

**MERSEYSIDE FIRE AND
RESCUE AUTHORITY**

**DRAFT ANNUAL STATEMENT
OF ACCOUNTS 2013 – 2014**

- SUBJECT TO AUDIT

MERSEYSIDE FIRE AND RESCUE AUTHORITY

ANNUAL STATEMENT OF ACCOUNTS 2013 – 2014

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FOREWORD by the Deputy Chief Executive

Introduction

The Statement of Accounts sets out the financial activities of the Authority for the year ended 31st March 2014, with comparative figures for the previous financial year. These financial statements have been prepared in accordance with the 2013/14 Code of Practice on Local Authority Accounting (*the Code*) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and are based upon International Financial Reporting Standards (IFRS). The Code and relevant guidance notes specifies the principles and practices of accounting required to give a “true and fair” view of the financial position and transactions of the Authority.

Due to the complex nature of the accounts a simpler version has been prepared and this can be obtained at

<http://www.merseyfire.gov.uk/asp/pages/finance/finance5.aspx>

That simplified statement has no formal legal standing but does provide a quick overview of the Authority’s financial activities by eliminating many of the technical accounting adjustments.

Background to Merseyside Fire and Rescue Service

Merseyside is a metropolitan area in the North West of England covering the District Councils of Knowsley, Liverpool, Sefton, St. Helens and Wirral. It covers an area of 653sq/km and has a resident population of some 1.4 million people.

Merseyside Fire & Rescue Authority (MFRA) is a local authority created by the Local Government Act 1985. It is made up of 18 elected representatives appointed by the constituent District Councils. The number of councillors from each district is determined by statute and in most cases is representative of the political composition of that Council. During 2013/14 this was as follows:

Knowsley	2	(2 Labour)
Liverpool	6	(5 Labour, 1 Liberal Democrat)
Sefton	4	(3 Labour, 1 Liberal Democrat)
St. Helens	2	(2 Labour)
Wirral	4	(3 Labour, 1 Conservative)

The Authority’s Mission and Aims are outlined below and the approved 2013/14 financial plan had prioritised the allocation of resources to deliver the Mission.

Our Mission;

To Achieve; Safer, Stronger Communities - Safe Effective Firefighters

Our Aims;

Excellent Operational Preparedness

We will provide our firefighters with the training, information, procedures and equipment to ensure they can safely and effectively resolve all emergency incidents.

Excellent Operational Response

To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

Excellent Prevention and Protection

We will work with our partners and our community to protect the most vulnerable.

Excellent People

We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

The Authority’s Fire and Rescue Service is led by a Chief Fire Officer supported by a Strategic Management team comprising of the Deputy Chief Fire Officer, Deputy Chief Executive and other senior managers.



The Authority delivered its services through:

- employing approximately 1,150 staff during the year, most are involved in front line service delivery
- twenty eight frontline fire appliances alongside a range of specialist vehicles and equipment are available to respond quickly to fires and all other emergency incidents
- twenty seven Community Fire Stations with a variety of duty systems. These stations act as hubs for providing services to our communities.

The 2013/14 Approved Financial Plan & Financial Performance for the Year.

The Authority determines its budget requirement by assessing the future years' service commitments that are financed through its General Fund. The General Fund is a statutory account that records only those expenses that regulations allow to be charged against the amount to be collected from council tax payers. The Authority then monitors and manages expenditure throughout the year against the General Fund budget to ensure all expenditure is affordable and planned. The General Fund position for the year is shown in the Movement in Reserves Statement.

The Authority is facing an unprecedented financial challenge over the period 2011/12 – 2014/15 period as the government addresses imbalances in national public spending. For 2011/12 to 2012/13 the Authority received the biggest grant cuts for any fire authority in the country from Central Government, a cumulative reduction of in excess of 13%. The Authority approved a saving plan to deliver savings totalling £9.2m to balance the budget over this period.

The Government then further reduced its funding for 2013/14 and 2014/15 by 8.7% and 7.5% (respectively, this was equivalent to a £6.3m cash reduction resulting in an overall need to identify a further £10.1m of savings..

The Authority approved a robust financial plan to meet the deficit, recognising in order to deliver the required level of savings that as staff costs make up nearly 80% of its budget then it would have to reduce the number of its staff. At the same time the Authority was and is committed to avoiding compulsory redundancies and to seeking to minimise the impact of cuts on service levels to the communities of Merseyside.

The Authority adopted a medium term financial plan that included:-

- An assumption of a further two years (2013/14 – 2014/15) of pay restraint for all staff and pay bill increases of no more than 1% in each year for all staff saving £1.0m. (The pay bill includes pay awards, pension contributions and national insurance).
- An assumption that the Authority would generate savings from a review of the inflation provision overall and a review of capital charges of £3.2m in total.
- Additional income targets of £0.5m.
- Efficiencies from management and back office costs of £2.3m.
- A Council tax increase in 2013/14 and 2014/15 of 2%. The maximum allowed before a referendum

Despite the savings above the consequence of the grant reductions has meant £3.1m of inevitable cuts in operational staffing in order to balance the books. This meant a reduction of 90 front line Firefighter posts and the number of fire appliances being reduced from 37 to 28. This relates to a 33% reduction in available appliances since 2011.

The Authority set its General Fund budget for 2013/14 at £66.7million and approved a five year capital investment programme, (2013/14 – 2017/18), of £31.484m with planned expenditure in 2013/14 of £14.926m. The Authority adopted a reserves strategy that maintained a General Reserve of £2.894m and Earmarked Reserves of £23.082m to cater for specific risks, projects and one-off initiatives and in particular to help it manage effectively the financial pressures.

Revenue Expenditure:

Throughout the year the Authority received regular financial review reports detailing:-

- the service's progress in implementing the approved savings options,
- any additional budget amendments required,
- plus the movements from and to reserves.

The cash savings required to balance the budget were delivered.

The approved General Fund budget remained constant throughout the year at £66.721m. The table below summarises the general revenue fund position at the year-end and compares it to that budget. Overall the Authority was ahead of target in delivering its savings by £2.307 million by the year end.

Type of Expenditure	Budget £000	Expenditure £000	Variance £000
General Fund Movement:			
Net Authority Expenditure (net of service grants and income)	68,793	66,486	(2,307)
Contribution (from) / to Reserves	(2,072)	235	2,307
Total	66,721	66,721	-
Central Government Support and Council Tax Income	(66,721)	(66,721)	-
(Surplus) / Deficit for the year	-	-	-
General fund Reserve Movement:			
Balance brought forward at 1 st April 2013	(2,894)	-	-
Adjust for Surplus/Deficit for the year	-	-	-
Balance carried forward at 31st March 2014	(2,894)	-	-

In light of the recent years of financial pressures, the Authority adopted a strategy that it would aim as far as possible to maximise its level of reserves, in order to provide a temporary resource to enable the service changes that would deliver the required future savings without compulsory redundancy. Therefore throughout the year managers looked at every opportunity to maximise savings against the approved budget to enable an increase in reserves. Details on all the Authority's reserves can be found in Note 8 to the accounts.

In total savings of £2.307m were identified in the year and the Authority was able to increase earmarked reserves from the anticipated position by that amount.

The key areas of under spending were;

- Vacancy management within the employee establishment resulted in a saving of £0.2m
- The actual phasing of PFI unitary payments and other premises costs resulted in a saving of £0.2m
- The management of supplies and services expenditure resulted in a saving of £0.8m
- Increased fees, charges, and secondment income of £0.8m
- An inflation provision saving of £0.2m

Whilst the General Fund shows a neutral position for the year (after the creation of year-end reserves), the Comprehensive Income and Expenditure Statement (CIES) indicates a £41.847m surplus for the year. The CIES is prepared on a different basis to the General Revenue Fund, the CIES shows the accounting cost in the year in accordance with the relevant generally accepted accounting principles, rather than the amount funded from taxation (General Fund). The CIES includes such expenses as depreciation and amounts to reflect pension costs which are not charged to council tax and are excluded from the General Fund statement. The CIES surplus of £41.847m represents the amount by which the Authority's overall net worth has increased over the year as shown in the Balance Sheet.

Note 27 "Amounts Reported for Resource Allocation Decisions" outlines in more detail the reconciliation of the General Fund and CIES statements, but the differences are summarised below;

	Expenditure £000
Net General Fund 2013/14 year-end position:	-
1 Net creation of Earmarked Reserves**	(235)
2 Asset valuation / charges and Capital Funding Adjustments	
Charge for depreciation and impairment	4,443
Other Operating Expenditure	0
Revenue expenditure funded from capital under statute (REFCUS)	619
Finance (interest on loans)	3,773
Capital Grants Income	(5,449)
3 Pension related adjustments	
Pension Costs calculated in accordance with IAS 19	16,834
Pension Contributions payable to pension fund	(9,210)
Pensions Interest Cost and expected return on pension assets	42,787
Non Distributable Costs (Pension Valuation Changes)	43
Reduction in value of the net defined pension liability	(84,561)
4 Other technical accounting adjustments	
Employee Compensated Absences Movement (leave/flexi c/fwd)	(208)
Council Tax Adjustment (accrual for under/over payments from collection fund)	(303)
5 Reversal of statute charges in the General Fund but not CIES	
Agency Services PFI Unitary Charge – Debt charges (Not reported in I&E Account)	(1,759)
Remove Capital Financing – Debt Charges (Not reported in I&E Account)	(8,621)
Total Comprehensive Income and Expenditure Statement	(41,847)

Notes to the table:

1. ***Although the creation of earmarked reserves does not form part of the CIES they are included to ensure that the General Fund expenditure reconciles back to the CIES.*

2. *The depreciation and impairment charge of £4.443m reflects the notional consumption of assets during the year (a depreciation charge of £4.242m) and the reduction in the valuation of assets during the year (an impairment charge of £0.201m). A charge of £0.619m for REFCUS relates to the installation of free smoke alarms to households in Merseyside that under proper accounting practice should be defined as revenue but which statute allows the Authority to fund from capital. Capital grants of £5.449m have been credited to the CIES in accordance with proper accounting practice, however for statutory purposes the financing of capital expenditure from these grants must be included within the Authority's capital programme.*

3. *Pension costs in the CIES reflect IAS 19 and therefore include movements in the pension fund valuations and pension contributions received in the year. Note 40 in the Financial Statements provides further details of movements in the pension funds during the year.*

4. *The other technical accounting adjustment incorporates the adjustments made in relation to council tax indebtedness between the billing authorities and the Authority, and, the value of employee benefits accrued in the year but not taken (leave carried forward).*

5. *Statute requires that certain expenses are charged to the General Fund that are not considered to be proper accounting charges in accordance with the Code. These are therefore not shown in the CIES. The unitary charge payments associated with the PFI contract are shown as fully charged to revenue in the General Fund but in the CIES they are broken up into the relevant revenue, capital and interest notional elements (£1,759m). The removal of capital financing charges relates to costs associated with; interest*

payments on loans of £2.169m; the Minimum Revenue Provision of £3.178m (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA) of £3.327m; and other costs totaling £0.053m (the saving associated with the early repayment of debt).

Whilst the CIES shows the true accounting position for the year, it is the General Fund position which more directly reflects the impact on Merseyside residents as it records only those expenses which statute allows to be charged against the Authority's annual budget, the amounts to be set aside as reserves and the amounts to be collected from local council tax payers.

Capital Investment Programme:

The Authority manages its capital investment plans through its capital programme. The approved budget and final expenditure together with the various sources of funding are shown below:

Programme	Final Budget £000	Actual Expenditure £000	Re-Phased from 2013/14 into 2014/15 £000	Variance £000
Expenditure				
Building/Land	12,004	7,648	4,392	36
Fire Safety	811	619	-	(192)
ICT	2,274	750	1,524	-
Operational Equip & Hydrants	831	269	526	(36)
Vehicles	360	89	271	-
TOTAL	16,280	9,375	6,713	(192)
Financing				
Capital Receipts	-	-	-	-
Revenue Contribution	499	499	-	-
Capital Investment Reserve	2,827	2,827	-	-
Grants	3,044	2,344	700	-
External Contributions	5,070	3,321	1,749	-
Unsupported Borrowing	4,840	384	4,264	(192)
TOTAL	16,280	9,375	6,713	(192)

The most significant items of capital expenditure have been:

- The refurbishment and expansion of the Authority's Headquarters building to accommodate a joint control and command center with Merseyside Police,
- The purchase of a new building for the Marine Rescue service,
- Installation of smoke alarms,
- Upgrades and replacement of ICT software and hardware.

Borrowing:

A large proportion of the capital programme is funded by borrowing. When undertaking borrowing, the Authority ensures that its plans are prudent and affordable in both the short and long term. The Authority adheres to CIPFA's Prudential Code and Treasury Management Guidelines and it determines before the start of each financial year an agreed Treasury Management Strategy. The strategy sets limits for the next three years on:-

- overall level of external debt;
- operational boundary for debt;
- upper limits on fixed interest rate exposure;
- upper limits on variable rate exposure;
- limits on the maturity structure of debt;
- limits on investments for more than 364 days.

The strategy covers:

- prospects for interest rates;
- capital borrowings and the portfolio strategy;
- annual investment strategy;

- debt rescheduling;
- external debt prudential indicators.

The Authority's borrowing with the Public Works Loan Board reduced from £45.1m at the start of the year to £43.6m at the end. Interest paid during the year on existing long term borrowing totalled £1.5m.

Reserves:

The Authority sets aside money in the form of reserves to fund future planned investment, to mitigate financial risks, and to smooth savings. At the end of 2013/14 the Authority's earmarked reserves were £2.307m higher than anticipated. This was as a consequence of additional earmarked reserves of £0.955m for special projects and the increase in the capital investment reserve of £1.352m to meet future investment needs. The Authority maintained its General Reserve at £2.894m. The table below summarises the movement in reserves in 2013/14:

	Opening Balance £000	Anticipated Closing Balance £000	Actual Closing Balance £000
Total Earmarked Reserves	23,082	21,010	23,317
General Revenue Reserves	2,894	2,894	2,894
Total Reserves	25,976	23,904	26,211

A further explanation of reserves can be found in Note 8.

Balance Sheet Financial Position at 31st March 2014:

The net worth (total reserves) of the Authority is shown in the Balance Sheet. Previous commentary on the CIES has outlined that the Authority's net worth has increased over the year by £41.847m, and as a consequence the current net liability on total reserves has decreased from (£985.292m) to (£943.455m). However, the reason for the net liability (negative reserve) is that a number of reserves making up the net worth relate to technical adjustments arising from the pensions reserve and the capital adjustments reserve, and these reserves are not available to spend. Note 22 provides more detail on unusable reserves. The pensions reserve alone has a net liability of £968.118m reflecting underlying commitments that the Authority has with regards to retirement benefits. However arrangements are in place for funding the pension liability:

- the deficit on the Local Government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary,
- any shortfall on the firefighter pension scheme is met by grant funding from Central Government and the Authority is only required to cover discretionary benefits when the pensions are actually paid.

Note 40 to the accounts provides detail on the two pension schemes the Authority participates in.

Explanation of the Key Financial Statements

The accounts consist of the core financial statements grouped together along with detailed disclosure notes. The core financial statements include:

The Movement in Reserves Statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves (those that have been created to reconcile the technical aspects of accounting which are not generally available to spend).

The 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 from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Balance Sheet

The Balance Sheet shows the value as at the 31 March 2014 of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes 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 Cash Flow Statement

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

Significant Changes in Accounting Policies

Since 2010/11 the Authority is required to prepare its accounts based on International Financial Reporting Standards, the move to an IFRS-based set of accounts resulted in a considerable number of changes in accounting practices and disclosures.

