Merseyside Fire & Rescue Service

2014/15 Statement of Accounts

MERSEYSIDE FIRE AND RESCUE AUTHORITY

ANNUAL STATEMENT OF ACCOUNTS 2014 – 2015

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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 2015, with comparative figures for the previous financial year. These financial statements have been prepared in accordance with the 2014/15 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/aspx/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 2014/15 this was as follows:

Knowsley	2	(2 Labour)
Liverpool	6	(6 Labour)
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 2014/15 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 1,100 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
- 26 Community Fire Stations (plus 1 Marine Rescue Station) with a variety of duty systems. These stations act as hubs for providing services to our communities.

The 2014/15 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 a significant financial challenge as government addressed imbalances in national public spending. Between 2011/12 and 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 announced in December 2012 further reductions in the Authority's funding for 2013/14 and 2014/15 by 8.7% and 7.5% respectively. This resulted in a need to identify a further £10.1m of savings.

When the Government confirmed the final grant allocation for 2014/15 and indicative figure for 2015/16, the Authority faced a further 10% (in real terms) cut to grant funding for 2015/16, requiring a further £6.3m of savings on top of those already identified.

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 (if possible) 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 pay restraint for all staff with a maximum 1% pay bill increase in 2013/14 to 2015/16.
- An assumption that the Authority would generate savings of £4.010m by 2014/15 from other technical savings such as inflation provisions and revenue costs associated with borrowing.
- An assumption that additional income could be generated from shared use of current assets and sales of £0.500m.
- An assumption that the Authority would generate efficiencies from management and back office costs of £2.397m by 2014/15. The savings resulted in a 15% reduction in managerial and back office roles – a reduction of 57 posts.
- A reduction of 90 front line Firefighter posts equal to a 10% reduction in wholetime Firefighter roles.
- A further reduction in the number of appliances (5 had previously been removed from the front line) from 37 to 28.
- Use of reserves.
- Assumptions of Council Tax increase at 2%.

Despite making significant savings from non "frontline budgets" the consequence of the grant reductions has meant inevitable cuts in operational staffing in order to balance the books. After the reduction in fire appliances from 37 to 28 and the loss of 90 front line firefighter posts, there will still be further front line services reductions. In order to deliver a further £6.3m of savings from the budget by 2015/16 there will be a further loss of 100 Firefighter posts and the merger of fire stations resulting in a reduction from 26 fire stations (plus 1 Marine Rescue Station) to 22 fire stations (plus 1 Marine Rescue Station). This relates to a 33% reduction in available appliances since 2011 and approximately 200 Firefighter posts.

The Authority set its General Fund budget for 2014/15 at £64.356m and approved a five year capital investment programme, (2014/15 – 2018/19), of £26.102m with planned expenditure in 2014/15 of £10.038m. The Authority adopted a reserves strategy that maintained a General Reserve of £2.894m and Earmarked Reserves of £21.354m 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 £64.356m. 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 £2.698 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)	67,281	64,583	(2,698)
Contribution (from) / to Reserves	(2,925)	(227)	2,698
Total	64,356	64,356	-
Central Government Support and Council Tax Income	(64,356)	(64,356)	-
(Surplus) / Deficit for the year	**-**	**-**	**-**
General fund Reserve Movement:			
Balance brought forward at 1st April 2014	(2,894)	-	-
Adjust for Surplus/Deficit for the year	894	-	-
Balance carried forward at 31st March 2015	**(2,000)**	**-**	**-**

