

# LEICESTERSHIRE

## FIRE and RESCUE SERVICE

Status of Report: Public Agenda Item: 12

Meeting: Combined Fire Authority  
Date: 25<sup>th</sup> September 2014  
Subject: Statement of Accounts 2013/14  
Report by: The Treasurer  
Author: Adam Stretton (Head of Finance)  
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 2013/14 Statement of Accounts for approval.

### 2. Executive Summary

- 2.1 The CFA's External Auditors, PricewaterhouseCoopers (PwC), have completed the audit of the CFA's accounts in line with the Code of Audit Practice and Auditing Standards. They plan to issue an unqualified audit opinion on both the financial statements and Value For Money (VFM) conclusion.
- 2.2 PwC 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. There are no misstatements identified within their ISA 260 report.
- 2.3 PwC identified a number of misstatements which have been corrected by management. The correction of these misstatements has been included in the Statement of Accounts 2013/14.

### 3. Report Detail

- 3.1 The Account and Audit Regulations 2011 state that the accounts must be published with the audit opinion and certificate and be approved by Members by 30<sup>th</sup> September.

#### ISA 260

- 3.2 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 and those issues which are formally required to be reported under the Audit

Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I)) 260 - "Communication of audit matters with those charged with governance". The report includes a draft letter of representation that needs to be agreed by the CFA and signed by the Treasurer (see Appendix 1, pages 23 to 28).

- 3.3 The report outlines the results of the work undertaken under the Code of Audit Practice in forming an external opinion on the adequacy of the CFA's arrangements for economy, efficiency and effectiveness in its "Use of Resources". The findings of the External Auditor are detailed on pages 14 to 16.
- 3.4 **Systems of internal control** - The External Auditors are required to report to the CFA any material weaknesses in the accounting and internal control systems identified during the audit. Four minor control issues have been identified and these are outlined along with the related management responses on pages 17 and 18.
- 3.5 **Accounting practices** - They are also required to report to the CFA their view on qualitative aspects of the CFA's accounting practices and financial reporting and the ISA 260 sets out their observations on key issues affecting the CFA.
- 3.6 **Value for Money Conclusion** - The External Auditors are required to issue a conclusion as to whether the CFA is financially resilient and has adequate arrangements in place to achieve economy, efficiency and effectiveness in the use of its resources.
- 3.7 **Annual Governance Statement** - Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The AGS was agreed by the Policy Committee on 27<sup>th</sup> August 2014. Internal Audit reviewed it as part of the annual assurance requirements to look at the broader governance arrangements of the organisation (covering governance, risk management procedures and internal control). External Audit reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it was misleading or inconsistent with other information known to them from their audit work.

### **Statement of Accounts**

- 3.8 The CFA noted at its meeting of 25<sup>th</sup> June 2014 a revenue underspend of £1,332,641 and capital expenditure of £8,316,082. It was agreed that the revenue underspend supported carry forwards of £455,034 into 2014/15, a net transfer to specific reserves of £205,908 and a transfer of £689,535 into the General Reserve. The draft Statement of Accounts was delivered to PwC on 30<sup>th</sup> June 2014.
- 3.9 During the external audit minimal technical adjustments have been undertaken and none of these affect the revenue outturn position. The Statement of Accounts for 2013/14 attached at **Appendix 2** reports that the final revenue outturn is an underspend of £1,332,641. This maintains the position reported to the CFA at its meeting of 25<sup>th</sup> June 2014.

3.10 The capital expenditure outturn has remained unchanged at £8,316,082.

### **Annual Treasury Management Report 2013/14**

3.11 A revised CIPFA code for Treasury Management reporting requires that the Annual Treasury Management Report is taken through the Overview and Scrutiny Committee before being presented to the full CFA. On this occasion, the report will be presented to the Overview and Scrutiny Committee at its meeting of 19<sup>th</sup> November 2014 and will subsequently be brought to the CFA at its December 2014 meeting.

## **4. Report Implications / Impact**

### **4.1 *Legal (including crime and disorder)***

The Accounts and Audit Regulations 2011 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 30<sup>th</sup> June. The Accounting Code of Practice on Local Authority Accounts largely dictates the format of the Statement of Accounts. The Statement of Accounts 2013/14 meets this statutory obligation. During the external audit a number of alterations were agreed to the Statement and these are included in **Appendix 2**. The Statement of Accounts must be published by 30<sup>th</sup> September preferably with an auditor's certificate or opinion.

### **4.2 *Financial (including value for money, benefits and efficiencies)***

The annual budget for 2014/15 contains a provision of £48,340 for the costs incurred for external audit. PwC are currently anticipating charging a total audit fee of £38,996. The actual fee charged and associated costs will be taken into consideration in setting the Revised Estimate for 2014/15.

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

The initial Statement of Accounts was prepared based on the final Revenue and Capital Outturn 2013/14 report. PwC commenced their audit on the accounts in early July 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.

### **4.4 *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

External Audit reported in 2009/10 their belief that management should consider how they can provide adequate support and oversight to key individuals within the Finance Department to ensure that the audit process runs as efficiently as possible, in particular at the completion stage of the audit. The difficulties encountered in 2010/11 reflected this position further. There remains the risk that a large proportion of the work and skills to prepare the financial statements lies with one key individual. The resources and skills required for the team will again be reviewed for the next set of accounts in order to minimise this risk. The report

notes that for the third consecutive year both the quality and timeliness of the draft financial statements presented for audit has improved significantly. This is due to a concerted effort on the part of the Finance Department to improve the accuracy and quality of the accounts presented for audit.

#### **4.5 *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.

#### **4.6 *Impact upon Our Plan Objectives***

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 2014/17 reflects the CFA's strategic plan, "Our Plan". It also reflects national and regional strategies and policies at the time of issue.

### **5. Recommendations**

The CFA is asked to:

- a) Note the ISA260 report presented by PricewaterhouseCoopers.
- b) Approve the Letter of Representation.
- c) Agree the Statement of Accounts 2013/14.

### **6. Background Papers**

- a) External Audit Plan 2013/14 (Policy Committee Report – 5<sup>th</sup> March 2014)
- b) Final Outturn 2013/14 (CFA Report – 25<sup>th</sup> June 2014)
- c) Annual Governance Statement 2013/14 (Policy Committee Report – 27<sup>th</sup> August 2014)

### **7. Appendices**

1. Leicester, Leicestershire and Rutland Combined Fire Authority 2013/14 report to those charged with governance (Draft ISA 260)
2. Combined Fire Authority 2013/14 Statement of Accounts



# *Leicester, Leicestershire and Rutland Combined Fire Authority*

*Report to those charged with governance -DRAFT*

Report to the Combined Fire Authority on the audit for the year  
ended 31 March 2014 *(ISA (UK&I)) 260*

Government and  
Public Sector

September 2014

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

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*An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.*

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# **Executive summary**

## **Background**

This report tells you about the significant findings from our audit. We presented our audit plan to Policy Committee in March 2014; we have reviewed the plan and concluded that it remains appropriate.

## **Audit Summary**

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 25 September 2014, following approval of the Accounts by the Combined Fire Authority and receipt of letters of representation.

The key outstanding matters, where our work has commenced but is not yet finalised, are:

- submission of results of our work on Whole of Government Accounts; and
- completion procedures, including our subsequent events review.

We look forward to discussing our report with you on 25 September. Attending the meeting from PwC will be Ali Breadon.

# Audit approach

Our audit approach was set in our audit plan which we presented to Policy Committee in March 2014.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Level	Audit approach	Results of work performed
<p><b>Management override of controls</b>            ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>▶ Significant</p>	<p>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> <li>- review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>- test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;</li> <li>- review accounting estimates for bias and evaluate whether judgement and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);</li> <li>- evaluate the business rationale underlying significant transactions outside the normal course of business;</li> <li>and</li> <li>- perform unpredictable procedures targeted on fraud risks.</li> </ul> <p>We may perform other audit procedures if necessary.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>- reviewed the control environment;</li> <li>- reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>- tested journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus. We found that all journal and year end postings tested were appropriate;</li> <li>- reviewed key accounting estimates for bias, including the valuation of land and buildings and estimates of pension liabilities. We concluded that judgement and estimates used are reasonable;</li> <li>- evaluated the business rationale underlying significant transactions outside the normal course of business; and</li> <li>- performed unpredictable procedures targeted on fraud risks.</li> </ul> <p>We have no issues to report from these procedures.</p>

Risk	Level	Audit approach	Results of work performed
<p><b>Risk of fraud in revenue and expenditure recognition</b>  Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.</p>	<p>Significant</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focusing on the areas we consider to be of greatest risk.</p>	<p>We have understood the control environment, including review of work performed by internal audit and validation of key controls.</p> <p>We have evaluated and tested the accounting policies for income and expenditure recognition and found these are consistent with accounting standards and applied appropriately.</p> <p>We have tested both income and expenditure by agreeing to supporting documentation, with a focus on those areas we identified as being of highest risk.</p> <p>We have no issues to report from these procedures.</p>

Risk	Level	Audit approach	Results of work performed
<p><b>Meeting the financial challenge</b>  All local government organisations are faced with increased challenges in their medium term financial outlook. There continues to be a number of risks to the delivery of the plan, particularly in respect of national changes, such as the Local Government Finance Settlement, the Council Tax Freeze Grant and business rates retention. As a result, the following risks are increased:</p> <ul style="list-style-type: none"> <li>- slippage- the Authority may not be able to achieve the savings planned either from service reductions or through efficiencies;</li> <li>- timing- the timing of planned savings, service reductions and funding announcements may impact delivery against savings targets; and</li> <li>- assumptions- significant policy changes might impact on the Authority's ability to deliver a balanced budget over the period of the plan.</li> </ul> <p>There is also a risk of deteriorating operational performance and quality due to reduced resources and management capacity where cost savings are made without careful consideration.</p>	Elevated	<p>We will continue to review the savings plans, their robustness and performance against these plans in year.</p> <p>We will specifically consider :</p> <ul style="list-style-type: none"> <li>- the impact of new operational arrangements in relation to Authority;</li> <li>- impact of business rates on the Authority's financial position;</li> <li>- the Authority's intentions to take advantage of the Council Tax Freeze Grant;</li> <li>- the governance structure in place to deliver the targets;</li> <li>- the level and extent of accountability; and</li> <li>- how the assumptions applied in the Authority's plan compare with other organisations and best practice.</li> </ul> <p>We will consider any relevant accounting assumptions and whether they are realistic and reasonable.</p>	<p>We have reviewed your future savings plans and considered how robust they are as well as your financial performance this year. We considered:</p> <ul style="list-style-type: none"> <li>- how the Authority is assessing the impact of proposed savings plans on service delivery;</li> <li>- the level of assumed future business rates income and impact of this on the Authority's financial position;</li> <li>- the Authority's intentions to take advantage of Council Tax Freeze Grant and impact of anticipated future grant on savings plans;</li> <li>- the Authority's governance structure in place to deliver the targets;</li> <li>- the level and extent of accountability for savings delivery; and</li> <li>- how the assumptions applied in the Authority's savings plans compare with other fire authorities.</li> </ul> <p>We comment on our findings in this area on pages 14 to 16 and based on our work we intend to issue an unqualified value for money conclusion.</p>

### *Intelligent scoping*

In our audit plan presented to Policy Committee in March 2014 we reported our planned overall materiality which we used to determine the overall audit strategy. Our actual materiality was increased slightly to reflect the expenditure in the accounts presented for audit. This had no effect on our testing strategy.

Our revised materiality levels were as follows:

	£
Overall materiality	1,149,980
Clearly trivial reporting de minimis	57,499

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2014.

Auditing standards require that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Policy Committee at its meeting in March 2014 as £53,038. There were no misstatements identified that fell between the boundary of original and revised de minimis level.

# Significant audit and accounting matters

## Accounts

We have completed our audit, subject to the following outstanding matters:

- submission of results of our work on Whole of Government Accounts; and
- completion procedures, including our subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government. The National Audit Office (NAO), as Group Auditor, has determined the audit threshold is £350 million. We perform procedures to confirm the Authority falls below this threshold, and have reviewed the consistency of property, plant and equipment and pension information submitted with the Statement of Accounts. We anticipate reporting via a short form Assurance Statement to the NAO that there are no inconsistencies identified between the Authority's Whole of Government Accounts schedules, and the statutory Statement of Accounts.

## Accounting issues

For the third consecutive year both the quality and timeliness of the draft financial statements presented for audit has improved significantly. This is due to a concerted effort on the part of the Finance Team to improve the accuracy and quality of accounts presented for audit.

	2010/11	2011/12	2012/13	2013/14
Readiness for start of audit.	R	G	G	G
Quality of accounts and working papers.	R	A	G	G
Availability and responsiveness of staff.	G	G	G	G
Significant audit and accounting issues.	R	A	G	G
Deficiencies in internal control systems.	R	G	G	G
Use of Resources/ Value for Money conclusion.	R	G	G	G



- no or minor improvements needed



-some improvements needed



- significant improvements needed



### *Misstatements and significant audit adjustments*

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. There were no misstatements identified during the audit.

### *Significant accounting principles and policies*

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask the Treasurer to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

### *Judgements and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

## Pensions liability

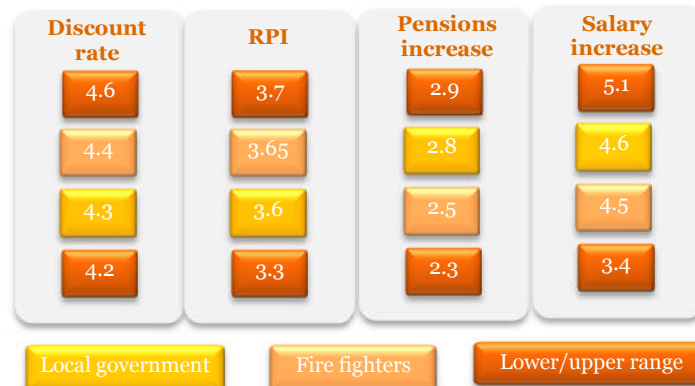
The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the local government pension scheme (LGPS) administered by Leicestershire County Council and the fire fighters' pension schemes. Your total net pension liability (on all schemes) at 31 March 2014 was £362.447 million (2013 - £362.351 million).