The 2013/14 Code has built upon the changes introduced by IFRS and has made some small changes to accounting policies and disclosure requirements none of which are of any significance or have any material impact.

Financial Outlook 2014/15 – 2018/19

The Authority continues to face significant financial challenges over the next few years as the Government seeks to balance public spending as a whole. More grant cuts have been announced for 2014/15 and 2015/16 and this is expected to continue into later years. As a result The Authority has already identified that it needs to make yet further savings of £6.3m.

The Authority has maximised the savings from Back Office and Support Services and was able to identify £2.9m of the required savings from those areas. Despite these efficiencies this still left £3.4m in cuts to be identified from the operational front line.

In order to deliver a further £3.4m saving, the Authority has examined the options and consulted widely with the public and stakeholders about delivering the remaining operational savings. The merger of stations are considered to be the "least worst option" available. In order to save the remaining £3.4m from operational response at least 4 station mergers will be needed and the firefighter establishment will be reduced by a further 100 posts.

The mergers currently under consideration are:-

- two stations in Wirral (West Kirby to merge with Upton at a site within Greasby)
- two stations in St. Helens (Eccleston to merge with St. Helens at a site in the St. Helens town centre)
- two stations in Knowsley (Huyton to merge with Whiston at a site in Prescot)
- a forth (yet to be confirmed) in Liverpool.

The mergers plan will not be without risks; suitable land needs to be identified; planning permission sought; and capital funding will be required. In the interim the Chief Fire Officer will therefore need to manage staff dynamically to ensure in cash terms the firefighter savings are being delivered. The Authority will consider specific reports brought back as the proposed mergers are developed and undertake specific consultations.

The IRMP and the Authority's financial plan recognises that it will take a number of years to deliver these front line savings.

The Authority is aware that the Government has given notice that it expects to continue cutting public spending until at least 2020, and therefore further service and operational reductions may be needed.

The Authority has prudently planned to meet its known financial challenges over the medium term and has maximised its reserves to give flexibility in delivering change.

The Authority recognises that there are substantial financial risks going forward. In light of the risks, the Authority has agreed to continue with its strategy of looking for opportunities to identify savings early and hence increase its reserves when possible so that it can use such sums as part of prudent medium term strategy. In particular the Authority is assuming to use reserves to fund the station mergers and to avoid additional borrowing costs.

FURTHER INFORMATION

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The Financial Statements

Movement in Reserves Statement

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

Restated	Notes	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2012		(4,684)	(17,126)	(2,502)	(24,312)	861,057	836,745
<u>Movement in reserves during 2012/13</u>							
(Surplus) or deficit on provision of services		40,350	-	-	40,350	-	40,350
Other Comprehensive Income and Expenditure		-	-	-	-	108,197	108,197
Total Comprehensive Income and Expenditure		40,350	-	-	40,350	108,197	148,547
Adjustments between accounting basis & funding basis under regulations	7	(44,516)	-	702	(43,814)	43,814	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(4,166)	-	702	(3,464)	152,011	148,547
Transfers (to)/from Earmarked Reserves	8	5,956	(5,956)	-	-	-	-
Increase/Decrease in 2012/13		1,790	(5,956)	702	(3,464)	152,011	148,547
Balance at 31 March 2013 carried forward		(2,894)	(23,082)	(1,800)	(27,776)	1,013,068	985,292

	Notes	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2013		(2,894)	(23,082)	(1,800)	(27,776)	1,013,068	985,292
<u>Movement in reserves during 2013/14</u>							
(Surplus) or deficit on provision of services		42,714	-	-	42,714	-	42,714
Other Comprehensive Income and Expenditure		-	-	-	-	(84,561)	(84,561)
Total Comprehensive Income and Expenditure		42,714	-	-	42,714	(84,561)	(41,847)
Adjustments between accounting basis & funding basis under regulations	7	(42,949)	-	215	(42,734)	42,734	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(235)	-	215	(20)	(41,827)	(41,847)
Transfers (to)/from Earmarked Reserves	8	235	(235)	-	-	-	-
Increase/Decrease in 2013/14		-	(235)	215	(20)	(41,827)	(41,847)
Balance at 31 March 2014 carried forward		(2,894)	(23,317)	(1,585)	(27,796)	971,241	943,445

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 from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated	2012/13			Notes	2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000			Gross Expenditure £000	Gross Income £000	Net Expenditure £000
9,575	(878)	8,697	Community Fire Safety		9,286	(793)	8,493
65,389	(5,989)	59,400	Firefighting and Rescue Operations		65,149	(6,002)	59,147
1,017	-	1,017	Corporate and Democratic Core		1,030	-	1,030
68	-	68	Non-Distributed Costs	40	43	-	43
76,049	(6,867)	69,182	Cost Of Services		75,508	(6,795)	68,713
17	-	17	Other Operating Expenditure	9	-	-	-
46,378	(2,304)	44,074	Financing and Investment Income and Expenditure	10	48,605	(2,132)	46,473
-	(72,923)	(72,923)	Taxation and Non-Specific Grant Income	11	-	(72,472)	(72,472)
		40,350	(Surplus) or Deficit on Provision of Services				42,714
		-	(Surplus) or deficit on revaluation of fixed assets				-
		108,197	Remeasurement of the Net Defined Benefit Liability				(84,561)
		108,197	Other Comprehensive Income and Expenditure				(84,561)
		148,547	Total Comprehensive Income and Expenditure				(41,847)

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes 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'.

31 March 2013 £000		Notes	31 March 2014 £000
54,661	Property, Plant & Equipment	12	68,076
507	Intangible Assets	13	340
-	Assets Held for Sale	18	-
-	Long Term Investments	14	-
-	Long Term Debtors	14	-
55,168	Long Term Assets		68,416
-	Current Intangible Assets		-
7,118	Short Term Investments	14	10,090
250	Assets Held for Sale	18	250
370	Inventories	15	396
3,117	Short Term Debtors	16	3,365
14,719	Cash and Cash Equivalents	17	13,279
25,574	Current Assets		27,380
(2,179)	Short Term Borrowing	14	(2,197)
(6,194)	Short Term Creditors	19	(5,896)
(8,373)	Current Liabilities		(8,093)
(10,749)	Long Term Creditors	14	(19,434)
(625)	Provisions	20	(1,049)
(43,575)	Long Term Borrowing	14	(42,100)
(1,002,712)	Other Long Term Liabilities	14 & 40	(968,565)
(1,057,661)	Long Term Liabilities		(1,031,148)
(985,292)	Net Assets		(943,445)
27,776	Usable Reserves	21	27,796
(1,013,068)	Unusable Reserves	22	(971,241)
(985,292)	Total Reserves		(943,445)

Cash Flow Statement

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

2012/13 £000		Notes	2013/14 £000
40,350	Net (surplus) or deficit on the provision of services		42,714
(54,208)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	23	(55,367)
999	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	1,771
(12,859)	Net cash flows from Operating Activities		(10,882)
5,066	Investing Activities	25	6,802
4,056	Financing Activities	26	5,520
(3,737)	Net increase or decrease in cash and cash equivalents		1,440
(10,982)	Cash and cash equivalents at the beginning of the reporting period		(14,719)
(14,719)	Cash and cash equivalents at the end of the reporting period	17	(13,279)

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31st March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance.

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

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

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in a specified period; no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. No such material errors have been identified.

The 2013/14 Code includes the adoption of the June 2011 amendments to IAS 19 Employee Benefits, which change classification, recognition, measurement and disclosure requirements, however there has been no effect on the total pension liability, therefore the Balance Sheet has not been restated. The 2012/13 comparative figures have been amended as follows and are reflected where necessary in the notes to the accounts.

Restated Comprehensive Income & Expenditure Account

2012/13				Notes	Restated	Restated
Gross Expenditure	Gross Income	Net Expenditure			IAS19 Pensions	Net Expenditure
£000	£000	£000			£000	£000
9,575	(878)	8,697	Community Fire Safety		-	8,697
65,389	(5,989)	59,400	Firefighting and Rescue Operations		-	59,400
1,017	-	1,017	Corporate and Democratic Core		-	1,017
68	-	68	Non-Distributed Costs	40	-	68
76,049	(6,867)	69,182	Cost Of Services		-	69,182
17	-	17	Other Operating Expenditure	9	-	17
46,378	(2,715)	43,663	Financing and Investment Income and Expenditure	10	411	44,074
-	(72,923)	(72,923)	Taxation and Non-Specific Grant Income	11	-	(72,923)
		39,939	(Surplus) or Deficit on Provision of Services		411	40,350
		-	(Surplus) or deficit on revaluation of fixed assets		-	-
		108,608	Remeasurement of the Net Defined Benefit Liability		(411)	108,197
		108,608	Other Comprehensive Income and Expenditure		(411)	108,197
		148,547	Total Comprehensive Income and Expenditure		-	148,547

Restated Movement in Reserves Statement

	Notes	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2012		(4,684)	(17,126)	(2,502)	(24,312)	861,057	836,745
<u>Movement in reserves during 2012/13</u>							
(Surplus) or deficit on provision of services		39,939	-	-	39,939	-	39,939
(Surplus) or deficit on provision of services IAS 19 Restatement		411			411		411
Other Comprehensive Income and Expenditure		-	-	-	-	108,608	108,608
Other Comprehensive Income and Expenditure IAS 19 Restatement		-	-	-	-	-411	-411
Total Comprehensive Income and Expenditure		40,350	-	-	40,350	108,197	148,547
Adjustments between accounting basis & funding basis under regulations	7	(44,516)	-	702	(43,814)	43,814	-
Net Increase/Decrease before Transfers to Earmarked Reserves		(4,166)	-	702	(3,464)	152,011	148,547
Transfers (to)/from Earmarked Reserves	8	5,956	(5,956)	-	-	-	-
Increase/Decrease in 2012/13		1,790	(5,956)	702	(3,464)	152,011	148,547
Balance at 31 March 2013 carried forward		(2,894)	(23,082)	(1,800)	(27,776)	1,013,068	985,292

v. Charges to Revenue for Non-Current Assets

Services and support services 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 fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations 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 to reflect the difference between the two.

vi. Employee Benefits

Benefits Payable During Employment

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

salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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.

Post employment Benefits

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

- The Firefighters Pension Scheme for uniformed employees, administered by Wirral Borough Council through Merseyside Pension Fund (Merseyside Pension Fund, 7th Floor, Castle Chambers, 43 Castle Street, Liverpool, L69 2NW).
- The Local Government Pensions Scheme for civilian employees, administered by Wirral Borough Council through Merseyside Pension Fund (Merseyside Pension Fund, 7th Floor, Castle Chambers, 43 Castle Street, Liverpool, L69 2NW).
- Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The Firefighters Pension Scheme

The Firefighters Pension Scheme is an unfunded scheme meaning that there are no investment assets built up to meet pension liabilities. Cash has to be generated to meet actual pension payments as they fall due. The Government changed the funding mechanism for this scheme in 2006/07. This alleviated concerns about the possibility of large year on year fluctuations on local tax payers by creating a pension fund account. The primary objective is to allow the separation of the cost of providing pensions from the cost of running a fire and rescue service.

Transactions in the Firefighters Pension Fund include:

Credits to the Pension Fund

- Employees' contributions from firefighters
- Transfer values received from other authorities
- The employer's contributions due from the Authority
- Additional contributions required from the Authority for ill health retirements.

Debits to the Pension Fund

- Awards payable under any provision of the pension scheme
- Transfer values payable to other authorities
- Any repayment to the Authority of contributions towards ill health retirements.

The Pension fund account is balanced to zero by either:



- Crediting a top-up grant receivable from Department for Communities and Local Government where income to the fund is less than its expenditure, or
- Debiting an amount payable to Department for Communities and Local Government where the expenditure of the fund is less than its income.

Firefighters' Injury Schemes

Under the Firefighters Compensation Scheme (England) Order 2006, a firefighter receives an injury award where they have retired and are permanently disabled because of an injury received in the execution of their duty. Under IAS 19 the Authority is required to account for contingent future injury benefits. The liability is based on an estimate of future benefits earned by members, and movements in the liability are treated in the same way as for the Firefighters pension schemes.

The Local Government Pension Scheme

- The Local Government Scheme is accounted for as a defined benefits scheme:
- The liabilities of the Merseyside Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on the indicative rate of return on high quality corporate bond).
- The assets of Merseyside Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- contributions paid to the Merseyside Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

vii. Events after the Reporting Period

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

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

viii. Financial Instruments

Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of

spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

ix. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

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

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xi. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xii. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula. The Authority holds inventories of uniforms, smoke alarms, consumable items, stationery and vehicle parts.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

xiii. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xiv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital

investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xv. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2013/14 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

xvi. Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- 27 Community Fire and Rescue Stations are measured on a Depreciated Replacement Cost basis as the property is classed as specialised with no readily made market available
- the balance of the property portfolio consisting of Headquarters, Training Academy, Mobilising and Communications Centre, Engineering Centre of Excellence and Houses are valued on an fair value basis as buildings could be used for alternative purposes
- assets under construction are valued on historical cost basis
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the

asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the remaining life of the property as estimated by the valuer. The remaining life of the buildings range from 7 – 60 years
- Vehicles, plant and equipment – straight line allocation over the remaining useful life as estimated by a suitably qualified officer. Vehicles are depreciated over 5 – 20 years and plant and equipment is depreciated over 3 – 25 years
- Land – depreciation is not applied to land
- No residual value is accounted for
- No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Only components above 10% of the total asset value would be considered for componentisation.

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

Disposals and 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. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. 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 recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xvii. Private Finance Initiative (PFI) and Similar Contracts

The Authority lead on a North West PFI project to replace 16 fire stations across Merseyside, Lancashire and Cumbria. Merseyside Fire Service built 7 new PFI Stations. The building programme for Merseyside started in April 2011, with first station opening in April 2012 and the last station opening July 2013.

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. The Authority has taken control of the remaining 3 PFI stations in 2013/14.

Non current assets when recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Authority.

The amounts payable to the PFI operator each year are analysed into five elements:

- **fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **finance cost** – interest is charged on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease)
- **lifecycle replacement costs** – analysed on an annual basis and either capitalised as an addition to Property Plant and Equipment if the spend relates to capital or debited to the relevant service in the Comprehensive Income and Expenditure Statement if the spend relates to revenue maintenance.

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

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

xix. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged 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.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

xx. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxi. VAT

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

2. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in the accounting policies which will be required from 1st April 2014, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

IFRS 13 Fair Value Measurement (May 2011) – Establishes a single framework for measuring fair value where that is required by other standards. The standard applies to both financial and non-financial items measured at fair value. Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This is sometimes referred to as the 'exit price'. This change will not have any impact on the 2013-14 financial statements.

IFRS 10 Consolidated Financial Statements – This change introduces a new single definition when identifying control as the basis for consolidation whereas the Investor (reporting Authority) controls an investee (entity considered for consolidation) when it has:

- Power over the investee
- Exposure or rights to variable returns
- Ability to use the power to effect the amounts of the investor's returns

The Authority does not have any subsidiaries or associates that would require it to produce consolidated Financial Statements and therefore this would have no impact on the 2013/14 financial statements.

IFRS 11 Joint Arrangements – This is a change to the classification of joint arrangements, there is now only two models, joint ventures and joint operations, focus is no longer on legal structure but on how rights and obligations are shared by parties. The Authority does not have any joint arrangements that would require it to produce group accounts and therefore this change will have no impact on the 2013-14 financial statements.