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 £2.698m 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 £1.0m
- The actual phasing of PFI unitary payments and other premises costs resulted in a saving of £0.5m
- The management of supplies and services expenditure resulted in a saving of £0.7m
- Increased fees, charges, interest and secondment income of £0.3m
- 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 £58.077m deficit 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 deficit of £58.077m represents the amount by which the Authority's overall net worth has decreased 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 2014/15 year-end position:	-
1 Net creation of Earmarked Reserves**	227
2 Asset valuation / charges and Capital Funding Adjustments	
Revaluation losses	3,740
Charge for depreciation and impairment	4,724
Revaluation losses Reversal	(3,599)
Impairment losses Reversal	(2,976)
Surplus on revaluation of Fixed Assets	(6,314)
Other Operating Expenditure	6
Revenue expenditure funded from capital under statute (REFCUS)	791
Finance (interest on loans)	3,896
Capital Grants Income	(3,555)
Reversal of Police Grant Income (Finance Lease)	4,800
3 Pension related adjustments	
Pension Costs calculated in accordance with IAS 19	14,558
Pension Contributions payable to pension fund	(11,058)
Pensions Interest Cost and expected return on pension assets	42,115
Non Distributable Costs (Pension Valuation Changes)	-
Reduction in value of the net defined pension liability	20,637
4 Other technical accounting adjustments	
Employee Compensated Absences Movement (leave/flexi c/fwd)	76
Council Tax Adjustment (accrual for under/over payments from collection fund)	(350)
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)	(2,021)
Remove Capital Financing – Debt Charges (Not reported in I&E Account)	(7,620)
Total Comprehensive Income and Expenditure Statement	**58,077**

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 £4.724m reflects the notional consumption of assets during the year (a depreciation charge of £3.964m) and the reduction in the valuation of assets during the year (an impairment charge of £0.760m). A charge of £0.791m 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 £3.555m have been credited to the CIES in accordance with proper accounting practice, but capital grants of £4.800m have been debited due to the reversal of Police grants which are to be treated as a Finance Lease, however for statutory purposes the financing of capital expenditure from these grants must be included within the Authority's capital programme. The Authority's land and buildings were revalued at 31st March 2015, this resulted in an increase in asset values of £6.314m and a reversal of prior year revaluation losses of £3.599m and reversal prior year impairments of £2.976m.

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 (£2.021m). The removal of capital financing charges relates to costs associated with; interest payments on loans of £2.125m; the Minimum Revenue Provision of £3.184m (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA) of £2.363m; and other costs totaling £0.052m (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 2014/15 into 2015/16 £000	Variance £000
Expenditure				
Building/Land	5,681	3,486	2,187	-8
Fire Safety	991	791	200	-
ICT	2,397	1,928	435	-34
Operational Equip & Hydrants	1,306	738	533	-35
Vehicles	1,387	907	481	1
TOTAL	**11,762**	**7,850**	**3,836**	**-76**
Financing				
Capital Receipts	250	244	-	-6
Revenue Contribution	1,097	1,097	-	-
Capital Investment Reserve	1,266	1,267	-	1
Grants	2,077	2,036	-	-41
External Contributions	1,833	1,333	500	-
Unsupported Borrowing	5,239	1,873	3,336	-30
TOTAL	**11,762**	**7,850**	**3,836**	**-76**

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 building of a new training tower at the Authority's Headquarters building,
- Installation of smoke alarms,
- Upgrades and replacement of ICT software and hardware,
- The purchase of new BA equipment,
- The purchase of new appliances and specialist vehicles.

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 £43.6m at the start of the year to £42.1m at the end. Interest paid during the year on existing long term borrowing totalled £2.1m.

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 2014/15 the Authority's earmarked reserves were £2.698m higher than anticipated. This was as a consequence of additional earmarked reserves of £1.511m for special projects and the increase in the capital investment reserve of £1.187m to meet future investment needs. The Authority revised its General Reserve during the year from £2.894m to £2.000 in light of the specific reserves it had created to cover potential risks and the robustness of its financial plan. The table below summarises the movement in reserves in 2014/15:

	Opening Balance £000	Anticipated Closing Balance £000	Actual Closing Balance £000
Total Earmarked Reserves	23,317	21,286	23,984
General Revenue Reserves	2,894	2,000	2,000
Total Reserves	**26,211**	**23,286**	**25,984**

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

Balance Sheet Financial Position at 31st March 2015:

The net worth (total reserves) of the Authority is shown in the Balance Sheet. From the CIES it can be seen that the Authority's net worth has reduced by £58.077 over the year, and as a consequence the current net liability on total reserves has increased from (£943.445m) to (£1,001.522m). 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 £1,034.371m 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 31st March 2015 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 2014/15 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 2015/16 – 2019/20

The Authority continues to face a significant financial challenge as the new Government seeks to balance public spending as a whole. A £3.7m grant cut has been announced for 2015/16 and the Authority has approved additional savings to meet the challenge. Grant cuts are expected to continue into future years (possibly until 2020). As a result the Authority has already identified that it needs to make yet further savings and has commenced planning how to meet them.