The 2013 triennial valuation has been finalised and the effect on the accounts is a slight increase in net liability (£0.096million). This is the net effect of a reduction in liabilities for the firefighters' pension schemes of £3m driven by changes in assumptions, and an increase in LGPS liabilities of £3.096m.

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. We utilised actuarial experts to review the methodology and assumptions applied by the actuaries.

The table below demonstrates the upper and lower percentages applied across all actuaries reviewed and where the LGPS and firefighters' schemes fall within the range.

*Table 1: Range of key pension assumptions as percentages*



Leicester, Leicestershire and Rutland Combined Fire Authority

We utilised the work of pension scheme auditors at Leicestershire County Council with regards to the assets of the LGPS. Pension assets were found to be accounted for and measured appropriately.

We validated the data supplied to the actuary on which to base their calculations and have no issues to report.

## Changes to IAS 19: Employee Benefits

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Authority's financial statements and we conclude that the changes have been dealt with adequately.

## Property valuation and other judgements

The Authority engaged the services of an independent property valuer to assess the value of its properties as at 31st March 2014.

We sought the views of our own property valuation experts on the methodology and assumptions adopted by the independent valuer and discussed points of issue with the valuer to satisfy ourselves that assumptions were reasonable and unbiased.

We also performed testing to confirm that appropriate source data was used in the valuation.

The valuer applied the depreciated replacement cost (DRC) method to the majority of assets revalued, with the exception of Birstall headquarters and workshops which were valued using the fair value method. We are satisfied that this methodology is appropriate.

We performed testing of capital additions made in year including those relating to the significant refurbishment of a

number of fire stations. We verified that these were correctly reflected in accounting for the valuation.

### *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

### *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We performed procedures to test the completeness of related party transactions as well as testing of related party transactions and have no matters to report in relation to this work.

### *Audit independence*

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

#### *Relationships between PwC and the Authority*

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

#### *Relationships and Investments*

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

#### *Employment of PricewaterhouseCoopers staff by the Authority*

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

#### *Business relationships*

We have not identified any business relationships between PwC and the Authority.

### Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority.

The table below outlines all non-audit services provided to the Authority during the financial year 2013/14, including all relevant threats and safeguards.

<i>Nature of service</i>	<i>Fee £</i>	<i>Potential threat to independence</i>	<i>Safeguards in place</i>
<p><b>Tax helpline</b> This service runs from 1 September and is renewed annually. It was approved to renew for a further year by the engagement leader in August 2014.</p>	2,000	<p>A <b>self-review</b> threat could arise if we provide you with tax planning advice which either depends on a specific accounting treatment or has a material effect on the financial statements of an entity.</p> <p>A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p>	<p>Members of the engagement team providing the tax services are not members of the audit engagement team.</p> <p>If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment.</p> <p>A specified member of the Authority's Finance Team receives the results of this service and makes all significant judgements connected with the services. This individual has a sufficient level of understanding of the work and has responsibility for evaluating the service delivered and determining what actions to take.</p> <p>Our service constitutes advice and recommendations only. We will not make decisions on behalf of management. Our recommendations are justified by objective and transparent analyses or management are provided with the opportunity to decide between reasonable alternatives.</p>
<b>Pension and tax advice as follows:</b>			
<p>The employment tax implications of employees working from home</p>	2,500	<p>A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p>	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide</p>

		<p>A <b>self-review</b> threat could arise if the Authority uses tax calculations prepared by us to help support material transactions or disclosures in its financial statements.</p> <p>An <b>advocacy</b> threat may arise when providing reward and compensation services if PwC represents the client or its management in negotiations with employees or other representatives.</p>	<p>between reasonable alternatives where appropriate.</p> <p>Members of the engagement team providing the tax services are not members of the audit engagement team.</p> <p>If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment.</p> <p>The Authority's own representatives will be present at any roll-out meetings and present PwC as independent technical consultants and not as promoters of the arrangements. Our role is focused on presenting an objective explanation of the technical aspects of the arrangements and answering technical questions.</p> <p>Managements own representative will be responsible for explaining the client's strategic and organisational objectives, specific performance targets and the performance evaluation process.</p>
Voluntary disclosure to HMRC to settle tax arising on an unauthorised pension payment.	5,300	<p>A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p> <p>A <b>self-review</b> threat could arise if the Authority uses tax calculations prepared by us to help support material transactions or disclosures in its financial statements.</p>	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.</p> <p>Members of the engagement team providing the tax services are not members of the audit engagement team. If there is a continuing prior year dispute with HMRC the relevant disclosures in the financial statements are reviewed as part of the audit by individuals who are not members of the</p>

			engagement team carrying out the pension services.
		An <b>advocacy</b> threat can arise if we communicate with a tax authority on your behalf, or if you require our assistance in the resolution of a dispute with the tax authority.	We will not propose or agree settlements with the tax authority without client approval. The third party will be made aware of our position as a tax adviser.
Advice in connection with pension tax, and other aspects of pension provision. Update of previously supplied pensions tax modeller	2,000	A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.</p>
Employment tax compliance advice, including answering queries from tax authorities and answering management questions	2,500	A <b>management</b> threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.</p>
		A <b>self-review</b> threat could arise if the Authority uses tax calculations prepared by us to help support material transactions or disclosures	Members of the engagement team providing the tax services are not members of the audit engagement team. If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so

		in its financial statements for this or future years.	that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment.
		An <b>advocacy</b> threat can arise if we communicate with a tax authority on your behalf, or if you require our assistance in the resolution of a dispute with the tax authority.	We will not propose or agree settlements with the tax authority without client approval. The third party will be made aware of our position as a tax adviser.
<b>VAT seminar</b>	2,500	A <b>self-review</b> threat could arise if our tax advice has a material effect on the financial statements.	The seminar presented is on general VAT awareness for local authorities rather than on advice around specific VAT accounting for particular transactions the Authority is undertaking. The seminar covered why we have VAT, general VAT liabilities, how to deal with VAT on income and expenditure, partial exemption, HMRC visits and errors.

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**Total fees** **16,800**

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### *Fees*

The analysis of our audit and non-audit fees for the year ended 31<sup>st</sup> March 2014 is included on page 21. In relation to the non-audit services provided, none included contingent fee arrangements.

### *Services to Directors and Senior Management*

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

### *Rotation*

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise

at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

We sought approval for extension of Alison Breadon's engagement leader appointment for a sixth year to 2014/15 before the start of that financial year, in accordance with Audit Commission requirements.

### *Gifts and hospitality*

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's senior management or staff.

### *Conclusion*

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Combined Fire Authority to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

### *Economy, efficiency and effectiveness*

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We anticipate issuing an unqualified value for money conclusion. However, we have identified the following matters which we wish to bring to your attention.



### *Tri-service control centre project*

The Authority has been working in partnership with Derbyshire and Nottinghamshire Fire Services to develop a networked tri service control centre system to serve all three authorities with common operating procedures and mutual fall back provision.

Completion of this project has recently been delayed and is now behind schedule. We have discussed this with management and understand the supplier is bearing the cost of delay and that resilience is not currently being affected. It is important that the project be brought to completion as soon as possible so the Authority and public can benefit fully from the improved control centre arrangements.

### *Future financial planning*

A variety of future council tax increases were modelled in the Medium Term Financial Plan (MTFP) to quantify possible future budget gaps. The Authority is now developing its financial plans beyond the duration of the current MTFP, through to 2019/20.

Current financial models are based on government grant decreases of 6.5% year on year, adjusted for additional loss of £105,000 New Dimensions grant monies (expected in 2017/18) and a slightly slower rate of decline in council tax freeze grant (which makes up just over £200,000 of government grant income per annum). Business rates are modelled in the MTFP based on detailed discussions with district councils. From 2017/18, the model presumes a 1.2% increase in business rates income year on year, pending detailed discussions with district councils of likely future income levels.

In recent months, the Authority has been identifying future efficiency savings to address future budget gaps as part of its Organisational Change Project. This follows detailed modelling of where future service response is most likely to be required, to ensure cuts are made safely in the appropriate

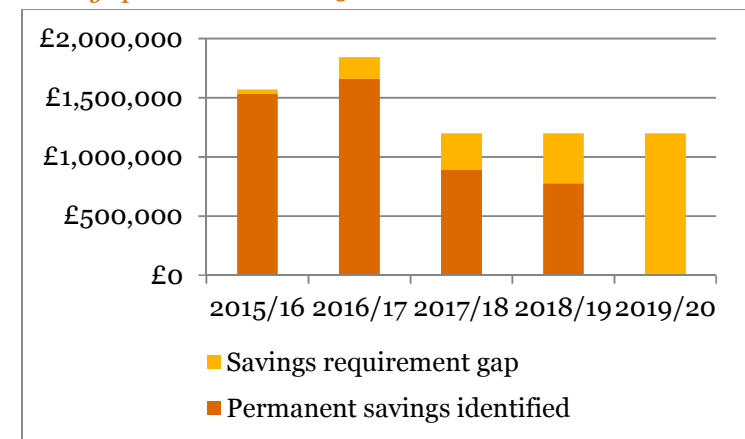
Leicester, Leicestershire and Rutland Combined Fire Authority

geographical areas so essential service delivery is preserved while savings are delivered.

Some savings ideas have still to be fully explored and costed and these have not been included in current financial models. Similarly, future capital receipts which may be associated with planned savings not been included. Potential receipts from the Authority's ongoing applications for transformational funding are also excluded and given the uncertainty and competition associated with such applications, this is considered appropriate.

Based on draft plans presented at the September 2014 Overview and Scrutiny Committee meeting there are still some savings needs to be identified from 2015/16 onwards, as shown in the chart below. This illustrates the level of future savings required based on an assumption of 1.5% future council tax increases and the income assumptions described above. It also shows the level of savings which have been identified to date and therefore the current savings gap for each year. The Authority may make council increases up to 1.99% without public referendum and therefore has some capacity to redress this shortfall by increasing tax income in future years.

*Savings plan based on a 1.5% annual council tax increase*





The Authority expects to consult with staff, MPs, elected members and the general public in relation to proposed plans between October and December 2014.

The Authority now needs to prioritise:

- refining its future financial models to model worst case scenarios, in particular, lower future business rates income and further loss of future government grants;
- identifying and quantifying the remaining permanent savings needed from 2015/16 onwards.

---

# Internal controls

## *Accounting systems and systems of internal control*

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the Annual Governance Statement.

## *Reporting requirements*

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention. There have been no significant deficiencies in control noted. There were four control weaknesses noted during the audit that were not considered significant. These are shown in the table below.

## *Operating effectiveness of controls*

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<b>Deficiency</b>	<b>Recommendation</b>	<b>Management Response</b>
<p><i>Manual processing of accounts adjustments</i></p> <p>There is no revenue code which allows capital grants to feed through from the Capital Adjustment Account; this adjustment is therefore performed manually outside of the financial system.</p>	<p>A revenue code is available which can be used for this transaction and all future adjustments of this type should therefore be made within Agresso.</p>	<p>Agree that all future adjustments of this type will be made to the specified revenue code within Agresso.</p>
<p><i>System access</i></p> <p>Of the Authority's leavers in 2013/14, one was not removed from the operating system in a timely way. We verified that this potential system access was not actually used to ensure it did not impact our audit work.</p>	<p>System access should be reviewed regularly to ensure all leavers are removed from the system at the time they leave the Authority.</p>	<p>This was due to a failure in SharePoint to forward an alert to make the change. It is agreed that quarterly reviews will be undertaken to match SharePoint records of leavers against the system access records in Agresso.</p>

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Deficiency	Recommendation	Management Response
<p><i>Password parameters</i></p> <p>The password parameters for the operating network have a failed login attempt limit of 10. This is not in line with best practice and could result in inappropriate system access.</p>	<p>This is a recommendation around best practice. The complexity of passwords required is sufficient to ensure that inappropriate access is not easy; however it should be considered whether the failed login limit would be more effective if reduced.</p>	<p>This is being considered with a view to reducing the numbers of failed attempts.</p>
<p><i>Documentation of system change</i></p> <p>There was insufficient documentation of testing of movement of the server farm from Glenfield to Birstall to provide assurance to us that adequate testing of the move had occurred.</p> <p>To get assurance that the changes to the server farm were successful and therefore did not affect the production of financial information we reviewed the level of downtime that Agresso has experienced in year. We found that in total there have been 8 hours of planned downtime and no unscheduled periods where Agresso was offline.</p>	<p>Any significant server changes should be subject to detailed testing, which is sufficiently recorded and documented.</p>	<p>Agreed, and detailed testing has now been implemented.</p>

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# *Risk of fraud*

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## **Auditors' responsibility**

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## **Management's responsibility**

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## **Responsibility of the Combined Fire Authority**

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## **Your views on fraud**

In our audit plan presented to Policy Committee in March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?

- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

### Conditions under which fraud may occur

**Management or other employees have an incentive or are under pressure**

Incentive / pressure

**Why  
commit  
fraud?**

#### Opportunity

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

#### Rationalisation/attitude

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

# *Fees update*

## *Fees update for 2013/14*

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals.

Our fees charged were therefore:

	2013/14 outturn	2013/14 fee proposal
<b>Statement of Accounts (including whole of government accounts and Value for Money conclusion)</b>	38,996	38,996
<b>Non-audit work</b>	16,800	16,800
<b>TOTAL</b>	<b>55,796</b>	<b>55,796</b>

We planned to perform six pieces of non-audit work as covered in detail on pages 10 and 13 which fell outside of the Code of Audit Practice requirements. Our proposed fee for this non audit work was £16,800 and the actual fee was £16,800.