IFRS 12 Disclosure of Interests in Other Entities – The objective requires an entity disclose information that enables users of its financial statements to evaluate:

- The nature of, and risks associated with, its interests in other entities; and
- The effects of those interests on its financial position, financial performance and cash flows.

The Authority discloses information relating to its interests in other entities in note 33.

IAS 27 Separate Financial Statements (as amended in 2011) – This is a change allows an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. This change will not have any impact on the 2013-14 financial statements.

IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) – This standard prescribes the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This change will have no impact on the 2013-14 financial statements.

IAS 32 Financial Instruments: Presentation – The objective of this standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities. This change will have no impact on the 2013-14 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority 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:

- Insurance – The Authority's fleet of vehicles are insured for third party fire and theft only. Based on historical experience of incidents the decision was made to self insure vehicles.
- No Residual Value of Assets - The Authority assumes that the residual value of all property plant and equipment will be nil when they are de-commissioned, as the assets are held to provide a service rather than for resale at the end of their useful life. The Authority has determined that the amounts received when assets are decommissioned are negligible and depend on the market demand for the assets at time of disposal.

- Property valued at Depreciated Replacement Cost – The Authority has measured its fire stations as depreciated replacement cost as there is no market based evidence of fair value because of the specialist nature of the assets.
- Government Funding – There is a greater degree of certainty about future levels of funding for Local Government. The Authority has determined that the closure and relocation of a number of its fire stations in 2014-15 is inevitable. This may potentially lead to the closure of six fire stations and the building of three new fire stations in more strategic locations. These closures will be accounted for as construction figures, sales receipts and construction dates are confirmed in 2014-15.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate may effect spending on repairs and maintenance, which may change the useful lives assigned to assets.	<p>If the useful life of assets are reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £82,000 for every year that useful lives have to be reduced.</p>
	The Authority operates a 5 year revaluation programme for Land and Buildings held on the Balance Sheet. The Authority in conjunction with its valuer's have reviewed these assets, taking into account various factors such as building cost indices and local knowledge. As a result it is judged that the potential difference in value that would result from a formal revaluation is not material, therefore the risk of material misstatement to the Balance Sheet is low.	If land and building valuations were to change by 1% this would result in a increase/decrease in valuation of £0.6m.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. (Note 40)	The estimates and assumptions involve many variables all of which interact in complex ways and will have an impact on figures produced by professional actuaries. If pensions liability were to change by 1% this would result in a gain/loss of £9.7m.

Arrears	At 31 March 2014, the Authority had a balance of sundry debtors of £858,000. A review of significant balances suggested that an impairment for doubtful debts of 0.7% (£6,000) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £6,000 to set aside as an allowance.
Provisions	The Authority has made provision for Injury and Damage Compensation claims based on an estimate of potential payouts.	Claims are based on past experience and evaluations. If the estimate were to change by 10% this would result in a change of £105,000 in the provision.

5. Material Items of Income and Expense

The Authority's IT and communications services have been outsourced to an external provider.

2013/14 £000	2012/13 £000
1,908	1,993

6. Events after the Balance Sheet Date

Joint Control Centre

In April 2013 the Fire Authority commenced work on a Joint Control Centre in conjunction with Merseyside Police Authority. This is scheduled to be completed in June 2014 with a forecast build cost £9.3m.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can be specifying the financial year in which the liabilities and payments should impact on the General Fund Balance, which is not necessary in accordance with proper practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied (Reserve) holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by the grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Adjustments between Accounting Basis and Funding Basis under Regulations 2013/14

2013/14	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(4,274)	-	-	4,274
Revaluation losses on Property Plant and Equipment	-	-	-	-
Amortisation of intangible assets	(169)	-	-	169
Capital grants and contributions applied	5,449	-	215	(5,664)
Income in relation to donated assets	-	-	-	-
Revenue expenditure funded from capital under statute	(619)	-	-	619
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	3,333	-	-	(3,333)
Capital expenditure charged against the General Fund	3,327	-	-	(3,327)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	-	-
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(53)	-	-	53
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see NOTE 40)	(59,664)	-	-	59,664
Employer's pensions contributions and direct payments to pensioners payable in the year	9,210	-	-	(9,210)
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	303	-	-	(303)
Adjustment primarily involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	208	-	-	(208)
Total Adjustments	(42,949)	-	215	42,734

Adjustments between Accounting Basis and Funding Basis under Regulations 2012/13

2012/13	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(5,931)	-	-	5,931
Revaluation losses on Property Plant and Equipment	(211)	-	-	211
Amortisation of intangible assets	(57)	-	-	57
Capital grants and contributions applied	3,180	-	702	(3,882)
Income in relation to donated assets	-	-	-	-
Revenue expenditure funded from capital under statute	(835)	-	-	835
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(630)	-	-	630
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	3,045	-	-	(3,045)
Capital expenditure charged against the General Fund	1,954	-	-	(1,954)
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	613	(613)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	613	-	(613)
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(53)	-	-	53
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see NOTE 40)	(55,144)	-	-	55,144
Employer's pensions contributions and direct payments to pensioners payable in the year	9,418	-	-	(9,418)
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(4)	-	-	4
Adjustment primarily involving the Accumulating Compensated Absences Adjustment Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	139	-	-	(139)
Total Adjustments	(44,516)	-	702	43,814

8. Transfers To/From Earmarked Reserves

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

	Balance at 31 March 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 March 2014 £000
Emergency Related Reserves:							
Bellwin Reserve	147	-	-	147	-	-	147
Insurance Reserve	620	-	-	620	(250)	-	370
Emergency Planning Reserve	75	-	-	75	-	-	75
Catastrophe Reserve	-	-	1,000	1,000	-	-	1,000
Modernisation Challenge:							
Smoothing Reserve	2,046	(2,046)	5,500	5,500	(250)	1,500	6,750
Severance Reserve	2,348	(2,446)	1,000	902	(181)	-	721
Ill Health Penalty Reserve	244	(141)	496	599	(351)	660	908
Recruitment Reserve	-	-	1,000	1,000	-	-	1,000
SMG Reserve	-	-	-	-	-	100	100
Capital Investment:							
Capital Investment Reserve	6,644	(2,951)	2,143	5,836	(2,911)	1,352	4,277
PFI Annuity Reserve	590	(873)	2,293	2,010	(1,856)	2,097	2,251
Equality/DDA Investment Reserve	-	-	510	510	-	-	510
Firefighter Safety Investment Reserve	-	-	1,000	1,000	-	-	1,000
Facing the Future Reserve	-	-	800	800	-	-	800
Specific Projects:							
Job Evaluation Reserve	230	(230)	-	-	-	-	-
Community Sponsorship Reserve	15	-	98	113	(100)	-	13
Regional Reserve	100	(100)	-	-	-	-	-
Equipment Reserve	273	(273)	56	56	-	135	191
Contestable Research Fund Reserve	42	(17)	-	25	-	-	25
Training Reserve	285	(285)	-	-	-	-	-
Pre Retirement Reserve	196	(196)	-	-	-	-	-
Fire Service Direct Reserve	35	(35)	53	53	(47)	-	6
Healthy Living / Olympic Legacy Reserve	109	(48)	52	113	(54)	21	80
Water Rescue Reserve	47	(47)	9	9	(5)	1	5
Inflation:							
Inflation Reserve	2,000	(2,000)	1,500	1,500	-	-	1,500
Total	16,046	(11,688)	17,510	21,868	(6,005)	5,866	21,729
Ringfenced Reserves							
F.R.E.E Reserve	35	-	2	37	(22)	29	44
Princes Trust Reserve	184	(50)	10	144	(75)	274	343
Community Youth Team Reserve	54	-	-	54	-	4	58
Beacon Peer Project Reserve	108	(59)	16	65	(12)	9	62
Innovation Fund Reserve	156	(12)	24	168	-	2	170
Regional Control Reserve	34	(16)	-	18	-	-	18
Energy Reserve	-	-	-	-	-	85	85
St Helen's District Reserve	40	(32)	14	22	(22)	15	15
New Dimensions Reserve	469	(3)	240	706	(38)	125	793
Total	1,080	(172)	306	1,214	(169)	543	1,588
Total Earmarked Reserves	17,126	(11,860)	17,816	23,082	(6,174)	6,409	23,317

Bellwin/Civil Emergency Reserve

This reserve is set aside for expenditure in exceptional circumstances, which is below the threshold for Central Government assistance under the Bellwin scheme.

Insurance Reserve

Due to an Authority decision to increase self insurance (particularly vehicle insurance) a reserve has been set up to hedge against the risk of unidentified future claims. A specific provision is made for claims that have already been lodged.

Emergency Planning Reserve

This reserve was created due to the increased threat of terrorism and would give the Authority an immediate budget to spend in an emergency.

Catastrophe Reserve

This reserve was set up in light of the outstanding risk in Municipal Mutual Insurance Ltd (MMI) claims and the need for resources to cope with any major or protracted incident.

Smoothing Reserve

This reserve is used to support the significant financial challenges that the Authority faces as public spending is reduced. It is intended to smooth out expenditure patterns when savings take time to deliver and to help avoid firefighter redundancies.

Severance Reserve

This reserve is to be used to contribute towards the cost of voluntary severance packages and to meet pension strain costs associated with staff having early access to pensions as part of the Authority's approach to using VS/VER to make the required budget savings.

Ill Health Penalty Reserve

This reserve was created to contribute towards the cost of any ill health retirements the Authority may have. The Authority is required to contribute towards the pension costs when a firefighter retires on ill health over a three year period.

Recruitment Reserve

Over the next decade almost two thirds of firefighters are expected to retire. In addition, it takes almost a year to train a firefighter across the full range of competencies. In order to meet this challenge in a prudent and structured fashion a reserve of £1m was created to support some staff recruitment to manage effective succession planning.

SMG Reserve

This reserve was created in 2013-14 by the Strategic Management Group to help fund any additional challenges relating to the modernisation agenda.

Capital Investment Reserve

This reserve was created to contribute towards unforeseeable costs associated with large strategic capital schemes such as the PFI project, and to provide a resource for future asset investment schemes.

PFI Annuity Reserve

This reserve was created to account for the differences in PFI credits received from the Government and actual payments to the PFI contractor.

Equality/DDA Investment Reserve

Following a recent station access audit, the service needs to carry out some works to ensure all its property portfolio is compliant with current regulations.

Firefighter Safety Reserve

This reserve will help contribute towards any funding shortfalls following the review of training facilities at the Training and Development Academy.

Facing The Future Reserve

The report by Sir Ken Knight "Facing the Future" has outlined potential business re-engineering and investment options fire authorities may want to consider. This reserve can contribute towards any investments or changes arising from the Sir Ken Knight review.

Community Sponsorship Reserve

The Authority has had a successful and innovative partnership arrangement with private sector partners that often includes the partner making contributions toward community projects. This reserve has been created to allocate those resources in support of the Authority's community work.

Equipment Reserve

This reserve was created to fund the purchase of equipment, furniture and small community based schemes.

Contestable Research Fund Reserve

This reserve has been created for investment in fire related academic research.

Fire Service Direct Reserve

This reserve has been created to allow additional resources for collation of statistical data in relation to Home Fire Risk Assessments.

Healthy Living / Olympic Legacy

To improve community health where it links to fire service outcomes and to exploit and maximise opportunities and initiatives arising from the World Firefighter Games and build bridges with the 2012 Olympics event.

Water Rescue Reserve

The Marine Rescue Unit is reliant upon other public and private support. In light of the financial challenge facing partners this reserve was created to provide a short term buffer if any partner withdraws their support.

Inflation Reserve

To cope with variations in pay and price inflation compared to the rates assumed in the financial plan. This reserve would provide short term funding for any excessive inflationary cost. It should be noted that assumptions on pay increases in the budget are low (1%).

Ringfenced Reserves

The Authority has a number of ringfenced reserves for specific initiatives for which dedicated funding / resources have been earmarked. These schemes often cover more than one financial year and therefore these reserves were created to cover the planned spend over future years.

9. Other Operating Expenditure

2012/13 £000		2013/14 £000
17	(Gains)/losses on the disposal of non current assets	-
17	Total	-

10. Financing and Investment Income and Expenditure

2012/13 £000		2013/14 £000
3,049	Interest payable and similar charges	3,772
43,329	Pensions interest cost	44,833
(2,049)	Expected return on pensions assets	(2,046)
(255)	Interest receivable and similar income	(86)
-	Other investment income	-
44,074	Total	46,473

11. Taxation and Non Specific Grant Income

2012/13 £000		2013/14 £000
(28,581)	Council tax income	(23,218)
0	National non domestic rates (Local share)	(3,842)
(40,379)	National non domestic rates pool	0
0	National non domestic rates top up grant	(13,522)
(783)	Revenue support grant	(26,441)
(3,180)	Capital grants and contributions	(5,449)
(72,923)	Total	(72,472)

12. Property, Plant and Equipment Movements on Balances

Movements in 2013/14:

	Land & Buildings £000	Assets Under Construction £000	Vehicles & Equipment £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property Plant and Equipment £000
Cost or Valuation					
At 1 April 2013	47,271	320	21,689	69,280	11,442
Additions	10,364	6,147	1,178	17,689	8,935
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Derecognition Disposals	-	-	-	-	-
Derecognition Other	-	-	(2,001)	(2,001)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-
Other movements in Cost or Valuation	(201)	-	-	(201)	550
At 31 March 2014	57,434	6,467	20,866	84,767	20,927
Accumulated Depreciation and Impairment					
At 1 April 2013	(3,505)	-	(11,114)	(14,619)	(236)
Depreciation Charge	(1,715)	-	(2,358)	(4,073)	(476)
Depreciation written out to the Revaluation Reserve	-	-	-	-	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in Surplus/Deficit on the Provision of Services	-	-	-	-	-
Derecognition – Disposals	-	-	-	-	-
Derecognition – Other	-	-	2,001	2,001	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-
Other movements in Depreciation and Impairment	-	-	-	-	-
At 31 March 2014	(5,220)	-	(11,471)	(16,691)	(712)
Net Book Value					
At 31 March 2014	52,214	6,467	9,395	68,076	20,215
At 31 March 2013	43,766	320	10,575	54,661	11,206
Nature of Asset Holding					
Owned	25,970	6,467	9,395	41,832	-
Finance Lease	6,029	-	-	6,029	-
PFI	20,215	-	-	20,215	20,215
Total	52,214	6,467	9,395	68,076	20,215

Property, Plant and Equipment Movements on Balances

Comparative Movements in 2012/13:

	Land & Buildings	Assets Under Construction	Vehicles & Equipment	Total Property, Plant and Equipment	PFI Assets Included in Property Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2012	37,673	1,414	22,109	61,196	590
Additions	11,385	5,063	1,073	17,521	10,852
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Derecognition Disposals	-	-	-	-	-
Derecognition Other	(6,457)	-	(1,493)	(7,950)	-
Assets reclassified (to)/from Held for Sale	(950)	-	-	(950)	-
Other movements in Cost or Valuation	5,620	(6,157)	-	(537)	-
At 31 March 2013	47,271	320	21,689	69,280	11,442
Accumulated Depreciation and Impairment					
At 1 April 2012	(7,617)	-	(10,047)	(17,664)	-
Depreciation Charge	(2,834)	-	(2,560)	(5,394)	(236)
Depreciation written out to the Revaluation Reserve	-	-	-	-	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-
Impairment losses/(reversals) recognised in Surplus/Deficit on the Provision of Services	-	-	-	-	-
Derecognition – Disposals	-	-	-	-	-
Derecognition – Other	6,457	-	1,493	7,950	-
Assets reclassified (to)/from Held for Sale	489	-	-	489	-
Other movements in Depreciation and Impairment	-	-	-	-	-
At 31 March 2013	(3,505)	-	(11,114)	(14,619)	(236)
Net Book Value					
At 31 March 2013	43,766	320	10,575	54,661	11,206
At 31 March 2012	30,056	1,414	12,062	43,532	-
Nature of Asset Holding					
Owned	26,408	320	10,554	37,282	-
Finance Lease	6,152	-	21	6,173	-
PFI	11,206	-	-	11,206	11,206
Total	43,766	320	10,575	54,661	11,206

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight line allocation over the remaining life of the property as estimated by the valuer. The remaining life of the buildings range from 7 – 60 years
- Vehicles, plant and equipment – straight line allocation over the remaining useful life as estimated by a suitably qualified officer. Vehicles are depreciated over 5 – 20 years and plant and equipment is depreciated over 3 – 25 years
- Land – depreciation is not applied to land
- No residual value is accounted for
- No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.