The Authority has planned prudently to try and minimise the impact on frontline services. The Authority has made significant efficiency savings, cut management costs and reduced support services. However, as a direct consequence of the scale of Government cuts to date there has been an inevitable impact on frontline services and already the

Authority has seen the number of fire appliances in Merseyside reduce from 42 to only 28 which equates to 33% overall reduction in appliance availability since 2010. In addition the number of Firefighters will fall by 200 over by 2016.

With the reduction in available appliances and Firefighter numbers, the Authority examined what options were available to it to allow the delivery of the best service possible with the reduced operational resources at its disposal. The Authority consulted widely with the public and stakeholders about the options. The merger of stations were considered to be the “least worst option” and the Authority approved the mergers of:-

(i) Huyton / Whiston stations at a new site in Prescot
(ii) Upton / West Kirby stations at a new site in Saughall Massie Road
(iii) Eccleston / St Helens stations at a new site in St Helens town centre

And the outright closure of Allerton.

Allerton station was closed on 1st April 2015 and plans for the 3 station mergers are well developed although it will take some time to build the stations. In the interim the Chief Fire Officer will manage staff dynamically to ensure in cash terms the Firefighter savings are being delivered.

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 continually monitors it’s level of reserves in light of financial risks and to help deliver change in service efficiency

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.

	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**
Movement in reserves during 2013/14							
(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**

	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 2014		**(2,894)**	**(23,317)**	**(1,585)**	**(27,796)**	**971,241**	**943,445**
Movement in reserves during 2014/15							
(Surplus) or deficit on provision of services		43,754	-	-	**43,754**	-	**43,754**
Other Comprehensive Income and Expenditure		-	-	-	**-**	14,323	**14,323**
Total Comprehensive Income and Expenditure		**43,754**	**-**	**-**	**43,754**	**14,323**	**58,077**
Adjustments between accounting basis & funding basis under regulations	7	(43,528)	-	(185)	**(43,713)**	43,713	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves		**226**	**-**	**(185)**	**41**	**58,036**	**58,077**
Transfers (to)/from Earmarked Reserves	8	668	(668)	**-**	**-**	-	**-**
Increase/Decrease in 2014/15		**894**	**(668)**	**(185)**	**41**	**58,036**	**58,077**
Balance at 31 March 2015 carried forward		**(2,000)**	**(23,985)**	**(1,770)**	**(27,755)**	**1,029,277**	**1,001,522**

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.

2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure £000		Notes	2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000
9,286	(793)	8,493	Community Fire Safety		8,534	(732)	7,802
65,149	(6,002)	59,147	Firefighting and Rescue Operations		59,236	(6,517)	52,719
1,030	-	1,030	Corporate and Democratic Core		932	-	932
43	-	43	Non-Distributed Costs	40	-	-	-
75,508	**(6,795)**	**68,713**	**Cost Of Services**		**68,702**	**(7,249)**	**61,453**
-	-	-	Other Operating Expenditure	9	6	-	6
48,605	(2,132)	46,473	Financing and Investment Income and Expenditure	10	48,471	(2,713)	45,758
-	(72,472)	(72,472)	Taxation and Non-Specific Grant Income	11	-	(63,463)	(63,463)
		42,714	**(Surplus) or Deficit on Provision of Services**				**43,754**
		-	(Surplus) or deficit on revaluation of fixed assets				(6,314)
		(84,561)	Remeasurement of the Net Defined Benefit Liability				20,637
		(84,561)	**Other Comprehensive Income and Expenditure**				**14,323**
		(41,847)	**Total Comprehensive Income and Expenditure**				**58,077**

