries.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has effective processes for accounts production. The Authority must now aim to bring forward the production of the accounts in readiness for the new deadlines whilst also ensuring that presentational errors are kept to a minimum. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2016. The deadline of 30 June will end after the submission of the 2016/17 accounts.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in March 2016 and discussed with the Area Manager - Finance, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers dealt efficiently with audit queries, responding in a reasonable time

Additional findings in respect of the control environment for key financial systems

We have not identified any matters to report to you in respect of the control environment for key financial systems.



We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2015/16 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leicester, Leicestershire and Rutland Combined Fire Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Area Manager - Finance for presentation to the Authority meeting. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.



Section four: Value for Money



Our 2015/16 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

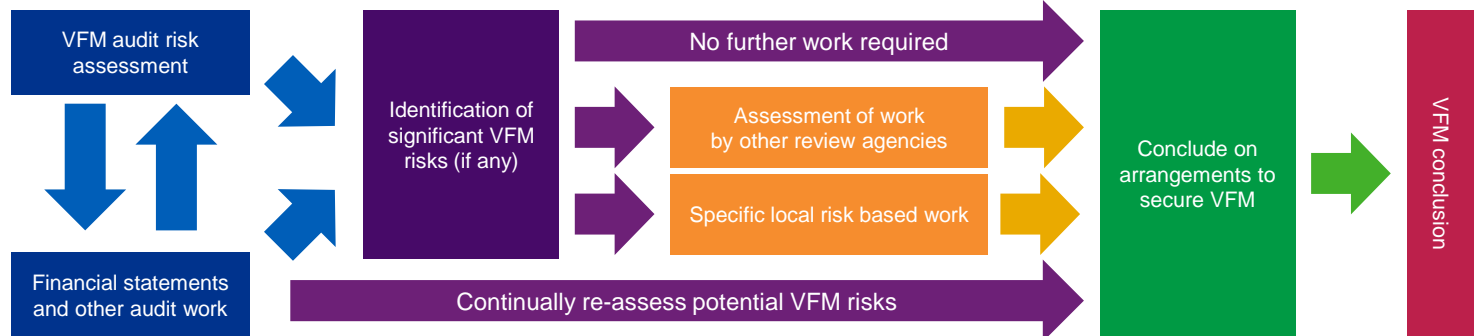
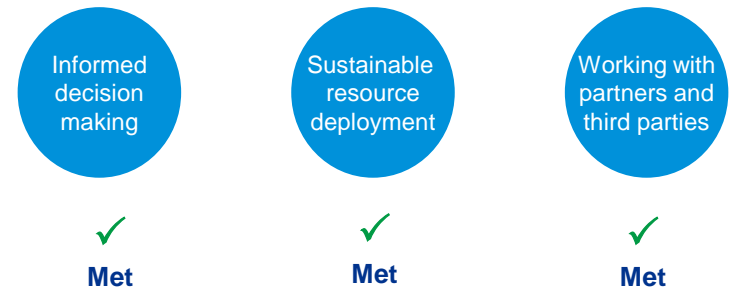
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Specific VFM Risks



We have identified a specific 2015/16 VFM risk around financial resilience. In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

We have undertaken some work to date in response this risk.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.


Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out some work on this risk. This work is now almost complete and we also report on this below.

Specific VFM Risks (cont.)



Key VFM risk	Risk description and link to VFM conclusion	Assessment
 <p>Financial resilience</p>	<p>Financial Resilience</p> <p>The Government's Autumn Statement and Spending Review indicated its intention to change funding sources over the next few years, with less reliance on revenue support grant and increasing dependence on business rates income. The Authority has anticipated the reductions in Government funding in budget forecasts, as well as inflationary pressures. It has also recognised the risk that funding changes may result from the change of responsibility for fire authorities from the Department for Communities and Local Government (DCLG) to the Home Office. A small underspend is anticipated at the end of 2015/16 and although the latest Government settlement is more favourable than expected for the Authority, there is still a need maintain the focus on achieving annual efficiencies over the medium term to secure on-going financial resilience.</p>	<p>We have reviewed the Authority's Medium Term Financial Plan (MTFP) and outturn for 2015/16. The key findings are:</p> <ul style="list-style-type: none"> — The Authority recognises the budget pressures it faces in the medium term, most notably reductions in external funding provided centrally which are predicted to reduce significantly over the next five years. The savings made to date mean that, on current projections, the Authority needs to make fewer savings than originally anticipated and these amount to £0.3 million per year over the life of the MTFP. — The actual outturn for 2015/16 is a surplus of £1.8 million which is higher than the budgeted surplus due to favourable variances in all areas of expenditure as savings have been achieved more quickly than anticipated. Over half of the savings achieved are judged to be recurrent in future years. — The Authority's general reserves target is £1.8 million. The balance at the end of 2015/16 was £7 million in earmarked reserves and a £2.3 million general fund balance. The Authority therefore holds a reasonable level of reserves for future requirements and has taken the decision to increase the general reserves target to £3 million for future years. — Government grant income is based on known settlement funding or reasonable assumptions concerning future entitlement. We have agreed amounts included in the MTFP for revenue support grant and baseline funding to the local government finance settlement from DCLG. — The Authority has articulated its approach to budgeting, council tax increases and reserves which we have reviewed. Whilst the Authority has made savings over a number of years, it recognises that strategic solutions are required to achieve the level of savings required in future. It has established its strategic direction for achieving savings which include management, premises and fleet reviews and collaboration with other emergency services. — The Authority flags a number of risks and uncertainties associated with its MTFP, including uncertainties in funding, council tax projections and the transfer of responsibility for fire authorities to the Home Office which could result in a change to the funding regime. We have reviewed the assumptions contained within the MTFP and concluded they are reasonable.



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Independence and objectivity

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
		3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	<p>Accounts Production Process</p> <p>The deadline for the production of the accounts is moving to 31 May with effect from 2017/18. The Authority now only has one more year to bring forward the production of the accounts in light of this change. This will need to be done whilst ensuring that the quality of the accounts is not diminished.</p> <p>Recommendation</p> <p>The closedown plan for 2016/17 should allow for an earlier closedown and preparation of the financial statements.</p>	<p>The recommendation is agreed. Arrangements are being made to work with KPMG and regional partners to review ways of achieving this.</p> <p>Responsibility – Area Manager – Finance</p> <p>Due date – March 2017</p>

Appendix two

Audit differences

This Appendix sets out the audit differences.

The financial statements have been amended for all the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Authority meeting). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

There were no uncorrected misstatements.

Corrected audit differences

Material misstatements

There were no material misstatements.

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and we understand that the financial statements will be amended for all of them. We did not identify any significant adjustments to the accounts but a number of minor amendments focused on presentational improvements have been made to the draft financial statements. The Finance team are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £500k for the Authority's accounts.

We have reported all audit differences over £25k for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same materiality level as reported in our External Audit Plan 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £500k which equates to around 1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Authority

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £25k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from this. These matters should be discussed with the Authority meeting.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Leicester, Leicestershire and Rutland Combined Fire Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix three

Audit Independence

Audit Fees

Our scale fee for the audit as outlined in our 2015/16 audit plan was £29,247 plus VAT (£38,996 in 2014/15). The actual fee was in line with the scale fee.

Non-audit services

We have not carried out any non audit services in 2015/16.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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*protecting our communities*

Our Ref:
Your Ref:
Please ask for:
Date: 20th September 2016

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Dear

This representation letter is provided in connection with your audit of the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority and the Group from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Authority on 29th September 2016

Yours faithfully,

Nicholas Rushton
Chair of the Combined Fire Authority

Alison Greenhill
Treasurer of the Combined Fire Authority

Appendix to the Authority Representation Letter of Leicester, Leicestershire and Rutland Combined Fire Authority: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority

and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

DRAFT - ANNUAL GOVERNANCE STATEMENT 2015/16

1. INTRODUCTION

Leicester, Leicestershire and Rutland Combined Fire Authority (the CFA) is responsible for ensuring that its business is conducted in accordance with prevailing legislation, regulation, government guidance and that proper standards of stewardship, conduct, probity and professional competence are set and adhered to by all those working for and with the Authority. This ensures that the services provided to the residents of Leicester, Leicestershire and Rutland are properly accounted for and delivered economically, efficiently and effectively.

The CFA 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. The CFA publicises all agenda, meeting papers and minutes on our website. We also publish an Annual Report and Statement of Assurance which includes information on outcomes, achievements, satisfaction and progress against key priorities and plans and provides assurance that the CFA is meeting its statutory and legal requirements. We continue to support our communication to social media, which includes a Facebook Page and an increasing use of Twitter both corporately and at Station level.

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

2. WHAT IS GOVERNANCE?

Corporate Governance is defined as how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. The CFA's governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled. It enables the CFA to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The CFA has approved and adopted a local Code of Corporate Governance, which is consistent with the six core principles of the Chartered Institute of Public Finance and Accountancy's (CIPFA) / the Society of Local Authority Chief Executives (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website www.leicestershire-

fire.gov.uk and this statement explains how the CFA has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to conduct a review of the effectiveness of the system of internal control and prepare and publish an Annual Governance Statement (AGS).

3. WHAT THE AGS TELLS YOU

The AGS provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Code and how we obtain assurance that these are both effective and appropriate. It is written to provide the reader with a clear, simple assessment of how the governance framework has operated over the past financial year and to identify any improvements made, and any weaknesses or gaps in our current arrangements that require addressing. The main aim of the AGS is to provide the reader with confidence that the Authority has an effective system of internal control that manages risks 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.

4. HOW THIS STATEMENT HAS BEEN PREPARED

There is a statutory requirement in England, for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the Authority relies on, to be brought together and reviewed. The governance framework has been in place at the CFA for the year ended the 31st March 2016 and up to the date of approval of the Annual Report and Statement of Assurance and the Statement of Accounts.

5. THE CFA's GOVERNANCE FRAMEWORK

The Authority's Constitution provides the framework for its decision making processes and sets out the detailed procedures and codes of conduct by which Members and Officers operate to achieve the Authority's objectives. It defines the CFA's political structure, roles and responsibilities of the CFA, its Committees, Members and Officers and the rules under which they operate.

The CFA currently promotes its purpose and vision through "Towards 2020 Our Corporate and Integrated Risk Management Plan 2016-2020 ('Our Plan'). This plan will set out what our priorities are, what changes will be implemented and how the changes will impact on our communities. It is available to view at: www.leicestershire-fire.gov.uk. The plan needs to be considered in conjunction with the Budget Strategy 2016/17 to 2019/20 which

was agreed by the CFA in February 2016. This highlights the current financial risk to the Authority and identifies efficiency proposals in order to achieve a balanced budget by 2019/20.

Members of the CFA also need to satisfy themselves that the Authority's Statement of Accounts have been prepared in accordance with best practice. This is achieved through receiving the annual External Audit Report which also gives an opinion on how the CFA is achieving Value for Money.

In July 2015 the CFA reviewed the governance arrangements and dispensed with both the Policy Committee and the Overview and Scrutiny Committee. They are replaced by a Corporate Governance Committee and an Employment Committee. The function of the Corporate Governance Committee is to promote and maintain high standards within the CFA in relation to its Code of Governance. The Committee ensures that; an adequate risk management framework and control environment is in place; the CFA's financial and non-financial performance is monitored, there is proper oversight of the financial reporting process and that the CFA's Treasury Management arrangements are monitored regularly. The minutes of the Committee are reported to the CFA. The Employment Committee will make recommendations to the CFA on appointments to the roles of the Chief and Deputy Chief Fire and Rescue Officer, the Monitoring Officer and the Treasurer. The Committee will hear grievances and disciplinary proceedings against these officers. A new Chief Fire and Rescue Officer was appointed from the 1st June 2016. The CFA has also established and conducted meetings of a Pension Board for the Firefighters' Pension Schemes as required by legislation.

The Authority also reviewed its political management arrangements, and the Leader of the County Council and elected mayor of the City Council have been made Chair and Vice-Chair respectively. By appointing leadership from the highest political level in the area, the constituent councils have signalled their determination to drive forward an ambitious programme of change and modernisation.

To ensure quality of service and efficient use of resources, and furthermore to ensure the information needed to review service quality effectively and regularly, the Authority has established a Performance Management Framework, which requires each Directorate to produce annual service plans, setting out their objectives and targets in support of the Authority's policy priorities. These plans, with "Our Plan", form the basis of the Authority's Annual Report and Statement of Assurance.

To ensure effective leadership throughout the Authority, Members and Officers work together to deliver a common purpose with clearly defined functions and roles. The CFA's Constitution includes details of the role and

responsibilities of the Committees, the full Authority and Officers and the rules under which they operate. The CFA agreed a revised Constitution in December 2015. This was based upon recommendations proposed from an independent report. The CFA noted that the Director of Finance and Corporate Services had agreed to terminate his employment with the Authority and that the statutory Treasurer role and responsibilities was re-assigned to the Director of Finance at Leicester City Council. Furthermore, the CFA's Solicitor and Monitoring Officer agreed to his termination of employment with the Authority and the statutory Monitoring Officer role and responsibilities was re-assigned to the Monitoring Officer at Leicestershire County Council. Following the retirement of the Monitoring officer at the County Council in March 2016, a temporary reassignment of responsibilities for the Monitoring Officer role was taken up by the Monitoring Officer at Leicester City Council. This temporary arrangement remained in place until the appointment of a permanent post-holder at the County Council. The reversion of responsibilities back to the County Council was noted at the CFA meeting of the 22nd June 2016.

As Chief Financial Officer, the Director of Finance at the City Council is responsible for the proper administration of the Authority's financial affairs. The Authority's financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Chief Financial Officer is a key member of the Senior Management Team and has available a suitably qualified Finance function. The Chief Financial Officer is actively involved in and able to bring influence to bear on all material business decisions to ensure immediate and long term implications, opportunities and risks, are fully considered and in alignment with the Budget Strategy. The former Chief Fire and Rescue Officer was a director of Forge Health Limited, a wholly owned subsidiary of the CFA. New directors have been appointed following his departure, to ensure that appropriate governance arrangements are maintained.