Capital Commitments

At 31 March 2014, the Authority had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. The value of these commitments in 2014/15 and future years is £3.9m. Similar commitments at 31 March 2013 were £0.4m. The commitments can be analysed as follows:

- | | |
|-----------------------------|-------|
| • Building Schemes | £2.8m |
| • Equipment and ICT Schemes | £1.1m |

Effects of Changes in Estimates

The former Toxteth Fire Station was put up for sale and transferred to Assets Held for Sale in 2012/13. The asset has subsequently been sold in 2014-15 at the valuation currently held in assets held for sale (£250,000).

Revaluations

The Authority has its Property, Plant and Equipment revalued at fair value every five years. All properties were valued by an external valuer (Hardie Brack Chartered Surveyors). Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The last valuation was completed in March 2010. Valuations of vehicles, plant, furniture and equipment are based on historical prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

Componentisation

After consulting with the fire service valuers (Hardie Brack Chartered Surveyors) we have concluded that no material changes to depreciation would be incurred by componentisation and that all components have a similar asset life or their values are not material. All fire stations have been valued on a depreciated replacement cost basis as there is no market value and the balance of property has been valued on a fair value basis. Due to the small portfolio of assets, all land and buildings are revalued as one so there is no rolling program. The last full valuation was completed in March 2010.

	Land and Buildings £000	Assets Under Construction £000	Vehicles & Equipment £000	Total £000
Carried at historical cost	27,758	6,467	20,866	55,091
Valued at Depreciated Replacement Cost (DRC) at:				
31 March 2011	1,550	-	-	1,550
31 March 2010	18,870	-	-	18,870
Values at fair value as at:				
31 March 2011	2,430	-	-	2,430
31 March 2010	6,826	-	-	6,826
Total Cost or Valuation	57,434	6,467	20,866	84,767

- All land and buildings are to be revalued in 2014/15
- All assets, including PFI assets (£19.8m) acquired in the last two years have been included in land and buildings valued at historical cost.

13. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased licenses only.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority are based on the life of licenses. The current purchase in 2012/13 has a 3 year life.

The movement on Intangible Asset balances during the year is as follows:

	2013/14 Software Licenses	2012/13 Software Licenses
	£000	£000
Balance at start of year:		
• Gross carrying amounts	564	115
• Accumulated amortisation	(57)	(58)
Net carrying amount at start of year	507	57
Additions:		
• Internal Development	-	-
• Purchases	2	507
• Acquired through business combinations	-	-
Assets reclassified as held for sale	-	-
Other disposals		
Revaluations increases or decreases	-	-
Impairment losses recognised or reversed directly in the Revaluation Reserve	-	-
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	-
Reversals of past impairment losses written back to the Surplus/Deficit on the Provision of Services	-	-
Amortisation for the period	(169)	(57)
Other changes	-	-
Net carrying amount at end of year	340	507
Comprising:		
Gross carrying amounts	509	564
Accumulated amortisation	(169)	(57)
Total	340	507

14. Financial Instruments

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	£000	£000	£000	£000
Investments				
Loans and receivables – Investments	-	-	10,090	7,118
– Cash & Bank	-	-	13,279	14,719
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total investments	-	-	23,369	21,837
Debtors				
Loans and receivables	-	-	-	-
Financial assets carried at contract amounts	-	-	-	-
Total included in Debtors	-	-	-	-
Borrowings				
Financial liabilities at amortised cost (PWLB)	(42,100)	(43,575)	(1,475)	(1,500)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total borrowings	(42,100)	(43,575)	(1,475)	(1,500)
Other Long Term Liabilities				
Finance lease liabilities	-	-	-	(22)
PFI liabilities	(19,434)	(10,749)	(250)	(155)
Merseyside Residual Debt	(447)	(487)	(41)	(41)
Total other long term liabilities	(19,881)	(11,236)	(291)	(218)
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	-	-
PWLB interest carried at contract amount	-	-	(431)	(461)
Total creditors	-	-	(431)	(461)
Total borrowing	(61,981)	(54,811)	(2,197)	(2,179)

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2013/14					2012/13				
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available-for-sale	Assets and Liabilities at Fair Value through Profit and Loss	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Financial Assets: Available-for-sale	Assets and Liabilities at Fair Value through Profit and Loss	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense	3,772	-	-	-	3,772	3,049	-	-	-	3,049
Losses on derecognition	-	-	-	-	-	-	-	-	-	-
Reductions in fair value	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
Fee expense	-	-	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	3,772	-	-	-	3,772	3,049	-	-	-	3,049
Interest income	-	(86)	-	-	(86)	-	(255)	-	-	(255)
Interest income accrued on impaired financial assets	-	-	-	-	-	-	-	-	-	-
Increases in fair value	-	-	-	-	-	-	-	-	-	-
Gains on derecognition	-	-	-	-	-	-	-	-	-	-
Fee income	-	-	-	-	-	-	-	-	-	-
Total income in Surplus or Deficit on the Provision of Services	-	(86)	-	-	(86)	-	(255)	-	-	(255)
Gains on revaluation	-	-	-	-	-	-	-	-	-	-
Losses on revaluation	-	-	-	-	-	-	-	-	-	-
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	-	-	-	-	-	-	-	-	-	-
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-	-
Net (gain)/loss for the year	3,772	(86)	-	-	3,686	3,049	(255)	-	-	2,794

Fair Values of Assets and Liabilities

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

- actual ranges of interest rates at 31 March 2014 of 1.57% to 11.125% for loans from the PWLB
- no early repayment or impairment is recognised
- where an instrument will mature in the next twelve months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31 March 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
PWLB Short & Long term loans	43,575	57,697	45,075	62,644

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders below current market rates.

The fair value of the Merseyside Residual debt is taken to be the same as the amount of principal outstanding.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

Short-term investments carrying amount is assumed to approximate to fair value.

15. Inventories

	Clothing / Consumable Stores		Diesel / Engineering Centre of Excellence Stores		Total	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	275	301	95	137	370	438
Purchases	403	402	864	819	1,267	1,221
Recognised as an expense in the year	(390)	(428)	(851)	(861)	(1,241)	(1,289)
Written off balances	-	-	-	-	-	-
Reversals of write-offs in previous years	-	-	-	-	-	-
Balance outstanding at year-end	288	275	108	95	396	370

16. Debtors

	31 March 2014	31 March 2013
	£000	£000
Central Government bodies	260	241
Other local authorities	1,725	1,793
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	1,380	1,083
Total	3,365	3,117

17. Cash and Cash Equivalents

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

31 March 2013		31 March 2014
£000		£000
7	Cash held by the Authority	7
4,309	Bank current accounts	4,569
10,403	Short-term deposits with building societies	8,703
14,719	Total Cash and Cash Equivalents	13,279

The bank current account includes the pension fund debtor of £4.751m as at the 31st March 2014 and £4.626m as at the 31st March 2013. This relates to the disaggregation of the pension fund figures into a separate account and is the money owed to Merseyside Fire and Rescue Service from CLG for payments of pension liabilities. The Authority initially had a bank overdraft of £0.182m as at the 31st March 2014 and £0.317m as at 31st March 2013 before taking account of this debtor.

18. Assets Held for Sale

	Current		Non Current	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Balance outstanding at start of year	250	630	-	-
Assets newly classified as held for sale:				
Property, Plant and Equipment	-	-	-	461
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Revaluation losses	-	(17)	-	(211)
Revaluation gains	-	-	-	-
Impairment losses	-	-	-	-
Assets declassified as held for sale:				
Property, Plant and Equipment	-	-	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Assets sold	-	(613)	-	-
Transfers from non current to current	-	250	-	(250)
Other movements	-	-	-	-
Balance outstanding at year-end	250	250	-	-

19. Creditors

	31 March 2014	31 March 2013
	£000	£000
Central Government bodies	(1,134)	(1,199)
Other local authorities	(1,763)	(2,074)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	(2,999)	(2,921)
Total	(5,896)	(6,194)

The accrual for Compensated Absences is included in other entities and individuals.

20. Provisions

	Outstanding Legal Cases £000	Injury and Damage Compensation Claims £000	Other Provisions £000	Total £000
Balance at 1 April 2013	-	(625)	-	(625)
Additional provisions made in 2013/14	-	(605)	-	(605)
Amounts used in 2013/14	-	181	-	181
Unused amounts reversed in 2013/14	-	-	-	-
Unwinding of discounting in 2013/14	-	-	-	-
Balance at 31 March 2014	-	(1,049)	-	(1,049)

Injury Compensation Claims

All of the injury compensation claims have currently been assessed as at 31st March 2014. They relate to personal injuries sustained where the Authority is alleged to be at fault. Provision is made for those claims where it is deemed probable that the Authority will have to make a settlement, based on past experience of court decisions about liability and the amount of damages payable. All outstanding claims are expected to be settled in future years but no precise date can be estimated. The Authority will only be reimbursed by the insurers for claims above £0.5m.

21. Usable Reserves

31 March 2013 £000		31 March 2014 £000
-	Usable Capital Receipts Reserve	-
1,800	Usable Capital Grants Unapplied	1,585
2,894	General Fund Balance	2,894
23,082	Earmarked Reserves (Note 8)	23,317
27,776	Total Usable Reserves	27,796

22. Unusable Reserves

31 March 2013 £000		31 March 2014 £000
6,517	Revaluation Reserve	6,123
-	Available for Sale Financial Instruments Reserve	-
(16,384)	Capital Adjustment Account	(8,728)
235	Financial Instruments Adjustment Account	182
(1,002,225)	Pensions Reserve	(968,118)
133	Collection Fund Adjustment Account	436
(1,344)	Accumulating Compensated Absences Adjustment Account	(1,136)
(1,013,068)	Total Unusable Reserves	(971,241)

Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

2012/13		2013/14
£000		£000
8,060	Balance at 1 April	6,517
	Upward revaluation of assets	-
-	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-
(1,072)	Difference between fair value depreciation and historical cost depreciation	(394)
(471)	Accumulated gains on assets sold or scrapped	-
(1,543)	Amount written off to the Capital Adjustment Account	(394)
6,517	Balance at 31 March	6,123

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

The Authority had no available for sale financial instruments at 31 March 2014.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets

that have yet to be consumed by the Authority.

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13 £000		2013/14 £000
(19,757)	Balance at 1 April	(16,384)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(5,931)	• Charges for depreciation and impairment of non current assets	(4,274)
(211)	• Revaluation losses on Property, Plant and Equipment	-
(57)	• Amortisation of intangible assets	(169)
(835)	• Revenue expenditure funded from capital under statute	(619)
(630)	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
(7,664)		(5,062)
1,543	Adjusting amounts written out of the Revaluation Reserve	394
(6,121)	Net written out amount of the cost of non current assets consumed in the year	(4,668)
	Capital financing applied in the year:	
613	• Use of the Capital Receipts Reserve to finance new capital expenditure	-
-	• Use of the Major Repairs Reserve to finance new capital expenditure	-
3,180	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	5,449
702	• Application of grants to capital financing from the Capital Grants Unapplied Account	215
3,045	• Statutory provision for the financing of capital investment charged against the General Fund	3,333
1,954	• Capital expenditure charged against the General Fund	3,327
9,494		12,324
-	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-
-	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	-
(16,384)	Balance at 31 March	(8,728)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid and discounts received on the early redemption of loans. Premiums are debited and discounts credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund to the Account in the Movement in Reserves Statement. Over time, the expense or income is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2014 will be charged to the General Fund over the next 5 years.

2012/13		2013/14
£000		£000
288	Balance at 1 April	235
-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-
(53)	Proportion of discounts received in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(53)
(53)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(53)
235	Balance at 31 March	182

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 Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement, 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 Authority 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 Authority 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.

2012/13		2013/14
£000		£000
(848,302)	Balance at 1 April	(1,002,225)
(108,197)	Remeasurements of the net defined benefit liability/(asset)	84,561
(55,144)	Reversal of items relating to retirement benefits debited or credited to the Surplus or (Deficit) on the Provision of Services in the Comprehensive Income and Expenditure Statement	(59,664)
9,418	Employer's pensions contributions and direct payments to pensioners payable in the year	9,210
(1,002,225)	Balance at 31 March	(968,118)

Collection Fund Adjustment Account

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

2012/13		2013/14
£000		£000
138	Balance at 1 April	133
(5)	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	303
133	Balance at 31 March	436

Unequal Pay Back Pay Account

The Unequal Pay Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants. The Authority has no back pay claims in relation to equal pay.

Accumulating Absences Account

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

2012/13		2013/14
£000		£000
(1,483)	Balance at 1 April	(1,344)
784	Settlement or cancellation of accrual made at the end of the preceding year	672
(645)	Amounts accrued at the end of the current year	(464)
139	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	208
(1,344)	Balance at 31 March	(1,136)

23. Cash Flow Statement – The surplus or deficit on the provision of services has been adjusted for the following non-cash movements

2012/13 £000		2013/14 £000
(5,931)	Depreciation and impairment of non-current assets	(4,274)
(211)	Revaluation losses on property plant and equipment	-
(57)	Amortisation of intangible assets	(169)
(835)	Revenue expenditure treated as capital under statute	(619)
-	Movement in the Donated Assets Account	-
(45,726)	Movement in Pension Liability	(50,454)
(630)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognized	-
(671)	(Increase)/Decrease in Creditors	298
74	Increase/(Decrease) in Debtors	249
(69)	Increase/(Decrease) in Stocks	26
(152)	(Increase)/Decrease in Provisions	(424)
(54,208)		(55,367)

24. Cash Flow Statement – The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities

2012/13 £000		2013/14 £000
255	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	86
613	Proceeds from the sales of property plant and equipment, investment property and intangible assets	8
(3,049)	Loan interest	(3,772)
3,180	Capital grants	5,449
999		1,771

25. Cash Flow Statement – Investing Activities

2012/13		2013/14
£000		£000
8,010	Purchase of property, plant and equipment, investment property and intangible assets	9,375
1,002	Purchase of short-term and long-term investments	3,000
-	Other payments for investing activities	-
(613)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8)
-	Proceeds from short-term and long-term investments	-
(3,333)	Other receipts from investing activities	(5,565)
5,066	Net cash flows from investing activities	6,802

26. Cash Flow Statement – Financing Activities

2012/13		2013/14
£000		£000
-	Cash receipts of short-term and long-term borrowing	-
-	Other receipts from financing activities	-
(31)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	177
1,041	Repayments of short term and long term borrowing	1,541
3,046	Other payments for financing activities	3,802
4,056	Net cash flows from financing activities	5,520

27. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service appearing on the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across the Fire Service and Corporate Management. 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 Comprehensive Income and Expenditure Statement)
- 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
- expenditure on some support services is budgeted for centrally and not charged to services.