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 2014 £000		Notes	31 March 2015 £000
68,076	Property, Plant & Equipment	12	74,482
340	Intangible Assets	13	179
-	Assets Held for Sale	18	-
-	Long Term Investments	14	-
-	Long Term Debtors	14	-
68,416	**Long Term Assets**		**74,661**
-	Current Intangible Assets		-
10,090	Short Term Investments	14	13,041
250	Assets Held for Sale	18	440
396	Inventories	15	466
3,365	Short Term Debtors	16	3,416
13,279	Cash and Cash Equivalents	14 & 17	10,400
27,380	**Current Assets**		**27,763**
(2,197)	Short Term Borrowing	14	(1,743)
(5,896)	Short Term Creditors	19	(5,953)
(8,093)	**Current Liabilities**		**(7,696)**
(19,434)	Long Term Creditors	14	(19,152)
(1,049)	Provisions	20	(1,221)
(42,100)	Long Term Borrowing	14	(41,100)
(968,565)	Other Long Term Liabilities	14 & 40	(1,034,777)
(1,031,148)	**Long Term Liabilities**		**(1,096,250)**
(943,445)	**Net Assets**		**(1,001,522)**
27,796	Usable Reserves	21	27,755
(971,241)	Unusable Reserves	22	(1,029,277)
(943,445)	**Total Reserves**		**(1,001,522)**

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.

2013/14 £000		Notes	2014/15 £000
42,714	Net (surplus) or deficit on the provision of services		43,754
(55,367)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	23	(48,653)
1,771	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(4,641)
(10,882)	**Net cash flows from Operating Activities**		**(9,540)**
6,802	Investing Activities	25	6,746
5,520	Financing Activities	26	5,673
1,440	**Net increase or decrease in cash and cash equivalents**		**2,879**
(14,719)	Cash and cash equivalents at the beginning of the reporting period		(13,279)
(13,279)	**Cash and cash equivalents at the end of the reporting period**	17	**(10,400)**

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. 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 2014/15 and the Service Reporting Code of Practice 2014/15, 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.

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 at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

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 3.3% (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), i.e. 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 31st 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 2014/15 (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:

- 26 Community Fire Stations (plus 1 Marine Rescue Station) 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, Fire Control 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.

<u>Impairment</u>

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 5 – 50 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.

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.

xxii. Local Taxation

Council Tax

In their capacity as a billing authorities the District Councils of Knowsley, Liverpool, Sefton, St. Helens and Wirral act as agents: they collect and distribute council tax income on behalf of the major preceptors and themselves. The cash collected by the billing authorities from council tax debtors belongs proportionately to the billing authorities and the major preceptors. There will therefore be a debtor/creditor position between the billing authorities and the Fire Authority to be recognised since the net cash paid to the Fire Authority in the year will not be its share of cash collected from council tax payers.

NNDR

From the 1st April 2013 the District Councils of Knowsley, Liverpool, Sefton, St. Helens and Wirral collect National Non Domestic Rates (NNDR) income on behalf of Central Government and the Fire Authority as well as themselves. The relevant shares of NNDR income are Central Government (50%), District Council (49%) and the Fire Authority (1%), being the shares as defined by the Business Rates Retention Regulations 2012. The NNDR income distributed to each of the three parties is the amount after deducting an allowance for the District Councils cost of collection. The NNDR cash collected by the billing authority belongs proportionately to Central Government, the District Council and the Fire Authority; there will therefore be a debtor/creditor position between these parties to be recognised since the net cash paid in the year to each party will not be their share of the cash collected from business ratepayers.

For both council tax and NNDR, the income reflected in the CIES in year is the Fire Authority's share of the income relating to that year. However the amount of council tax / NNDR income that can be credited to the General Fund for the year is determined by statute and may be different from the accrued income position shown in the CIES. An adjustment is made via the Movement in Reserves Statement for the difference between the income due under proper accounting practice and the income per statute.

Prior to the 1st April 2013 the Districts Councils collected NNDR solely on behalf of Central Government and not the Fire Authority.