The success of the CFA's services relies substantially on the contribution of staff to the planning, development and delivery of services. The CFA recognises that the value of staff contributions will be enhanced through: clear communication of the Authority's expectations; nurturing and developing staff skills and abilities; encouraging, celebrating and rewarding achievements; providing a safe, healthy, supportive and inclusive working environment and by treating all people fairly and with respect. The Chief Fire and Rescue Officer is responsible for determining the terms and conditions on which staff hold office, including remuneration, disciplinary and grievance procedures and for making effective arrangements to ensure compliance with employment legislation and where necessary employment codes of practice.

The People Strategy priorities have been established to promote an organisational culture that delivers excellent services. It is focused on providing the Authority's workforce with opportunities and experiences to maximise their full potential and enables managers to recruit, manage, develop, reward and retain the right people with the right skills and attributes. Engagement of the workforce is a key strand of the People Strategy and the CFA uses various well established means of communicating and consulting with staff to ensure understanding and, to secure commitment in terms of delivering services and managing change. A process of identifying individual employee targets and development needs has been established and implemented. Within this process, every employee must receive an annual Personal Development Review with an optional six monthly review if requested. A staff survey was undertaken in April and May 2016 and the findings were presented to the Senior Management Team. Performance information is made available to the public through the Authority's website, primarily through the production of the annual report.

The importance of a strong ethical framework and culture has always been recognised by the CFA. The revised Constitution agreed by the CFA in December 2015 included both the Members' and Officers' Codes of Conduct. Members have attended briefings and training. The values embedded in the Codes of Conduct define the standards of behaviour for all Members and staff. The system of internal financial control is based on a framework of regular management information, financial procedure rules and standard financial instructions, contract procedure rules, administration arrangements (including segregation of duties), management supervision and a system of delegation and accountability.

The Authority's scheme of members' allowances was developed after consultation with the Independent Remuneration Panels of our constituent Authorities. Reports on members' allowances are public and the CFA publicises information in accordance with Members' Allowance Regulations together with details of allowances received by every member. Declarations of personal and prejudicial interests are recorded in minutes of meetings which are available on the CFA's website, as is the members' Register of Interests including gifts and hospitality which is also made available for public inspection. Members receive induction and training is offered regularly. The CFA's political groups monitor the performance of their membership.

The Authority actively recognises the necessity of compliance with relevant laws, regulations, internal policies and procedures. The Monitoring Officer monitors reports to ensure probity of decision making and that legal advice is included where necessary and appropriate and is fully involved in policy development and the Scrutiny process. The Authority's whistle-blowing policy is available to all staff. The CFA's constitution states that it is the policy of the CFA to take seriously all complaints and concerns made by members of the

public and to thoroughly investigate them. A summary of the current complaints, concerns and compliments procedure is available on the Authority's website.

An updated Anti-Fraud and Corruption Statement has been incorporated into the Constitution. An Internal Audit review in 2015/16 found that the CFA had reached a good level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014).

All Officers receive an Induction Pack on commencement of employment at the Authority which includes information on Conditions of Service and other various personnel subjects. Officers are required to declare all gifts and hospitality over £25 and this is also made available for public inspection on the CFA's website.

The CFA takes account of feedback to review outcomes so they reflect progress and wider changes. Procedures are in place to identify trends and to follow up and report on the outcomes of complaints. This will inform and improve service delivery.

We work in partnership and collaboration where it is beneficial to do so and ensure appropriate arrangements are in place to safeguard us against unacceptable levels of risk. The Authority's significant partnerships are underpinned by Partnership Agreements and governance frameworks to ensure there is a common vision for their work. As part of the Authority's governance arrangements, guidance has been provided on assessing partnership risks. It is the Authority's aim to ensure that all future and new agreements, partnerships and collaborations continue to include a section on Governance and risk management arrangements.

The CFA already makes available a large amount of information through several means, but is also committed to meeting its obligations to give rights of public access to information held by Local Authorities, through the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. This legislation helps the Authority to create a climate of openness and dialogue with all its stakeholders, which in turn will help to increase public confidence in the way that the Authority is operating. The CFA complies with all transparency requirements of the Department for Communities and Local Government (DCLG) and the Localism Act 2011. The Authority's Pay Policy Statement ensures the Authority manages its policy on pay and benefits in a fair, non-discriminatory, consistent and transparent way.

6. REVIEW OF EFFECTIVENESS

The CIPFA Governance Framework details the key sources of typical systems and processes that an Authority can adopt to ensure it has an effective system of internal control. Using this guidance, the CFA can provide assurance that it has effective governance arrangements which includes:

- Providing effective internal audit
- Effective risk management arrangements
- A Corporate Governance Committee
- Independent External Audit review

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the CFA's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The CFA 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 senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit Service's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

The Monitoring Officer has a duty to monitor and review the operation of the Constitution and to report to the Authority on matters which could be considered as unlawful or give rise to maladministration. As part of this process the Monitoring Officer ensures compliance with the local Code of Corporate Governance.

Formal assurance is provided by Directors that the policies and procedures are being applied in the initiation, development and delivery of service plans. Where gaps have been identified, action plans have been drafted and responsibility for implementation assigned.

The effectiveness of the Authority's key financial and ICT controls and parts of its wider internal control environment are examined through the work of our internal audit provider, Leicestershire County Council's Internal Audit Service (LCCIAS). The annual plan is based on an assessment process that focuses resources on higher risk areas. The plan for 2015/16 was produced from a risk assessment and consultation with the former Director of Finance and Corporate Services. It was agreed and reported to the Overview and Scrutiny Committee in March 2015. Internal Audit findings are reported to the Senior Management Team, together with recommendations for improvement and agreed action plans. Specific follow up checks are undertaken by LCCIAS to

ensure that all agreed high importance recommendations have been implemented. All Internal Audit findings are reported to the Corporate Governance Committee.

The CFA's Internal Audit Service arrangements conform to the governance requirements and core responsibilities of the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2010). The Head of Internal Audit Service (HoIAS) at LCCIAS works with the Chief Financial Officer to give advice and promote good governance throughout the organisation. The HoIAS leads and directs the Internal Audit Service so that it makes a contribution to and meets the needs of the Authority and external stakeholders, escalating any concerns and giving assurance on the CFA's control environment.

LCCIAS has adopted the principles of the Public Sector Internal Audit Standards (PSIAS) introduced from April 2013. An Internal Audit Charter, formally defining the purpose, authority and responsibility of the internal audit activity, was approved by the CFA at its meeting of the 24th September 2015.

During 2015-16, the HoIAS conducted a further self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices sufficiently conform to the PSIAS. Whilst a few specific areas were identified where action is needed these are not significant deviations to the PSIAS. Whilst there has been movement towards full conformance, for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

The PSIAS require the HoIAS to form an opinion on the overall adequacy and effectiveness of the CFA's control environment i.e. the framework of governance, risk and control. Based on the combined sum of individual audit opinions and other assurances gained throughout the year (e.g. attendance at Committees) the following conclusions have been drawn:

- a) On governance, on the whole, nothing of such significance, adverse nature or character has come to the HoIAS' attention and as such reasonable assurance is given that the CFA's governance arrangements during 2015-16 were robust.

Nevertheless, a separate isolated issue will be considered by the full CFA once the report has been issued as final

- b) On risk management, management agreed to implement relevant audit recommendations, which will mitigate risk. Therefore reasonable assurance is given that risk is managed

- c) On financial (and ICT) controls, reasonable assurance can be given that the CFA's core financial practices during 2015/16 remained strong.

Nevertheless, a separate isolated issue will be considered by the full CFA once the report has been issued as final.

The Chief Financial Officer reviews this information along with other relevant information such as budget monitoring reports in compiling this statement. The work of LCCIAS and the wider financial aspects of corporate governance and performance management are examined each year by the Authority's External Auditors. Further assurance is provided by regular reports produced by independent review bodies such as the National Audit Office. We assess ourselves against the CIPFA 'Code of Practice on Managing the Risk of Fraud and Corruption' to gain better knowledge of fraud exposure and direct potential improvement. We have a 'zero tolerance' approach to fraud or corruption perpetrated against us.

The CFA's Code of Corporate Governance sets out a requirement to ensure that an effective risk management system is in place. Risk management is about identifying and managing risks effectively, helping to improve performance and aid bold decision making relating to the development of services and the transformation of the wider organisation. The Service's Corporate Risk Management Guidance provides the framework within which these risks can be managed.

Risk management is undertaken as part of the normal service planning and project management process. The Senior Management Team reports progress on mitigating the risks in the Organisational Risk Register to the Corporate Governance Committee. This register captures strategic risk, which by its nature has a long time span. Regular performance monitoring reports are also brought to the Corporate Governance Committee showing progress against 'Our Plan'.

The risk management system was updated and was subject to an external independent peer review in 2015-16. A LCCIAS audit of the risk management framework returned substantial assurance. A report using the updated format was presented to the Corporate Governance Committee at its meeting of the 23rd March 2016.

Improvements have been made to the service's external website to improve the end user experience. The new website publishes new pages which are innovative, dynamic and easy to navigate, contain all required relevant and legislative information and include social media integration. The website has the capability to provide real time reporting of statistical/performance information.

KPMG were appointed as external auditors by Public Sector Audit Appointments Ltd in April 2015. This appointment will commence from the 2015/16 accounts and remain until completion of the 2017/18 accounts.

The CFA's Constitution includes Standing Financial Instructions, Contract Procedure Rules and Schemes of Delegation. These translate into key operational internal controls such as: control of access to systems, offices and assets; segregation of duties; reconciliation of records and accounts; decisions and transactions authorised by nominated officers; and production of suitable financial and operational management information. These controls demonstrate governance structures in place throughout the Authority which contribute to the production of the Annual Statement of Accounts. The CFA's external auditors KPMG review these arrangements and detail findings from their planned audit work to those charged with governance.

Under International Auditing Standards, KPMG are required to report to those charged with governance (the CFA) on the significant findings from their audit before giving their audit opinion, the purpose of which is to highlight any significant matters. The last report presented by PwC concluded that no significant audit and accounting issues were identified and that there were no material deficiencies in internal control, leading to an overall unqualified opinion. The audit involves obtaining evidence about the amounts and disclosures in the Statement of Accounts are sufficient to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or error. For 2014/15, the CFA's Statement of Accounts presented a true and fair view, in accordance with the relevant codes and regulations.

The CFA is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements. Having regard to the guidance on the specified criteria by the Audit Commission, PwC are satisfied that, in all significant respects, the CFA put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended the 31st March 2015.

As Chief Fire and Rescue Officer and the Chair of the CFA we have been advised on the implications arising from the review of the effectiveness of the governance framework by the Chief Financial Officer (the Treasurer) and Monitoring Officer, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

7. GOVERNANCE ISSUES AND AREAS FOR IMPROVEMENT

The reviews of effectiveness undertaken by both Internal and External Audit have advised that the Authority's overall financial management and corporate governance arrangements during 2015/16 are sound. The review of the Authority's governance arrangements has been undertaken in order to produce this statement and has highlighted a number of governance issues (detailed below) that require attention and the action being taken to address these issues: -

- The pressure on public spending will continue to present new pressures for the CFA. In order to obtain some certainty over future funding, the CFA can opt to accept the Government's offer of a four year financial settlement by submitting and getting approved an 'Efficiency Plan' to the Home Office by October 2016. The CFA will identify within the Efficiency Plan, how it delivers services as efficiently as possible and how it plans to meet the efficiency targets for the period to 2019/20. We will continue to undertake extensive public consultation and involvement on proposed changes and will continue to communicate with, and publish results of our consultations with stakeholders on future plans and proposals.
- Whilst the Organisation Risk, Corporate and Project Risk Registers are in place, there is a constant need to further develop risk management processes to ensure risk management principles are embedded and applied consistently throughout the Authority's operations. The CFA is a consortium member of the Fire and Rescue Indemnity Company (FRIC) to provide cover for low value losses previously covered by conventional insurance arrangements. FRIC aims to reduce the frequency and cost of risk related incidents through improved risk management. Based on management information from a new claims database, the CFA will participate in the management of a consortium action plan to identify areas, causes and costs of incidents. The CFA will support and work together with consortium members to identify methods to reduce incidents and develop best practice.
- Information risk is a growing risk area with the potential for fines for loss of personal data and damages to an organisation's reputation. The CFA will continue to review and strengthen its data protection where necessary to prevent such loss and damage.
- Collaboration between the three regional CFAs on both the Agresso Financial System and the Tri-Service Control project has led to collaborative steering groups being established. The CFA will ensure that these enable good governance and collective responsibility.

- The CFA is the lead accountable body for the Braunstone Blues Project, which started during 2015/16. Activity will be coordinated in a multi-agency team arrangement with Police, Health and the City Council. The project aims to reduce operational demand and improve citizen outcomes by delivering a fully coordinated range of activities based on improving health, safety and security in the Braunstone area. The CFA has agreed an innovative partnership agreement that will lead to better identification of vulnerable persons and their needs through improved data sharing arrangements and transparency between the agencies.
- The Authority will ensure that it gives regard to new legislation due in 2016/17 that provides a 'Duty to Collaborate' with the Office of the Police and Crime Commissioner.
- Full conformance to the Public Sector Internal Audit Standards will strengthen the governance arrangements in relation to internal audit activity.
- To improve working relations between the Authority, Management and the Representative Bodies, it is proposed that members of the Representative Bodies are invited to attend and speak at senior management team meetings. This will promote inclusion and transparency of decision making.
- An audit of the Service Management's compliance with appropriate conditions of service, policies and procedures was considered by the CFA at its meeting of 29th September 2016 and actions agreed.

To the best of our knowledge, the governance arrangements, as defined above have been effectively operating during the year with areas for particular focus and attention in 2016/17 identified in Section 7. We propose over the coming year to take steps to address the above matters 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.