The income and expenditure of the Authority recorded in the budget reports for the year is as follows:

Services Income and Expenditure 2013/14	Fire Service £000	Corporate Management £000	Total £000
Fees, charges & other service income	(3,036)	-	(3,036)
Grants and Contributions	(3,759)	-	(3,759)
Total Income	(6,795)	-	(6,795)
Employee Costs	51,447	332	51,779
Premises Costs	2,945	-	2,945
Transport Costs	1,606	-	1,606
Supplies & Services	3,445	103	3,548
Agency Services	4,463	-	4,463
Central Support Services	317	88	405
Capital Financing – Debt Charges / MRP	8,621	-	8,621
Total Expenditure	72,844	523	73,367
Net Expenditure	66,049	523	66,572

Services Income and Expenditure 2012/13 Comparative Figures	Fire Service £000	Corporate Management £000	Total £000
Fees, charges & other service income	(3,145)	-	(3,145)
Grants and Contributions	(3,722)	-	(3,722)
Total Income	(6,867)	-	(6,867)
Employee Costs	53,523	345	53,868
Premises Costs	2,704	-	2,704
Transport Costs	1,582	-	1,582
Supplies & Services	3,414	111	3,525
Agency Services	3,445	-	3,445
Central Support Services	229	92	321
Capital Financing – Debt Charges / MRP	7,258	-	7,258
Total Expenditure	72,155	548	72,703
Net Expenditure	65,288	548	65,836

Reconciliation of Services Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of services income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2012/13		2013/14
£000		£000
65,836	Net expenditure in the Service Analysis	66,572
20,759	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in Analysis	21,731
(17,413)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(19,590)
69,182	Cost of Services in Comprehensive Income and Expenditure Statement	68,713

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2013/14	Service Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Allocation of Recharges £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(3,036)	-	-	-	(3,036)	-	(3,036)
Grants and Contributions	(3,759)	-	-	-	(3,759)	(45,412)	(49,171)
Interest and investment income	-	-	-	-	-	(86)	(86)
Income from council tax	-	-	-	-	-	(27,060)	(27,060)
Non Distributable Costs	-	-	-	-	-	-	-
Total Income	(6,795)	-	-	-	(6,795)	(72,558)	(79,353)
Employee Costs	51,779	(208)	(9,210)	-	42,361	-	42,361
Premises Costs	2,945	-	-	-	2,945	-	2,945
Transport Costs	1,606	-	-	-	1,606	-	1,606
Supplies & Services	3,548	-	-	-	3,548	-	3,548
Agency Services	4,463	-	(1,759)	-	2,704	-	2,704
Central Support Services	405	-	-	-	405	-	405
Capital Financing – Debt Charges / MRP	8,621	-	(8,621)	-	-	3,772	3,772
Depreciation, impairments and revaluation losses	-	4,443	-	-	4,443	-	4,443
Revenue Expenditure Funded through Capital under Statute	-	619	-	-	619	-	619
Pension Costs calculated in accordance with IAS 19	-	16,834	-	-	16,834	-	16,834
Net Pension Interest Costs FRS17	-	-	-	-	-	42,787	42,787
Non Distributable Costs	-	43	-	-	43	-	43
Other Operating Expenses	-	-	-	-	-	-	-
Gain or Loss on Disposal of Non-current Assets	-	-	-	-	-	-	-
Total expenditure	73,367	21,731	(19,590)	-	75,508	46,559	122,067
Surplus or deficit on the provision of services	66,572	21,731	(19,590)	-	68,713	(25,999)	42,714

2012/13 Comparative figures	Service Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(3,145)	-	-	-	(3,145)	-	(3,145)
Grants and Contributions	(3,722)	-	-	-	(3,722)	(44,342)	(48,064)
Interest and investment income	-	-	-	-	-	(255)	(255)
Income from council tax	-	-	-	-	-	(28,581)	(28,581)
Non Distributable Costs	-	-	-	-	-	-	-
Total Income	(6,867)	-	-	-	(6,867)	(73,178)	(80,045)
Employee Costs	53,868	(139)	(9,418)	-	44,311	-	44,311
Premises Costs	2,704	-	-	-	2,704	-	2,704
Transport Costs	1,582	-	-	-	1,582	-	1,582
Supplies & Services	3,525	-	-	-	3,525	-	3,525
Agency Services	3,445	-	(737)	-	2,708	-	2,708
Central Support Services	321	-	-	-	321	-	321
Capital Financing – Debt Charges / MRP	7,258	-	(7,258)	-	-	3,049	3,049
Depreciation, impairments and revaluation losses	-	6,199	-	-	6,199	-	6,199
Revenue Expenditure Funded through Capital under Statute	-	835	-	-	835	-	835
Pension Costs calculated in accordance with IAS 19	-	13,796	-	-	13,796	-	13,796
Net Pension Interest Costs FRS17	-	-	-	-	-	41,280	41,280
Non Distributable Costs	-	68	-	-	68	-	68
Other Operating Expenses	-	-	-	-	-	17	17
Gain or Loss on Disposal of Non-current Assets	-	-	-	-	-	-	-
Total expenditure	72,703	20,759	(17,413)	-	76,049	44,346	120,395
Surplus or deficit on the provision of services	65,836	20,759	(17,413)	-	69,182	(28,832)	40,350

28. Agency Services

The Authority currently acts as lead Authority for a North West PFI scheme, building 16 new fire stations of which 4 relate to Lancashire Fire & Rescue and 5 relate to Cumbria Fire & Rescue. All these fire stations are completed and fully operational.

29. Members' Allowances

The Authority comprises of 18 councillors from the 5 districts of Merseyside. The total allowances paid to members within the year were:

	2013/14 £000	2012/13 £000
Allowances	239	250
Expenses	23	32
Total	262	282

30. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Compensation for Loss of Office £	Benefits in Kind (e.g. Car Allowance) (Note a) £	Pension Contribution £	Total
Chief Fire Officer – Dan Stephens	2013/14	170,000	-	-	-	1,603	30,033	201,636
	2012/13	170,000	-	-	-	1,603	29,266	200,869
Deputy Chief Fire Officer – Phil Garrigan	2013/14	144,500	-	-	-	3,610	30,033	178,143
	2012/13	144,038	-	-	-	3,610	29,198	176,846
Deputy Chief Executive – Kieran Timmins	2013/14	144,500	-	-	-	9,035	16,040	169,575
	2012/13	144,500	-	-	-	9,035	16,040	169,575

The Authority restructured the Senior Officer Management Team in August 2011 in order to deliver savings of £0.318m per annum. The executive team was reduced from four roles to just three; with two Principal Fire Officers. The salaries for the senior roles in the organisation were also reviewed and reduced.

Note a – The benefits in kind figure for 2013/14 is an estimated figure pending final tax returns. Once the actual amounts are known the above figures will be adjusted.

The numbers of Authority staff receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) are shown in bands of £5,000 in the table below:

Remuneration band	2013/14 Number of employees	2012/13 Number of employees
£50,000 - £54,999	21	37
£55,000 - £59,999	11	10
£60,000 - £64,999	13	11
£65,000 - £69,999	-	3
£70,000 - £74,999	2	1
£75,000 - £79,999	2	2
£80,000 - £84,999	-	-
£85,000 - £89,999	-	5
£90,000 - £94,999	6	1
Total	55	70

Note a – In 2013/14 44 of the 55 staff receiving over £50,000 are firefighting staff, who provide fire cover (many of whom are receiving additional payments for working extra time or working more flexibly). In 2012/13 the firefighting staff made up 59 of the 70 posts.

Note b – The bandings only include the remuneration of employees that have not been disclosed individually in the Authority's Senior Officer Remuneration note above.

Note c – In 2013/14 the taxable benefit for a number of staff has been estimated pending final tax returns. Once the actual amounts are known the above figures will be adjusted. The figures relate predominantly to car allowance arrangements.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. The totals include pension strain and compromise agreement fees.

Exit Package Cost Band (including Special Payments)	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Band [(b) + (c)]		Total Cost of Exit Packages in Each Band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
£0 - £20,000	-	-	109	16	109	16	341,065	151,775
£20,001 - £40,000	-	-	18	3	18	3	472,025	74,811
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
£150,001 - £200,000	-	-	-	-	-	-	-	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
Total	-	-	127	19	127	19	813,090	226,586

Note a – In 2012/13 78 of the 127 termination payments were paid to firefighters who terminated their secondary contract.

31. External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Authority's external auditors:

	2013/14	2012/13
	£000	£000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	43	43
Fees/(rebate) payable to/from the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	(5)	(4)
Fees payable in respect of other services by National Fraud Initiative during the year	-	-
Total	38	39

32. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2013/14	2012/13
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Council tax income	(27,060)	(28,581)
Non domestic rates	(13,521)	(40,379)
Non-ring fenced Government grants:		
Revenue Support Grant	(26,441)	(783)
Capital Grants and Contributions:		
General Capital Grant (Department for Communities and Local Government)	(2,129)	(1,729)
My Place Big Lottery Funding (Liverpool City Council)	-	(1,305)
Department for the Environment, Food & Rural Affairs (DEFRA)	-	-
Control Room Resilience Grant (Department for Communities and Local Government)	-	-
Merseyside Police Joint Control Room	(3,321)	(146)
Total	(72,472)	(72,923)
Credited to Services		
New Dimensions Grant (Department for Communities and Local Government)	(999)	(997)
Fire Control Implementation Grant (Department for Communities and Local Government)	(215)	(202)
PFI Credits (Department for Communities and Local Government)	(2,097)	(2,293)
Other Grants (Department for Communities and Local Government)	(244)	(171)
Total	(3,555)	(3,663)

The Authority currently has no assets in the Donated Assets Account or Capital Grants Receipts in Advance.

33. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. Any amounts owed to or by the Authority to other public bodies has been identified in notes 16 and 19.

2012/13		Related Party Transactions	2013/14	
Receipts	Payments		Receipts	Payments
		Central Government		
40,379		Redistributed National Non Domestic Rates	13,522	
783		Revenue Support Grant	26,441	
1,729		Capital Grants	2,343	
	3,178	Employers National Insurance Contributions		3,010
		Local Authority Precept		
2,848		Knowsley	2,505	
8,610		Liverpool	8,136	
3,764		St. Helens	3,678	
6,222		Sefton	6,013	
7,137		Wirral	6,728	
		Pensions		
	1,754	Merseyside Superannuation Fund Employers Contributions		1,757
23,900	26,442	Pension Fund	25,140	27,724
		Other		
-	-	Merseyside Police Authority (MPA)	3,321	-

Central Government

Central Government has significant influence over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills). Grants received from Government departments are set out in the subjective analysis in Note 32 on reporting for resources allocation decisions.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 29. The Authority's membership comprises of councillors from each of the five Local Authorities in Merseyside. Members of the Authority are required to declare interests in related parties on an annual basis in respect of the Financial Statements and also in the Authority's Register of Interests throughout the year. From examining existing available sources of information for 2013/14, there were no reported material transactions with related parties.

Officers

Officers of the Authority are required to declare interests in related parties on an annual basis in respect of the Financial Statements and also in the Authority's Register of Interests throughout the year. There were no reported material related party transactions in respect of 2013/14.

Entities Controlled or Significantly Influenced by the Authority

Fire Support Network

The Authority established the Fire Support Network (FSN) formerly known as Friends of the Fire Service during 2001/02. The purpose of this voluntary organisation was to advance the education and preserve and protect the health of the public within Merseyside by promoting issues relating to fire safety and to offer support to any person in need, involved in or affected by fire or other emergency.

In establishing the "Friends of the Merseyside Fire Service" which became the FSN, the Fire Authority felt that the best formal structure for the organisation would be that of a company limited by guarantee. At the time it was felt that this form of organisation would enable the FSN to better secure external funding from the private sector. However, at the same time the Fire Authority wanted to ensure that the activities of the FSN were properly controlled and were wholly consistent with the strategy and activities of Merseyside Fire Authority itself. Therefore, the FSN Company operates with a board of five trustees.

Due to this board structure, and the fact that the FSN activities are so closely related to the activities of the Fire Service, the FSN is a "regulated company" as defined by the Local Government and Housing Act 1989, and orders under that Act. This means that the financial transactions of the company must be treated as though they were the financial transactions of Merseyside Fire & Rescue Authority, and that those transactions should be consolidated into the Authority's financial accounts. The FSN did maintain an independent bank account in 2013/14 but the total net transactions, apart from the SLA below, were minimal and not material. Therefore, the accounts have not been consolidated for this year.

The Authority has agreed a service level agreement with the FSN whereby in return for work against strict performance criteria the Authority would pay FSN £195,000 a year.

North West Partnership Board

The North-West Fire and Rescue Authorities are continuing to work collaboratively, via the North West Partnership Board which was set up in March 2011. This is a new joint committee of the five fire authorities in the North West (Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside). The committee is comprised of councillors from the five constituent authorities.

The objectives of the North-West Partnership Board are as below:

- Develop the sharing of best practice from across the North West and beyond to influence future business.
- Encourage the provision of sustainable and increasingly efficient prevention, protection and intervention services to reduce overall risk.
- Influence the implementation of value led strategies on a localised basis.
- Provide the platform for continuing collaboration between NW FRS's to promote increasing value in all aspects of service delivery.

- Lobby key internal and external partners to improve fire and rescue service policies and processes.
- To lead continuous improvement through delivery of a sector led, peer reviewed approach.

Lancashire Combined Fire Authority manages the income and expenditure on behalf of the region, there were no recharges due for 2013/14.

Joint Control Centre

Merseyside Fire and Rescue and Merseyside Police Authorities have entered into a contract to develop and build a joint Merseyside Command and Control Centre. The proposed design solution will involve a new two-storey building extension attached to the rear of the current Fire Service Headquarters and a refurbishment of the existing area of the building. The forecast budget for the project is £9.3m. Work on the project started on the 8th April 2013 and the project will be completed during 2014/15.

34. Capital Expenditure and Capital Financing

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

	2013/14 £000	2012/13 £000
Opening Capital Financing Requirement	(65,286)	(55,917)
<i>Capital Investment</i>		
Property, Plant and Equipment	(17,689)	(17,521)
Investment Properties	-	-
Intangible Assets	(2)	(507)
Revenue Expenditure Funded from Capital under Statute	(619)	(835)
<i>Sources of Finance</i>		
Capital receipts	-	613
Government grants and other contributions	5,664	3,882
Sums set aside from revenue:		
• Direct revenue contributions	3,327	1,954
• [MRP/loans fund principal]	3,333	3,045
Closing Capital Financing Requirement	(71,272)	(65,286)
<i>Explanation of movement in year</i>		
Increase in underlying need to borrowing (supported by Government financial assistance)	-	-
Increase in underlying need to borrowing (unsupported by Government financial assistance)	(2,949)	(1,483)
Assets acquired under finance leases	-	-
Assets acquired under PFI contracts	8,935	10,852
Increase/(decrease) in Capital Financing Requirement	5,986	9,369

35. Leases

Authority as Lessee

Finance Leases

In the past the Authority had acquired a number of fire engines and breathing apparatus under finance leases, but as at 31st March 2014 the Authority has no outstanding finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2014 £000	31 March 2013 £000
Other Land and Buildings	6,029	6,152
Vehicles, Plant, Furniture and Equipment	-	21
Total	6,029	6,173

The Authority has built a fire station and youth facility for £6.152m on land currently owned by Liverpool City Council. Although a lease is in place between the Authority and Liverpool City Council no further cash flows are envisaged.