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# *Appendices*



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# ***Appendix 1: Letter of representation***

PricewaterhouseCoopers LLP

Donington Court

Pegasus Business Park

Castle Donington

East Midlands

DE74 2UZ

Dear Sirs

## **Representation letter – Audit of Leicester, Leicestershire and Rutland Combined Fire Authority’s (the Authority) Statement of Accounts for the Year Ended 31 March 2014**

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Treasurer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

### ***Statement of Accounts***

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

### ***Information Provided***

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

### ***Accounting policies***

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

### ***Fraud and non-compliance with laws and regulations***

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are 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 Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the payment schedule that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

### ***Related party transactions***

I confirm that we have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

### ***Employee Benefits***

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

### ***Litigation and claims***

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### ***Taxation***

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

### ***Pension fund assets and liabilities***

All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including

consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

***Pension fund registered status***

I confirm that the Local Government Pension Scheme, the Firefighters' Pension Scheme (1992), the New Firefighters' Pension Scheme (2006) and the Firefighters' Pensions Injury Awards Scheme are Registered Pension Schemes. We are not aware of any reason why the tax status of the schemes should change.

***Bank accounts***

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

***Subsequent events***

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

.....

Trevor Peel

(Treasurer)

For and on behalf of Leicester, Leicestershire and Rutland Combined Fire Authority

Date .....



In the event that, pursuant to a request which the Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for the Authority and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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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.





## **EXPLANATORY FOREWORD**

The accounting statements contained in this booklet represent the Combined Fire Authority's (CFA's) accounts for the year ended the 31<sup>st</sup> March 2014. 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 2013/14.

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 £17.752m (£10.407m in 2012/13).

### **Balance Sheet**

This sets out the value of assets and liabilities of the CFA as at the 31st March 2014. 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 Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The net worth of the CFA is £28.667m (£26.746m 2012/13) excluding pensions (a deficit of £333.780m including pensions) - (£335.605m 2012/13).

### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the CFA during the reporting period. 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.

### Comparison of Income and Expenditure Spend to Budget

The table below provides a comparison of actual expenditure for the financial year ending the 31<sup>st</sup> March 2014 with the revised budget.

	Revised Budget £000	Actual £000	Variance £000
Employees	28,333	27,985	(348)
Fire Pensions	785	636	(149)
Indirect Employee Expenses	155	133	(22)
Premises	2,012	1,872	(140)
Transport	1,349	1,222	(127)
Supplies and Services	3,180	3,038	(142)
Other Local Authorities	50	26	(24)
Support Services	72	72	0
Capital Financing	3,572	3,394	(178)
Gross Expenditure	39,508	38,378	(1,130)
Income	(38,499)	(38,702)	(203)
Net Expenditure	1,009	(324)	(1,333)
Contribution to Specific Reserves	445	634	189
Net Expenditure after Specific Reserves	1,454	310	(1,144)
Contribution (from)/to General Fund	(1,454)	(765)	689
<b>Total Expenditure</b>	<b>0</b>	<b>(455)</b>	<b>(455)</b>

The accounts for 2013/14 show an underspend of £1,333k compared to the revised budget, before adjustments relating to reserves. The main areas contributing to the underspend are as follows:

Firefighters pay (£183k), Support Staff pay (£77k), Control Room staff pay (£64k), Training (£210k), Building Repairs and Maintenance (£152k), Fleet Maintenance and fuel (108k), Operational Equipment (£55k), Clothing and Uniforms (£67k), Communications and Computing overspend £69k, Government Grants (£141k), and External Interest payments (£94k).

The main items of income (excluding Government Funding income) are:

Contributions received for the Princes Trust Scheme £504k (£638k 2012/13), interest income £30k (£107k 2012/13), dividend from the subsidiary, Forge Health Limited £64k (£33k 2012/13) and radio mast income £49k (£67k 2012/13).

### Comparison of Capital Spend to Revised Programme

The table below provides a comparison of actual payments for the financial year ending the 31<sup>st</sup> March 2014 with the most recent updated capital programme.

	Updated Programme £000	Actual £000	Variance £000
Appliances/ Vehicles	1,738	1,480	(258)
Property	8,782	5,978	(2,804)
Equipment	205	205	0
IT and Communications	2,115	653	(1,462)
<b>Total Expenditure</b>	<b>12,840</b>	<b>8,316</b>	<b>(4,524)</b>

The Property underspend mainly relates to ongoing major building projects that did not complete in 2013/14 but are scheduled for completion in 2014/15. These include continuing development at Hinckley and Coalville Fire Stations, the delayed building purchase at Castle Donington and outstanding fixtures and fitting costs for the new headquarters and fire station at Birstall. Completed projects at Melton and Oakham was achieved with an underspend of £65k. The IT and Communications underspend relates to the Tri-Service Fire Control Project where the implementation of the system is presently planned for July 2014.

As a consequence of both the underspend of the capital projects and deliberate delay in borrowing to keep interest costs down, interest paid on borrowings for 2013/14 was £94k less than the revised budget.

The majority of the expenditure on property relates to the major projects at Hinckley Fire Station (£1.758m), Coalville Fire Station (£1.823m) and the completed projects at Melton and Oakham (£1.191m).

## **Annual Performance**

The Annual Report for 2013/14 that these accounts are contained within, highlights the work that the Service has undertaken over the year and provides a full review of the CFA's performance against Key Corporate Indicators (KCI's). The KCI's include the performance on sickness absence for both operational and support staff and environmental data on the CFA's energy usage.

## **Pensions Accounting**

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

The £11.317m liability (£8.221m in 2012/13) 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 £351.130m (£354.130m in 2012/13) 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 a Department of Communities and Local Government (DCLG) grant. More details on pensions can be found in note 32.

## **Borrowing**

Public Works Loans Board (PWLB) borrowing has increased to £16.728m (£11.228 million in 2012/13), with new borrowing of £5.5m in 2013/14. This is less than originally anticipated in the 2013/16 Medium Term Financial Plan when an authorised limit of £25.269m was set. Finance leases of £1.442m have commenced during 2013/14 and repayments made of £0.809m increasing the borrowing to £6.615m (£5.977m 2012/13) against an authorised limit of £8.336m.

Financing of capital expenditure is primarily undertaken by procuring loans from PWLB, from finance leases available in the market, by capital grants from DCLG, by using proceeds from sales of surplus capital assets or by using one-off excess funds such as underspends.

## **Significant Provisions, Contingencies or Write Offs**

There were no significant write-offs in 2013/14. The property revaluation undertaken on the 31<sup>st</sup> March 2014 resulted in £4.408m negative revaluations which were not covered by positive values held in the revaluation reserve from previous revaluations. A large proportion of this was due to the new headquarters building which was revalued at £3.577m less than its building cost.

## **Events After the Balance Sheet Date**

There are no events after the balance sheet date to report.

## **Impact of Current Economic Climate on the CFA's Services**

The property revaluation as at the 31<sup>st</sup> March 2014 identified £3.874m revaluation increases and £4.521m revaluation losses. The net loss of £0.647m is 1.6% 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.

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

Officers of the CFA have implemented efficiency savings across all areas of the Service. This includes the ongoing roll-out of the 'Day Crewing Plus' duty system. The Medium Term Financial Plan 2013/16 highlights that the CFA is required to make substantial efficiency savings through to 2016/17 and probably until 2019/20. The budget deficit over the next three years is estimated to be £3.9m. Based upon the current financial planning assumptions, this amount will grow to an estimated £7.5m by 2019/20. To tackle the budget shortfall an Organisational Change Project has been established to identify ways in which the deficit can be addressed. A range of options was presented to the CFA at its meeting of the 25th June 2014. These will be developed further and will undergo consultation before decisions are made by the CFA in December 2014. It is acknowledged that it is not possible to achieve the required savings without reductions in staffing levels. It is likely that a number of voluntary and/or compulsory redundancies will be required.

The CFA has agreed to hold 5% of its revenue budget as a General Reserve. Any excess balances will be used to increase the General Fund and provide further transition funding to meet forthcoming budget reductions.

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 that became effective from 2013/14.

The CFA agreed along with all the major precepting authorities to operate a pooling agreement for business rates levies and safety net payments for 2013/14, the Leicester and Leicestershire Pool (LLP). The County Council was the lead authority for the LLP. Overall the Pool achieved a net surplus of £0.7m for 2013/14. The surplus at the end of 2013/14 will be distributed in agreement with the LLP partners. The CFA's share of this pool is £8,244 which will be received in 2014/15.

Due to the uncertainties over Government policy changes and the level of potential appeal losses, the LLP partners decided not to continue with the Pool in 2014/15 and to review the position again for 2015/16.

## **STATEMENT OF RESPONSIBILITIES**

### **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 30<sup>th</sup> June 2014.

**Stephen Corral**

### **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 expenditure and income for the year ended the 31<sup>st</sup> March 2014.



**Trevor Peel**

**TREASURER OF THE COMBINED FIRE AUTHORITY**

# ***Independent Auditors' Report to the Members of the Leicester, Leicestershire and Rutland Combined Fire Authority (the "Authority")***

## **Report on the financial statements**

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### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Authority's affairs as at 31 March 2014 and of the Authority's income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

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### **What we have audited**

The financial statements, which are prepared by Leicester, Leicestershire and Rutland Combined Fire Authority, comprise:

- the Balance Sheet as at 31 March 2014;
- the Comprehensive Income and Expenditure Statement for the year then ended;
- the Movement in Reserves Statement for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the CIPFA Service Reporting Code of Practice 2013/14.

In applying the financial reporting framework, the Treasurer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Statement of Accounts 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.

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

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In our opinion the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.



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## Other matters on which we are required to report by exception

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We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

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## Responsibilities for the financial statements and the audit

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### Our responsibilities and those of the Treasurer

As explained more fully in the Statement of Responsibilities the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## Report on the pension fund accounts

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### Our opinion

In our opinion the pension fund accounts, defined below:

- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2014, and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

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### What we have audited

The firefighters' pension fund accounts contained within the Statement of Accounts of Leicester, Leicestershire and Rutland Combined Fire Authority for the year ended 31 March 2014, comprise:

- the firefighters' pension fund Net Assets Statement as at 31 March 2014;
- the firefighters' pension fund Fund Account for the year then ended; and
- the notes to the firefighters' pension fund statement, which include explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In applying the financial reporting framework, the Treasurer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.



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## What an audit of pension fund accounts involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the firefighters’ pension fund accounts sufficient to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the firefighters’ pension fund’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 firefighters’ pension fund accounts.

In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited firefighters’ pension fund accounts 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.

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## Responsibilities for the pension fund accounts and the audit

### Our responsibilities and those of the Treasurer

As explained more fully in the Statement of Responsibilities the Treasurer is responsible for the preparation of the pension fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority’s members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## Opinion on other matter prescribed by the Code of Audit Practice

In our opinion the information given in the explanatory foreword for the financial year for which the firefighters’ pension fund accounts are prepared is consistent with the pension fund accounts.

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## Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 15 October 2013, 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 ending 31 March 2014.

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### What a review of the arrangements for securing economy, efficiency and effectiveness in the use of resources involves

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 15 October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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#### **Our responsibilities and those of the Authority**

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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.

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## **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 Part II of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Alison Breadon (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

Donington Court,  
Pegasus Business Park,  
East Midlands  
DE74 2UZ

Date:

- (a) The maintenance and integrity of the Leicester, Leicestershire and Rutland Combined Fire Authority's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

**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 other 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.

	Note	Restated General Fund Balance £000	Earmarked General Fund Reserves £000	Restated Total Usable Reserves £000	Unusable Reserves £000	Restated Total CFA Reserves £000
<b>Balance as at the 31<sup>st</sup> March 2012</b>		6,358	1,242	7,600	(294,439)	(286,839)
Deficit on the provision of services		(10,407)	0	(10,407)	0	(10,407)
Deficit on revaluation of Property, Plant and Equipment assets	6	0	0	0	(166)	(166)
Actuarial loss on pension assets/liabilities	6	0	0	0	(38,193)	(38,193)
Other Comprehensive Income and Expenditure:		0	0	0	(38,359)	(38,359)
<b>Total Comprehensive Income and Expenditure</b>		(10,407)	0	(10,407)	(38,359)	(48,766)
Adjustments between accounting basis and funding basis under regulations	5	8,145	0	8,145	(8,145)	0
<b>Net Decrease before Transfers to Earmarked Reserves</b>		(2,262)	0	(2,262)	(46,504)	(48,766)
Transfers to or from Earmarked Reserves	7	336	(336)	0	0	0
<b>Decrease in 2012/13</b>		(1,926)	(336)	(2,262)	(46,504)	(48,766)
<b>Balance as at the 31<sup>st</sup> March 2013</b>		4,432	906	5,338	(340,943)	(335,605)
Deficit on the provision of services		(17,752)	0	(17,752)	0	(17,752)
Surplus on revaluation of Property, Plant and Equipment assets	6	0	0	0	3,627	3,627
Actuarial gains on pension assets/liabilities	6	0	0	0	15,950	15,950
Other Comprehensive Income and Expenditure		0	0	0	19,577	19,577
<b>Total Comprehensive Income and Expenditure</b>		(17,752)	0	(17,752)	19,577	1,825
Adjustments between accounting basis and funding basis under regulations	5	18,037	0	18,037	(18,037)	0
<b>Net Increase before Transfers to Earmarked Reserves</b>		285	0	285	1,540	1,825
Transfers to or from Earmarked Reserves	7	(586)	586	0	0	0
<b>(Decrease)/Increase in 2013/14</b>		(301)	586	285	1,540	1,825
<b>Balance as at the 31<sup>st</sup> March 2014</b>		4,131	1,492	5,623	(339,403)	(333,780)