Furthermore, having considered all the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, we are satisfied that the CFA has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

Steve Lunn
Chief Fire and Rescue Officer/
Chief Executive Officer

Nicholas Rushton CC
Chairman of the CFA

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Copies of the Statement of Accounts and a large print version are available from the Service Headquarters at 12 Geoff Monk Way, Birstall, Leicester, LE4 3BU.
Tel; Leicester (0116) 2872241 or on our website.

NARRATIVE REPORT

The accounting statements contained in this booklet represent the Combined Fire Authority's (CFA's) accounts for the year ended the 31st March 2016. The accounts have been presented in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The accounts comprise the core financial statements, the names and purposes of which are described below:

Movement in Reserves Statement

This statement shows the movement in year on the different reserves held by the CFA, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the CFA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). This is different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting purposes. The Net Increase or 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 CFA.

Comprehensive Income and 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 by 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 the Movement in Reserves Statement (MIRS). The deficit on the provision of services is £8,550k (£11,412k in 2014/15).

Balance Sheet

This sets out the value of assets and liabilities of the CFA as at the 31st March 2016. The net assets of the CFA (assets less liabilities) are matched by the reserves held by the CFA. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the CFA may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the CFA is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example 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 MIRS line 'Adjustments between accounting basis and funding basis under regulations'.

The net worth of the CFA is £34,886k (£31,317k 2014/15) excluding pensions - a deficit of £334,337k (£370,572k 2014/15) including pensions.

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the CFA during the reporting year. The statement shows how the CFA generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the CFA are funded by way of taxation and grant income or from the recipients of services provided by the CFA. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the CFA's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the CFA.

Summary of the year (Revenue)

The table below provides a comparison of revenue expenditure for the financial year ending the 31st March 2016 with the revised budget.

	Revised Budget £000	Actual £000	Variance £000
Employees	26,890	25,960	(930)
Premises	2,240	2,040	(200)
Transport	1,140	960	(180)
Supplies and Services	3,350	3,000	(350)
Capital Financing	2,464	2,451	(13)
Gross Expenditure	36,084	34,411	(1,673)
Controllable Income	(1,910)	(1,990)	(80)
Net Expenditure	34,174	32,421	(1,753)
Contribution (from)/to Specific Reserves	3,291	3,100	(191)
Net Expenditure after Specific Reserves	37,465	35,521	(1,944)
Contribution (from)/to General Fund	(2,355)	(2,241)	114
Total Expenditure	35,110	33,280	(1,830)

The accounts for 2015/16 show savings of £1,830k compared to the revised budget, before adjustments relating to reserves. The main areas of savings are as follows:

Operational pay (£660k), Control and Administrative pay (£150k), Training and other employee related costs (£100k), Repairs and Maintenance (£140k), Energy Costs (£70k), Vehicle Fuel (£80k), Car allowances (£40k) and non payment of Tri-Service Control system maintenance costs (£90k).

The main items of income (excluding funding income) are:

Secondment income (£281k), recovered costs (£248k), contributions received for the former Princes Trust Scheme (£120k), interest income (£32k), dividend from the subsidiary, Forge Health Limited (£53k) and radio mast income (£48k).

Summary of the year (Capital)

The table below provides a comparison of actual payments for the financial year ending the 31st March 2016 with the most recent updated capital programme.

	Updated Programme £000	Actual £000	Variance £000
Appliances/ Vehicles	50	4	(46)
Property	2,351	1,652	(699)
Equipment	137	86	(51)
IT and Communications	1,112	655	(457)
Total Expenditure	3,650	2,397	(1,253)

The Capital Programme variance mainly relates to ongoing projects that did not complete in 2015/16 but are scheduled for completion in 2016/17 (£711k). This is mainly due to the finalising of external works at a fire station at Castle Donington (£150k) and the ongoing system implementation of the Tri-Service Fire Control Project (£319k). The remaining variance (£542k) is mainly due to lower than budgeted construction costs at Castle Donington fire station (£185k) and the deferral of property work on other schemes pending a future conditions survey and premises review (£288k).

The majority of the expenditure in year relates to the refurbishment work for a new fire station at Castle Donington (£1,652k), work in relation to the new system for Fire Control (£411k) and ICT improvements (244k) which includes the implementation of a Wide Area Network (£112k).

Earmarked Reserves

Earmarked reserves have been created to support the CFA in managing future change and transition and to finance future Capital Programme expenditure so as to reduce or remove the requirement to borrow funds. Earmarked reserves are mainly funded by using amounts saved within the revenue budget.

The CFA has agreed to hold the sum of £3m of its revenue budget as a General Reserve from 2016/17.

Pension Funds

The Balance Sheet shows liabilities in respect of five pensions schemes provided for our staff:

The £9,493k liability (£15,899k in 2014/15) on the Local Government Pension Scheme (LGPS) is expected to be covered by increased levels of employer contributions.

The Firefighters' schemes are statutory unfunded schemes and the significant total liability of £359,730k (£385,990k in 2014/15) is a result of this position. There is no requirement, or legal powers, for the CFA to fund this deficit, and any costs not financed by future levels of employee or employer contributions will be met by grant from the Home Office (formerly Department of Communities and Local Government (DCLG)). More details on pensions can be found in note 36.

Borrowing

Public Works Loans Board (PWLB) borrowing has decreased to £14,478k (£15,728k in 2014/15), with no new PWLB borrowing in 2015/16 and two loans maturing. Total borrowing is less than originally anticipated in the 2015/16 budget when an authorised debt limit of £22,730k was set. There were no finance leases commenced during 2015/16 and repayments charged of £1,364k decreased the outstanding borrowing to £4,340k (£5,703k 2014/15) against an authorised lease limit of £6,377k.

Financing of capital expenditure has primarily been undertaken historically by procuring loans from PWLB, from finance leases available in the market, by capital grants from the Home Office (formerly DCLG), by using proceeds from sales of surplus capital assets or by using one-off excess funds such as underspends. The facility to borrow from other Local Authorities is used where appropriate.

Significant Provisions, Contingencies or Write Offs

Provisions are held for current insurance claims, approved redundancies likely to occur in the next financial year and for non-domestic rates appeals. Provisions are measured at the best estimate of the expenditure required to settle the obligation.

There are no contingencies or significant write offs in 2015-16.

Events After the Reporting Period.

There are no events after the reporting period to report.

Annual Performance

The Annual Report and Statement of Assurance 2015/16 highlights the work that the CFA has undertaken over the year and provides assurance that the CFA is meeting its statutory and legal requirements. It provides a full review of the CFA's operational performance against Key Corporate Indicators (KCIs). The KCIs also include data on sickness absence for both operational and support staff. The Annual Report and Statement of Assurance 2015/16 provides a direct link to these accounts.

Property Revaluation

The property revaluation undertaken the 31st March 2016 identified £1,208k revaluation increases and £486k revaluation losses. £380k negative revaluations which were not covered by positive values held in the revaluation reserve from previous revaluations. The net increase of £722k is 1.48% of the value of the entire property portfolio (excluding property assets in construction). The repairs and maintenance budget and the refurbishment plan in the capital programme help keep the value of the portfolio as high as the economy permits.

Future Issues

In order to address the impact of the current economic climate, the following actions have been identified;

The Medium Term Financial Plan (MTFP) 2015-18 identified significant predicted reductions in future funding based on published estimates from the Office of Budget Responsibility. In response to this an employee reduction programme was approved and savings achieved from reduced headcount, reductions in overtime, temporary secondments of firefighters to other authorities and voluntary redundancy. In addition, an updated Integrated Risk Management Plan was prepared and substantial consultation on this plan was undertaken. The CFA reviewed the outcomes of this consultation and agreed a budget strategy for the period 2016/17 to 2019/20 at its meeting of the 10th February 2016. The budget strategy is based upon a four year funding settlement and shows that a balanced budget can be achieved over this period without the need for compulsory operational redundancies. The four year settlement is conditional and is subject to the submission of an 'Efficiency Plan'. The Plan will be submitted to the Home Office by October 2016. The Home Office took over as the government department responsible for Fire Services in early 2016. This plan will highlight how the service seeks to deliver its services as efficiently as possible. The plan will focus on the ways that this can be achieved, in particular through collaboration with local partners, the promotion of an efficient, modern force with flexible working practices and by the promoting of a culture where efficiency is embedded in all we do. Collaboration activity will incorporate planned legislative changes that place a 'Duty to Collaborate' between the CFA and the Office of the Police and Crime Commissioner. In support of the approach to maximising savings, the CFA also agreed as part of the budget strategy 2016/17 to 2019/20 to commission three strategic reviews in respect of management structure, use of the buildings within the CFA's estate and the vehicle fleet. The budget strategy committed to a savings target of £350k for shared services and accommodation by the end of the plan.

The CFA continues to work closely with all major precepting authorities within Leicester, Leicestershire and Rutland, to determine and monitor the impact of government funding policy with regards to Business Rates and Council Tax Benefits.

The CFA agreed along with all the major precepting authorities to operate a pooling agreement for business rates levies and safety net payments for 2015/16. The pool generated a total surplus of £2.7m in 2015/16 of which £2m is allocated to the Leicester and Leicestershire Enterprise Partnership in support of growth opportunities in the local economy. Of the total remaining balance in the pool of £1.4m, £29k is attributable to the CFA. The pooling arrangement will continue into 2016/17.

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation and begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU. The effects of this on Local Authorities are unknown as yet.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE CFA'S RESPONSIBILITIES

The CFA is required to;

- (i) make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the CFA that officer is the Treasurer,
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets,
- (iii) approve the Statement of Accounts.

These accounts were approved by the Treasurer to the CFA on the 29th September 2016.

Nicholas Rushton

CHAIR OF THE COMBINED FIRE AUTHORITY

THE TREASURER'S RESPONSIBILITIES

The Treasurer is responsible for the preparation of the CFA's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Treasurer has:

- (i) selected suitable accounting policies and then applied them consistently,
- (ii) made judgements and estimates that were reasonable and prudent,
- (iii) complied with the local authority Code,
- (iv) kept proper accounting records which were up to date,
- (v) taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Combined Fire Authority as at the reporting date and of its income and expenditure for the year ended the 31st March 2016.

Alison Greenhill

TREASURER OF THE COMBINED FIRE AUTHORITY

29th September 2016

Independent auditor's report to the members of Leicester, Leicestershire and Rutland Combined Fire Authority

We have audited the financial statements of Leicester, Leicestershire and Rutland Combined Fire Authority for the year ended 31 March 2016 on pages 9 to 43. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement which accompanies the financial statements does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on Leicester, Leicestershire and Rutland Combined Fire Authority's arrangements for securing economy, efficiency and effectiveness

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Leicester, Leicestershire and Rutland Combined Fire Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Leicester, Leicestershire and Rutland Combined Fire Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Leicester, Leicestershire and Rutland Combined Fire Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Leicester, Leicestershire and Rutland Combined Fire Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

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

Andrew Cardoza

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

29th September 2016

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance £000	Earmarked General Fund Reserves £000	Total Usable Reserves £000	Unusable Reserves £000	Total CFA Reserves £000
Balance as at the 31st March 2014		4,131	1,492	5,623	(339,403)	(333,780)
Deficit on the provision of services		(11,412)	0	(11,412)	0	(11,412)
Surplus on revaluation of Property, Plant and Equipment assets	22	0	0	0	725	725
Actuarial gain on pension assets/liabilities	36	0	0	0	(26,105)	(26,105)
Other Comprehensive Income and Expenditure:		0	0	0	(25,380)	(25,380)
Total Comprehensive Income and Expenditure		(11,412)	0	(11,412)	(25,380)	(36,792)
Adjustments between accounting basis and funding basis under regulations	7	12,758	0	12,758	(12,758)	0
Net Increase before Transfers to Earmarked Reserves		1,346	0	1,346	(38,138)	(36,792)
Transfers to or from Earmarked Reserves	8	(1,374)	1,374	0	0	0
Increase/(Decrease) in 2014/15		(28)	1,374	1,346	(38,138)	(36,792)
Balance as at the 31st March 2015		4,103	2,866	6,969	(377,541)	(370,572)
Deficit on the provision of services		(8,550)	0	(8,550)	0	(8,550)
Surplus on revaluation of Property, Plant and Equipment assets	22	0	0	0	710	710
Actuarial loss on pension assets/liabilities	36	0	0	0	44,075	44,075
Other Comprehensive Income and Expenditure		0	0	0	44,785	44,785
Total Comprehensive Income and Expenditure		(8,550)	0	(8,550)	44,785	36,235
Adjustments between accounting basis and funding basis under regulations	7	10,981	0	10,981	(10,981)	0
Net Increase before Transfers to Earmarked Reserves		2,431	0	2,431	33,804	36,235
Transfers to or from Earmarked Reserves	8	(4,163)	4,163	0	0	0
Increase/(Decrease) in 2015/16		(1,732)	4,163	2,431	33,804	36,235
Balance as at the 31st March 2016		2,371	7,029	9,400	(343,737)	(334,337)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	Note	2014/15		
		Gross Expenditure	Gross Income	Net Expenditure of Continuing Operations
		£000	£000	£000
Community Fire Safety		4,757	(315)	4,442
Firefighting and Rescue Operations		31,063	(4,859)	26,204
Fire Service Emergency Planning and Civil Defence		690	(22)	668
Corporate and Democratic Core		763	(38)	725
Non distributed costs		6	0	6
Cost of services		37,279	(5,234)	32,045
Other operating expenditure	9	0	(99)	(99)
Financing and investment income and expenditure	10	16,747	(85)	16,662
Taxation and non-specific grant income and expenditure	11	0	(37,196)	(37,196)
Deficit on the provision of services				11,412
Items that will not be reclassified to the Deficit on the Provision of Services				
Surplus on revaluation of Property, Plant and Equipment assets	12			(725)
Remeasurement of the net defined benefit liability	36			26,105
Other Comprehensive Income and Expenditure				25,380
Total Comprehensive Income and Expenditure				36,792