The Authority is committed to making minimum payments under these leases, comprising of the settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2014 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	-	-
Non-current	-	22
Finance Costs payable in future years	-	1
Total	-	23

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
Not later than one year	-	23	-	22
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
Total	-	23	-	22

Operating Leases

The Authority has a policy on vehicle provision and as part of that a number of vehicles have been acquired through operating leases; these vehicles have typical lives of three years.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2014 £000	31 March 2013 £000
Not later than one year	152	143
Later than one year and not later than five years	82	221
Later than five years	-	-
Total	234	364

Authority as Lessor

Finance Leases

The Authority currently has no leases of this category.

36. Private Finance Initiatives and Similar Contracts

The Authority lead on a North West PFI project to replace 16 fire stations in Merseyside, Lancashire and Cumbria. Merseyside Fire Service built 7 new fire stations. The total value of the PFI scheme is £47.886m of which £19.787m relates to Merseyside Fire and Rescue Authority. The contract for building the new stations is with Balfour Beatty Fire and Rescue NW Ltd and the building programme for Merseyside started in April 2011. The first station for Merseyside was completed in April 2012 and the last station was completed in July 2013.

The contract runs for 25 years from completion and hand over of the last station and includes both the service and maintenance of the stations. The stations will be recognised on the Authority's Balance Sheet from the initial handover date. The stations and any plant or equipment installed on them will be transferred to the Authority for nil consideration at the end of the contract.

Property, Plant and Equipment

The following table shows the value of assets recognised under PFI arrangements and analyses the movement in the value of assets during the year:

Movement in Value of Assets (7 Fire Stations)	Land £000	Buildings £000	Total £000
Value at 31 st March 2013	590	10,616	11,206
Additions	550	8,935	9,485
Depreciation/Impairment	-	(476)	(476)
Value at 31 st March 2014	1,140	19,075	20,215

Payments

The Authority makes an agreed payment each year which is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but is otherwise fixed. Payments to be made under the PFI contract started in 2012/13 after the Authority's first station of the project was completed and handed over to the Authority. Payments to the contractor for 2013/14 and future payments will be made as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2014/15	619	250	1,771	2,640
Payable within 2 to 5 years	2,600	1,287	6,914	10,801
Payable within 6 to 10 years	3,689	2,344	8,062	14,095
Payable within 11 to 15 years	4,261	3,561	7,012	14,834
Payable within 16 to 20 years	4,934	5,437	5,298	15,669
Payable within 21 to 25 years	4,943	6,804	2,348	14,095
Payable within 26 to 30 years	-	-	-	-
Total	21,046	19,683	31,405	72,134
Paid in 2013/14	610	155	1,603	2,368
Grand Total	21,656	19,838	33,008	74,502

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

	31 March 2014 £000	31 March 2013 £000
Balance outstanding at start of year	(10,904)	-
Payments during the year	155	-
Capital expenditure incurred in the year	(8,935)	(10,852)
Other movements	-	(52)
Total	(19,684)	(10,904)

37. Impairment Losses

The Authority incurred expenditure of £201,000 in 2013/14 and £537,000 in 2012/13 and which did not add value to the buildings but maintained the upkeep of such assets (e.g. Replacement boilers, yard repairs, tower repairs etc). These costs are written off in the year to the surplus or deficit on the provision of services. These disclosures are consolidated in Note 12 reconciling the movement in the year in Property Plant and Equipment. The figures are shown in other movement in cost or valuation.

38. Capitalisation of Borrowing Costs

The Authority has not capitalised any borrowing costs in 2013/14.

39. Termination Benefits

The Authority terminated the contracts of a number of employees in 2013/14, incurring liabilities of £227,000 (£813,000 in 2012/13) – see note 30 for the number of exit packages and the total cost per band.

40. Defined Benefit Pension Schemes

Participation in pension schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Merseyside Pension Fund - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Firefighters Pension Scheme - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension's payments as they eventually fall due. The Government changed the funding mechanism for this scheme in 2006/07. This alleviated concerns about the possibility of large year on year fluctuations on local tax payers by creating a pension fund account. The primary objective is to allow the separation of the cost of providing pensions from the cost of running a fire and rescue service.

Transactions relating to post employment benefits

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

Local Government Pension Scheme

Re-aligned 2012/13				2013/14		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
			Comprehensive Income and Expenditure Statement			
			<i>Cost of Services</i>			
1,476	-	1,476	• current service cost	1,892	-	1,892
-	-	-	• past service costs	-	-	-
58	-	58	• settlements and curtailments	43	-	43
-	-	-	• administration expenses	42	-	42
			<i>Financing and Investment Income and Expenditure</i>			
1,112	38	1,150	• Net interest expense	1,141	36	1,177
2,646	38	2,684	Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services	3,118	36	3,154
			<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>			
			<i>Remeasurement of the net defined benefit liability</i>			
			<i>Comprising:</i>			
(3,522)	-	(3,522)	• Return on scheme assets (excluding the amount included in the net interest expense)	(1,198)	-	(1,198)
755	-	755	• Actuarial gains and losses arising on changes in demographic assumptions	515	11	526
7,939	64	8,003	• Actuarial gains and losses arising on changes in financial assumptions	(5,995)	(29)	(6,024)
-	-	-	• Other experiences (gain)/loss on liabilities	(3,614)	42	(3,572)
7,818	102	7920	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(7,174)	60	(7,114)
			<i>Movement in Reserves Statement</i>			
(2,646)	(38)	(2,684)	• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(3,118)	(36)	(3,154)
			<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>			
1,887	-	1,887	• Employers' contributions payable to scheme	1,842	-	1,842
	50	50	• Retirement benefits payable to pensioners		51	51

Firefighters Pension Scheme

2012/13					2013/14			
Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000		Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000
				Comprehensive Income and Expenditure Statement				
				<i>Cost of Services</i>				
11,240	410	670	12,320	• current service cost	13,450	540	910	14,900
-	10	-	10	• past service costs	-	-	-	-
-	-	-	-	• settlements and curtailments	-	-	-	-
				<i>Financing and Investment Income and Expenditure</i>				
37,440	2,480	210	40,130	• Net interest expense	38,750	2,570	290	41,610
48,680	2,900	880	52,460	Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services	52,200	3,110	1,200	56,510
				<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>				
				<i>Remeasurement of the net defined benefit liability</i>				
				<i>Comprising:</i>				
(18,059)	-	380	(17,679)	• Return on scheme assets (excluding the amount included in the net interest expense)	(19,212)	-	409	(18,803)
-	-	-	-	• Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
104,320	9,770	-	114,090	• Actuarial gains and losses arising on changes in financial assumptions	(20,630)	(3,820)	(680)	(25,130)
7,060	(1,890)	1,380	6,550	• Other experiences (gain)/loss on liabilities	(28,620)	(1,730)	(10)	(30,360)
142,001	10,780	2,640	155,421	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(16,262)	(2,440)	919	(17,783)
				<i>Movement in Reserves Statement</i>				
(48,680)	(2,900)	(880)	(52,460)	• reversal of net charges made to the Surplus or Deficit for the provision of Services for post-employment benefits in accordance with the Code	(52,200)	(3,110)	(1,200)	(56,510)
				<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
5,541	-	210	5,751	• Employers' contributions payable to scheme	5,398	-	219	5,617
-	1,730	-	1,730	• Retirement benefits payable to pensioners	-	1,700	-	1,700

- The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2014 is a surplus of £84.561m and to the 31 March 2013 is a loss of £108.197m.
- Past service costs and curtailment costs are the result of increased benefits being paid in the event of members retiring early during the year. Those costs which result from redundancy/efficiency retirements are classified as curtailment costs, with any other amounts being regarded as past service costs.

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit schemes is as follows:

Local Government Pension Scheme

2012/13				2013/14		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
(76,505)	(862)	(77,367)	Present value of the defined benefit obligation	(71,363)	(871)	(72,234)
48,372	-	48,372	Fair value of scheme assets	52,246	-	52,246
(28,133)	(862)	(28,995)	Net liability arising from defined benefit obligation	(19,117)	(871)	(19,988)

Firefighters Pension Scheme

2012/13					2013/14			
Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000		Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000
(906,680)	(60,250)	(6,300)	(973,230)	Present value of the defined benefit obligation	(885,020)	(56,110)	(7,000)	(948,130)
-	-	-	-	Fair value of scheme assets	-	-	-	-
(906,680)	(60,250)	(6,300)	(973,230)	Net liability arising from defined benefit obligation	(885,020)	(56,110)	(7,000)	(948,130)

Reconciliation of the Movements in the Fair Value of Scheme Assets

Local Government Pension Scheme

2012/13				2013/14		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
42,239	-	42,239	Opening fair value of scheme assets	48,372	-	48,372
2,049	-	2,049	Interest income	2,046	-	2,046
			<i>Remeasurement gain/(loss):</i>			
3,522	-	3,522	• Return on scheme assets (excluding the amount included in the net interest expense)	1,198	-	1,198
-	-	-	• Administration Expenses	(42)	-	(42)
1,887	50	1,937	Contributions from employer	1,842	51	1,893
564	-	564	Contributions from employees into the scheme	543	-	543
(1,889)	(50)	(1,939)	Benefits paid	(1,713)	(51)	(1,764)
48,372	-	48,372	Net liability arising from defined benefit obligation	52,246	-	52,246

Firefighters Pension Scheme

2012/13					2013/14			
Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000		Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000
-	-	-	-	Opening fair value of scheme assets	-	-	-	-
				<i>Remeasurement gain/(loss):</i>				
18,059	-	(380)	17,679	• Return on scheme assets (excluding the amount included in the net interest expense)	19,212	-	(409)	18,803
5,541	1,730	210	7,481	Contributions from employer	5,398	1,700	219	7,317
2,850	-	170	3,020	Contributions from employees into the scheme	3,110	-	190	3,300
(26,450)	(1,730)	-	(28,180)	Benefits paid	(27,720)	(1,700)	-	(29,420)
-	-	-	-	Net liability arising from defined benefit obligation	-	-	-	-

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

Local Government Pension Scheme

2012/13				2013/14		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
(64,441)	(810)	(65,251)	Opening balance at 1 April	(76,505)	(862)	(77,367)
(1,476)	-	(1,476)	Current service cost	(1,892)	-	(1,892)
(3,161)	(38)	(3,199)	Interest cost	(3,187)	(36)	(3,223)
(564)	-	(564)	Contributions by scheme participants	(543)	-	(543)
			Remeasurement (gains) and losses:			
(755)	-	(755)	• Actuarial gains/losses arising from changes in demographic assumptions	(515)	(11)	(526)
(7,939)	(64)	(8,003)	• Actuarial gains/losses arising from changes in financial assumptions	5,995	29	6,024
-	-	-	• Other experience gains and losses	3,614	(42)	3,572
-	-	-	Past service cost	-	-	-
(58)	-	(58)	Settlements and curtailments	(43)	-	(43)
1,889	50	1,939	Benefits paid	1,713	51	1,764
(76,505)	(862)	(77,367)	Closing balance at 31 March	(71,363)	(871)	(72,234)

Firefighters Pension Scheme

2012/13					2013/14			
Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000		Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000
(770,220)	(51,200)	(3,870)	(825,290)	Opening balance at 1 April	(906,680)	(60,250)	(6,300)	(973,230)
(11,240)	(410)	(670)	(12,320)	Current service cost	(13,450)	(540)	(910)	(14,900)
(37,440)	(2,480)	(210)	(40,130)	Interest cost	(38,750)	(2,570)	(290)	(41,610)
(2,850)	-	(170)	(3,020)	Contributions by scheme participants	(3,110)	-	(190)	(3,300)
				Remeasurement (gains) and losses:				
-	-	-	-	• Actuarial gains/losses arising from changes in demographic assumptions	-	-	-	-
(104,320)	(9,770)	-	(114,090)	• Actuarial gains/losses arising from changes in financial assumptions	20,630	3,820	680	25,130
(7,060)	1,890	(1,380)	(6,550)	• Other experience gains and losses	28,620	1,730	10	30,360
-	(10)	-	(10)	Past service cost	-	-	-	-
-	-	-	-	Settlements and curtailments	-	-	-	-
26,450	1,730	-	28,180	Benefits paid	27,720	1,700	-	29,420
(906,680)	(60,250)	(6,300)	(973,230)	Closing balance at 31 March	(885,020)	(56,110)	(7,000)	(948,130)

Local Government Pension Scheme assets comprised:

2012/13				2013/14		
Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total		Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total
£000	£000	£000		£000	£000	£000
952	-	952	Cash & Cash Equivalents	1,387	-	1,387
			Equity Instruments:			
12,258	-	12,258	• UK	13,813	-	13,813
15,285	-	15,285	• Overseas	15,908	-	15,908
27,543	-	27,543	Sub-total equity instruments	29,721	-	29,721
			Bonds:			
1,185	-	1,185	• UK Corporate	1,379	-	1,379
2,458	-	2,458	• UK Government	2,204	-	2,204
5,344	-	5,344	• UK Index Linked	4,972	-	4,972
8,987	-	8,987	Sub-total bonds	8,555	-	8,555
			Property:			
-	2,383	2,383	• UK Direct Property	-	2,551	2,551
279	744	1,023	• UK Property Managed	322	827	1,149
-	422	422	• Overseas Property Managed	-	490	490
279	3,549	3,828	Sub-total property	322	3,868	4,190
			Private Equity:			
42	1,229	1,271	• UK	37	1,343	1,380
-	1,264	1,264	• Overseas	-	1,267	1,267
42	2,493	2,535	Sub-total private equity	37	2,610	2,647
			Other Investment Funds:			
130	1,899	2,029	• Hedge Funds UK	148	2,139	2,287
-	90	90	• Hedge Funds Overseas	-	78	78
-	270	270	• Infrastructure UK	-	473	473
188	289	477	• Infrastructure Overseas	158	415	573
649	393	1,042	• Opportunities UK	762	728	1,490
379	240	619	• Opportunities Overseas	449	396	845
1,346	3,181	4,527	Sub-total other investment funds	1,517	4,229	5,746
39,149	9,223	48,372	Total assets	41,539	10,707	52,246

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Firefighters Pension Fund liabilities have been assessed by the Governments Actuary Department (GAD). The Local Government Pension Scheme has been assessed by the William M Mercer fund actuaries on behalf of the Metropolitan Borough of Wirral, based on the latest full valuation of the scheme as at 31st March 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters Pension Scheme	
	2013/14	2012/13	2013/14	2012/13
Long-term expected rate of return on assets in the scheme:				
Equity Investments	7.0%	7.0%	-	-
Government Bonds	3.4%	2.8%	-	-
Other Bonds	4.3%	3.9%	-	-
Property	6.2%	5.7%	-	-
Cash Liquidity	0.5%	0.5%	-	-
Other	N/A	7.0%	-	-
Mortality assumptions:				
Longevity at 65 current pensioners:				
Men	22.3	21.8	23.5	23.5
Women	25.2	24.7	25.5	25.4
Longevity at 65 for future pensioners:				
Men	24.7	23.7	26.6	26.7
Women	28.0	26.6	28.6	28.4
Rate of CPI inflation	2.4%	2.4%	2.5%	2.5%
Rate of increase in salaries	3.9%	3.9%	4.5%	4.7%
Rate of increase in pensions	2.4%	2.4%	2.5%	2.5%
Rate for discounting scheme liabilities	4.5%	4.2%	4.4%	4.3%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	-	-

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonable 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 assumption remain the 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 of 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 Local Government Pension Scheme

	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	1,393	(1,393)
Rate of inflation (increase or decrease by 0.1%)	1,418	(1,418)
Rate of increase in salaries (increase or decrease by 0.1%)	385	(385)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(1,391)	1,391

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Authority has agreed a strategy with the scheme's actuary to achieve a funding level of 73% over the next 3 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pension Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31st March 2014 (or service after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

The Authority anticipates paying £3.719m contributions to the scheme in 2014/2015. This forecast incorporates the £2,538m fixed payment element of the deficit for the next 3 years 2014/15 – 2016/17. The Authority was able to secure a discount by paying the 3 year period upfront rather than on a monthly basis. As a result a payment of £2,538m was made in April 2014 in relation to the pension fund historic deficit, all of which is chargeable to the General Fund in 2014/15 in accordance with statutory provisions.