**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).

	Note	2012/13 (restated)		
		Gross Expenditure	Gross Income	Net Expenditure of Continuing Operations
		£000	£000	£000
Community Fire Safety		4,854	(308)	4,546
Firefighting and Rescue Operations		31,240	(3,268)	27,972
Fire Service Emergency Planning and Civil		453	(21)	432
Corporate and democratic core		803	(35)	768
Non distributed costs		6	0	6
<b>Cost of services</b>		<b>37,356</b>	<b>(3,632)</b>	<b>33,724</b>
Other operating expenditure	8	0	(11)	(11)
Financing and investment income and expenditure	9	15,771	(140)	15,631
Taxation and non-specific grant income and expenditure	10	0	(38,937)	(38,937)
Deficit on the provision of services				10,407
<b>Items that will not be reclassified to the Deficit on the Provision of Services</b>				
Deficit on revaluation of Property, Plant and Equipment assets	6			166
Actuarial losses on pension assets/liabilities	6			38,193
<b>Other Comprehensive Income and Expenditure</b>				<b>38,359</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>48,766</b>

	Note	2013/14		
		Gross Expenditure	Gross Income	Net Expenditure of Continuing Operations
		£000	£000	£000
Community Fire Safety		4,771	(292)	4,479
Firefighting and Rescue Operations		35,755	(1,948)	33,807
Fire Service Emergency Planning and Civil		568	(34)	534
Corporate and democratic core		774	(36)	738
Non distributed costs		6	0	6
<b>Cost of services</b>		<b>41,874</b>	<b>(2,310)</b>	<b>39,564</b>
Other operating expenditure	8	0	(82)	(82)
Financing and investment income and expenditure	9	16,334	(94)	16,240
Taxation and non-specific grant income and expenditure	10	93	(38,063)	(37,970)
Deficit on the provision of services				17,752
<b>Items that will not be reclassified to the Deficit on the Provision of Services</b>				
Surplus on revaluation of Property, Plant and Equipment assets	6			(3,627)
Actuarial gains on pension assets/liabilities	6			(15,950)
<b>Other Comprehensive Income and Expenditure</b>				<b>(19,577)</b>
<b>Total Comprehensive Income and Expenditure</b>				<b>(1,825)</b>

**BALANCE SHEET**

This statement sets out the value of assets and liabilities of the CFA as at the 31<sup>st</sup> March 2014. 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 Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note	31 <sup>st</sup> March 2013 £000	31 <sup>st</sup> March 2014 £000
Property, Plant and Equipment	11	41,033	45,624
Intangible Assets	12	31	18
<b>Long Term Assets</b>		<b>41,064</b>	<b>45,642</b>
Short Term Investments	17	2,342	4,385
Assets Held for Sale	18	167	0
Inventories	19	253	255
Short Term Debtors	20	6,888	5,933
Cash and Cash Equivalents	17	1	1,086
<b>Current Assets</b>		<b>9,651</b>	<b>11,659</b>
Short Term Borrowing	17	(782)	(1,925)
Short Term Creditors	21	(6,712)	(5,191)
<b>Current Liabilities</b>		<b>(7,494)</b>	<b>(7,116)</b>
Long Term Borrowing	17	(16,423)	(21,418)
Net Pensions Liability	32	(362,351)	(362,447)
Provisions	22	(52)	(100)
<b>Long Term Liabilities</b>		<b>(378,826)</b>	<b>(383,965)</b>
<b>Net Liabilities</b>		<b>(335,605)</b>	<b>(333,780)</b>
<b>Financed by:</b>			
General Fund		4,432	4,131
Earmarked General Fund Reserves	7	906	1,492
<b>Total Usable Reserves</b>		<b>5,338</b>	<b>5,623</b>
Pension Reserve	6	(362,351)	(362,447)
Revaluation Reserve	6	4,188	7,815
Capital Adjustment Account	6	17,244	15,232
Collection Fund Adjustment Account	6	71	195
Accumulated Absences Account	6	(95)	(198)
<b>Total Unusable Reserves</b>		<b>(340,943)</b>	<b>(339,403)</b>
<b>Total Reserves</b>		<b>(335,605)</b>	<b>(333,780)</b>

The financial statements on pages 11 to 44 were authorised for issue on the 30<sup>th</sup> June 2014 by the Treasurer of the Combined Fire Authority.



**CASH FLOW STATEMENT**

The Cash Flow Statement shows the changes in cash and cash equivalents of the CFA during the reporting period. 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.

	Note	2012/13 (restated)		2013/14	
		£000	£000	£000	£000
Deficit on the provision of services		10,407		17,752	
Adjustment to net deficit on the provision of services for non-cash movement	35	(13,029)		(22,104)	
<b>Net Cash flows from Operating Activities</b>					
Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	35	1,402		1,049	
<b>Net cash flows from Operating Activities</b>			<b>(1,220)</b>		<b>(3,303)</b>
Investing Activities	37		4,760		8,222
Financing Activities	38		(3,561)		(6,004)
Net Increase in cash and cash equivalents			(21)		(1,085)
<b>Cash and cash equivalents at the beginning of the reporting period</b>	39		(20)		1
<b>Cash and cash equivalents at the end of the reporting period</b>	39		1		1,086

## NOTES TO THE ACCOUNTS

### 1 Accounting Policies

#### 1.1 General principles

The accounts have been prepared with reference to:

The objective of providing information about the financial position, performance and cash flows in a way that meets the 'common needs of most users'.

The objective of showing the results of the stewardship and accountability of elected members and management for the resources entrusted to them;

The following underlying assumptions:

- ~ Accruals basis
- ~ Going concern basis

The following qualitative characteristics:

- ~ Understandability
- ~ Relevance
- ~ Materiality
- ~ Reliability
- ~ Compliance

The accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, as applicable to Fire Authorities. The accounting convention adopted is historical cost modified by the revaluation of property assets.

Accounting policies have been applied consistently throughout these accounts.

#### 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.

#### 1.3 Allocation of support services cost

The CFA purchases certain financial services from Leicestershire County Council. The cost of these services and in-house provision is presented in line with the Service Reporting Code of Practice and have been apportioned pro-rata to other expenditure on the major activities and corporate management.

#### 1.4 Basis of charges for depreciation and amortisation

Vehicles and items of plant and equipment with an original cost of less than £5k are not included in the asset register and therefore are not subject to depreciation.

##### Depreciation/amortisation

Where depreciation/amortisation is provided for, assets are depreciated/amortised using the straight line method over the following periods:

- **Buildings** - The useful economic life of each asset as determined as part of the revaluation process.
- **Vehicles, plant, furniture and equipment** - estimated useful economic life (ranging from 5 to 15 years).
- **Intangible assets** - up to 5 years.
- **Assets under construction** - no depreciation or amortisation is charged whilst an asset is under construction.

Depreciation/amortisation is included in the CIES within firefighting and rescue operations under cost of services.

It is the policy of the CFA to write off accumulated depreciation on an asset when it is revalued.

#### 1.5 Basis of debtors included in the accounts

The necessity for a provision for doubtful debts is considered every year. At the 31<sup>st</sup> March 2014 no provision has been made relating to debts as the level of debt overdue by 121 days is not material. Additionally, there is no evidence of impairment and historical evidence is that recent debts have been paid in full.

#### 1.6 Capital Receipts

Proceeds from the sale of property, plant and equipment are initially credited to the CIES and are then transferred from the General Fund to the Usable Capital Receipts Reserve, via the MIRS, with the exception of proceeds from the sale of vehicles and equipment of less than £6k which are retained in the General Fund.

#### 1.7 Cash and Cash Equivalents

Cash and cash equivalents are represented by cash in hand and deposits with financial institutions repayable without penalty on demand and where earning interest is not the prime consideration.

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.

#### 1.8 Charges to Revenue for Non-current Assets

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

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

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 either 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 (MRP or loans fund principal), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### 1.9 Collection fund adjustment account

The CFA is a precepting authority which levies a precept on the collection fund of billing Authorities, namely:

Blaby District Council  
Charnwood Borough Council  
Harborough District Council  
Hinckley and Bosworth Borough Council  
Leicester City Council  
Melton Borough Council  
North West Leicestershire District Council  
Oadby and Wigston Borough Council  
Rutland County Council

Billing Authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and, from 2013/14 following the implementation of the Local Government Finance Bill, business rates. The funds key features relevant to accounting for council tax and business rates in the core financial statements are:

- a) Billing Authorities collect and distribute council tax and business rate income on behalf of the major preceptors and itself.
- b) The income for the year credited to the CFA's CIES is accrued income for the year. Each billing authority, however, may only release council tax and business rates from the collection fund to the CFA in accordance with the regulations. The collection fund adjustment account records the difference between this income as recognised in the CIES and the amount calculated in accordance with regulations.

#### 1.10 Contingent Liabilities

Contingent liabilities are:

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

A present obligation that arises from past events but is not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

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



## 1.11 Employee Benefits

### (i) Post-employment Benefits

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

- The Local Government Pension Scheme, for which Hymans Robertson calculate the liability as at the 31<sup>st</sup> March 2014 and which Leicestershire County Council administer.
- Three Firefighters' pension schemes, for which the Government Actuary's Department (GAD) calculate the liability. 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.

IAS19 - Employee Benefits, requires the recognition of the CFA's share of assets and liabilities in the three firefighters' pension schemes and the LGPS as well as requiring recognition in the CIES of the full costs of providing for future retirement benefits earned by existing employees.

The liabilities attributable to the CFA are included in the Balance Sheet on an actuarial basis using the projected unit credit 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 4.3% for the LGPS and 4.4% for the firefighter's schemes.

The firefighter's schemes are unfunded and therefore have no assets. In respect of LGPS, in accordance with IAS 19, quoted securities are valued at bid price rather than mid-market value.

Actuarial losses and gains are recognised within Other Comprehensive Income and Expenditure in the CIES. They are then reversed out of the General Fund to the Pensions Reserve within the MIRS, to ensure they do not impact on the council tax payer.

The movement on the pensions asset/liability is analysed into the following constituents:

Service cost comprising:

- current service cost - the increase in the present value of a defined benefit obligation (liabilities) resulting from employee service in the current period.
- past service costs - the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the CFA in the number of employees covered by a plan).

Net interest on the net defined benefit liability (asset) - the change during the period in the net defined liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprising:

- actuarial gains and losses – changes in the present value of the defined benefit obligation arising from:
  - a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and b) the effects of changes in actuarial assumptions.
- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset).

Contributions by scheme participants - the increase in scheme liabilities and assets due to payments made into the scheme by employees (where increased contribution increases pensions due to the employee in the future).

Contributions by the employer - the increase in scheme assets due to payments made into the scheme by the employer.

Benefits paid - payments to discharge liabilities directly to pensioners.

### (ii) Benefits Payable During Employment

During employment, employees receive short term benefits. Those payable include; wages and salaries, paid annual leave, paid sick leave and non-monetary benefits (e.g. provided cars). For current employees these are recognised as an expense for services in the year in which the employees render service to the CFA. An accrual is made for the cost of holiday entitlements 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 following financial year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out in the Movement in Reserves so that revenue is charged in the financial year in which the holiday absence occurs.

(iii) Termination Benefits

Termination benefits are amounts 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 are charged on an accruals basis to the appropriate service in the CIES when the CFA is demonstrably committed to the termination of employment of an officer or group of officers or to making an offer to encourage voluntary redundancy.

Where the termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the CFA 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.

(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 decision to make the award and accounted for using the same policies as are applied to the pension scheme.

### 1.12 Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Treasurer on the 30<sup>th</sup> June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at the 31<sup>st</sup> March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 1.13 Financial Instruments

Financial liabilities/ loans and receivables 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/credits to the Financing and Investment Income and Expenditure line in the CIES for interest payable/receivable are based on the carrying amount of the liability/asset, 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 instruments to the amount at which it was originally recognised. For most of the loans that the CFA has made, the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

### 1.14 Government Grants and Contributions

Grants are accounted for on an accruals basis when there is reasonable assurance that they will be received. Grants received where conditions have not been satisfied are shown in the Balance Sheet as Creditors. When all conditions attached to the grant are satisfied, income is recognised within the CIES on the relevant service line (attributable revenue grants and contributions) or in Taxation and Non-specific Grant Income and Expenditure (non-ring fenced revenue grants and all capital grants). Capital grants recognised in this way are then reversed out of the General Fund via the MIRS. Capital grants not yet used to finance expenditure are shown in the Capital Grants Unapplied Reserve. When the grant is applied to expenditure it is transferred to the Capital Adjustment Account. The transfer is reported in the MIRS.

### 1.15 Group Accounts

The financial statements contain information about the CFA as an individual entity only. The statements do not contain consolidated financial information as the parent of a group. In accordance with paragraph 9.1.1.6 of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, the CFA has not prepared consolidated financial statements, as after an annual review it is considered that its interests in subsidiary undertakings are not material.

### 1.16 Heritage Assets

Heritage assets are those which are maintained principally for their contribution to knowledge or culture. Where these are held, the Code requires Authorities to recognise them where information is available on their value, or where the cost of obtaining this valuation is commensurate with the benefits to the users of the financial statements. The CFA holds artwork believed to be worth approximately £15k. Valuation has not been sought, nor the items added to the Balance Sheet as the value of the items is not considered substantially material to justify this.

### 1.17 Income Recognition

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

Interest receivable on investments is accounted for on the basis of the effective interest rate rather than the cash flows fixed or determined by the contract.

Where revenue has been recognised but cash has not been received a debtor 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.

#### 1.18 Intangible Assets

Intangible assets are assets that do not have a physical form, e.g. software licences, are measured at historical cost for all assets with an original cost in excess of £10k and amortised over their useful economic lives. The assets are valued at cost less accumulated depreciation. Where an intangible asset acquisition forms part of a larger asset acquisition the intangible part will be accounted for separately, even if it is less than £10,000.

#### 1.19 Inventories

Inventories are measured at the lower of cost or net realisable value. Stocked items are assigned a cost using a first in, first out method (FIFO).

#### 1.20 Investments

Investments are shown at the lower of cost and net realisable value.

#### 1.21 Leases

- (i) Lease rentals payable under operating leases, which are used to acquire vehicles or equipment as an alternative to capital financing, are not capitalised and rentals are charged to the CIES in the financial year to which they relate.
- (ii) Finance Leases are capitalised in the balance sheet at fair value and depreciated over the life of the lease on a straight line method, the depreciation being charged to the CIES. A matching liability for the capitalised amount is created in the Balance Sheet when the asset is capitalised to recognise the obligation to pay the lessor. This liability is reduced over the estimated useful life of the asset.