	Note	2015/16		
		Gross Expenditure	Gross Income	Net Expenditure of Continuing Operations
		£000	£000	£000
Community Fire Safety		4,226	(290)	3,936
Firefighting and Rescue Operations		29,452	(4,513)	24,939
Fire Service Emergency Planning and Civil Defence		397	(20)	377
Corporate and Democratic Core		705	(36)	669
Non distributed costs		6	0	6
Cost of services		34,786	(4,859)	29,927
Other operating expenditure	9	0	(85)	(85)
Financing and investment income and expenditure	10	14,016	0	14,016
Taxation and non-specific grant income and expenditure	11	0	(35,308)	(35,308)
Deficit on the provision of services				8,550
Items that will not be reclassified to the Deficit on the Provision of Services				
Surplus on revaluation of Property, Plant and Equipment assets	22			(710)
Remeasurement of the net defined benefit liability	36			(44,075)
Other Comprehensive Income and Expenditure				(44,785)
Total Comprehensive Income and Expenditure				(36,235)

BALANCE SHEET

	Note	31 st March 2015 £000	31 st March 2016 £000
Property, Plant and Equipment	12	47,058	48,686
Intangible Assets	13	5	3
Long Term Assets		47,063	48,689
Short Term Investments	14	4,327	0
Assets Held for Sale	18	349	0
Inventories	15	266	292
Short Term Debtors	16	6,152	4,476
Cash and Cash Equivalents	17	441	4,015
Current Assets		11,535	8,783
Short Term Borrowing	14	(3,726)	(813)
Short Term Creditors	19	(4,000)	(3,098)
Short Term Provisions	20	0	(328)
Current Liabilities		(7,726)	(4,239)
Long Term Borrowing	14	(19,206)	(18,005)
Net Pensions Liability	36	(401,889)	(369,223)
Long Term Provisions	20	(349)	(342)
Long Term Liabilities		(421,444)	(387,570)
Net Liabilities		(370,572)	(334,337)
<u>Represented by:</u>			
General Fund		4,103	2,371
Earmarked General Fund Reserves	8	2,866	7,029
Total Usable Reserves		6,969	9,400
Pension Reserve	22	(401,889)	(369,223)
Revaluation Reserve	22	8,540	9,250
Capital Adjustment Account	22	15,706	16,257
Collection Fund Adjustment Account	22	196	233
Accumulated Absences Account	22	(94)	(254)
Total Unusable Reserves		(377,541)	(343,737)
Total Reserves		(370,572)	(334,337)

The notes on pages 13 to 43 form part of the financial statements.

The financial statements on pages 9 to 43 were authorised for issue on the 29th September 2016 by the Treasurer of the Combined Fire Authority.

CASH FLOW STATEMENT

	Note	2014/15		2015/16	
		£000	£000	£000	£000
Net deficit on the provision of services		11,412		8,550	
Adjustment to the net deficit on the provision of services for non-cash movement	23	(15,435)		(13,961)	
Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	23	1,495			
Net cash flows from Operating Activities			(2,528)		(5,411)
Investing Activities	24		2,768		(1,905)
Financing Activities	25		405		3,742
Net (increase)/decrease in cash and cash equivalents			645		(3,574)
Cash and cash equivalents at the beginning of the year			1,086		441
Cash and cash equivalents at the end of the year	17		441		4,015

NOTES TO THE ACCOUNTS

1 Accounting Policies

1.1 General principles

The Statement of Accounts summarises the CFA's transactions for the 2015/16 financial year and its position at the year-end of the 31st March 2016. The CFA is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require to be prepared in accordance with proper accounting practices. The practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, as applicable to Fire Authorities and the Service Reporting Code of Practice 2015/16 (SeRCOP), 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.

1.2 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:

Revenue from the sale of goods is recognised when the CFA transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the CFA.

Revenue from the provision of services is recognised when the CFA can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the CFA.

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 revenue or expenditure has been recognised but cash has not been received or paid, a debtor or 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.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the onset date and 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 CFA's cash management.

1.4 Prior Year Adjustments, Changes on Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the CFA's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. This policy is also applied to any material errors that may be identified.

1.5 Charges to Revenue for Non-Current Assets

Services and support services are charged with the following amounts to record the cost of holding non-current assets during the year:

- ~ depreciation attributable to the assets used
- ~ revaluation and impairment losses on assets where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- ~ amortisation of intangible assets.

The CFA is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the CFA in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP) or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

1.6 Employee Benefits

(i) Benefits Payable During Employment

Short-term employee benefits are those due to be settled wholly within twelve months of the year-end. They include wages, salaries, paid annual leave, paid sick leave and non-monetary benefits (e.g. provided cars) for current employees and are recognised in the year in which the employees render service. An accrual is made for the cost of holiday entitlement (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 based on wage and salary rates applicable in the period in which the employee takes the benefit. This accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out in the MIRS so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

(ii) Termination Benefits

Termination benefits are payable as a result of a decision by the CFA to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the CIES at the earlier of when the CFA is committed to the termination, or when the CFA recognises costs for a restructuring.

Where these involve the enhancement of pensions, the General Fund is required to be charged with the amount payable to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

(iii) Post-employment Benefits

Employees of the CFA are members of one of five pension schemes, all of which are accounted for as defined benefits schemes.

- The Local Government Pension Scheme (LGPS), for which Hymans Robertson calculate the liability as at the 31st March 2016 and which Leicestershire County Council administer.

- Four Firefighters' pension schemes, for which the Government Actuary's Department (GAD) calculate the liability:

- The Firefighters' Pension Scheme 1992
- The Firefighters' Pension Scheme 2006
- The Firefighters' Pension Scheme 2015
- The Firefighters' Injury Benefit Scheme

These schemes do not have the usual type of pension fund found in the private sector which uses investments to help meet scheme liabilities. The CFA is required to maintain a Firefighters' pension fund which:

- ~ receives employee and employer contributions and transfer values from other schemes, and
- ~ pays out benefits and transfer values to other schemes.

The CFA does not have the power to invest assets in the Firefighters' pension scheme as would normally be the case with a pension fund. If the fund has insufficient money to meet all of its pension liabilities, the Secretary of State will make up the shortfall; if the fund is in surplus, the Secretary of State will take the excess to cover any shortfall in the funds of other Authorities.

The liabilities attributable to the CFA are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 3.50% for the LGPS and 3.55% for the Firefighter's schemes.

The assets of the LGPS attributable to the CFA are included in the Balance Sheet at their fair value:

- quoted securities - current bid price
- unquoted securities - [professional estimate
- unitised securities - current bid price
- property - market value

The change in the pensions asset/liability is analysed into the following components:

Service cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the CIES to the services for which the employees worked
- past service costs - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset) - i.e. net interest expense for the CFA - the change during the year in the net defined liability (asset) that arises for the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the year - taking into account any changes into the net defined benefit liability (asset) during the year as a result of contribution and benefit payments.

Remeasurements comprising:

- the return on plan assets - excluding amounts included in the net interest on the net defined benefit liability/(asset) charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as other Comprehensive Income and Expenditure

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the CFA to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

(iv) **Discretionary Benefits**

The CFA also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the pension scheme.

1.7 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and adverse, that occur between the end of the year and the date that the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events

- those indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.8 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the CFA becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the CFA has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial Assets

Loans and receivables (investments) are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and subsequently carried at their amortised cost. The amortised cost will include any interest accrued and not received as at the Balance Sheet date. Where the interest is fixed for the term of the investment then the actual interest rate has been used to calculate interest receivable as this is the same as the effective interest rate. There are no transaction costs relating to investments. Annual credits to the Financing and Income and Expenditure line in the CIES for interest receivable are based in the carrying amount of the asset, multiplied by the effective rate of interest for the instrument. Financial assets and financial liabilities are presented gross in the Statement of Accounts, unless the Authority has a legal right to set off the amounts in which case the gross amounts are disclosed in a note.

1.9 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as due to the CFA at the date that the CFA satisfies the conditions of the entitlement to the grants/contribution and there is reasonable assurance that the monies will be received.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified or returned to the payer. Revenue grants are matched in the revenue accounts with the service expenditure to which they relate.

Grant towards general expenditure is credited to the Taxation and non-specific grant income in the CIES.

Grants that relate to capital expenditure are recognised in the year that the conditions of the grant are met, or immediately upon receipt if there are no conditions. These items are credited in the CIES under Taxation and Non-specific Grant Income. To avoid impact on the General Fund these items are reversed in the MIRS and transferred to either the Capital Grants Unapplied Reserve or the Capital Adjustment Account (CAA).

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance.

1.10 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the CFA as a result of past events, e.g. software licences, is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the CFA.

Intangible assets with an original cost in excess of £10k are measured initially at cost. The assets continue to be carried at amortised cost over its useful life to the relevant service line in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MIRS and posted to the CAA and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

1.11 Interests in Companies and Other Entities

The CFA has an interest in Forge Health that has the status of a wholly owned subsidiary. An annual review in accordance with paragraph 9.1.1.6 of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 has been undertaken and it is considered that this interest is not material therefore Group Accounts are not prepared. The income, expenditure, assets and liabilities of Forge Health Limited are not included in the main statements of the CFA. Note 27 gives details.

There are no interests in associates and jointly controlled entities.

1.12 Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the first in, first out (FIFO) costing formula.

1.13 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

CFA as Lessor

An agreement is under negotiation with East Midlands Ambulance Service (EMAS) for occupation of an area within Headquarters. An accrual has been made for the estimated income from mid-September 2015. There is an expectation that further arrangements of this type with other blue light services are likely to be considered as part of the estate review, in light of the Home Office duty to collaborate agenda.

CFA as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the CIES).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the CFA at the end of the lease period).

The CFA is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets.

Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the CAA in the MIRS for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from the use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.14 Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA SeRCOP. The total absorption costing principal is used whereby the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - The direct costs of members and their support.
- Non-distributed costs - The cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two categories are defined in SeRCOP and accounted for as separate headings in the CIES, as part of Net Expenditure on Continuing Services.

1.15 Property, Plant and Equipment

Assets that have a physical substance and are held for use in the provision of services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

All expenditure on the acquisition, creation or improvement of Property, Plant and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the CFA and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential (i.e. repairs and maintenance) or is under a £5k de-minimis limit is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended

The CFA does not capitalise any borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- offices and workshops - current value, determined as the amount that would be paid for the asset in its existing use (EUV)
- fire stations - due to the specialised nature of the asset EUV cannot be assessed so it is held at depreciated replacement cost (DRC)
- assets under construction - depreciated historical cost
- all other assets - current value, determined as the amount that would be paid for the asset under EUV.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued annually. The latest valuation exercise was carried out by Cameron Butler BLE (Hons) MRICS of FHP Property Consultants. The asset values used in the accounts are based on a certificate issued by FHP Property Consultants on all properties as at the 31st March 2016. Additions which are still under construction are included in the accounts at cost. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the CAA.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

buildings - straight line allocation over the useful life of the property as estimated by the valuer. Depreciation is not charged on Assets Held for Sale.

vehicles, plant, furniture and equipment - a percentage of the value of each assets in the Balance sheet, as advised by a suitably qualified officer

Where an item of Property, Plant and Equipment asset has a major component whose cost is significant in relation to the total cost of the item and the significant life is different, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the CAA.

Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts in the Capital Receipt Reserve, and currently are used for new capital investment, or set aside to reduce the underlying need to borrow (the CFR). Receipts are appropriated to the Reserve from the General Fund Balance in the MIRS.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MIRS.

1.16 Provisions, Contingent Liabilities and Contingent Assets

(i) Provisions

Provisions are made when an event has taken place that gives the CFA an obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the CFA becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less probable that the situation will occur (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

The CFA holds an insurance provision to cover the cost of known or likely claims relating to past events where it is anticipated that payment is likely to be made.

(ii) Contingent Liabilities

Contingent liabilities arise 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 CFA's control. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Where either of these circumstances are present, no provision is made in the Balance Sheet, but the circumstances are explained as a note to the accounts.

(iii) Contingent Assets

Contingent assets arise where an event has taken place that gives the CFA a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the entity's control.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.17 Reserves

The CFA sets aside specific amounts as reserves for future policy purposes or to cover contingencies. They are created by appropriating amounts out of the General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the MIRS 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, retirement and employee benefits and do not represent usable resources for the CFA – these reserves are explained in note 22.

1.18 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2 Accounting Standards Issued but not yet Adopted

For 2015/16 the following accounting policy changes that need to be reported relate to:

- ~ Amendment to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- ~ Amendment to IFRS Joint Arrangements (Accounting for Acquisitions of Interest in Joint Operations)
- ~ Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- ~ Amendment to IAS1 Presentation of Financial Statements (Disclosure Initiative)
- ~ The changes to the format of the CIES, the MIRS and the introduction of the new Expenditure and Funding Analysis
- ~ The changes to the format of the Pension Fund Account and the Net Assets Statement

The issues included in the Annual Improvements to IFRS 2012 - 2014 cycle are:

- ~ IFRS 3 Business Combinations (Accounting for Contingent Consideration in a Business Combination)
- ~ IFRS 8 Operating Segments (Aggregation of Operating Segments and some reconciliation issues)
- ~ IFRS 13 Fair Value Measurement (Short-term receivables and payables)
- ~ IAS 16 Property, Plant and Equipment (Revaluation method—proportionate restatement of accumulated depreciation)
- ~ IAS 24 Related Party Disclosures (Key management personnel)
- ~ IAS 38 Intangible Assets (Revaluation method - proportionate restatement of accumulated amortisation)

3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in these accounts, the CFA has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the accounts are:

- that despite a high degree of uncertainty about future funding levels for local government, the CFA has determined that at present, this is not sufficient to prevent the CFA continuing as a going concern
- impairment of investments will not be material
- the relationship with Forge Health Limited is treated as a wholly owned subsidiary in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. As the interests are not considered material, group accounts are not presented.
- that no contracts held by the CFA hold embedded leases
- that no major legal claims are in progress which could result in claims of a material value by or from the CFA.