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 2015/16 (the Code) has introduced several changes in the accounting policies which will be required from 1st April 2015, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

IFRS 13 Fair Value Measurement – The standard provides a single definition of fair value. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The definition of fair value is based on exit values and market prices for assets and liabilities. Those property plant and equipment assets that do not provide service potential for the Authority i.e. those assets classified as Surplus Assets will not be measured for their service potential but for the economic benefits inherent in the assets. Therefore the current value measurement base for these assets will be at fair value in accordance with the definitions and measurement requirements in IFRS 13. This change will not have any material impact on the 2014/15 Statement of Accounts.

Annual Improvements to IFRSs (2011-2013 Cycle):

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragraph 52 (portfolio exception);
- IAS 40 Clarifying the relationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investments property or owner-occupied property.

The annual improvements are minor and will not have any material impact on the 2014/15 Statement of Accounts.

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 is inevitable. This may lead to the closure of seven 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 2015-16.

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 2015 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.	If the useful life of assets are reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £72,000 for every year that useful lives have to be reduced.
	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 where to change by 1% this would result in a gain/loss of £10.3m.
Arrears	At 31 March 2015, the Authority had a balance of sundry debtors of £442,000. A review of significant balances suggested that an impairment for doubtful debts of 2% (£9,000) 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 £9,000 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 £122,000 in the provision.

5. Material Items of Income and Expense

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

2014/15 £000	2013/14 £000
1,885	1,908

6. Events after the Balance Sheet Date

There are no events after the balance sheet date to be reported.

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 2014/15

2014/15	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	(1,577)	-	-	1,577
Revaluation losses on Property Plant and Equipment	(141)	-	-	141
Amortisation of intangible assets	(170)	-	-	170
Capital grants and contributions applied	(1,245)	-	(185)	1,430
Income in relation to donated assets	-	-	-	-
Revenue expenditure funded from capital under statute	(791)	-	-	791
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	(250)	-	-	250
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	3,434	-	-	(3,434)
Capital expenditure charged against the General Fund	2,363	-	-	(2,363)
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	244	(244)	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	244	-	(244)
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)**	(56,673)	-	-	56,673
Employer's pensions contributions and direct payments to pensioners payable in the year	11,057	-	-	(11,057)
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	350	-	-	(350)
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	(76)	-	-	76
Total Adjustments	**(43,528)**	**-**	**(185)**	**43,713**

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

2013/14	Usable Reserves General Fund Balance £000	Usable Reserves Capital Receipts Reserve £000	Usable Reserves Capital Grants Unapplied £000	Movement in Unusable Reserves £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**

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 2014/15.