#### 1.22 Non-Current 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 Comprehensive Income and Expenditure Statement (CIES). Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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 reconsidered had they not been classified as held for sale, and their recoverable amount at the date of the decision to sell.

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

#### 1.23 Overheads

The expenditure of services within CIES include a charge for all support services provided by the central departments of the CFA, other than the direct costs of members and their support, which are disclosed separately in the CIES within Corporate and Democratic Core. These charges are based upon a split of work undertaken.

#### 1.24 Prior Period Adjustments

Prior period adjustments may arise as a result in a charge of accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

#### 1.25 Property, Plant and Equipment

All expenditure on the acquisition and/or improvement of non-current assets is capitalised provided that the asset yields a benefit to the CFA for a period of more than a year and is over a £5k de-minimus limit.

There is no depreciation or amortisation charged in the year of addition, unless the value is deemed material to the accounts, but a full year's depreciation or amortisation is charged in year of disposal.

Non-current assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

The bases of valuation of the various categories of assets are as follows:

##### (i) Land and Buildings

This category of asset is included in the Balance Sheet at open market value for existing use, or where, due to the specialised nature of the asset this could not be assessed, at depreciated replacement cost. The remaining average life of all buildings as at the 31<sup>st</sup> March 2014 is 29 years. Valuation is carried out every year. 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 31<sup>st</sup> March 2014. Additions since the 1<sup>st</sup> April 2013 which are still under construction are included in the accounts at cost.

##### (ii) Vehicles, Plant and Equipment

Measurement is based upon actual cost depreciated over the individual assets' useful economic lives.

#### 1.26 Provisions

Provisions are recognised when the CFA has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of 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.

#### 1.27 Redemption of external debt

The CFA finances a proportion of its capital investment by raising loans. In accordance with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) the General Fund has been charged with an amount that is sufficient to redeem outstanding debt as specified in the medium term financial plan. The sum set aside each year is called the Minimum Revenue Provision (MRP).

The CFA's borrowing strategy allows debt rescheduling opportunities where advantageous.

#### 1.28 Reserves

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

Unusable 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 6.

#### 1.29 Value Added Tax (VAT)

VAT incorporated in the CIES is limited to irrecoverable sums.

### 2 Accounting Standards that have been Issued but not yet Adopted

For 2013/14 the following accounting policy changes that need to be reported relate to:

- ~ IFRS 13 Fair Value Measurement (May 2011)
- ~ IFRS 10 Consolidated Financial Statements
- ~ IFRS 11 Joint Arrangements
- ~ IFRS 12 Disclosure of Interests in Other Entities
- ~ IAS 27 Separate Financial Statements (as amended in 2011)
- ~ IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- ~ IAS 32 Financial Instruments: Presentation
- ~ Annual Improvements to IFRSs 2009 – 2011 Cycle.

### 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 statement of accounts are:

- a) 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
- b) impairment of investments will not be material
- c) 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 2013/14. As the interests are not considered material, group accounts are not presented.
- d) that no contracts held by the CFA hold embedded leases
- e) that no major legal claims are in progress which could result in claims of a material value by or from the CFA.

**4 Assumptions Made about the Future and other Major Sources of Uncertainty**

The Statement of Accounts contains estimated figures that are based in 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 31<sup>st</sup> March 2014 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. If budgets for these repairs and maintenance were cut due to funding limitations, the anticipated lives may not be realised. Significant assumptions are applied by the valuer in estimating the fair value and remaining useful lives of land and buildings.	If the lives of the asset are reduced, this will have an impact on levels of depreciation and carrying value of assets will fall. It is estimated that the annual depreciation charge for all properties would increase by £19k 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 £328k 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 pensions 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 would have an increase in the pension liability of £38.8m (£3.6m LGPS and £35.2m firefighters schemes).
Arrears	At 31 <sup>st</sup> March 2014, the CFA had a balance of trade debtors of £180k. A review of all balances over 121 days outstanding found no evidence to conclude that any unrecoverable debts were material. For this reason, no impairment of doubtful debts is proposed at this time.	If all outstanding debt over 121 days became irrecoverable, a charge of £2k would be made to the revenue budget.



## 5 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure that are specified by statutory provisions as being available to the CFA to meet future capital and revenue expenditure.

	2012/13		2013/14	
	Usable Reserves General Fund Balance	Movement in Unusable Reserves	Usable Reserves General Fund Balance	Movement in Unusable Reserves
<b>Adjustments primarily involving the Capital Adjustment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Reversal of items debited or credited to the CIES</u>				
Charges for depreciation of non-current assets	(1,722)	1,722	(2,014)	2,014
Difference between fair value and historical cost depreciation	0	0	110	(110)
Revaluation Gains/(Losses) of Property, Plant and Equipment	17	(17)	(4,408)	4,408
Amortisation of Intangible assets	(12)	12	(13)	13
Capital grants and contributions applied	2,396	(2,396)	1,552	(1,552)
Capital Receipts applied	0	0	1,313	(1,313)
Other movement:				
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	20	(20)	(1,069)	1,069
Amounts of current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	0	0	(162)	162
<u>Insertion of items not debited or credited to the CIES</u>				
Statutory provision for the financing of capital investment	1,047	(1,047)	1,414	(1,414)
Capital expenditure charged to the General Fund Balance	4,170	(4,170)	1,265	(1,265)
Revenue Income credited to Capital	(7)	7	0	0
<b>Adjustments primarily involving the Pensions Reserve:</b>				
Reversal of items relating to retirement benefits debited or credited to CIES	(15,159)	15,159	(15,606)	15,606
Employer's pensions contributions and direct payments to pensioners payable in the year	1,088	(1,088)	(440)	440
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which council tax and non-domestic rating income credited to the CIES is different from council tax and non-domestic income calculated for the year in accordance with statutory requirements	5	(5)	124	(124)
<b>Adjustments primarily involving the Accumulating Absences Account:</b>				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	12	(12)	(103)	103
<b>Total Adjustments</b>	<b>(8,145)</b>	<b>8,145</b>	<b>(18,037)</b>	<b>18,037</b>

**6 Unusable Reserves****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.

Changes have been made in the way pensions are disclosed under IAS19 (2011 amendments). This introduces the new terms 'Service Cost' and 'remeasurement of the net defined liability/(asset)'. The financial impact of this change results in a difference of £87k in 2012/13 which affects this pension reserve note, note 5, note 9, note 32, note 35, note 40 and all main statements.

<b>Pensions Reserve</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Balance at 1<sup>st</sup> April</b>	(310,087)	(362,351)
Remeasurements of the net defined benefit liability/(asset)	(38,193)	15,950
Reversal of items relating to retirement benefits debited or credited to the surplus/deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(15,159)	(15,606)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,088	(440)
<b>Balance at 31<sup>st</sup> March</b>	<b>(362,351)</b>	<b>(362,447)</b>

**CAPITAL RESERVES**

In accordance with standard accounting practice, two non cash-backed capital reserves exist as part of the system of capital accounting. These are:

**Revaluation Reserve**

The reserve started on the 1<sup>st</sup> April 2007 with a nil balance and represents gains in asset valuations recognised since that date as a result of revaluation of non-current assets. Where there is a revaluation reduction as a result of change in fair value, then the reduction in value is taken first through the revaluation reserve up to the amount of accumulated gains for that asset and thereafter through the CIES. If an impairment loss on any asset is charged to the CIES but had a revaluation gain in the reserve, an amount up to the value of the loss is transferred to the Capital Adjustment Account. Any revaluation gains in the reserve for assets that are disposed or decommissioned is transferred to the Capital Adjustment Account. Additional depreciation for the revalued amount above historical cost is transferred each year to the Capital Adjustment Account.

<b>Revaluation Reserve</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
<b>Balance at 1<sup>st</sup> April</b>	4,354	4,188
Upward revaluation of assets and impairment	68	3,874
Downward revaluation of assets and impairment losses	(112)	(113)
Net revaluation movement	(44)	3,761
Write out of revaluation reserve on disposal	0	(24)
Difference between fair value and historical cost depreciation	(122)	(110)
Movement to CIES	(166)	3,627
<b>Balance at 31<sup>st</sup> March</b>	<b>4,188</b>	<b>7,815</b>

**Capital Adjustment Account**

The Capital Adjustment Account replaced the Capital Financing Account from the 1<sup>st</sup> April 2007. Balances as at the 31<sup>st</sup> March 2014 represent the combined balances of the Capital Financing Account and Fixed Asset Restatement Account. 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.



Capital Adjustment Account	2012/13 £000	2013/14 £000
Balance at 1 <sup>st</sup> April	11,335	17,244
<i>Reversal of items relating to capital expenditure debited or credited to the CIES</i>		
Charges for depreciation of non-current assets	(1,722)	(2,014)
Difference between fair value and historical cost depreciation	0	110
Charges for amortisation of intangible assets	(12)	(13)
Net revaluation differences in surplus/deficit on the provision of services	17	(4,408)
Disposal of non-current asset	20	(1,069)
Disposal of asset held for sale	0	(162)
Capital financing applied in year:		
Capital grants credited to CIES that have been applied to capital financing	2,396	1,552
Statutory provision for the financing of capital investment charged against the general fund	1,047	1,414
Use of Capital Receipt	0	1,313
Capital expenditure charged against the general fund balance	4,170	1,265
Revenue Income credited to Capital	(7)	0
<b>Balance at 31<sup>st</sup> March</b>	<b>17,244</b>	<b>15,232</b>

#### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and National Domestic Rates (NDR) income in the CIES as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. Changes have been made in the way non-domestic rates are accounted for which have been represented in the notes for 2013/14.

Collection Fund Adjustment Account	2012/13 £000	2013/14 £000
Balance at 1 <sup>st</sup> April	66	71
Amounts 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	5	124
<b>Balance at 31<sup>st</sup> March</b>	<b>71</b>	<b>195</b>

#### Accumulating Absences Adjustment Account

Accumulating absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the CFA. The most significant and material element is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the CFA is required to accrue for any annual leave earned but not taken at the 31<sup>st</sup> March each year.

The Government has issued regulations that mean Local Authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Adjustment Account until the benefits are used.

Accumulating Absences Adjustment Account	2012/13 £000	2013/14 £000
Balance at 1 <sup>st</sup> April	(107)	(95)
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	12	(103)
<b>Balance at 31<sup>st</sup> March</b>	<b>(95)</b>	<b>(198)</b>



**7 Transfers to/ from Earmarked General Fund Reserves**

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14.

The CFA maintains a number of earmarked reserves to finance future expenditure as detailed below:

- (i) **Insurance reserve**  
The CFA's insurance policies require a degree of self-insurance. The insurance reserve has been established to meet future claims.
- (ii) **Occupational Health reserve**  
Created for the purpose of investing in reducing absence, early retirements, employee retention and vocational rehabilitation.
- (iii) **Arson reserve**  
Created to support work on arson reduction over a 3 year period from 2010/11 from a one-off City Reward grant. This is now fully used.
- (iv) **IRMP reserve**  
Created to help with one off costs in implementing the Integrated Risk Management Plan (IRMP).
- (v) **Ill health retirement reserve**  
Created to help finance any DCLG imposed penalties for early retirements caused through ill health.
- (vi) **Relocation reserve**  
Created to meet any costs associated with the employment of new employees where relocation expenses are appropriate.
- (vii) **Part time workers reserve**  
Created to meet costs to be paid under the part time workers (Prevention of Less Favourable Treatment) Regulations 2000. Final agreement has been reached and the majority was paid in 2012/13.
- (viii) **Mutual insurance reserve**  
These funds have been maintained to cover possible costs incurred as a consequence of belonging to an insurance consortium.
- (ix) **Purchased vehicle reserve**  
A replacement fund for 5 officers' cars which are purchased and not leased.
- (x) **Training rig reserve**  
This has been created to provide a capital contribution towards the Urban Search and Rescue (USAR) Training Rig which is due to be completed in 2014/15.
- (xi) **Emergency Services Mobile Communications Programme (ESMCP) reserve**  
This has been created to provide a contingency for the mobile communications programme.