4 Assumptions about the Future and other Major Sources of Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the CFA 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 CFA's Balance Sheet at the 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Heading	Description of uncertainty	Potential effect if results differ from assumption
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependant on them being repaired and maintained sufficient to keep them in a usable condition for this period. The current economic climate makes it uncertain that the CFA will be able to sustain its current spending on repairs and maintenance, which may impact the significant assumptions applied by the valuer in estimating the fair value and remaining useful lives of land and buildings.	If the useful lives of assets are reduced, depreciation increases and the carrying value of assets falls. It is estimated that the annual depreciation charge for buildings would increase by £295k for every year of reduction if applied to useful lives of the entire portfolio. 1% variation in the valuation would result in a difference of £402k to the value of land and buildings.
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements by the actuary relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement rates, mortality rates and expected returns on pension fund assets. On behalf of the CFA, the Local Government Pension Scheme employs the Actuary, Hymans Robertson, and the Firefighter's Pension Schemes are valued by Government Actuary's Department (GAD). These actuaries provide expert advice on assumptions to be applied.	The effects in the net pensions liability of changes in the individual assumptions can be measured. A 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £41,146k (£4,046k LGPS and £37,100k Firefighters schemes).
Arrears	At the 31 st March 2016, the CFA had a balance of trade debtors of £88k. There are no balances over 121 days outstanding. There was also a balance of £75k relating to retained firefighter pension buy-backs. These are all over 121 days outstanding as the employees concerned have been given a longer timescale to repay. Due to the terms of the buy-back, it is not anticipated that any of these debts will become irrecoverable.	If all debt over 121 days were to be irrecoverable, there would be no effect to the CFA CIES. All funds currently outstanding relate to the firefighters pensions scheme which are collected then passed on to the Home Office as part of the firefighters pension account settlement.

5 Material Items of Income and Expense

There are no material items of income and expenditure other than those disclosed elsewhere in these statements.

6 Events after the Reporting Period

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its financial effect on the reporting entity can be made.

7 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the CFA in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the CFA to meet future capital and revenue expenditure.

	2014/15	2015/16
	Usable Reserves - General Fund Balance	Usable Reserves - General Fund Balance
	£000	£000
<u>Adjustments to the Revenue Resources</u>		
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements		
Pensions costs (transfers to or (from) the Pension Reserve)	(13,337)	(11,409)
Council Tax and NDR (transfers to or (from) the Collection Fund)	1	37
Holiday Pay (transfers to or (from) the Accumulated Absences Reserve)	104	(160)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(2,878)	(1,607)
Total Adjustments to Revenue Reserves	(16,110)	(13,139)
<u>Adjustments between Revenue and Capital Resources</u>		
Transfer of non-current assets disposals (funded by a contribution from the Capital Receipts Reserve)	(46)	(222)
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,516	1,555
Capital expenditure financed from revenue balances (transfer from the Capital Adjustment Account)	242	121
Total Adjustments between Revenue and Capital Resources	1,712	1,454
<u>Adjustments to Capital Resources</u>		
Use of the Capital Receipts Reserve to finance capital expenditure	145	303
Application of capital grants to finance capital expenditure	1,495	401
Total Adjustments to Capital Resources	1,640	704
Total Adjustments	(12,758)	(10,981)

8 Earmarked Reserves

Earmarked Reserves are amounts set aside from the General Fund to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in the year.

The table below provides a list of reserves held by the CFA and movements on these reserves from 1st April 2014 to 31st March 2016:

	Balance at 1st April 2014 £000	Transfers out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31st March 2015 £000
Insurance reserve	73	0	32	105
Occupational Health reserve	40	0	0	40
Integrated Risk Management Plan (IRMP) redundancy reserve	415	0	663	1,078
Ill health retirement reserve	172	20	0	152
Relocation reserve	26	7	0	19
Part time workers reserve	70	0	0	70
Mutual insurance reserve	201	0	0	201
Purchased vehicle reserve	82	0	0	82
Princes Trust reserve	149	0	2	151
Motor Insurance reserve	75	0	0	75
Training rig reserve	39	39	0	0
Emergency Services Mobile Communications Programme reserve	150	0	0	150
Over-establishment reserve	0	0	743	743
TOTAL	1,492	66	1,440	2,866
Net Movement				(1,374)
	Balance at 1st April 2015 £000	Transfers out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31st March 2016 £000
Insurance reserve	105	0	52	157
Occupational Health reserve	40	0	0	40
IRMP redundancy reserve	1,078	499	389	968
Ill health retirement reserve	152	0	0	152
Relocation reserve	19	4	0	15
Part time workers reserve	70	0	0	70
Mutual insurance reserve	201	0	0	201
Purchased vehicle reserve	82	0	0	82
Princes Trust reserve	151	151	0	0
Motor insurance reserve	75	0	0	75
Emergency Services Mobile Communications Programme reserve	150	0	0	150
Over-establishment reserve	743	0	2,442	3,185
Single control room reserve	0	0	114	114
Management of change reserve	0	0	1,320	1,320
Capital fund reserve	0	0	500	500
TOTAL	2,866	654	4,817	7,029
Net Movement				(4,163)

9 Other Operating Expenditure

	2014/15 £000	2015/16 £000
(Gain) or loss on the disposal of non-current assets	(99)	81

10 Financing and Investment Income and Expenditure

	2014/15 £000	2015/16 £000
Interest payable and similar charges	865	807
Net interest on the defined benefit liability	15,882	13,205
Dividend received	(38)	(53)
Interest receivable	(47)	(32)
TOTAL	16,662	13,927

11 Taxation and Non-Specific Grant Income and Expenditure

	2014/15 £000	2015/16 £000
Council tax income	(17,391)	(18,140)
Non domestic rates	(8,120)	(8,309)
Non-ring fenced government grants	(10,190)	(8,387)
Capital grants and contributions	(1,495)	(401)
TOTAL	(37,196)	(35,237)

12 Property, Plant and Equipment

Movements in 2014/15	Land and Buildings £000	Vehicles, Plant and Equipment £000	Assets under Construction £000	Total Property, Plant and Equipment £000
<u>Cost or Valuation</u>				
As at 1 st April 2014	31,485	20,207	5,156	56,848
Additions	1,615	144	2,210	3,969
Revaluation increases recognised in the Revaluation Reserve	49	0	0	49
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(875)	0	0	(875)
Derecognition - disposals	0	(994)	0	(994)
Transfers	4,220	0	(4,431)	(211)
As at 31st March 2015	36,494	19,357	2,935	58,786
<u>Accumulated Depreciation and Impairment</u>				
As at 1 st April 2014	22	11,202	0	11,224
Depreciation credited to the Revaluation Reserve	(739)	0	0	(739)
Depreciation charged to the Surplus/Deficit on the Provision of Services	740	1,459	0	2,199
Derecognition - disposals	0	(948)	0	(948)
Transfers	(23)	15	0	(8)
As at 31st March 2015	0	11,728	0	11,728

Movements in 2015/16	Land and Buildings £000	Vehicles, Plant and Equipment £000	Assets under Construction £000	Total Property, Plant and Equipment £000
<u>Cost or Valuation</u>				
As at 1 st April 2015	36,494	19,357	2,935	58,786
Additions	1,662	180	555	2,397
Revaluation increases recognised in the Revaluation Reserve	1,102	0	0	1,102
Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services	(380)	0	0	(380)
Derecognition - disposals	0	(192)	0	(192)
Transfers	1,220	614	(1,805)	29
As at 31st March 2016	40,098	19,959	1,685	61,742
<u>Accumulated Depreciation and Impairment</u>				
As at 1 st April 2015	0	11,728	0	11,728
Depreciation credited to the Revaluation Reserve	(854)	0	0	(854)
Depreciation charged to the Surplus/Deficit on the Provision of Services	854	1,457	0	2,311
Derecognition - disposals	0	(129)	0	(129)
Transfers	0	0	0	0
As at 31st March 2016	0	13,056	0	13,056
Net Book value:				
As at 31 st March 2015	36,494	7,629	2,935	47,058
As at 31 st March 2016	40,098	6,903	1,685	48,686

Asset remaining lives have been reviewed and no alterations have been considered necessary for these accounts.

Capital Commitments

A total amount of £711k is currently contracted and is mainly related to the Tri-Service Fire Control Project, the finalisation of works at Castle Donington Fire Station and IT improvements. These commitments are expected to be paid in 2016/17.

13 Intangible Assets

The CFA accounts for software licences as intangible assets, to the extent that these are part of particular IT systems. The CFA's intangible assets are amortised over 5 years on a straight line basis.

	31 st March 2015 £000	31 st March 2016 £000
<u>Cost or Valuation</u>		
As at 1 st April	136	136
Additions	0	0
As at 31st March	136	136
<u>Accumulated Depreciation and Impairment</u>		
As at 1 st April	118	131
Amortisation Charge for Year: Amortisation charged to the surplus/deficit on the provision of services	13	2
As at 31st March	131	133
Net Book value	5	3

As at the 31st March 2016 there are no contractual commitments for the acquisition of intangible assets.

14 Financial Instruments**a) Categories of Financial Instruments**

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

Included in:	31 st March 2015		31 st March 2016	
	Long-Term £000	Short-Term £000	Long-Term £000	Short-Term £000
- Investments				
Loans and receivables at fair value	0	4,327	0	0
- Cash and Cash Equivalents				
Bank balance	0	441	0	4,015
- Debtors				
Financial assets carried at contract cost	0	3,083	0	2,811
TOTAL ASSETS	0	7,851	0	6,826
- Borrowings				
Financial liabilities (i.e. borrowings) at amortised cost	(14,478)	(2,750)	(14,478)	0
- Creditors				
Financial liabilities carried at contract amount	0	(2,005)	0	(1,990)
- Other Liabilities				
Finance leases	(4,728)	(976)	(3,527)	(813)
TOTAL LIABILITIES	(19,206)	(5,731)	(18,005)	(2,803)
NET TOTAL	(19,206)	2,120	(18,005)	4,023

b) Maturity of Long-Term Borrowings and Other Liabilities

	31 st March 2015 £000	31 st March 2016 £000
Between 1 and 2 years	(1,724)	(1,662)
Between 2 and 5 years	(2,504)	(2,768)
Between 5 and 10 years	(4,772)	(5,438)
Over 10 years	(10,206)	(8,137)
TOTAL	(19,206)	(18,005)

PWLB interest of £142k (2014/15 £129k) has been accrued in the accounts but not included in short term borrowing.

Any surplus or overdrawn cash balances remaining on a daily basis are included in the CFA's treasury management activities. Funds are currently invested in short-term deposits with a limited range of banks in accordance with the CFA's Treasury Management policy. Investments are carried at the lower of cost and net realisable value. A cash deposit is considered to be an investment, rather than cash and cash equivalent, where the interest rate achieved is above the bank base rate and the deposit is placed primarily for the purposes of earning interest income.

Financial liabilities and financial assets represented by borrowings and investments 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:

- ~ PWLB debt; estimated interest rates at the 31st March 2016 for new debt with the same maturity date from comparable lenders.
- ~ Investments; short term - carrying amounts in the Balance Sheet approximate to fair value.
- ~ For finance leases, the fair value is not significantly different from the carrying amount, because most of the loans commenced in the recent past and interest rates at the Balance Sheet date for these types of investments were not materially different.

The fair values calculated are as follows:

	31 st March 2015		31 st March 2016	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	25,422	28,239	20,808	23,818
Financial Assets	8,330	8,330	6,826	6,828

The fair value of PWLB loans (£17,488k) measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £14,478k would be valued at £17,488k. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £1,963k.

15 Inventories

	31 st March 2015 £000	31 st March 2016 £000
Operational equipment	136	154
Vehicle parts	62	70
Other	68	68
TOTAL	266	292

Inventory valued at £280k (£350k 2014/15) was utilised in 2015/16.

16 Debtors

	31 st March 2015 £000	31 st March 2016 £000
Short-Term Debtors:		
- Central government bodies	3,069	1,665
- Other local authorities	977	1,361
- All other	2,106	1,450
TOTAL	6,152	4,476

17 Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 st March 2015 £000	31 st March 2016 £000
- Cash held by the CFA	4	1
- Bank current accounts	14	0
- Short-term investments	423	4,014
TOTAL	441	4,015

18 Assets Held for Sale

Moira fire station was put on the market for sale in 2014/15 with the sale taking place in June 2015.

	2014/15 £000	2015/16 £000
<u>Cost or Valuation</u>		
As at 1 st April	0	349
Transfers	210	(29)
Revaluation increase	139	0
Disposals	0	(320)
As at 31st March	349	0
<u>Accumulated Depreciation and Impairment</u>		
As at 1 st April	0	0
Depreciation	8	0
Write back of accumulated depreciation	(8)	0
As at 31st March	0	0
Net Book value as at 31 st March	349	0

19 Creditors

	31 st March 2015 £000	31 st March 2016 £000
Central government bodies	1,995	1,108
Other local authorities	810	593
All other	1,195	1,397
TOTAL	4,000	3,098

Trade and other creditors are shown at amortised cost. There is no fair value adjustment to be made.

20 Provisions

The CFA holds an insurance provision for claims in progress. Timing of payment of these claims is difficult to predict as they may be subject to legal process. The amounts put aside are decided upon by reviewing the current level of claims and assessing the likelihood of their success. There are currently no material unfunded risks.

Income to this provision and to the redundancy provision is from reserves currently held for this purpose, so has no impact on the CIES.

A provision is also made for the CFA's share of any defaults on business rates. This is calculated by the district councils based on their experience.