	Balance at 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000
Emergency Related Reserves:							
Bellwin Reserve	**147**	-	-	**147**	-	-	**147**
Insurance Reserve	**620**	(250)	-	**370**	-	500	**870**
Emergency Planning Reserve	**75**	-	-	**75**	-	-	**75**
Catastrophe Reserve	**1,000**	-	-	**1,000**	(500)	-	**500**
Modernisation Challenge:							
Smoothing Reserve	**5,500**	(250)	1,500	**6,750**	(5,055)	-	**1,695**
Severance Reserve	**902**	(181)	-	**721**	(100)	-	**621**
Pensions Reserve	**599**	(351)	660	**908**	(248)	340	**1,000**
Recruitment Reserve	**1,000**	-	-	**1,000**	-	-	**1,000**
SMG Reserve	**-**	-	100	**100**	(100)	-	**-**
Capital Investment:							
Capital Investment Reserve	**5,836**	(2,911)	1,352	**4,277**	(1,847)	9,609	**12,039**
PFI Annuity Reserve	**2,010**	(1,856)	2,097	**2,251**	(2,122)	2,097	**2,226**
Equality/DDA Investment Reserve	**510**	-	-	**510**	(225)	-	**285**
Firefighter Safety Investment Reserve	**1,000**	-	-	**1,000**	(200)	-	**800**
Facing the Future Reserve	**800**	-	-	**800**	(800)	-	**-**
Specific Projects:							
Community Sponsorship Reserve	**113**	(100)	-	**13**	(13)	4	**4**
Equipment Reserve	**56**	-	135	**191**	(102)	133	**222**
Contestable Research Fund Reserve	**25**	-	-	**25**	-	-	**25**
Clothing Reserve	**-**	-	-	**-**	-	16	**16**
CFOA Road Safety Reserve	**-**	-	-	**-**	-	100	**100**
Fire Service Direct Reserve	**53**	(47)	-	**6**	(6)	-	**-**
Healthy Living / Olympic Legacy Reserve	**113**	(54)	21	**80**	(45)	73	**108**
Water Rescue Reserve	**9**	(5)	1	**5**	(5)	-	**-**
Inflation:							
Inflation Reserve	**1,500**	-	-	**1,500**	(1,000)	-	**500**
Total	**21,868**	**(6,005)**	**5,866**	**21,729**	**(12,368)**	**12,872**	**22,233**
Ringfenced Reserves							
F.R.E.E Reserve	**37**	(22)	29	**44**	(3)	11	**52**
Princes Trust Reserve	**144**	(75)	274	**343**	(64)	89	**368**
Community Youth Team Reserve	**54**	-	4	**58**	(5)	5	**58**
Beacon Peer Project Reserve	**65**	(12)	9	**62**	(12)	12	**62**
Innovation Fund Reserve	**168**	-	2	**170**	(10)	11	**171**
Regional Control Reserve	**18**	-	-	**18**	(18)	-	**-**
Energy Reserve	**-**	-	85	**85**	(75)	74	**84**
St Helen's District Reserve	**22**	(22)	15	**15**	(9)	4	**10**
New Dimensions Reserve	**706**	(38)	125	**793**	-	154	**947**
Total	**1,214**	**(169)**	**543**	**1,588**	**(196)**	**360**	**1,752**
Total Earmarked Reserves	**23,082**	**(6,174)**	**6,409**	**23,317**	**(12,564)**	**13,232**	**23,985**

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.

Pensions 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. Also due to recent changes in commutation factors for firefighters in terms of any backdated claims.

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 and to provide a resource for future station merger 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 Investment 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.

Clothing Reserve

This reserve has been created for investment in Fire Clothing/Boots

CFOA Road Safety Reserve

This reserve has been created for investment in road safety initiatives

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

2013/14 £000		2014/15 £000
-	(Gains)/losses on the disposal of non current assets	6
-	**Total**	**6**

10. Financing and Investment Income and Expenditure

2013/14 £000		2014/15 £000
3,772	Interest payable and similar charges	3,896
44,833	Pensions interest cost	44,575
(2,046)	Expected return on pensions assets	(2,460)
(86)	Interest receivable and similar income	(253)
-	Other investment income	-
46,473	**Total**	**45,758**

11. Taxation and Non Specific Grant Income

2013/14 £000		2014/15 £000
(23,218)	Council tax income	(24,190)
(3,842)	National non domestic rates (Local share)	(3,974)
0	National non domestic rates pool	-
(13,522)	National non domestic rates top up grant	(13,785)
(26,441)	Revenue support grant	(22,759)
(5,449)	Capital grants and contributions	1,245
(72,472)	**Total**	**(63,463)**

12. Property, Plant and Equipment Movements on Balances

Movements in 2014/15:

	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 2014	**57,434**	**6,467**	**20,866**	**84,767**	**20,927**
Additions	1,059	2,386	3,604	7,049	5
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,314	-	-	6,314	820
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	3,066	-	-	3,066	(1,682)
Derecognition Disposals	(4,800)	-	-	(4,800)	-
Derecognition Other	(6,588)	-	(2,323)	(8,911)	(1,240)
Assets reclassified (to)/from Held for Sale	(1,000)	-	-	(1,000)	-
Other movements in Cost or Valuation	7,630	(8,508)	118	(760)	(5)
At 31 March 2015	**63,115**	**345**	**22,265**	**85,725**	**18,825**
Accumulated Depreciation and Impairment					
At 1 April 2014	**(5,220)**	**-**	**(11,471)**	**(16,691)**	**(712)**
Depreciation Charge	(1,698)	-	(2,095)	(3,793)	(528)
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	6,588	-	2,323	8,911	1,240
Assets reclassified (to)/from Held for Sale	330	-	-	330	-
Other movements in Depreciation and Impairment	-	-	-	-	-
At 31 March 2015	**-**	**-**	**(11,243)**	**(11,243)**	**-**
Net Book Value					
At 31 March 2015	**63,115**	**345**	**11,022**	**74,482**	**18,825**
At 31 March 2014	**52,214**	**6,467**	**9,395**	**68,076**	**20,215**
Nature of Asset Holding					
Owned	37,870	345	11,022	49,237	-
Finance Lease	6,420	-		6,420	-
PFI	18,825	-	-	18,825	18,825
Total	**63,115**	**345**	**11,022**	**74,482**	**18,825**