Movements in these reserves for the period 1<sup>st</sup> April 2012 to 31<sup>st</sup> March 2014 are as follow:

	Balance at 1 <sup>st</sup> April 2012 £000	Transfers out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 <sup>st</sup> March 2013 £000
Insurance reserve	163	152	0	11
Occupational Health reserve	40	0	0	40
Arson reserve	58	40	0	18
IRMP reserve	439	24	0	415
Ill health retirement reserve	172	0	0	172
Relocation reserve	26	0	0	26
Part time workers reserve	200	130	0	70
Mutual insurance reserve	75	0	0	75
Purchased vehicle reserve	30	0	10	40
Training rig reserve	39	0	0	39
<b>TOTAL</b>	<b>1,242</b>	<b>346</b>	<b>10</b>	<b>906</b>
Net Movement				336

	Balance at 1 <sup>st</sup> April 2013 £000	Transfers out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 <sup>st</sup> March 2014 £000
Insurance reserve	11	48	110	73
Occupational Health reserve	40	0	0	40
Arson reserve	18	18	0	0
IRMP reserve	415	0	0	415
Ill health retirement reserve	172	0	0	172
Relocation reserve	26	0	0	26
Part time workers reserve	70	0	0	70
Mutual insurance reserve	75	0	126	201
Purchased vehicle reserve	40	0	42	82
Princes Trust reserve	0	0	149	149
Motor insurance reserve	0	0	75	75
Training rig	39	0	0	39
ESMCP reserve	0	0	150	150
<b>TOTAL</b>	<b>906</b>	<b>66</b>	<b>652</b>	<b>1,492</b>
Net Movement				(586)

**8 Other Operating Expenditure**

	2012/13 £000	2013/14 £000
Gains on the disposal of non-current assets	(11)	(82)

**9 Financing and Investment Income and Expenditure**

	2012/13 £000	2013/14 £000
Interest payable and similar charges	612	728
Pensions interest cost and expected return on pensions assets	15,159	15,606
Dividend received	(33)	(64)
Interest receivable	(107)	(30)
<b>TOTAL</b>	<b>15,631</b>	<b>16,240</b>

**10 Taxation and Non Specific Grant Income and Expenditure**

	2012/13 £000	2013/14 £000
Council tax income	(17,675)	(16,786)
Non domestic rates income and expenditure	(18,507)	(7,804)
Non-ring fenced government grants	(359)	(11,828)
Capital grant	(2,396)	(1,552)
<b>TOTAL</b>	<b>(38,937)</b>	<b>(37,970)</b>

## 11 Movement on Property, Plant and Equipment

	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 <sup>st</sup> April 2012	20,780	16,799	1,651	39,230
Additions	71	1,218	11,749	13,038
Revaluation (decreases)/increases recognised in the revaluation reserve	(1)	0	45	44
Revaluation decreases recognised in the surplus/deficit on the provision of services	(321)	0	(311)	(632)
Derecognition - disposals	0	(455)	0	(455)
Transfers	(1,808)	195	1,435	(178)
<b>As at 31<sup>st</sup> March 2013</b>	<b>18,721</b>	<b>17,757</b>	<b>14,569</b>	<b>51,047</b>
<u>Accumulated Depreciation and Impairment</u>				
As at 1 <sup>st</sup> April 2012	0	9,189	0	9,189
<u>Depreciation Charge for Year:</u>				
Depreciation credited to the revaluation reserve	(138)	0	16	(122)
Depreciation charged to the surplus/deficit on the provision of services	495	1,227	0	1,722
Derecognition - disposals	0	(435)	0	(435)
Transfers	(138)	32	95	(11)
Write back of accumulated depreciation on revaluation	(219)	0	(110)	(329)
<b>As at 31<sup>st</sup> March 2013</b>	<b>0</b>	<b>10,013</b>	<b>1</b>	<b>10,014</b>

	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 <sup>st</sup> April 2013	18,721	17,757	14,569	51,047
Additions	2,385	1,812	4,119	8,316
Revaluation (decreases)/increases recognised in the revaluation reserve	3,202	0	0	3,202
Revaluation decreases recognised in the surplus/deficit on the provision of services	(4,408)	0	0	(4,408)
Derecognition - disposals	(1,050)	(259)	0	(1,309)
Transfers	12,635	897	(13,532)	0
<b>As at 31<sup>st</sup> March 2014</b>	<b>31,485</b>	<b>20,207</b>	<b>5,156</b>	<b>56,848</b>
<u>Accumulated Depreciation and Impairment</u>				
As at 1 <sup>st</sup> April 2013	0	10,013	1	10,014
<u>Depreciation Charge for Year:</u>				
Depreciation credited to the revaluation reserve	(559)	0	0	(559)
Depreciation charged to the surplus/deficit on the provision of services	607	1,402	0	2,009
Derecognition - disposals	(26)	(214)	0	(240)
Transfers	0	1	(1)	0
Write back of accumulated depreciation on revaluation	0	0	0	0
<b>As at 31<sup>st</sup> March 2014</b>	<b>22</b>	<b>11,202</b>	<b>0</b>	<b>11,224</b>
<u>Net Book value:</u>				
As at 31 <sup>st</sup> March 2013	18,721	7,744	14,568	41,033
As at 31 <sup>st</sup> March 2014	31,463	9,005	5,156	45,624



Included in the opening cost or valuation figure are finance lease assets of £8,423k for vehicles, plant and equipment. Opening depreciation on these assets was £2,995k. After additions of £1,507k and £814k depreciation for the year, the net book value of these assets at the 31<sup>st</sup> March 2014 is £6,121k.

Asset remaining lives have been reviewed and no alterations have been considered necessary for these accounts. There are several existing buildings that have undergone significant refurbishment in 2013/14 and their respective increase in remaining life will be adjusted for in 2014/15.

A total amount of £4,359k is currently contracted for property and vehicles and is expected to be paid in 2014/15. The majority of this (£2,705k) is in respect of property developments.

The Headquarters at Glenfield were sold in 2013/14 with the full capital receipt received in January 2014. The new Headquarters and Fire Station at Birstall became operational in April 2013. Although our policy is to depreciate in the first full financial year of an assets life, due to the material value of these new assets, these premises have been depreciated by £158k in 2013/14. The revaluation of Headquarters has resulted in a charge of £3,577k being applied to the Comprehensive Income and Expenditure Statement.

## 12 Movement of Intangible Assets

	31 <sup>st</sup> March 2013 £000	31 <sup>st</sup> March 2014 £000
<u>Cost or Valuation</u>		
As at 1 <sup>st</sup> April	132	136
Additions	4	0
<b>As at 31<sup>st</sup> March</b>	<b>136</b>	<b>136</b>
<u>Accumulated Depreciation and Impairment</u>		
As at 1 <sup>st</sup> April	93	105
<u>Amortisation Charge for Year:</u> Amortisation charged to the surplus/deficit on the provision of services	12	13
<b>As at 31<sup>st</sup> March</b>	<b>105</b>	<b>118</b>
<b>Net Book value</b>	<b>31</b>	<b>18</b>

As at the 31<sup>st</sup> March 2014 there are no contractual commitments for the acquisition of intangible assets.

## 13 Details of Capital Expenditure

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

	2012/13 £000	2013/14 £000
Land and buildings	71	2,385
Vehicles, plant and equipment	1,218	1,812
Software licences	4	0
Assets in construction	11,749	4,119
<b>TOTAL</b>	<b>13,042</b>	<b>8,316</b>

This includes property, plant and equipment and intangible assets (Notes 11 and 12).

## 14 Financing of Capital Expenditure

Capital expenditure was financed as follows:

	2012/13 £000	2013/14 £000
Prudential Borrowing	5,677	2,794
Capital receipts	77	1,261
General fund	4,077	1,265
Income and expenditure	93	0
Finance lease	722	1,442
Finance lease not commenced in year	0	2
Grant	2,396	1,552
<b>TOTAL</b>	<b>13,042</b>	<b>8,316</b>

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 in 2011/12, 2012/13 and 2013/14. The Senior Management Team have decided not to proceed with the capital build intended by the grant and discussions on retaining the grant are on-going with the Department for Communities and Local Government. The remainder of the grant funding is carried over into 2014/15 and is shown as a creditor in the accounts.

The CFA had an opening capital financing requirement of £19,478k at the 1<sup>st</sup> April 2013 and a closing capital financing requirement of £22,594k at the 31<sup>st</sup> March 2014.

## 15 Details of Assets owned by the CFA

	31 <sup>st</sup> March 2013 Number	31 <sup>st</sup> March 2014 Number
<b>Buildings</b>		
Fire stations	20	20
Fire headquarters	1	1
Control centre	1	1
Training unit	1	1
<b>Vehicles &amp; Equipment (owned)</b>		
Operational vehicles	26	21
Non-operational vehicles	20	20
<b>Vehicles &amp; Equipment (leased)</b>		
Operational vehicles	40	47

## 16 Finance Lease Assets owned by the CFA

Finance lease rentals paid to lessors relating to 2013/14 totalled £1,197k (£876k 2012/13) of which £284k was interest and £913k was principal. All finance leases relate to Vehicles, Plant and Equipment and the net book value of these assets at the 31<sup>st</sup> March 2014 is £6,121k.

Principal and interest obligations under Finance Leases payable:	Within 1 year £000	1-5 years £000	Over 5 years £000
<b>2012/13</b>			
Minimum lease payments	1,020	3,627	1,945
Difference due to timing of cash flows	(33)	(387)	(426)
Present value	987	3,240	1,519
<b>2013/14</b>			
Minimum lease payments	1,184	4,012	1,966
Difference due to timing of cash flows	(42)	(463)	(460)
Present value	1,142	3,549	1,506

## 17 Financial Instruments

## a) Categories of Financial Instruments

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

Included in:	31 <sup>st</sup> March 2013		31 <sup>st</sup> March 2014	
	Long-Term £000	Short-Term £000	Long-Term £000	Short-Term £000
<b>- Investments</b>				
Loans and receivables at fair value	0	2,342	0	4,385
<b>- Cash and Cash Equivalents</b>				
Bank balance	0	1	0	1,086
<b>- Debtors</b>				
Financial assets carried at contract cost	0	4,096	0	2,920
<b>TOTAL ASSETS</b>	<b>0</b>	<b>6,439</b>	<b>0</b>	<b>8,391</b>
<b>- Borrowings</b>				
Financial liabilities (i.e. borrowings) at amortised cost	(11,228)	0	(15,728)	(1,000)
<b>- Creditors</b>				
Financial liabilities carried at contract amount	0	(3,161)	0	(3,010)
<b>- Other Liabilities</b>				
Finance leases	(5,195)	(782)	(5,690)	(925)
<b>TOTAL LIABILITIES</b>	<b>(16,423)</b>	<b>(3,943)</b>	<b>(21,418)</b>	<b>(4,935)</b>
<b>NET TOTAL</b>	<b>(16,423)</b>	<b>2,496</b>	<b>(21,418)</b>	<b>3,456</b>

**b) Maturity of Long-Term Borrowings and Other Liabilities**

	31 <sup>st</sup> March 2013 £000	31 <sup>st</sup> March 2014 £000
Between 1 and 2 years	(2,644)	(3,091)
Between 2 and 5 years	(3,869)	(2,793)
Between 5 and 10 years	(3,437)	(4,306)
Over 10 years	(6,473)	(11,228)
<b>TOTAL</b>	<b>(16,423)</b>	<b>(21,418)</b>

PWLB interest of £136k (2012/13 £99k) 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 31<sup>st</sup> March 2014 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 <sup>st</sup> March 2013		31 <sup>st</sup> March 2014	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	20,725	22,102	26,353	26,815
Financial Assets	6,798	6,811	8,391	8,833

The fair value for financial liabilities as at the 31<sup>st</sup> March 2014 is more than the carrying amount because the CFA's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. This commitment to pay interest above current market rates increases the amount that the CFA would have to pay if the lender requested or agreed to early repayments of the loans. The difference on the financial assets relates to accrued interest which is due after the 31<sup>st</sup> March 2014.

**c) Exposure to Risk**

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 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 CFA actively pursues outstanding debt through the in-house legal services department.

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 2014 were repaid to the CFA before the date the Statement of Accounts was authorised for issue (30th June 2014) 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 <sup>st</sup> April 2013 £000	31 <sup>st</sup> March 2014 £000	Est. Maximum Exposure to Credit Risk £000	Historical Experience of Default %
Deposits with banks and financial institutions	2,343	5,471	0	0.00
Trade debtors:				
- not yet due for payment	79	177	0	0.00
- past due date for payment	10	3	0	0.02
<b>TOTAL</b>	<b>2,432</b>	<b>5,651</b>	<b>0</b>	

The past due amount is analysed by age as follows:

	1 <sup>st</sup> April 2013 £000	31 <sup>st</sup> March 2014 £000
Less than 1 month overdue	0	0
1-2 months overdue	8	1
2-6 months overdue	0	0
6-12 months overdue	0	0
Over 1 year overdue	2	2
<b>TOTAL</b>	<b>10</b>	<b>3</b>

**Liquidity Risk**

The CFA is able to access borrowings from the PWLB so there is no significant risk that it will be unable to raise funds in order to meet its commitments relating to financial liabilities. The risk the CFA is exposed to is that it will need to replenish its borrowings when interest rates are unfavourable. The CFA's strategy is to place limits on the percentage of borrowings due to mature at intervals as follows:

**Maturity of Borrowing:**

Maturity Structure of fixed interest rate borrowing 2013/14		
	Lower Limit	Upper Limit
Under 12 months	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%

This strategy allows the CFA time to restructure debt when interest rates are favourable.

The CFA's strategy is to maintain sufficient cash balances to meet daily revenue requirements without recourse to borrowing other than short term borrowing in exceptional circumstances.

All trade and other payables are due to be repaid within 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 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 31<sup>st</sup> March 2014, 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)	51
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)	(167)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**18 Assets Held for Sale**

Syston fire station was sold in 2013/14 and a capital receipt of £250k was received in December 2013. A gain on disposal of £88k was realised. The following values related to this property.

	2012/13 £000	2013/14 £000
<u>Cost or Valuation</u>		
As at 1 <sup>st</sup> April	0	167
Transfers	178	0
Revaluation decrease	(11)	0
Disposals	0	(167)
<b>As at 31<sup>st</sup> March</b>	<b>167</b>	<b>0</b>
<u>Accumulated Depreciation and Impairment</u>		
As at 1 <sup>st</sup> April	0	0
Transfers	10	0
Depreciation	0	5
Write back of accumulated depreciation	(10)	(5)
<b>As at 31<sup>st</sup> March</b>	<b>0</b>	<b>0</b>
<b>Net Book value as at 31<sup>st</sup> March</b>	<b>167</b>	<b>0</b>



**19 Inventories**

	31 <sup>st</sup> March 2013 £000	31 <sup>st</sup> March 2014 £000
Operational equipment	136	109
Vehicle parts	57	61
Other	60	85
<b>TOTAL</b>	<b>253</b>	<b>255</b>

Inventory valued at £367k (£325k 2012/13) was utilised in 2013/14.

**20 Debtors**

	31 <sup>st</sup> March 2013 £000	31 <sup>st</sup> March 2014 £000
Short-Term Debtors:		
- Central government bodies	2,792	3,013
- Other local authorities	2,897	765
- All other	1,199	2,155
<b>TOTAL</b>	<b>6,888</b>	<b>5,933</b>

**21 Creditors**

	31 <sup>st</sup> March 2013 £000	31 <sup>st</sup> March 2014 £000
Central government	3,551	2,181
Other local authorities	1,466	1,241
All other	1,695	1,769
<b>TOTAL</b>	<b>6,712</b>	<b>5,191</b>

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

**22 Provisions Movements during the Year**

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 is from a reserve currently held for this purpose, so has no impact on the CIES.