Movements in provisions are as follows:

	Balance as at 1 st April 2015 £000	Reduced provision in 2015/16 £000	Increased provision in 2015/16 £000	Amounts used in 2015/16 £000	Balance as at 31 st March 2016 £000
<u>Long Term Provision</u>					
Insurance provision	69	69	0	0	0
Business Rates provision	280	0	62	0	342
Total Long Term Provision	349	69	62	0	342
<u>Short Term Provision</u>					
Insurance provision	0	0	17	0	17
Redundancy provision	0	0	311	0	311
Total Short Term Provision	0	0	328	0	328

21 Usable Reserves

Movement in the CFA's usable reserves are detailed in the MIRS.

22 Unusable Reserves

	31 st March 2015 £000	31 st March 2016 £000
Pensions Reserve	(401,889)	(369,223)
Revaluation Reserve	8,540	9,250
Capital Adjustment Account	15,706	16,257
Collection Fund Adjustment Account	196	233
Accumulated Absences Account	(94)	(254)
TOTAL	(377,541)	(343,737)

Capital Reserves

In accordance with standard accounting practice, two non cash-backed capital reserves exist. These are:

Revaluation Reserve

The Revaluation Reserve contains the gains made by the CFA 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 on the provision of service and the gains are consumed through depreciations, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since the 1st April 2007, the date that a reserve was created with a balance of zero. Accumulated gains arising before that date are consolidated into the balance on the CAA.

Revaluation Reserve	2014/15 £000	2015/16 £000
Balance at 1st April	7,815	8,540
Upward revaluation of assets	944	1,106
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(10)	(4)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	934	1,102
Accumulated gains on assets sold or scrapped	0	(161)
Difference between fair value depreciation and historical cost depreciation	(209)	(231)
Balance at 31st March	8,540	9,250

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, construction or additions to those assets under statutory provisions. The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the CFA as finance for the costs of acquisition, construction and subsequent costs.

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

This account represents amounts set aside from revenue resources or capital receipts, which have been used to finance expenditure on non-current assets, or for the repayment of external loans and other capital financing transactions. The table below provides details of the source of all the transactions posted to the account.

Capital Adjustment Account	2014/15 £000	2015/16 £000
Balance at 1st April	15,232	15,706
Reversal of items relating to capital expenditure debited or credited to the CIES		
Depreciation	(2,199)	(2,311)
Amortisation of intangible assets	(13)	(2)
Revaluation differences on Property, Plant and Equipment	(875)	475
	(3,087)	(1,838)
Difference between fair value and historical cost depreciation	209	231
Disposal of assets	(46)	(222)
Capital financing applied in year:		
Capital grants credited to CIES that have been applied to capital financing	1,495	401
Statutory provision for the financing of capital investment charged against the general fund	1,516	1,555
Use of Capital Receipt	145	303
Capital expenditure charged against the general fund balance	242	121
Balance at 31st March	15,706	16,257

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 CFA accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the CFA makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the CFA has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Pensions Reserve	2014/15 £000	2015/16 £000
Balance at 1st April	(362,447)	(401,889)
Remeasurements of the net defined benefit liability	(26,105)	44,075
Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the provision of services in the CIES	(15,882)	(13,205)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,545	1,796
Balance at 31st March	(401,889)	(369,223)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates (NDR) income in the CIES as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	2014/15 £000	2015/16 £000
Balance at 1st April	195	196
Amount by which council tax and NDR income credited to the CIES is different from council tax and NDR income calculated for the year in accordance with statutory requirements	1	37
Balance at 31st March	196	233

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward as at the 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Accumulated Absences Account	2014/15 £000	2015/16 £000
Balance at 1st April	(198)	(94)
Amount by which the officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	104	(160)
Balance at 31st March	(94)	(254)

23 Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2014/15 £000	2015/16 £000
Interest received	(37)	(45)
Dividend received	(64)	(38)
Interest paid	849	902

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2014/15		2015/16	
	£000	£000	£000	£000
Depreciation	(1,990)		(2,080)	
Impairment and revaluation	(875)		475	
Amortisation	(13)		(2)	
Increase/decrease in creditors	2,076		(408)	
Increase/decrease in debtors	(1,117)		616	
Increase/decrease in provisions	(249)		(321)	
Increase/decrease in inventories	12		26	
Movement in pension liability	(13,337)		(11,409)	
Disposal of non-current assets	99		(222)	
Movement in Collection Funds	(189)		(146)	
Movement in Accumulated Absences	104		(160)	
Other non-cash items charged to the net surplus or deficit on the provision of services	44		(330)	
Adjustments to net surplus deficit on the provisions of services for non cash movements Items classified elsewhere in the statement		(15,435)		(13,961)

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2014/15 £000	2015/16 £000
Capital grant received	1,495	402
Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,495	402

24 Cash Flow Statement - Investing Activities

	2014/15 £000	2015/16 £000
Purchase of property, plant and equipment and intangible assets	4,020	2,725
Purchase of short and long term investments	3,500	0
Proceeds from the sale of short and long term investments	(3,558)	(4,327)
Proceeds from the sale of property, plant and equipment	(145)	(303)
Capital grants and contributions	(1,049)	0
Net cash flow from investing activities	2,768	(1,905)

25 Cash Flow Statement - Financing Activities

	2014/15 £000	2015/16 £000
Cash receipts from short term and long term borrowing including sale and leaseback	(2,500)	0
Repayments of short term and long term borrowing	2,905	3,742
Net cash flow from financing activities	405	3,742

26 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the CIES is that specified by the SeRCOP. Decisions about resource allocation are taken by the CFA, who are considered to be the chief operating decision maker, on the basis of a one segment for the whole CFA. These reports are prepared on a different basis from the accounting policies used in the accounts. In particular:

- ~ No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the CIES).
- ~ The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

RECONCILIATION BETWEEN MANAGEMENT ACCOUNTS AND CIES

	Management Accounts as per Narrative Report	Not reported in Management Accounts	Not included in CIES	Total
	£000	£000	£000	£000
2014/15				
Employee expenses	27,398	(104)	0	27,294
Pension costs calculated in accordance with IAS19	0	13,104	0	13,104
Other service expenses*	8,757	0	(1,765)	6,992
Depreciation, revaluation losses to CIES, amortisation and impairment	0	3,078	0	3,078
Interest payments	865	0	0	865
Expenditure	37,020	16,078	(1,765)	51,333
Fees, charges and other income	(1,022)	0	0	(1,022)
Interest and investment income	(85)	0	0	(85)
Income from council tax	(17,387)	0	0	(17,387)
Income from non-domestic rates	(8,119)	0	0	(8,119)
Gain on disposal of non-current assets	0	0	(99)	(99)
Government grants and contributions	(11,714)	(1,495)	0	(13,209)
Income	(38,327)	(1,495)	(99)	(39,921)
Deficit on the Provision of Services				11,412
2015/16				
Employee expenses	25,960	160	0	26,120
Pension costs calculated in accordance with IAS19	0	11,409	0	11,409
Other service expenses*	6,000	(4)	(1,676)	4,320
Loss on disposal of non-current assets	0	82	0	82
Depreciation, revaluation losses to CIES, amortisation and impairment	0	1,705	0	1,705
Capital Financing	2,451	0	0	2,451
Expenditure	34,411	13,352	(1,676)	46,087
Controllable Income	(1,990)	0	0	(1,990)
Income from council tax		(18,136)	0	(18,136)
Income from non-domestic rates		(8,346)	0	(8,346)
Government grants and contributions		(9,065)	0	(9,065)
Income	(1,990)	(35,547)	0	(37,537)
Deficit on the Provision of Services				8,550

* Made up of non pay costs such as premises expenses, transport expenses and supplies and services.

27 Trading Operations

The CFA operates a trading company named Forge Health Limited as a wholly owned subsidiary. Its main activity is the provision of occupational health services to the private and public sectors. The Company employs no members of staff but instead uses the CFA's staff (for which it pays a fee) and independent contractors to deliver its services. There is no non-current or intangible assets owned by the Company for the year ending 31st March 2016. For the year 2015/16, Forge Health Limited reported turnover of £206k and a post tax profit of £53k (£38k in 2014/15) and this sum is proposed by the Company to be wholly paid as dividend to the CFA. Note 32 of these accounts discloses the total transactions with Forge Health Limited and amounts due from/to at the year end. The accounts of the Company are completed on the same financial year basis as the CFA and accounting policies are aligned. The accounts of the Company are available from the Company Secretary, Forge Health Limited, Leicestershire Fire and Rescue Service Headquarters, 12 Geoff Monk Way, Birstall, Leicester, LE4 3BU. It is considered that the interests in Forge Health Limited are not material therefore group accounts are not presented.

28 Members' Allowances

The CFA paid the following amounts to its members during the year.

	2014/15 £000	2015/16 £000
Salaries	51	49
Allowances	15	12
Expenses	2	1
TOTAL	68	62

29 Officers' Remuneration

The following table sets out the remuneration disclosures for senior employees whose salary is less than £150k but equal to or more than £50k per year.

2014/15	Chief Fire Officer £000	Director £000	Director of Finance and Corporate Services (Section 112 officer) £000	Deputy Chief Fire and Rescue Officer £000
Salary	81	92	83	96
Benefits in Kind	0	0	6	1
Total Remuneration excluding pensions contribution	81	92	89	97
Pension contribution	0	18	10	19
TOTAL	81	110	99	116

2015/16	Chief Fire Officer £000	Director/ Deputy Chief Fire and Rescue Officer £000	Director of Finance and Corporate Services (Section 112 officer) £000	Deputy Chief Fire and Rescue Officer/ Chief Fire Officer £000	Director £000
Note - staff changes through 2015-16	Chief Officer until 29 th April 2015	Deputy CFO / Director from 4 th June 2015	Role outsourced from 24 th September 2015	Chief Officer from 30 th April 2015	Director from 30 th April 2015
Salary	56	97	50	116	79
Benefits in Kind	0	0	4	1	1
Compensation for loss of employment	0	0	69	0	0
Total Remuneration excluding pensions contribution	56	97	123	117	80
Pension contribution	0	19	6	24	15
TOTAL	56	116	129	141	95

The CFA's other employees receiving more than £50k remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Salary Bands	Number of Employees 2014/15	Number of Employees 2015/16
£50,000 - £54,999	15	22
£55,000 - £59,999	12	7
£60,000 - £64,999	3	6
£65,000 - £69,999	4	0
£70,000 - £74,999	1	3
£75,000 - £79,999	1	0
£80,000 - £84,999	1	1
	37	39

The increase in numbers occurs as the maximum pay for the role of Watch Manager is close to the reporting limit, so any pay award results in more people meeting the reporting criteria.

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

	Number of Packages 2014/15 £000	Total Amount 2014/15 £000	Number of Packages 2015/16 £000	Total Amount 2015/16 £000
Compulsory				
£0 - £20,000	19	94	6	33
£20,001 - £40,000	5	139	1	23
£40,001 - £60,000	0	0	1	43
£60,001 - £80,000	0	0	1	69
TOTAL COMPULSORY	24	233	9	168
Voluntary				
£0 - £20,000	3	38	6	49
£20,001 - £40,000	1	24	10	296
£40,001 - £60,000	0	0	1	45
TOTAL VOLUNTARY	4	62	17	390
TOTAL REDUNDANCIES	28	295	26	558

30 External Audit Costs

The CFA incurred the following costs in relation to the audit of the Statement of Accounts, statutory inspection and other non-audit services provided by the CFA's external auditors:

	2014/15 £000	2015/16 £000
Fees payable to KPMG (PricewaterhouseCoopers LLP 2014/15) with regard to external audit services carried out by the appointed auditor for the year	39	29
<u>Fees in respect of other services provided by KPMG (PricewaterhouseCoopers LLP 2014/15) during the year</u>		
VAT helpline	2	0
VAT training	1	0
Employment tax services	1	0
Tax modeller	3	0
Organisational change project review	5	0
TOTAL	51	29

31 Grant Income

The CFA credited the following grants to the CIES:

	2014/15 £000	2015/16 £000
Fire Revenue Grant	1,272	1,160
Section 31 Grants	252	276
Capital Grant	1,049	0
TOTAL	2,573	1,436

Section 31 grants include grants relating to business rates and transparency code set-up.

No capital grant was received from the DCLG in 2015/16. A grant of £1,800k which was brought forward from 2011/12 in respect of the replacement of fire control systems was paid to the lead authority, Derbyshire Fire and Rescue Service, in August 2012. £1,080k of this was spent by Derbyshire up to 2014/15, and a further £401k in 2015/16. The remaining £319k has been treated as a creditor due to being returnable to the Home Office if unspent. The cost of this work and the use of the grant, has been incorporated into these accounts.

32 Related Party Disclosures

The CFA is required to disclose material transactions with related parties - bodies or individuals that have the potential to control, or to be controlled or influenced by the CFA. Disclosures of these transactions assesses the extent to which the CFA 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 CFA.

Central Government

The Home Office (DCLG until the 5th January 2016) has significant influence on the general operation of the CFA - it is responsible for providing the statutory framework within which the CFA operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the CFA has with other parties (e.g. council tax). Grants received from government departments are set out in the subjective analysis in Note 26 on reporting for resources allocation decisions.

Members

Members of the CFA have direct control over the CFA's financial and operating policies. The total of members' allowances paid in 2015/16 is shown in note 28. During 2015/16, no works and services were commissioned from companies in which members declared an interest.

Officers

Officers of the CFA have significant influence over the CFA's financial and operating policies. During 2015/16, no works and services were commissioned from companies in which officers declared an interest.

Other Public Bodies

Leicester City Council, Leicestershire County Council and Rutland County Council are local partners who also supply services to the CFA. All transaction with these bodies are set out below:

Entities Controlled or Significantly Influenced by the CFA**Forge Health Limited**

The CFA has control of Forge Health Limited, a wholly owned subsidiary. Dividends received due to this relationship are shown below.