Property, Plant and Equipment Movements on Balances

Comparative 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**

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 5 – 50 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.

Depreciation / Impairment Reconciliation 2014/15

The attached analysis gives a complete breakdown of all depreciation charges, impairments and reversal of prior year impairments and revaluation losses

	I&E Account	MIRS Reversal	Fixed Assets	Intangible Assets	AHFS	Revaluation Reserve
	£000	£000	£000	£000	£000	£000
Depreciation						
Fixed Assets	3,793	(3,793)	(3,793)	-	-	-
Intangible Assets	170	(170)	-	(170)	-	-
Total	**3,963**	**(3,963)**	**(3,793)**	**(170)**	**-**	**-**
Impairments						
Loss on Derby Road (AHFS)	230	(230)	-	-	(230)	-
General Impairments (L&B)	760	(760)	(760)	-	-	-
Revaluation Losses	3,510	(3,510)	(3,510)	-	-	-
Total	**4,500**	**(4,500)**	**(4,270)**	**-**	**(230)**	**-**
Accumulated Depreciation and Impairment						
Impairments	(2,976)	2,976	2,976	-	-	-
Revaluation Losses	(3,599)	3,599	3,599	-	-	-
Total	**(6,575)**	**6,575**	**6,575**	**-**	**-**	**-**
Grand Total	**1,888**	**(1,888)**	**(1,488)**	**(170)**	**(230)**	**-**
Revaluation Gain			12,889			(12,889)
Reversal of PY Impairments	-	-	(2,976)	-	-	2,976
Reversal of PY Revaluation Losses	-	-	(3,599)	-		3,599
Net Gain	**-**	**-**	**6,314**	**-**	**-**	**(6,314)**

Capital Commitments

At 31st March 2015, 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 2015/16 and future years is £1.8m. Similar commitments at 31st March 2014 were £3.9m. The commitments can be analysed as follows:

• Building Schemes	£1.0m
• Equipment and ICT Schemes	£0.5m
• Vehicles	£0.3m
	£1.8m

Effects of Changes in Estimates

The former Derby Road Fire Control Centre was put up for sale and transferred to Assets Held for Sale in 2014/15. The asset has subsequently been sold in 2015-16 at the valuation currently held in assets held for sale (£440,000).

Revaluations

The Authority carries out a programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least 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 2015 and becomes effective as at 31/03/2015. 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 2015.

	Land and Buildings £000	Assets Under Construction £000	Vehicles & Equipment £000	Total £000
Carried at historical cost	-	345	22,265	**22,610**
Valued at Depreciated Replacement Cost (DRC) at:				
31 March 2015	48,976	-	-	**48,976**
Values at fair value as at:				
31 March 2015	14,139	-	-	**14,139**
Total Cost or Valuation	**63,115**	**345**	**22,265**	**85,725**

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 last major purchase was in 2012/13 and this has a 3 year life.