Movements in the provision are as follows:

	Balance as at 31 <sup>st</sup> March 2013 £000	Expenditure 2013/14 £000	Amount transferred in 2013/14 £000	Balance as at 31 <sup>st</sup> March 2014 £000
Insurance provision	52	0	48	100

## 23 Officers' Emoluments

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

2012/13	Chief Officer £000	Director of Organisational Development £000	Director of Community Safety £000	Director of Finance and Corporate Risk £000
Salary	86	117	107	89
Benefits in Kind	0	2	1	1
Total Remuneration excluding pensions contribution	86	119	108	90
Pension Contribution	10	25	23	13
Total Remuneration including pensions contribution	96	144	131	103

2013/14	Chief Officer £000	Director of Community Safety £000	Director of Finance and Corporate Risk £000
Salary	87	92	84
Benefits in Kind	0	0	6
Total Remuneration excluding pensions contribution	87	92	90
Pension Contribution	0	16	7
Total Remuneration including pensions contribution	87	108	97

During the year the number of officers and support staff who received remuneration in excess of £50k including those shown above were:

Salary Bands	Number of Employees 2012/13	Number of Employees 2013/14
£50,000 - £54,999	23	18
£55,000 - £59,999	8	8
£60,000 - £64,999	1	5
£65,000 - £69,999	0	2
£70,000 - £74,999	3	0
£75,000 - £79,999	0	3
£80,000 - £84,999	0	1
£85,000 - £89,999	2	1
£90,000 - £94,999	0	1
£105,000 - £109,999	1	0
£115,000 - £119,999	1	0
	39	39

## 24 Exit packages

The following compulsory termination benefits have been paid:

	Number of Packages 2012/13 £000	Total Amount 2012/13 £000	Number of Packages 2013/14 £000	Total Amount 2013/14 £000
£0 - £20,000	8	25	0	0

There were no voluntary redundancies in this period.

**25 Provisions for Repayment for External Loans**

The CFA is required by statute to set aside a minimum revenue provision for the redemption of debt. In its Medium Term Financial Plan 2013/16 the CFA has stated its intention to provide 4% of the capital financing requirement as a minimum revenue provision. In addition, in respect of any unsupported borrowing the asset life method will be used, basing an MRP provision on the estimated life of assets in accordance with DCLG guidance. The total amount of this provision is detailed below:

	2012/13 £000	2013/14 £000
Minimum Revenue Provision	1,047	1,414

**26 Operating Leases**

Operating lease rentals paid to lessors in the year totalled £195k (2012/13 £219k). As at the 31<sup>st</sup> March 2014 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:

	2012/13 £000	2013/14 £000
Within 1 year	186	98
1-5 years	193	152
Over 5 years	51	26
<b>TOTAL</b>	<b>430</b>	<b>276</b>

**27 Members' Allowance**

Sums paid are shown below:

	2012/13 £000	2013/14 £000
Members' allowances	68	67

**28 Related Parties**

The CFA is required to disclose material transactions with related parties, bodies or individuals that have the potential to exert control, or be controlled or influenced by the CFA.

DCLG has effective control of the general operations 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).

From the information currently available, there were no material transactions with related parties other than those disclosed below:

	2012/13 £000	2013/14 £000
<u>Due to:</u>		
Leicestershire County Council - Local partner/Supplier of service	114	100
DCLG - Firelink	66	67
<u>Due from:</u>		
Forge Health Limited - Wholly owned subsidiary	(33)	(64)
DCLG :-		
Pensions reimbursement	(1,841)	(1,048)
Funding	0	(10)
<b>Net balance with related parties at 31<sup>st</sup> March</b>	<b>(1,694)</b>	<b>(955)</b>

	2012/13 £000	2013/14 £000
<b>Expenditure</b>		
<u>Local Partners</u>		
Leicestershire County Council	259	419
Leicester City Council	12	10
Rutland County Council	0	1
<u>Firelink provider</u>		
DCLG	646	390
<b>Income</b>		
<u>Local Partners</u>		
Leicester City Council	(2)	0
<u>Wholly owned subsidiary</u>		
Forge Health Limited	(33)	(64)
<u>Government Grant</u>		
DCLG:		
Revenue Grant	(1,214)	(1,231)
Transparency Code Set-up	0	(3)
Small Business Enterprise PR	0	(95)
Capitalisation Provision Redistribution	0	(62)
Council Tax Support Scheme	(27)	(27)
<u>Funding</u>		
Pensions reimbursement	(5,891)	(6,800)
<b>Net transactions with related parties for year</b>	<b>(6,250)</b>	<b>(7,462)</b>



**29 Audit Costs**

The CFA incurred the following fees relating to external audit, statutory inspection and other services:

	2012/13 £000	2013/14 £000
Fees payable to the appointed auditor, PricewaterhouseCoopers LLP with regard to external audit services under Section 5 of the Audit Commission Act 1998	42	39
<u>Fees in respect of other services provided by the appointed auditor</u>		
VAT Helpline	0	2
VAT training	0	4
Employment Taxes	8	22
<b>TOTAL</b>	<b>50</b>	<b>67</b>

**30 Forge Health Limited**

The CFA operates a trading company 'Forge Health Limited' as a wholly owned subsidiary. Its main activity is the provision of occupational health services to the private and public sectors. For the year 2013/14, Forge Health Limited reported a post tax profit of £64k (£33k in 2012/13) and this sum is proposed by the Company to be wholly paid as dividend to the CFA. Note 28 of these statements discloses the total transactions with Forge Health Limited and amounts due from/to at the year end. The financial statements 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.

**31 Grants Received**

Revenue grants received by the CFA from DCLG were as follows:

	2012/13 £000	2013/14 £000
Fire Revenue Grant	1,214	1,231
Council Tax Support Scheme	27	27
Small Business Rate relief	0	95
Transparency code set up	0	3
Capitalisation Provision Redistribution Grant	0	62
<b>TOTAL</b>	<b>1,241</b>	<b>1,418</b>

Capital grant of £1,049k (£1,402k in 2012/13) was received from the DCLG for Capital Expenditure and was utilised fully in the financial year. The £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. £129k of this was spent by Derbyshire in 2012/13 and £504k in 2013/14. The cost of this work and the use of the grant, has been incorporated into these accounts.

**32 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 four pension schemes provide members with defined benefits related to pay and service and are detailed below:

**(i) Uniformed Firefighters**

This is made up of three 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 are 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	
	2012/13 £000	2013/14 £000
<b>Cost of Services</b>		
~ current service cost	759	942
<b>Financing and Investment Income and Expenditure</b>		
~ net interest expense	289	376
<b>Total Post-employment Benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>1,048</b>	<b>1,318</b>
<b>Other Post-employment Benefit Charged to the CIES</b>		
Remeasurement of the net defined benefit liability comprising:		
~ Return on plan assets (excluding the amount included in the net interest expense)	1,322	270
~ actuarial gains and losses arising on changes in demographic assumptions	0	672
~ actuarial gains and losses arising on changes in financial assumptions	(3,199)	557
~ other	24	911
<b>Total Post-employment Benefit Charged to the CIES</b>	<b>(1,853)</b>	<b>2,410</b>
<b>Movement in Reserves Statement</b>		
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(1,048)	(1,318)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
~ employers contributions payable to scheme	(627)	(632)

2012/13	Firefighters' 1992 Pension Scheme £000	Injury Benefit Scheme £000	Firefighters' 2006 Pension Scheme £000
<b>Comprehensive Income and Expenditure Statement</b>			
<b>Cost of Services</b>			
~ current service costs	6,270	600	1,830
<b>Financing and Investment Income and Expenditure</b>			
~ net interest expense	13,770	750	350
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>20,040</b>	<b>1,350</b>	<b>2,180</b>
<b>Other Post-employment Benefit Charged to the CIES</b>			
Remeasurement of the net defined benefit liability comprising:			
~ actuarial gains and losses arising on changes in demographic assumptions	36,760	0	1,800
~ actuarial gains and losses arising on changes in financial assumptions	(30)	4,200	0
~ other	(4,220)	(2,240)	70
<b>Total Post-employment Benefit Charged to the CIES</b>	<b>32,510</b>	<b>1,960</b>	<b>1,870</b>
<b>Movement in Reserves Statement</b>			
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(20,040)	(1,350)	(2,180)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
~ employers contributions payable to scheme	(2,327)	0	(462)

2013/14	Firefighters' 1992 Pension Scheme £000	Injury Benefit Scheme £000	Firefighters' 2006 Pension Scheme £000
<b>Comprehensive Income and Expenditure Statement</b>			
<b>Cost of Services</b>			
~ current service costs	7,520	810	2,490
~ past service costs	0	10	0
<b>Financing and Investment Income and Expenditure</b>			
~ net interest expense	13,930	800	500
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>21,450</b>	<b>1,620</b>	<b>2,990</b>
<b>Other Post-employment Benefit Charged to the CIES</b>			
Remeasurement of the net defined benefit liability comprising:			
~ actuarial gains and losses arising on changes in demographic assumptions	(7,710)	(2,130)	(1,020)
~ actuarial gains and losses arising on changes in financial assumptions	(180)	0	(20)
~ other	(5,820)	(1,390)	(90)
<b>Total Post-employment Benefit Charged to the CIES</b>	<b>(13,710)</b>	<b>(3,520)</b>	<b>(1,130)</b>
<b>Movement in Reserves Statement</b>			
~ reversal of net charges made to the surplus or deficit on the provision of services for post-employment benefits in accordance with the Code	(21,450)	(1,620)	(2,990)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
~ employers contributions payable to scheme	(2,295)	0	(512)



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

	Firefighters' 1992 Pension Scheme £000	Injury Benefit Scheme £000	Firefighters' 2006 Pension Scheme £000	Total £000
Opening balance at the 1 <sup>st</sup> April 2012	282,850	15,040	6,250	304,140
Current service costs (net of employee contributions)	5,000	600	1,460	7,060
Contributions by scheme participants	1,270	0	370	1,640
Pension transfers in	0	0	150	150
Remeasurement loss/(gain)				0
- Changes in demographic assumptions	36,760	0	1,800	38,560
- Changes in financial assumptions	(30)	4,200	0	4,170
- Other experience	(4,220)	(2,240)	70	(6,390)
Finance Interest cost	13,770	750	350	14,870
Benefits paid	(9,970)	(100)	0	(10,070)
Closing balance at the 31 <sup>st</sup> March 2013	325,430	18,250	10,450	354,130
Current service costs (net of employee contributions)	6,100	810	2,040	8,950
Past service costs	0	10	0	10
Contributions by scheme participants	1,420	0	450	1,870
Remeasurement gain				
- Changes in demographic assumptions	(7,710)	(2,130)	(1,020)	(10,860)
- Changes in financial assumptions	(180)	0	(20)	(200)
- Other experience	(5,820)	(1,390)	(90)	(7,300)
Finance Interest cost	13,930	800	500	15,230
Benefits paid	(10,580)	(120)	0	(10,700)
Closing balance at the 31 <sup>st</sup> March 2014	322,590	16,230	12,310	351,130

## Reconciliation of present value of the scheme liabilities - LGPS

	2012/13 £000	2013/14 £000
Funded Liabilities		24,374
Unfunded Liabilities		78
Opening balance at the 1 <sup>st</sup> April	19,666	24,452
Current service cost	759	942
Interest cost	959	1,116
Contributions by scheme participants	282	269
Remeasurement gain/(loss):		
Changes in demographic assumptions	0	672
Changes in financial assumptions	3,199	557
Other experience	(24)	911
Benefits paid	(385)	(426)
Unfunded benefits paid	(4)	(4)
Funded Liabilities	24,374	28,408
Unfunded Liabilities	78	81
Closing balance at the 31 <sup>st</sup> March	24,452	28,489

## Reconciliation of the movement of fair value of scheme assets - LGPS

	2012/13 £000	2013/14 £000
Opening balance at the 1 <sup>st</sup> April	13,719	16,231
Interest Income	670	740
Remeasurement (gain)/loss:		
The return on plan assets, excluding the amount included in the net interest expense	1,322	(270)
Employer contributions	623	628
Contributions by scheme participants	282	269
Contributions in respect of unfunded benefits	4	4
Unfunded benefits paid	(4)	(4)
Benefits paid	(385)	(426)
Closing balance at the 31 <sup>st</sup> March	16,231	17,172

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

	LGPS £000
As at 31 <sup>st</sup> March 2013	
Present value of the defined benefit obligation	24,452
Fair value of plan assets	(16,231)
Net liability arising from defined benefit obligation	8,221
As at 31 <sup>st</sup> March 2014	
Present value of the defined benefit obligation	28,489
Fair value of plan assets	(17,172)
Net liability arising from defined benefit obligation	11,317

## Local Government Pension Scheme assets comprised:

	Year ended 31 <sup>st</sup> March 2013 £000	Year ended 31 <sup>st</sup> March 2013 %	Year ended 31 <sup>st</sup> March 2014 £000	Year ended 31 <sup>st</sup> March 2014 %
Cash and cash equivalents	368	2.3%	390	2.3%
<u>Quoted prices in active markets</u>				
Equity Securities				
Other	596	3.7%	631	3.7%
Bonds				
UK Government	201	1.2%	212	1.2%
Other	1161	7.2%	1228	7.2%
Investment Funds and Unit Trusts				
Equities	8183	50.4%	8658	50.4%
Bonds	555	3.4%	587	3.4%
Hedge Funds	535	3.3%	566	3.3%
Commodities	436	2.7%	461	2.7%
Other	842	5.2%	890	5.2%
<u>Quoted prices not in active markets</u>				
Property				
UK Property	1517	9.3%	1605	9.3%
Private Equity				
All	637	3.9%	674	3.9%
Investment Funds and Unit Trusts				
Bonds	514	3.2%	543	3.2%
Hedge Funds	19	0.1%	21	0.1%
Commodities	299	1.8%	316	1.8%
Infrastructure	368	2.3%	390	2.3%
<b>Total Assets</b>	<b>16,231</b>	<b>100.0%</b>	<b>17,172</b>	<b>100%</b>



**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 28<sup>th</sup> March 2014.

The significant assumptions used by the actuaries have been:

	2012/13		2013/14	
	LGPS	Fire Pension Scheme	LGPS	Fire Pension Scheme
<b>Mortality assumptions:</b>				
Longevity in years of current pensioners at 65:				
Men	20.9	23.5	22.2	23.5
Women	23.3	25.4	24.3	25.5
Longevity in years at 65 for future pensioners currently aged 45:				
Men	23.3	26.7	24.2	26.6
Women	25.6	28.4	26.6	28.6
<b>Other assumptions:</b>				
Rate of Inflation	2.8%	2.5%	2.8%	2.5%
Rate of increase in pensions	2.8%	2.5%	2.8%	2.5%
Rate of increase in salaries	5.1%	4.7%	4.6%	4.5%
Rate for discounting scheme liabilities	4.5%	4.3%	4.3%	4.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period 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 below did not change from those used in the previous period.