Fire and Rescue Indemnity Company Limited

Until 31st October 2015 insurances for the CFA were arranged as part of a consortium of nine fire and rescue authorities. These fire and rescue authorities, including Leicestershire, are now members of the Fire and Rescue Indemnity Company Limited (FRIC). The company commenced trading in November 2015. The CFA's risk protection arrangements are provided through the pooled funds of the company. The CFA made contributions of £302k to the company for the year to 31st October 2016 with £120k of this treated as an expense in 2015/16.

	2014/15 £000	2015/16 £000
<u>Due to:</u>		
Leicestershire County Council - Local partner/Supplier of service	133	237
Leicester City Council - Local partner/Supplier of service	12	13
Home Office (formerly DCLG) - Pensions overpayments	230	230
DCLG - Firelink	66	66
<u>Due from</u>		
Forge Health Limited - Wholly owned subsidiary	(38)	(53)
Home Office (formerly DCLG) :- Pensions reimbursement	(2,038)	(1,395)
Staff Secondment	0	(25)
Net balance with related parties at 31 st March	(1,635)	(927)

	2014/15 £000	2015/16 £000
Expenditure		
<u>Local Partners</u>		
Leicestershire County Council	374	435
Leicester City Council	14	4
FRIC	0	287
Firelink provider		
Home Office (formerly DCLG)	448	437
Income		
<u>Local Partners</u>		
Leicester City Council	19	(6)
<u>Wholly owned subsidiary</u>		
Forge Health Limited	(64)	(38)
<u>Government Grant</u>		
Home Office (formerly DCLG) Specific Grants	(1,524)	(1,457)
<u>Funding</u>		
Pensions reimbursement	(6,619)	(6,046)
Net transactions with related parties for year	(7,352)	(6,384)

33 Capital Expenditure and Capital Financing

Details of capital expenditure incurred during the year are as follows:

	2014/15 £000	2015/16 £000
Land and buildings	1,615	1,662
Vehicles, plant and equipment	144	180
Assets in construction	2,210	555
TOTAL	3,969	2,397

This includes property, plant and equipment and intangible assets (Notes 12 and 13).

Capital expenditure was financed as follows:

	2014/15 £000	2015/16 £000
Prudential borrowing	1,491	1,572
Capital receipts	145	303
General fund	242	121
Finance lease	0	0
Finance lease not commenced in year	596	0
Grant	1,495	401
TOTAL	3,969	2,397

A capital grant of £186k was received in 2008/09 for New Dimensions accommodation, however no expenditure was incurred in 2008/09 or 2009/10, £1k in 2010/11 and none since. A feasibility study is being conducted in early 2016/17 to make a recommendation on any future local provision of a training rig. The remainder of the grant funding is carried over into 2016/17 and is shown as a creditor in the accounts.

The CFA had an opening capital financing requirement of £23,166k at the 1st April 2015 and a closing capital financing requirement of £23,182k at the 31st March 2016.

34 Leases

Finance lease rentals paid to lessors relating to 2015/16 totalled £1,134k (£1,171k 2014/15) of which £189k was interest and £945k was principal. All finance leases relate to Vehicles, Plant and Equipment and the net book value of these assets at the 31st March 2016 is £4,108k.

Finance lease liabilities:	Not later than 1 year £000	Later than 1 year and not later than 5 years £000	Later than 5 years £000
2014/15			
Minimum lease payments	1,134	3,471	1,282
Difference due to timing of cash flows	(40)	(394)	(286)
Present value	1,094	3,077	996
2015/16			
Minimum lease payments	962	3,080	710
Difference due to timing of cash flows	(27)	(276)	(127)
Present value	935	2,804	583

Operating lease rentals paid to lessors in the year totalled £150k (2014/15 £172k). As at the 31st March 2016 the CFA has a commitment to meet the following future minimum lease payments for operating leases, all of which relate to cars and light vehicles:

Operating lease liabilities:	Not later than 1 year £000	Later than 1 year and not later than 5 years £000	Later than 5 years £000
2014/15			
Minimum lease payments	154	422	6
2015/16			
Minimum lease payments	140	394	0

35 Termination Benefits

The CFA terminated the contracts of fourteen employees in 2015/16, incurring redundancy costs of £247k in 2015/16 (£295k in 2014/15). The decision to terminate these contracts was made in 2015/16. Decision has also been made during 2015/16 to terminate a further twelve employees during 2016/17 at a cost of £311k. This cost has been recognised as an expense in 2015/16 and a provision created. There was no pension strain cost arising from early retirements.

36 Defined Benefit Pensions Schemes**Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers and other employees, the CFA makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until the employees retire, the CFA has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The five pension schemes provide members with defined benefits related to pay and service and are detailed below:

(i) Uniformed Firefighters

This is made up of four unfunded schemes which means that there are no investment assets to match with the liability thus cash has to be generated to meet actual pension payments as they fall due.

(ii) Control and Support Staff

Employees, subject to certain qualifying criteria are eligible to join the LGPS administered by Leicestershire County Council. This is a funded defined benefit scheme meaning that the CFA and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised 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 required to be made 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 MIRS. The following transactions have been made in the CIES and the general fund balance via the MIRS during the year:

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme	
	2014/15 £000	2015/16 £000
Cost of Services		
~ current service cost	910	1,036
~ past service cost	233	106
Financing and Investment Income and Expenditure		
~ net interest expense	491	515
Total Post-employment Benefit charged to the Surplus or Deficit on the Provision of Services	1,634	1,657
Other Post-employment Benefit Charged to the CIES		
Remeasurement of the net defined benefit liability comprising:		
~ Return on plan assets (excluding the amount included in the net interest expense)	(2,038)	515
~ actuarial gains and losses arising on changes in financial assumptions	6,065	(7,535)
~ other	(162)	(275)
Total Post-employment Benefit Charged to the CIES	3,865	(7,295)
Movement in Reserves Statement		
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(1,634)	(1,657)
Actual amount charged against the General Fund Balance for pensions in the year:		
~ employers contributions payable to scheme	(918)	(768)

2014/15	Firefighters' Pension Scheme 1992 £000	Firefighters' Pension Scheme 2006 £000	Consolidated Firefighters' Pension Schemes £000	Injury Benefit Scheme £000
Comprehensive Income and Expenditure				
Cost of Services				
~ current service costs	6,580	2,220	8,800	690
Financing and Investment Income and Expenditure				
~ net interest expense	14,080	580	14,660	(730)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	20,660	2,800	23,460	(40)
Other Post-employment Benefit Charged to the CIES				
Remeasurement of the net defined benefit liability comprising:				
~ actuarial gains arising on changes in demographic assumptions	(16,680)	(4,820)	(21,500)	13,520
~ actuarial losses arising on changes in financial assumptions	52,300	4,670	56,970	(690)
~ changes in assumptions underlying the present value of the retained settlement	0	6,050	6,050	0
~ other	(6,780)	790	(5,990)	460
Total Post-employment Benefit Charged to the CIES	28,840	6,690	35,530	13,290
Movement in Reserves Statement				
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(20,660)	(2,800)	(23,460)	40
Actual amount charged against the General Fund Balance for pensions in the year:				
~ employers contributions payable to scheme	(2,225)	(494)	(2,719)	0

2015/16	Firefighters' Pension Scheme 1992 £000	Firefighters' Pension Scheme 2006 £000	Firefighters' Pension Scheme 2015 £000	Consolidated Firefighters' Pension Schemes £000	Injury Benefit Scheme £000
Comprehensive Income and Expenditure					
Cost of Services					
~ current service costs	4,360	330	3,630	8,320	590
Financing and Investment Income and Expenditure					
~ net interest expense	11,780	710	60	12,550	140
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	16,140	1,040	3,690	20,870	730
Other Post-employment Benefit Charged to the CIES					
Remeasurement of the net defined benefit liability comprising:					
~ actuarial gains arising on changes in demographic assumptions	(5,090)	(250)	(40)	(5,380)	(50)
~ actuarial gains arising on changes in financial assumptions	(29,200)	(3,530)	(300)	(33,030)	(580)
~ changes in assumptions underlying the present value of the retained settlement	0	(5,220)	0	(5,220)	0
~ other	3,670	3,720	(130)	7,260	220
Total Post-employment Benefit Charged to the CIES	(30,620)	(5,280)	(470)	(36,370)	(410)
Movement in Reserves Statement					
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(16,140)	(1,040)	(3,690)	(20,870)	(730)
Actual amount charged against the General Fund Balance for pensions in the year:					
~ employers contributions payable to scheme	(1,290)	(110)	(1,079)	(2,479)	0

Pensions Assets and Liabilities Recognised in the Balance Sheet - LGPS:

	LGPS £000
As at 31 st March 2015	
Present value of the defined benefit obligation	36,622
Fair value of plan assets	(20,723)
Net liability arising from defined benefit obligation	15,899
As at 31 st March 2016	
Present value of the defined benefit obligation	30,816
Fair value of plan assets	(21,323)
Net liability arising from defined benefit obligation	9,493

Reconciliation of the Movements in the Fair Value of Scheme Assets - LGPS

	2014/15 £000	2015/16 £000
Opening fair value of scheme assets	17,172	20,723
Interest Income	754	670
<u>Remeasurement (gain)/loss:</u>		
The return on plan assets, excluding the amount included in the net interest expense	2,038	(515)
Contributions from scheme employer	914	764
Contributions from employees into the scheme	269	234
Contributions in respect of unfunded benefits	4	4
Unfunded benefits paid	(4)	(4)
Benefits paid	(424)	(553)
Closing fair value of scheme assets	20,723	21,323

Reconciliation of present value of the scheme liabilities - LGPS

	2014/15 £000	2015/16 £000
Funded Liabilities	28,408	36,536
Unfunded Liabilities	81	86
Opening balance at the 1 st April	28,489	36,622
Current service cost	910	1,036
Interest cost	1,246	1,185
Contributions from scheme participants	269	234
<u>Remeasurement gain/(loss):</u>		
Actuarial gains/losses arising from changes in financial assumptions	6,065	(7,535)
Other experience	(162)	(275)
Past service costs	233	106
Benefits paid	(424)	(553)
Unfunded benefits paid	(4)	(4)
Closing balance at the 31 st March	36,622	30,816
Represented by:		
Funded Liabilities	36,536	30,737
Unfunded Liabilities	86	79

Reconciliation of Present Value of the Scheme Liabilities - Firefighters Schemes:

	Firefighters' Pension Scheme 1992 £000	Firefighters' Pension Scheme 2006 £000	Firefighters' Pension Scheme 2015 £000	Consolidated Firefighters' Pension Schemes £000	Injury Benefit Scheme £000
Opening balance at the 1 st April 2014	322,590	12,310	0	334,900	16,230
Current service costs (net of employee contributions)	5,050	1,750	0	6,800	690
Contributions by scheme participants	1,530	470	0	2,000	0
Remeasurement gain					
Actuarial gains/losses arising from changes in demographic assumptions	(16,680)	(4,820)	0	(21,500)	(13,520)
Actuarial gains/losses arising from changes in financial assumptions	52,300	4,670	0	56,970	690
Changes in assumptions underlying the present value of the retained settlement	0	6,050	0	6,050	0
Other experience	(6,780)	790	0	(5,990)	(460)
Finance Interest cost	14,080	580	0	14,660	730
Benefits paid	(11,850)	(300)	0	(12,150)	(110)
Closing balance at the 31st March 2015	360,240	21,500	0	381,740	4,250
Current service costs (net of employee contributions)	3,460	240	2,710	6,410	590
Contributions by scheme participants	900	90	920	1,910	0
Remeasurement gain					
Actuarial gains/losses arising from changes in demographic assumptions	(5,090)	(250)	(40)	(5,380)	(50)
Actuarial gains/losses arising from changes in financial assumptions	(29,200)	(3,530)	(300)	(33,030)	(580)
Changes in assumptions underlying the present value of the retained settlement	0	(5,220)	0	(5,220)	0
Other experience	3,670	3,720	(130)	7,260	220
Finance Interest cost	11,780	710	60	12,550	140
Benefits paid	(10,650)	(320)	0	(10,970)	(110)
Closing balance at the 31st March 2016	335,110	16,940	3,220	355,270	4,460

Local Government Pension Scheme assets comprised:

	Year ended 31 st March 2015 £000	Year ended 31 st March 2015 %	Year ended 31 st March 2016 £000	Year ended 31 st March 2016 %
Cash and cash equivalents	208	1.0%	426	2.0%
<u>Quoted prices in active markets</u>				
Equity Securities				
Other	643	3.1%	583	2.7%
Bonds				
UK Government	1,137	5.5%	1,126	5.3%
Other	852	4.1%	878	4.1%
Investment Funds and Unit Trusts				
Equities	10,449	50.4%	10,461	49.1%
Bonds	633	3.0%	669	3.1%
Hedge Funds	881	4.2%	945	4.4%
Commodities	472	2.3%	0	0.0%
Other	380	1.8%	590	2.8%
Derivatives				
Interest Rate	116	0.6%	0	0.0%
Foreign Exchange	0	0.0%	-8	0.0%
<u>Quoted prices not in active markets</u>				
Property				
UK Property	1,964	9.5%	2,172	10.2%
Private Equity				
All	786	3.8%	818	3.8%
Investment Funds and Unit Trusts				
Bonds	1,297	6.3%	1,626	7.6%
Hedge Funds	18	0.1%	22	0.1%
Commodities	398	1.9%	458	2.2%
Infrastructure	489	2.4%	557	2.6%
Total Assets	20,723	100.0%	21,323	100.0%

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 dependant on assumptions about mortality rates, salary levels etc. The LGPS is valued by the actuary, Hymans Robertson, and the Firefighters pension schemes are valued by GAD. These actuaries provide expert advice on assumptions to be applied. The estimates for the LGPS Fund are based on the latest full valuation of the scheme in the 2013 actuarial report dated the 28th March 2014.