Impact on the Defined Benefit Obligation in the Firefighters Pension Scheme

	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	15,100	(15,100)
Rate of increase in salaries (increase or decrease by 0.1%)	2,580	(2,580)
Rate of increase in pensions (increase or decrease by 0.1%)	15,320	(15,320)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(17,880)	17,880

Impact on the Authority's Cash Flows

The Authority anticipates paying £5.176m contributions to the scheme in 2014/2015.

41. Nature and Extent of Risks Arising from Financial Instruments

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

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

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to

minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Authority in the annual Treasury Management Strategy. The Authority provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by one of the following rating services Fitch, Moody's and Standard & Poors. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets held by the Authority are as detailed below:

The Authority's investment priorities are (a) the security of capital and (b) liquidity of its investments. The Authority aims to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. All investments are in sterling and all cash balances are invested in accordance with the Code of Practice and with regard to the statutory guidance.

A counterparty list of institutions with which the Authority invests is maintained by reference to the criteria set out below for these different categories of institution and their credit rating. Regardless of these criteria, the money market is closely monitored and any institution is suspended from the counterparty lending list should any doubts arise concerning its financial standing. Under the guidance, investments fall into two separate categories, either specified or non-specified investments.

Specified investments offer high security and high liquidity and satisfy the conditions set out below:-

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable in sterling only
- The investment is not a long-term investment (has a maturity of less than one year)
- The investment does not involve the acquisition of share capital or loan capital in any corporate body.
- The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency, or the UK government, a local authority, a parish or community authority.

Specified investments will comprise of the following institutions:-

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a gilt with less than one year to maturity)
- Supranational bonds of less than one year's duration. (Supranational bonds represent the debt on international organisations such as the World Bank, the International Monetary Fund, regional multilateral development banks and others)
- UK Local Authorities
- Money Market Funds
- UK Banks
- Foreign banks registered in the UK
- Building Societies.

The Authority will invest in UK institutions or non-UK and domiciled in a country which has a minimum Sovereign long term rating "AA". The institutions must have a high credit rating assigned by any of the three credit ratings agencies (Fitch, Moody's and Standard & Poors). To be deemed highly rated the institution must satisfy at least the minimum of the following Fitch (or equivalent) criteria:

- Long term credit rating A-

If any of the agencies assigns a rating lower than the Fitch minimum (or equivalent) to an institution then the Authority will not invest with that institution.

In addition, the Authority will use institutions that are part nationalised UK banks.

Regardless of the credit rating assigned to an institution or whether it is covered by a guarantee, if any doubt over its financial standing exist then that institution is removed immediately from the counterparty lending list.

Investment Limits

The credit ratings and individual limits for each institution within the categories of investments used by the Authority in 2013/14 were as follows:

• UK Government (including gilts and the DMADF)	Unlimited
• UK local authorities (each)	Unlimited
• Part Nationalised UK banks	£4 million
• Money Market Funds (AAA rated)	£3 million
• UK Banks and Building Societies (A- or higher rated)	£2 million
• Foreign banks registered in the UK (A or higher rated)	£2 million

Bank and Money Market Fund ratings were checked daily. The Authority is alerted by e-mail when there is an amendment by any of the agencies to the credit rating of an institution. If an amendment means an institution no longer meets the Authority's minimum requirement or any doubt over its financial standing exists then that institution is removed immediately from the counterparty lending list. Conversely, an institution may be added to the list should it achieve the minimum rating.

Non Specified Investments

Non-specified investments do not, by definition, meet the requirements of a specified investment. The Communities & Local Government (CLG) guidance requires that greater detail is provided of the intended use of non-specified investments due to greater potential risk. However, circumstances may have dictated that the following types of non-specified investments may have been used:

- Deposits with the Authority's own banker were unlimited for transactional purposes and to allow for unusual cash flow circumstances.
- Deposits with maturity of greater than one year (including forward deals in excess of one year from inception to repayment) with any bank or building society that meets the credit rating criteria above.
- Building Societies which do not meet the normal credit criteria but are one of the top ten building societies, determined by asset size. Those societies that are within the top ten but do not have an agency determined credit rating shall have an individual limit of £1m. Building Society rankings are checked annually with the Building Societies Association.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings and in accordance with parameters set by the Authority.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £10m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

Exposure to Credit Risk

	Amount at 31 March 2014 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2014 %	Estimated maximum exposure to default and uncollectability at 31 March 2014 £000	Estimated maximum exposure at 31 March 2013 £000
	A	B	C	(A X C)	
Investments	10,090	-	-	-	-
Customers	858	2.69%	0.8%	7	6
				7	6

No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and investments.

The Authority allows 30 days credit for customers, such that £0.168m of the £0.858m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2014 £000	31 March 2013 £000
Less than three months	153	398
Three months to one year	9	54
More than one year	6	6
Total	168	458

Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that loans will mature at different intervals through a combination of careful planning of new loans taken out and *(where it is economically viable to do so)* making early repayments. The maturity analysis of financial liabilities is as follows:

Number of Years	Public Works Loan Board (PWLb)		Merseyside Residual Debt (MRD)	
	31 March	31 March	31 March	31 March
	2014	2013	2014	2013
	£000	£000	£000	£000
Less than one	1,475	1,500	41	41
Between one and two	1,000	1,475	41	41
Between two and five	3,500	4,000	123	123
Between five and ten	3,880	4,380	203	203
Between ten and fifteen	-	-	79	120
Between fifteen and twenty	-	-	-	-
Between twenty and twenty five	2,000	2,000	-	-
Between twenty five and thirty	-	-	-	-
Between thirty and thirty five	4,500	3,500	-	-
Between thirty five and forty	12,360	9,860	-	-
Between forty and forty five	14,860	16,860	-	-
More than forty five	-	1,500	-	-
Total	43,575	45,075	487	528

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

Market Risk

Interest Rate Risk

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

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- 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 Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 50% of its 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 risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs. (The Authority currently has no variable rate loans with PWLB).

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes

to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	5
Increase in interest receivable on variable rate investments	(125)
Increase in Government grant receivable for financing costs	(12)
Impact on Surplus or Deficit on the Provision of Services	(132)
Decrease in fair value of fixed rate investment assets	-
Impact on Other Comprehensive Income and Expenditure	(132)
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)	(577)

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

Price Risk

The Authority does not invest in equity shares or have shareholdings in joint ventures or local industry. The Authority is consequently not exposed to losses arising from movements in the prices of the shares.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

42. Contingent Liabilities

The Authority notes that as part of various firefighter retained contracts, payments that were paid non pensionable may now become pensionable under the new firefighters pension scheme. However the Authority has not created a provision for this contingent liability because the amounts are yet to be identified and not deemed to be material.

Firefighters Pension Fund Accounts

Fund Account

2012/13 £000		2013/14 £000
	Contributions receivable:	
	Fire Authority:	
(5,400)	• contributions in relation to pensionable pay	(5,266)
(351)	• early retirements	(351)
-	• other	-
(3,014)	Firefighters contributions	(3,299)
(8,765)		(8,916)
-	Transfers in from other authorities	-
	Benefits payable:	
24,537	• pensions	25,150
1,905	• commutation and lump sum retirement benefits	2,462
-	• lump sum death benefits	-
-	• other	-
26,442		27,612
	Payments to and on account of leavers:	
-	• transfers out to other authorities	112
-	• refunds of contributions	-
-		112
17,677	Net amount payable for the year	18,808
(17,677)	Top – up grant payable by the Government	(18,808)
-		-

Net Assets Statement

2012/13 £000		2013/14 £000
	Current assets	
-	Contributions due from the Fire Authority	-
-	Recoverable overpayments of pensions	-
4,626	Debtors	4,751
(4,626)	Cash	(4,751)
	Current liabilities	
-	Creditors	-
-	Amount payable to central government	-
-		-

Notes to Pension Fund Account

Contribution Rates

Under the firefighters pension regulations the contribution rates for employers were as follows:

Pensionable Pay Deductions	1992 Scheme	2006 Scheme
Employer's Contributions	21.3%	11%
Employee Contributions:		
£0 - £15,000	11.0%	8.5%
£15,001 - £21,000	11.9%	9.1%
£21,001 - £30,000	12.9%	9.6%
£30,001 - £40,000	13.2%	9.9%
£40,001 - £50,000	13.5%	10.1%
£50,001 - £60,000	13.7%	10.2%
£60,001 - £100,000	14.1%	10.5%
£100,001 - £120,000	14.5%	10.8%
£120,001 >	15.0%	11.1%

III Health Contributions

III health contributions for firefighters who retire early due to ill health are also paid into the fund. This is based on their average pensionable pay at the time of retirement and the severity of illness classed into two tiers. (Upper Tier and Lower Tier - Upper Tier being the more severe). The payments by the Authority are based as follows:

- Upper Tier – 4*Pensionable Pay
- Lower Tier – 2*Pensionable Pay

Benefits Paid

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

Communities and Local Government (CLG) Grant

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

Accruals

The fund has been prepared on an accruals basis in accordance with the rest of the accounts.

Future Liabilities

The fund statement does not take account of liabilities to pay pensions and other benefits after year end. However note 40 in the main set of Accounts does take account of this and its long term pension obligation under IAS19.

Debtors

	31 March 2014	31 March 2013
	£000	£000
Central Government bodies	2,584	2,542
Other local authorities	-	-
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	2,167	2,084
Total	4,751	4,626

Statement of Responsibilities for the Statement of Accounts

The Authority's responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Deputy Chief Executive.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Deputy Chief Executive responsibilities

The Deputy Chief Executive is responsible for the preparation of the Authority'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 Deputy Chief Executive has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority code.

The Deputy Chief Executive has also:

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

This Statement of Accounts gives a true and fair view of the financial position of the Authority as at the 31st March 2014 and of its expenditure and income for the year ended 31st March 2014.

Kieran Timmins
Deputy Chief Executive
27th June 2014

Glossary of terms used in the Statement of Accounts

This Glossary of Terms is designed to aid interpretation of the Authority's Statement of Accounts.

ACCOUNTING POLICIES

These specify policies and procedures used by the Authority to prepare its Financial Statements. These include any methods, measurement systems and procedures for presenting disclosures.

ACCRUALS

Accruals are amounts that are recognised in the accounts as they are earned or incurred not as money is received or paid. The accruals basis of accounting requires the non cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

BALANCE SHEET

The Balance Sheet is fundamental to the understanding of the Authority's financial position at the year-end. The Balance Sheet shows the values as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by reserves held by the Authority.

BUDGET

A statement of the Authority's spending plans for revenue and capital expenditure over a specified period of time.

CAPITAL EXPENDITURE

Capital expenditure is expenditure on the acquisition, construction or enhancement of fixed assets such as land, buildings, vehicles and equipment or expenditure which adds to and not merely maintains the value of the existing asset.

CAPITAL RECEIPTS

Income received from the sales of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

CARRYING AMOUNT

The balance sheet value recorded of either an asset or a liability.

COLLECTION FUND ADJUSTMENT ACCOUNT

The collection fund adjustment account provides a mechanism for recognising the Authority's share of the Collection Fund surplus/deficits at year end.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities that the Authority engages in specifically because it is an elected multi-purpose Authority. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CLG

Communities and Local Government is the Government Department responsible for the national policy on local government.

CREDITORS

Creditors are amounts owed by the Authority for work done, goods received or services rendered but for which payment has not been made by the balance sheet date.

CURRENT ASSETS

Current assets are assets which can be reasonably expected to be consumed or realised within the next 12 months e.g. stocks, debtors, cash.

CURRENT LIABILITIES

Current liabilities are amounts owed by the Authority and due for payment during the next 12 months e.g. short term borrowing, short term creditors and cash overdrawn.

DEBTORS

Debtors are entities who owe amounts to the Authority for work done, goods sold or services rendered for which income has not been received by the balance sheet date.

DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

DEPRECIATION

Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

EARMARKED RESERVES

The Authority holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's-length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term financial instrument covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

FIXED ASSETS

Assets that yield benefits to the Authority and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

GENERAL FUND

This is the main revenue fund of the Authority and includes the net cost of all services financed by local taxpayers and government grants.

IMPAIRMENT

Impairment is a reduction in the value of a fixed asset, below its carrying amount on the balance sheet.

INTANGIBLE FIXED ASSETS

These are fixed assets that do not have physical substance but are identifiable and controlled by the Authority. Examples include software, licenses and patents.

INVENTORIES

Inventories are the amount of unused or unconsumed goods held in expectation for future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

LIABILITIES

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

LONG TERM ASSETS

Long term assets are assets that yield benefits to the Authority and the services it provides for a period of more than 12 months.

LONG TERM LIABILITIES

Long term liabilities are amounts owed by the Authority and due for payment at a time greater than 12 months e.g. Long Term Borrowing.

MINIMUM REVENUE PROVISION

The minimum revenue provision is the minimum amount that must be set aside from revenue towards the repayment of loan debt.

NET BOOK VALUE (NBV)

The net book value is the amount at which fixed assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET REALISABLE VALUE (NRV)

Net realisable value is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

POST BALANCE SHEET EVENTS

Post balance sheet events are those events which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

PRIOR PERIOD ADJUSTMENTS

Prior period adjustments are those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROVISION

A provision is an amount set aside to meet potential future liability but the exact amount and date on which the liability is due is uncertain.

REMUNERATION

Remuneration is all sums paid to or received by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES

Reserves are amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account. This is a crucial distinction between provisions and reserves.

RETIREMENT BENEFITS

Retirement benefits are all forms of consideration given by the Authority in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either 1) the Authority's decision to terminate an employee's employment before the normal retirement date or 2) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

REVENUE EXPENDITURE

Revenue expenditure is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

Expenditure incurred during the year that may be capitalized under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the CIES.

MERSEYSIDE FIRE AND RESCUE AUTHORITY ANNUAL GOVERNANCE STATEMENT 2013-2014

1.0 SCOPE OF RESPONSIBILITY

- 1.1** Merseyside Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2** In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, delivering its functions, and arrangements for the management of risk.
- 1.3** Corporate Governance is a phrase used to describe how organisations direct and control what they do. For Fire and Rescue Authorities this also includes how an Authority relates to the communities that it serves. The Authority has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE framework "*Delivering Good Governance in Local Government*". The key principles of the Authority's Code of Corporate Governance are outlined below;
1. Three high level principles underpin Corporate Governance:-
 - Openness and inclusivity
 - Accountability
 - Integrity
 2. These high level principles are supported by six detailed principles of good governance which are:
 - Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area
 - Members and officers working together to achieve a common purpose with clearly defined functions and roles
 - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
 - Developing the capacity and capability of members and officers to be effective
 - Engaging with local people and other stakeholders to ensure robust public accountability
- 1.4** This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1** The governance framework comprises the systems and processes, culture and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.2** The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal

control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

- 2.3** The governance framework has been in place at the Authority for a number of years and in particular for the year ended 31 March 2014.