**Impact on the Defined Benefit Obligation in the Scheme**

	Change in Assumption	
	LGPS £000	Fire Pension Schemes £000
Longevity (change of 1 year)	855	5,700
Rate of increase in salaries (change of 0.5%)	1,606	6,100
Rate of increase in pensions (change of 0.5%)	1,933	29,100
Rate of discounting scheme liabilities (change of 0.5%)	3,626	35,200

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 31st March 2016.

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.

## 33 Collection Fund Adjustment Account

The Collection fund adjustment account represents the CFA's share of the collection fund surplus/deficit held by each Council Tax billing CFA within Leicester, Leicestershire & Rutland. From 2013/14 the collection fund also holds balances for Non-Domestic rates (NDR), due to the responsibility for collection and distribution of these regionally having been passed out from central government. No 2013/14 comparators have been provided. The breakdown of the figure on the CFA's Balance Sheet is as follows:

2012/13	Council Tax Collection Fund Heading				
	Council Tax arrears	Impairment Allowance for bad/doubtful debts	Council Tax over and pre-payments	Collection Fund Deficit/ (Surplus)	Cash
	£000	£000	£000	£000	£000
Blaby District Council	105	(31)	(10)	(24)	(40)
Charnwood Borough Council	160	(62)	(52)	10	(56)
Harborough District Council	81	(21)	(20)	(7)	(33)
Hinckley & Bosworth Borough Council	54	(16)	(25)	3	(16)
Leicester City Council	362	(162)	(63)	(35)	(102)
Melton Borough Council	78	(6)	(15)	8	(65)
Oadby & Wigston Borough Council	28	(9)	(12)	(9)	2
North West Leics District Council	85	(49)	(25)	(11)	0
Rutland County Council	18	(3)	(6)	(6)	(3)
<b>Total</b>	<b>971</b>	<b>(359)</b>	<b>(228)</b>	<b>(71)</b>	<b>(313)</b>

2012/13	Business Rates Collection Fund Heading			
	Business Ratepayer arrears	Allowance for non-collection	Business Ratepayer over and pre-payments	Cash
	£000	£000	£000	£000
Blaby District Council	20	(4)	(7)	(9)
Charnwood Borough Council	7	(1)	(5)	(1)
Harborough District Council	5	(5)	(1)	1
Hinckley & Bosworth Borough Council	4	0	(2)	(2)
Leicester City Council	53	(22)	(14)	(17)
Melton Borough Council	6	(1)	0	(5)
Oadby & Wigston Borough Council	5	(1)	(3)	(1)
North West Leics District Council	10	(5)	(13)	8
Rutland County Council	-	-	-	-
<b>Total</b>	<b>110</b>	<b>(39)</b>	<b>(45)</b>	<b>(26)</b>

2013/14	Council Tax Collection Fund Heading				
	Council Tax arrears	Impairment Allowance for bad/doubtful debts	Council Tax over and pre-payments	Collection Fund (Surplus)/ Deficit	Cash
	£000	£000	£000	£000	£000
Blaby District Council	106	(32)	(29)	(26)	(19)
Charnwood Borough Council	174	(68)	(52)	(22)	(32)
Harborough District Council	83	(23)	(34)	(9)	(17)
Hinckley & Bosworth Borough Council	69	(21)	(33)	(17)	2
Leicester City Council	427	(214)	(77)	(135)	(1)
Melton Borough Council	93	(8)	(18)	2	(69)
Oadby & Wigston Borough Council	34	(11)	(15)	(26)	18
North West Leics District Council	97	(57)	(30)	(35)	25
Rutland County Council	18	(3)	(7)	(20)	12
<b>Total</b>	<b>1,101</b>	<b>(437)</b>	<b>(295)</b>	<b>(288)</b>	<b>(81)</b>

2013/14	Business Rates Collection Fund Heading					
	Business Ratepayer arrears	Allowance for non-collection	Business Ratepayer over and pre-payments	Provision for Appeals	Collection Fund (Surplus)/ Deficit	Cash
	£000	£000	£000	£000	£000	£000
Blaby District Council	10	(3)	(5)	(27)	19	6
Charnwood Borough Council	11	(2)	(6)	(17)	32	(18)
Harborough District Council	6	(1)	(5)	(5)	(7)	12
Hinckley & Bosworth Borough Council	7	0	(5)	(6)	1	3
Leicester City Council	74	(28)	(13)	(73)	30	10
Melton Borough Council	8	(2)	(4)	(4)	6	(4)
Oadby & Wigston Borough Council	6	(2)	(4)	(5)	4	1
North West Leics District Council	16	(8)	(15)	(34)	4	37
Rutland County Council	1	(1)	0	(4)	4	0
<b>Total</b>	<b>139</b>	<b>(47)</b>	<b>(57)</b>	<b>(175)</b>	<b>93</b>	<b>47</b>

The CFA's collection fund adjustment account therefore has a surplus of £195k at the 31st March 2014 (£71k 2012/13).



**34 Contingent Liabilities**Pensionable Pay - Retained Duty System Element of Day-Staffing Pay

An employment tribunal case has been brought on behalf of retained firefighters to seek redress under the part-time workers' regulations. This tribunal has judged that retained firefighters will be able to buy back pensionable service within the Firefighters Pension Scheme 1992 for the period from the 1<sup>st</sup> July 2000 to the 5<sup>th</sup> April 2006. The legislation which will enable this is not yet in place and it has not yet been determined whether the employers' pension contributions will be funded by Fire Authorities or by Central Government. This is a national issue and the costs are potentially very high across the country but will depend upon the level of take up by retained firefighters.

**35 Reconciliation of the Surplus on the CIES to the Revenue Activities Cash Flow.**

	Restated 2012/13		2013/14	
	£000	£000	£000	£000
<b>The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:</b>				
Pension liability	(14,071)		(16,046)	
Depreciation	(1,722)		(2,014)	
Amortisation	(12)		(13)	
Impairment and downward revaluation	17		(4,408)	
Accumulating absence adjustment account	12		103	
Collection fund adjustment account	0		(215)	
Write out of revaluation reserve on disposal	0		24	
Net gain on disposal	0		82	
Creditors	803		2,952	
Debtors	2,012		(2,635)	
Provisions	(51)		48	
Inventories	(5)		2	
Other items	(12)		16	
<b>Adjustments to net surplus deficit on the provisions of services for non cash movements Items classified elsewhere in the statement:</b>		<b>(13,029)</b>		<b>(22,104)</b>
Capital grant received		1,402		1,049
<b>Total adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>		<b>1,402</b>		<b>1,049</b>

**36 Operating Activities**

	2012/13 £000	2013/14 £000
<b>The cash flows from operating activities include the following items:</b>		
Interest received	(95)	(37)
Dividend received	(57)	(33)
Interest paid	395	559

**37 Investing Activities**

	2012/13 £000	2013/14 £000
Purchase of property, plant and equipment and intangible assets	12,513	8,489
Purchase of short and long term investments	984	4,043
Proceeds from the sale of short and long term investments	(7,313)	(2,001)
Proceeds from the sale of property, plant and equipment	31	(1,260)
Capital grants and contributions	(1,402)	(1,049)
Deposit received for sale of property	(53)	0
<b>Net Cash Flow from Investing Activities</b>	<b>4,760</b>	<b>8,222</b>

**38 Financing Activities**

	2012/13 £000	2013/14 £000
Cash receipts from short term and long term borrowing including sale and leaseback	(4,796)	(6,942)
Repayments of short term and long term borrowing	1,235	938
<b>Net Cash Flow from Financing Activities</b>	<b>(3,561)</b>	<b>(6,004)</b>

## 39 Cash and Cash Equivalents

	2012/13 £000	2013/14 £000
Investments held for liquidity purposes	9	1,083
Petty cash and credit card balances	(8)	3
	1	1,086

## 40 Segmental Analysis

The analysis of income and expenditure by service on the face of the CIES is that specified by the Service Reporting Code of Practice. Decisions about resource allocation are taken by the CFA, who are considered to be the chief operating decision maker, on the basis of one segment for the whole CFA. These reports are prepared on a different basis from the accounting policies used in the financial statements. 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**

	Actual	Not reported in Management Accounts	Not included in CIES	TOTAL
	£000	£000	£000	£000
<b>Restated 2012/13</b>				
Employee expenses	28,209	(12)	0	28,197
Pension costs calculated in accordance with IAS19	0	14,071	0	14,071
Other service expenses*	12,419	(144)	(5,114)	7,161
Depreciation, revaluation losses to CIES, amortisation and impairment	0	1,801	0	1,801
Interest payments	612	0	0	612
Gain on disposal of non-current assets	0	(11)	0	(11)
<b>Expenditure</b>	<b>41,240</b>	<b>15,618</b>	<b>(5,114)</b>	<b>51,831</b>
Fees, charges and other income	(1,106)	0	0	(1,106)
Interest and investment income	(140)	0	0	(140)
Income from council tax	(17,675)	0	0	(17,675)
Government grants and contributions	(20,107)	(2,396)	0	(22,503)
<b>Income</b>	<b>(39,028)</b>	<b>(2,396)</b>	<b>0</b>	<b>(41,424)</b>
<b>Deficit on the Provision of Services</b>				<b>10,407</b>
<b>2013/14</b>				
Employee expenses	28,621	104	0	28,725
Pension costs calculated in accordance with IAS19	0	16,046	0	16,046
Other service expenses*	9,039	0	(2,679)	6,360
Depreciation, revaluation losses to CIES, amortisation and impairment	0	6,324	0	6,324
Write out of revaluation reserve on disposal	0	25	0	25
Expenditure from non-domestic rates	0	93	0	93
Interest payments	728	0	0	728
<b>Expenditure</b>	<b>38,388</b>	<b>22,592</b>	<b>(2,679)</b>	<b>58,301</b>
Fees, charges and other income	(892)	0	0	(892)
Interest and investment income	(94)	0	0	(94)
Income from council tax	(16,574)	(212)	0	(16,786)
Income from non-domestic rates	(7,896)	0	0	(7,896)
Gain on disposal of non-current assets	0	(82)	0	(82)
Government grants and contributions	(13,247)	(1,552)	0	(14,799)
<b>Income</b>	<b>(38,703)</b>	<b>(1,846)</b>	<b>0</b>	<b>(40,549)</b>
<b>Deficit on the Provision of Services</b>				<b>17,752</b>

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



**PENSION FUND STATEMENT****Firefighters' Pension Fund**

Fund Account	2012/13 £000	2013/14 £000
<b>Income to the fund</b>		
<b>Contributions receivable:</b>		
~ from employer		
~ normal contributions	(2,792)	(2,807)
~ ill health contributions	(3)	(18)
~ from members	(1,644)	(1,870)
<b>Transfers in:</b>		
~ individual transfers in from other schemes	(158)	0
<b>Income to the fund</b>	<b>(4,597)</b>	<b>(4,695)</b>
<b>Spending by the fund</b>		
<b>Benefits payable:</b>		
~ Pension payments	7,587	8,189
~ Death Benefits	0	86
~ Commutation of pensions and lump-sum retirement benefits	2,665	2,454
<b>Payments To and On Behalf of Leavers</b>		
~ Individual transfers out to other schemes	97	(27)
<b>Spending by the fund</b>	<b>10,349</b>	<b>10,702</b>
<b>Deficit for the year before top up grant receivable from DCLG</b>	<b>5,752</b>	<b>6,007</b>
~ Top-up grant received	(3,911)	(4,959)
<b>Surplus for the Year</b>	<b>1,841</b>	<b>1,048</b>

Firefighters' Pension fund net assets statement	2012/13 £000	2013/14 £000
<b>Net current assets and liabilities:</b>		
~ pensions top up grant receivable from DCLG	1,841	1,048

**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 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 financial statements do not take account of liabilities to pay pensions and other benefits after the 31<sup>st</sup> March 2014. These can be found in note 32 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 15.
- 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 DCLG following audit of the accounts for the year.
- The fund is in deficit by £351.130m as at the 31<sup>st</sup> March 2014 (£354.130m as at the 31<sup>st</sup> March 2013).

## **GLOSSARY OF TERMS**

### **1. Accruals**

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

### **2. Amortisation**

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

### **3. 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.

### **4. Capital Receipts**

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

### **5. 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.

### **6. Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principle accountancy body dealing with Local Government finance.

### **7. Corporate and Democratic Core**

Includes all aspects of members' activities and corporate management (see 8 below).

### **8. Corporate Management**

Concerns those activities and costs relating to provision of infrastructure, whether by the CFA or not, and the information which is required for public accountability.

### **9. Creditors**

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

### **10. Debtors**

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

### **11. Depreciation**

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



**12. Government Actuary's Department**

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

**13. Long Term Borrowing**

Loans raised to finance capital spending which have still to be repaid.

**14. Non-current Assets**

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

**15. Non Distributed Costs**

Costs relating to pension scheme past service costs, settlements and curtailments.

**16. Operating Leases**

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.

**17. 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.

**18. Reserve**

An amount set aside for purposes falling outside the definition of a provision.

**19. Revenue Expenditure**

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