The significant assumptions used by the actuaries have been:

	2014/15		2015/16	
	LGPS	Fire Pension Scheme	LGPS	Fire Pension Scheme
Mortality assumptions:				
Longevity in years of current pensioners at 65:				
Men	22.2	22.5	22.2	22.3
Women	24.3	22.5	24.3	22.3
Longevity in years at 65 for future pensioners currently aged 45:				
Men	24.2	24.8	24.2	24.6
Women	26.6	24.8	26.6	24.6
Other assumptions:				
Rate of Inflation	-	2.20%	-	2.20%
Short duration	1.90%	-	2.10%	-
Medium duration	2.20%	-	2.20%	-
Long duration	2.30%	-	2.20%	-
Pension Increase Rate	2.40%	2.20%	2.20%	2.20%
Salary Increase Rate- Long Term	4.30%	4.20%	3.20%	4.20%
Salary Increase Rate- Short Term	-	-	-	1.00%
Discount Rate	3.20%	3.30%	3.50%	3.55%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses overleaf have been determined based on reasonably possible changes of the assumptions occurring at the end of the year and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis overleaf did not change from those used in the previous year.

Impact on the Defined Benefit Obligation in the Scheme

	Change in Assumption	
	LGPS £000	Fire Pension Schemes £000
Longevity (change of 1 year)	924	8,400
Rate of increase in salaries (change of 0.5%)	1,609	3,500
Rate of increase in pensions (change of 0.5%)	2,359	29,600
Rate of discounting scheme liabilities (change of 0.5%)	4,046	37,100
Early retirement (change of 1 year)	0	(200)

Opposite changes in the assumptions will provide approximately equal and opposite changes in the liability.

Impact on the CFA's Cash Flows

The objectives of the schemes are to keep employers' contributions at as constant a rate as possible. Leicestershire County Council has agreed a strategy with the scheme's actuaries to achieve a funding level of 100% over the next 20 years. The next triennial valuation of the LGPS is due to be completed on the 31st March 2016. The CFA anticipated to pay £741k expected contributions to the scheme in 2016-17. The weighted average duration of the defined benefit obligation for scheme members is 23 years as at the latest formal valuation on 31st March 2013.

No such strategy exists for the Fire Pension schemes as they are unfunded schemes and therefore have no target funding level. The methodology for calculating employer contribution rates to the Fire Pensions Schemes for the 2012 valuation is set out in 'The Public Services (Valuations and Employer Cost Cap) Directions 2014. GAD are currently undertaking the first valuation exercise for the Firefighters schemes as at 31st March 2016.

37 Contingent LiabilitiesEmployment Appeal Tribunal on holiday pay for contractual overtime

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). This stems from a discrepancy between EU and UK law. In the UK, employers have generally used basic pay to calculate how much employees are paid while they are on holiday whilst the European Working Time Directive does not specify how holiday pay should be calculated, suggesting that overall remuneration should be taken into account. This ruling may have an implication where Firefighters work casual overtime (i.e. stay beyond the shift finish time in order to complete an incident). The backdated claims are however limited, with the tribunal ruling that workers can only make claims if it less than three months since their last incorrect payment (of holiday pay), although the claim can be back dated until such time as there is a three month break between underpayments. Based on the 2014/15 and 2015/16 level of casual overtime this is not considered material. There is potential for an appeal against the ruling which may impact on an estimate of any future liability for such backdated claims.

Firefighters' Pension Scheme - Contributions Holiday

Firefighters who joined the 1992 Firefighters' Pension scheme aged 18-20 have previously had to contribute for up to 32 years to receive a 30 year pension at the earliest age of 50. This is because this scheme had an accrual cap of 30 years reckonable service. Following a legal challenge by the Fire Brigades Union (FBU), correspondence from Central Government has confirmed that the Secretary of State will allow members meeting certain criteria to take a contributions holiday. The rules on the 1992 scheme will be amended and applied retrospectively to 1st December 2006, with affected members receiving a refund. Specific guidance is awaited from the Home Office in order to implement this change. The pension fund is impacted by a financial risk as a result which cannot be specifically measured at this time.

Pension Transitional Protection Legal Challenge

As part of Central Government pension reform across the public sector, the Firefighters' Pension Scheme (2015) was created which extended the normal pension age to 60 and changed from a final salary scheme to a defined benefit scheme as part of a suite of initiatives to make fire pensions more financially sustainable. To support those closer to retirement who are considered less able to alter their financial retirement planning, firefighters within 10-14 years of their normal pension age were wholly or partially protected from transferring to the 2015 scheme. In response, a legal challenge has been raised nationally arguing that such transitional protection discriminates on the grounds of age, gender and race. The preliminary hearing of the resulting Employment Tribunal is set for 31st May - 3rd June 2016 with the full hearing expected from 9th - 24th January 2017.

It is felt that Fire Services and DCLG/Home Office have strong defences in this case, but a level of financial risk exists. Should this employment tribunal find in favour of employees, the financial cost cannot be measured with sufficient reliability. Such cost would be a contingent liability on the pension fund, as opposed to members directly. At a future date, a valuation of the fund liabilities including any judgement in respect of this legal challenge would be assessed nationally, with deficits being addressed by increases to employer and employee pensions contribution rates.

38 Nature and Extent of Risks arising from Financial Instruments

The CFA'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 CFA
- ~ Liquidity risk - the possibility that the CFA might not have funds available to meet its commitments to make payments
- ~ Market risk - the possibility that financial loss might arise as a result of changes in, for example, interest rates

The CIPFA Code of Practice on Treasury Management has been adopted by the CFA and a Treasury Management Strategy is approved by the CFA each year. In addition, half yearly and annual reports are presented to CFA which highlight investment and borrowing progress and explain departures from the strategy. In this way, the risks are actively managed.

Credit Risk

Credit risk arises from deposits with banks and financial institutions and from providing chargeable services to customers. The CFA publishes criteria for lending surplus cash in the Medium Term Financial Strategy. The details for this financial year are:

	Minimum Credit Criteria / Sector Colour Band	Max % of total investments/ £ limit per institution	Max. Maturity Period
Debt Management Account Deposit Facility – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	100%	1 year
UK Government Treasury bills	UK sovereign rating	100%	1 year
Bonds issued by multilateral development banks	UK sovereign rating	100%	6 months
Money market funds	AAA	100%	Liquid
Local authorities	N/a	100%	1 year
Term deposits with banks and building societies	Blue Orange Red Green	£5m	Up to 1 year Up to 1 year Up to 6 Months Up to 3 months
Certificates of deposit or corporate bonds with banks and building societies	Blue Orange Red Green	£1m	Up to 1 year Up to 1 year Up to 6 Months Up to 3 months

Institutions will be removed from the list where there are any doubts about their security.

Invoices to customers for chargeable services are of relatively low value.

The following analysis summarises the CFA's potential maximum exposure to credit risk based on actual experience in terms of deposits and percentage of debt which has been written off as unrecoverable over the last three years in terms of debtors. All deposits shown on the Balance Sheet as at the 31st March 2016 were repaid to the CFA before the date the Statement of Accounts was authorised for issue (30th June 2016) where repayment was due in this period. There is no reason to doubt the credit quality of any of the customers amounts, whether current or past due for payment.

Loans and Receivables	1 st April 2015 £000	31 st March 2016 £000	Est. Maximum Exposure to Credit Risk £000	Historical Experience of Default %
Deposits with banks and financial institutions	4,768	4,034	0	0.00
Trade debtors:				
- not yet due for payment	108	7	0	0.00
- past due date for payment	35	82	0	0.02
TOTAL	4,911	4,123	0	

The past due amount is analysed by age as follows:

	1 st April 2015 £000	31 st March 2016 £000
Less than 1 month overdue	33	43
1-2 months overdue	0	36
2-6 months overdue	0	2
6-12 months overdue	0	0
Over 1 year overdue	2	1
TOTAL	35	82

Liquidity Risk

The CFA has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the CFA is able to access borrowings from money markets and the PWLB. There is no significant risk that it will be unable to raise finance in order to meet its commitments under financial instruments. Instead the risk is that the CFA is exposed to is that it will be bound to replenish a significant proportion of its borrowings when interest rates are unfavourable. The CFA sets limits on the proportion of borrowings during specified periods. The maturity analysis of financial liabilities is as follows:

Maturity Structure of fixed interest rate borrowing 2015/16		
	Lower Limit	Upper Limit
Less than 1 year	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	50%
5 years to 10 years	0%	70%
10 years and above	25%	100%

All trade and other payables are due to be repaid in less than one year.

Market Risk

The CFA is exposed to risk in terms of its exposure to interest rate movements on its borrowing and investments. Movements in interest rates have a complex impact. For instance, a rise in interest rates 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 Surplus or Deficit on the Provision of Services will rise
- ~ investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The CFA has a number of strategies for managing interest rate risk. Policy is to aim to have no borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The team responsible for Treasury Management has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to revise the budget during the year. This allows any adverse changes to be accommodated.

According to this assessment strategy, at the 31st March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effects would be:

	£000
Additional interest receivable on variable rate investments (has a positive impact on the Surplus or Deficit on the Provision of Services)	95
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(157)

An average rate of 0.527% (£32k) was achieved for investments, therefore this is the maximum amount which could be lost.

PENSION FUND STATEMENT**Firefighters' Pension Fund**

Fund Account	2014/15 £000	2015/16 £000
<u>Income to the fund</u>		
Contributions receivable:		
~ from employer		
~ normal contributions	(2,719)	(2,553)
~ ill health contributions	(20)	(53)
~ from members	(2,157)	(2,180)
Income to the fund	(4,896)	(4,786)
<u>Spending by the fund</u>		
Benefits payable:		
~ Pension payments	8,998	9,395
~ Commutation of pensions and lump-sum retirement benefits	2,568	2,765
~ Other payments	0	31
Payments To and On Behalf of Leavers		
~ Individual transfers out to other schemes	311	48
Spending by the fund	11,877	12,239
Deficit for the year before top up grant receivable from Home Office (formerly DCLG)	6,981	7,453
~ Top-up grant received	(4,944)	(6,047)
Deficit for the Year	2,037	1,406

Firefighters' Pension fund net assets statement	31st March 2015 £000	31st March 2016 £000
Net current assets and liabilities:		
~ pensions top up grant receivable from Home Office (formerly DCLG)	2,037	1,406
~ repayment of 13-14 grant claimed in error	(29)	0
Net grant receivable	2,008	1,406

NOTES TO THE FIREFIGHTERS' PENSION FUND STATEMENT

- In accordance with the requirements of IAS19 the actual cost of pensions required for council tax setting purposes is replaced by the current service cost of pensions in CIES, and reversed out in the MIRS.
- Employee contributions, and employer contributions are paid into a separate account out of which pensions are paid. This is administered on behalf of the CFA by Leicestershire County Council Pensions Department. Any deficit on this account is made up by direct government funding from the Home Office (formerly DCLG).
- It is these employer contributions (rather than the net cost of pensions) that are replaced in the CIES.
- The Government has determined that this account is deemed a pension fund separate from the CIES and is thus reported on separately. There are no assets in this scheme and the difference between income and expenditure is met by direct government funding to balance the account to nil each year, and therefore there is no surplus or deficit on this fund to impact on overall CFA reserves.
- The pensions fund's accounts do not take account of liabilities to pay pensions and other benefits after the 31st March 2016. These can be found in note 36 in the notes to the accounts.
- The accounts are prepared in accordance with the same code of practice and accounting policies as outlined in the Statement of Accounting policies starting on page 13.
- Any Government funding payable is paid in two instalments, 80% of the estimated annual amount in July and any further surplus or deficit settled with the Home Office (formerly DCLG) following audit of the accounts for the year.
- The fund is in deficit by £359,730k as at the 31st March 2016 (£385,990k as at the 31st March 2015).
- Following the GAD vs Milne case, the 2015/16 figures include costs of £1,272k. This sum was reimbursed to the CFA in full via DCLG grant.

GLOSSARY OF TERMS

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Amortisation

The reduction of the value of an intangible asset by pro-rating its cost over a period of years.

Capital Expenditure

Expenditure on the acquisition of non current assets or expenditure which adds to and not merely maintains the value of existing non current assets.

Capital Receipts

Income from the sale of assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principle accountancy body dealing with Local Authority and Public Sector finance.

Code of Practice on Local Authority Accounting (The Code)

A publication produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) that provides comprehensive guidance on the content of the Authority's Statement of Accounts.

Contingent Liability

A possible obligation arising from past events whose existence will be confirmed by the occurrence of an uncertain future event not wholly within the CFA's control. It can also be a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or where the amount of the obligation is uncertain.

Creditors

Amounts owed by the CFA for which payment has not been made by the end of the financial year.

Debtors

Amounts due to the CFA but unpaid at the end of the financial year.

Depreciation

The measure of the wearing out, consumption, or other reduction in the usual economic life of a non current asset during the accounting period.

Finance Lease

A method of financing the acquisition of assets. Legally the assets are owned by the lessor, although the risks and rewards of ownership of the assets pass to the lessee. The assets are shown on the Balance Sheet of the CFA.

Financial Instrument

Any contract which gives rise to a financial asset of one entity and a financial liability of another. Typical financial instruments are: trade payables, bank deposits, trade receivables and investments.

General Fund

The CFA's main revenue account, covering the net cost of all services.

Government Actuary's Department

A Government Department that provides advice upon public sector pension arrangements, social security provision and regulators of private pension policies.

Impairment

A reduction in the value of an asset, which is additional to the expected depreciation of that asset. Impairment may be a result of, for example, physical damage or reducing prices.

Non-Current Assets

Property, plant and equipment that yield benefits to the CFA for a period of more than one year.

Operating Lease

A method of financing the acquisition of assets, notably equipment, vehicles, plant etc. which involves the payment of a rental by the user for a period which is normally substantially less than the useful economic life of the asset.

Provision

A liability or loss relating to a past event which is likely or certain to be incurred but uncertain as to the date when it will arise, which can be reasonably estimated.

Reserve

An amount set aside for purposes falling outside the definition of a provision. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for general contingencies.

Revenue Expenditure and Income

Expenditure and income arising from the day to day operation of the CFA.