3.0 THE GOVERNANCE FRAMEWORK

- 3.1** Summarised below are some of the key elements of the systems and processes that underpin the Authority's governance arrangements:

3.2 Identifying and Communicating the Authority's Mission and outcomes for citizens and service users:

- 3.2.1** After consulting with the citizens of Merseyside and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the mission, aims and service objectives for the organisation. The Authority approved the 2013 – 2016 IRMP at its meeting on the 27 June, 2013, and the IRMP established the service priorities for 2013/14.

- 3.2.2** The Authority's Mission reflects a clear focus on the core duties and functions in relation to Operational Preparedness, Operational Response and Prevention and Protection. The Authority's mission is to **achieve; Safer Stronger Communities – Safe Effective Firefighters**. To deliver this the Authority has established four key corporate aims:

- **Excellent Operational Preparedness**
We will provide our firefighters with the training, information, procedures and equipment to ensure they can safely and effectively resolve all emergency incidents.
- **Excellent Operational Response**
To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.
- **Excellent Prevention and Protection**
We will work with our partners and our community to protect the most vulnerable through targeted local risk reduction, health inequality intervention and the robust application of our legal powers.
- **Excellent People**
We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

- 3.2.3** The Mission statement is focused upon outcomes around operational preparedness, response and prevention and protection. It is very important that the organisation's priorities are unambiguous and easily understood by Members, staff, communities and other stakeholders. In particular, it is essential that the safety and effectiveness of firefighters is seen as a fundamental factor in the achievement of safer, stronger communities.

3.3 Monitoring the achievement of the Authority's objectives through a comprehensive performance management framework:

- 3.3.1** IRMP and other service projects are incorporated into one document – the Service Delivery Plan. There is an ongoing system of monitoring and reporting on the achievement of projects in the Service Delivery Plan via regular reports to the Performance and Scrutiny Committee and the senior management team.

District and Station Community Safety Plans have also been developed to give details of the activities taking place in each district. The reporting process applies traffic light status to each action point in the Service Delivery Plan and attention is drawn to progress achieved and matters to be addressed. Copies of the Service Delivery Plan can be found on the Authority's website: www.merseyfire.gov.uk

3.4 The Internal Control Environment:

3.4.1 The Authority's internal control mechanism comprises many systems, policies, procedures and operations, however the system cannot eliminate all risks of failure to achieve the Authority's aims and objectives. Once a risk has been identified the Authority where possible eliminates the risk. If this is not possible then procedures are established to manage the risk effectively, efficiently and economically. Some of the significant control processes are outlined below:

3.4.2 Policy and decision making process

The Authority has meaningful democratic control over its activities via an **approved committee structure** with agreed Terms of Reference that are reviewed once a year by the Authority at its Annual General Meeting. The Authority has a **written Constitution** that was reviewed in 2013/14 and approved by the Authority at its meeting on 11th June 2013 (CFO/059/13), which is published and sets out how the Authority operates, how decisions are made, and the procedures which are followed to ensure these are efficient, transparent and accountable to local citizens. The Constitution is reviewed every year by the Authority at its AGM.

The Authority meet with senior management and other stakeholders as required to consider the strategic vision and instigate future plans/targets for the Authority.

The Authority also runs Member away-days and "learning lunches" to help Members discuss issues in more detail and in an informal environment.

3.4.3 Management Structure

Management Structure - The Authority has a **clear management structure** with defined roles and responsibilities. A Strategic Management Group, SMG, meet on a fortnightly basis to review and agree on issues that arise during the year. The Authority has an **approved scheme of delegation within its Constitution** that is reviewed by Members on an annual basis.

3.4.4 Established Policies, Procedures & Regulations

The Authority ensures compliance with established policies, procedures, laws and regulations. The Information regarding policies and procedures is held on the intranet, and these are continually enhanced and developed through the introduction of new policies and procedures as and when required. The Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of standing orders, financial instructions and the scheme of delegation which clearly define how decisions are taken and the processes and controls required to manage risks. The list below outlines some of the **key policies and process in place to enhance the internal control system** that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Financial Regulations, Procedural & Contract Standing Orders, Scheme of Delegation
- Anti Fraud & Corruption Policy & Strategy
- Fraud Response Plan
- Confidential Reporting Policy
- Complaints procedure
- Security & Information Governance
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Full range of Equality and Diversity schemes

- Staffing Model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedure, discipline process, through to performance development reviews.

3.4.5 SMG carries out a continuous assessment of the implementation of policies and procedures throughout the organisation, including following up on progress against the action plans.

3.4.6 Internal Audit function

The Authority has a strong Internal Audit function arrangement with Liverpool City Council, and has well-established protocols for working with External Audit.

3.4.7 Risk Management Strategy

The Authority has a well-established and embedded risk management strategy. The Audit Sub-Committee has corporate ownership of the risk register and receive quarterly updates on any new risks or changes to risks. As all Authority and service reports to SMG have a standard required section on risk this allows the Service's Senior Management Group an opportunity to regularly consider new and updated risks facing the Service at their fortnightly meetings.

3.4.8 Financial Management

The Authority produces a five year financial plan that takes into account Revenue, Capital, Reserves and Prudential Borrowing forecasts. The Authority has a history of strong and effective financial management, as confirmed in the 2012/13 Annual Governance Report by Grant Thornton;

"Overall the Authority has robust arrangements in place to plan its finances over the medium term. The MTFP [Medium Term Financial Plan] is realistic and takes into account the likely significant reductions in government support for the Authority.

The Authority is clearly focusing its limited resources on priority services. In the face of funding reductions it has identified ways to maintain operational performance and reduce costs.

The Authority has arrangements in place to effectively estimate future spending and funding pressures, including regular update reports to senior members and officers. My review of the Authority's arrangements over the past 12 months suggests it should be well placed to meet the significant financial challenges it continues to face.

The Authority has responded effectively to the challenges created by the reduction in central government funding and continued to ensure effective delivery of the fire service. The Authority has sound arrangements in place for prioritising resources and improving efficiency within the context of the Integrated Risk Management Plan".

Financial management in the Authority and the reporting of financial standing is undertaken through a comprehensive Finance system including a general ledger, accountancy and budgeting. Monthly budget statements are sent out to all cost centre managers and the Authority receives regular comprehensive financial review reports to update members on the current and anticipated year-end financial performance.

4.0 REVIEW OF EFFECTIVENESS

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

4.2 Maintaining and reviewing the effectiveness of the governance framework throughout the financial year has been carried out by the following:

- The Authority and its Committees
- Management Review
- Internal audit
- External bodies

4.3 The Authority and Its Committees

4.3.1 The Authority

The Authority considered at its Annual General Meeting on 11th June 2013 the format and structure of its democratic decision process by approving the powers and make-up of the approved committees. The full and detailed list of committee responsibilities can be found in the Constitution document on the Authority's web site, but are summarised as follows;

- The Authority – approves the Authority's budget and Precept, considers variations to standing orders & financial regulations; the revenue budget and capital plan; issuing of a precept; adopting a members' allowance scheme; appointment to committees; scheme of delegation to officers; any matters which by law must be reserved to the Authority itself; maintain a Constitution.
- The Policy and Resources Committee – to determine new strategies, policies or changes in strategy relating to the development and delivery of services. Exercise financial control over expenditure within the approved revenue budgets and capital programme of the Authority. Establish and direct procedures for the implementation, monitoring and amendment of the revenue budget and capital programme and all other financial matters that impact on the Authority's financial position. Consider all matters related to the management of the Authority's assets including buildings, land, ICT and other assets.
- The Community Safety and Protection Committee – Consider all matters related to the development and delivery of services appropriate to this Committee. This includes matters relating to: Operational Preparedness; Operational Response; and Prevention and Protection. Considers all matters related to the delivery of services to the diverse communities of Merseyside, and the development, promotion and delivery of a coordinated strategy for developing and maintaining safer communities.
- The Performance and Scrutiny Committee – to review/or scrutinise decisions made or actions taken in connection with the discharge of any of the Authority's functions. To have oversight of the IRMP and Service Delivery Plan priorities concerning the development of service delivery strategies. To monitor the progress of the Service against actions identified in the Service Delivery Plan and IRMP.
- Task and Finish / Efficiency Review Groups – The Performance and Scrutiny Committee will agree to set up task and finish groups and/or efficiency review groups as required.
- The Consultation and Negotiation sub Committee – To contribute to good employee relations and effective industrial relations by maintaining an overview of consultation, negotiation and communication matters and help resolve differences.
- The Audit Sub Committee – To consider the internal audit's annual report and opinion, and a summary of internal audit activity and the level of assurance it can give the Authority's corporate governance arrangements. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. To determine allegations made under the Members Code of Conduct Procedure and refer sanctions proposed and any complaint allegation requiring further investigation to the full Authority. To act as Investigating and Disciplinary Committee where an allegation which could constitute misconduct or gross misconduct is made against the Chief Fire Officer, Deputy Chief Fire Officer, Monitoring Officer or Deputy Chief Executive.

Receive reports on the effectiveness of internal control processes, including probity and to receive Internal Audit reports in this respect. Liaise with Audit Commission over the appointment of the

external auditor. Comment on the scope and depth of external audit work and consider in detail the recommendations of the external auditor's annual audit letter. Consider all matters relating to internal and external audit activity and all matters relating to the regulatory framework.

To maintain an overview of the Authority's Constitution in respect of Contract Standing Orders, Financial Regulations and Codes of Employee Conduct and Behaviour.

4.4 Management Review

4.4.1 Included in the day to day management of the organisation are a number of key officers, systems and procedures designed to provide core elements of the internal control mechanism, with a nominated lead officer responsible for reviewing the effectiveness of these systems.

4.4.2 There is a comprehensive system of performance management and review embedded within the Authority management structure and processes. The 2013/14 Service Delivery Plan broke down the Authority's key objectives for the year and identified a lead officer for each project. A "traffic light" system identified the actual progress against targets throughout the year and any areas of concern with options to bring the project back on track were reported to management and the Performance and Scrutiny Committee. SMG received regular updates from managers on the delivery of services against targets throughout the year and this allowed senior management an opportunity to scrutinise progress. Performance against Local Performance Indicators is considered in depth each month by the Performance Management Group.

4.4.3 The Risk Register was updated for new risks and the status of existing risks was re-assessed during the year. Risk management continued to be an integral part of the project management process and was a fundamental aspect of the business of the Authority.

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer (Section 5 LGHA) responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. The Director of Legal Services fulfils this role and is a qualified and experienced lawyer. The Director of Legal services is supported by a suitably robust and fit for purpose legal team. No actions of the Authority were deemed ultra vires in the year and all relevant laws and regulations have been complied with so far as is known by the Monitoring Officer.
- A Responsible Finance Officer (Section 73 LGA 1985) to ensure the proper and effective administration of the financial affairs of the Authority. The Deputy Chief Executive fulfils this role and is a qualified and experienced accountant. The Deputy Chief Executive is supported in this role by a Head of Finance and finance team that includes a number of professionally qualified and experienced finance staff. The Deputy Chief Executive ensures the Authority has an approved, realistic and affordable five year financial plan for both revenue and capital expenditure which links to the IRMP and the Service Delivery Plan. The financial planning process is well embedded and understood across the Authority by staff and Members. Details of the approved budget are available to all stakeholders in a simple and summarised statement on the Authority's website.

The above statutory posts both are key members of SMG

4.4.5 Budget monitoring remained robust at strategic and service levels via the production of monthly financial monitors for cost centre managers. The "funds management" system prevents orders being raised against accounts with insufficient budget and provides an effective enhancement to the budget control process.

4.4.6 Grant Thornton approved an unqualified Statement of Accounts for 2012/13 and it is anticipated this will be repeated in 2013/14. A presentation by the Deputy Chief Executive on the final accounts together with a detailed year-end report to the Authority helped communicate the year-end message to Members

in a clear and understandable format. A simplified summary statement of accounts is available on the Authority's website to ensure the outturn position is communicated effectively to all stakeholders.

4.5 Internal Audit

4.5.1 The Authority procured its internal audit service under a service level agreement from Liverpool City Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The internal audit plan for 2013/14, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports were submitted to the relevant managers as appropriate and the Head of Finance. Finalised internal audit reports were submitted to the Audit sub Committee in addition to regular progress reports from the Internal Audit manager. The Annual Review of Internal Audit Report concluded that:

***“the Authority’s framework of governance, risk management and controls is both adequate and effective. No system of control can give absolute assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.
.....Based on the audit work carried out in 2013/14 we are not aware of any significant control weaknesses within MFRS which impact on the Annual Governance Statement.***

The service has in place a system of policies, procedures and processes to enable it to support the six core CIPFA/SOLACE Principles of good governance.

4.6 External Review

4.6.1 External audit services are carried out by the Grant Thornton who replaced the District Auditor during 2012/13, on behalf of the Audit Commission. The scope of the work undertaken by External Audit is;

- The audit of the financial statements
- To reach a conclusion on the economy, efficiency and effectiveness in the use of resources (the value for money (VFM) conclusion)
- To work on the whole of government accounts return.

4.6.2 External Audit will comment upon the Authority's 2013/14 statutory financial statements and make a VFM conclusion during the 2014/15 financial year in the Annual Audit Findings report and Annual Audit and Inspection Letter. These documents reflect the Auditor's findings and conclusions from auditing the Statement of Accounts. During 2013/14 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2012/13 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2012/13 financial statements.

SIGNIFICANT GOVERNANCE ISSUES

4.7 The Government has announced the level of grant it will provide to the Fire Authority for the next two years, the grant cut in 2014/15 is 7.6% and the indicative figure for 2015/16 is a cut of 8.5%. This is equivalent to a further £3.5m grant cash cut by 2015/16. The funding reduction means that over the 2010/11 – 2015/16 period the service has had to deliver £25.5m of savings.

4.8 The Authority approved a financial plan on 27 February 2014 that will deliver the required savings based upon those government announcements that have already been made. The Authority, however, recognises that the current government and any subsequent successor are likely to apply further cuts to

the Fire and Rescue Service beyond 2015/16. Whilst the Authority will lobby against such a position it is recognised further cuts to funding will mean further cuts to services.

- 4.9** Whilst no significant weaknesses have been identified in control systems at present, the following have been identified as critical internal control issues for the forthcoming year;
- 4.9.1** The Authority has identified proposals to continue to tackle the financial challenge expected in 2014/15 – 2015/16 and to deliver a balanced medium-term financial plan. This involves significant rationalisation of support and back office services and a review of the provision of front line services. The Service has reduced the number of front line appliances from 42 to 28 and is currently planning for the merger of a number of fire stations with a potential reduction from 26 to 22 fire stations. The Authority will need to ensure its control frameworks make sure that the efficiencies and improvements expected are delivered.
- 4.9.2** The assumptions made in the medium term financial plan, particularly around inflation, pay awards, fire fighter pension contributions and future Government grants whilst based on the best information available are subject to potential change in such volatile times. The delivery of the savings in cash terms also assumes an estimate of the rate of staff turnover and in particular firefighter retirements. Taken together these factors result in a significant potential risk to the Authority's medium term financial plan. Reliable monitoring and forecasting processes are in place and the Deputy Chief Executive will ensure any variation to assumptions made in the medium term financial plan are identified at the earliest possible time. The Financial Review reports will keep Members informed on the impact of any variation to the assumptions in the financial plan and recommended corrective action. SMG will work to develop a range of contingency plans for managing risks.
- 4.10** We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review

Signed.....	Signed.....
D. Roberts	D. Stephens
CHAIR of Audit Sub-Committee	CHIEF FIRE OFFICER

Signed

K. Timmins

DEPUTY CHIEF EXECUTIVE