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

	2014/15 Software Licenses £000	2013/14 Software Licenses £000
Balance at start of year:		
• Gross carrying amounts	509	564
• Accumulated amortisation	(169)	(57)
Net carrying amount at start of year	340	507
Additions:		
• Internal Development	-	-
• Purchases	10	2
• 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	(171)	(169)
Other changes	-	-
Net carrying amount at end of year	**179**	**340**
Comprising:		
Gross carrying amounts	519	509
Accumulated amortisation	(340)	(169)
Total	**179**	**340**

14. Financial Instruments

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014
	£000	£000	£000	£000
Investments				
Loans and receivables – Investments	-	-	13,041	10,090
– Cash & Bank	-	-	10,400	13,279
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total investments	**-**	**-**	**23,441**	**23,369**
Debtors				
Loans and receivables	-	-	-	-
Financial assets carried at contract amounts	-	-	-	-
Total included in Debtors	**-**	**-**	**-**	**-**
Borrowings				
Financial liabilities at amortised cost (PWLB)	(41,100)	(42,100)	(1,000)	(1,475)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total borrowings	**(41,100)**	**(42,100)**	**(1,000)**	**(1,475)**
Other Long Term Liabilities				
Finance lease liabilities	-	-	-	-
PFI liabilities	(19,152)	(19,434)	(282)	(250)
Merseyside Residual Debt	(406)	(447)	(41)	(41)
Total other long term liabilities	**(19,558)**	**(19,881)**	**(323)**	**(291)**
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	-	-
PWLB interest carried at contract amount	-	-	(420)	(431)
Total creditors	**-**	**-**	**(420)**	**(431)**
Total borrowing	**(60,658)**	**(61,981)**	**(1,743)**	**(2,197)**

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:

	2014/15					2013/14				
	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	3,896	-	-	-	**3,896**	3,772	-	-	-	**3,772**
Losses on derecognition	-	-	-	-	**-**	-	-	-	-	**-**
Reductions in fair value	-	-	-	-	**-**	-	-	-	-	**-**
Impairment losses	-	-	-	-	**-**	-	-	-	-	**-**
Fee expense	-	-	-	-	**-**	-	-	-	-	**-**
Total expense in Surplus or Deficit on the Provision of Services	**3,896**	**-**	**-**	**-**	**3,896**	**3,772**	**-**	**-**	**-**	**3,772**
Interest income	-	(253)	-	-	**(253)**	-	(86)	-	-	**(86)**
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	**-**	**(253)**	**-**	**-**	**(253)**	**-**	**(86)**	**-**	**-**	**(86)**
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	**3,896**	**(253)**	**-**	**-**	**3,643**	**3,772**	**(86)**	**-**	**-**	**3,686**

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 31st March 2015 of 1.82% 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 2015		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
PWLB Short & Long term loans	42,100	69,103	43,575	57,697

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 31st March 2015) 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	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	288	275	108	95	396	370
Purchases	458	403	799	864	1,257	1,267
Recognised as an expense in the year	(392)	(390)	(795)	(851)	(1,187)	(1,241)
Written off balances	-	-	-	-	-	-
Reversals of write-offs in previous years	-	-	-	-	-	-
Balance outstanding at year-end	**354**	**288**	**112**	**108**	**466**	**396**

16. Debtors

	31 March 2015 £000	31 March 2014 £000
Central Government bodies	343	260
Other local authorities	2,136	1,725
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	937	1,380
Total	**3,416**	**3,365**

17. Cash and Cash Equivalents

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

31 March 2014 £000		31 March 2015 £000
7	Cash held by the Authority	7
4,569	Bank current accounts	6,391
8,703	Short-term deposits with building societies	4,002
13,279	**Total Cash and Cash Equivalents**	**10,400**

The bank current account includes the pension fund debtor of £6.798m as at the 31st March 2015 and £4.751m as at the 31st March 2014. 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 £0.407m as at the 31st March 2015 and £0.182m as at 31st March 2014 before taking account of this debtor.

18. Assets Held for Sale

	Current		Non Current	
	2014/15	2013/14	2014/15	2013/14
	£000	£000	£000	£000
Balance outstanding at start of year	**250**	**250**	**-**	**-**
Assets newly classified as held for sale:				
Property, Plant and Equipment	-	-	670	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Revaluation losses	-	-	(230)	-
Revaluation gains	-	-	-	-
Impairment losses	-	-	-	-
Assets declassified as held for sale:				
Property, Plant and Equipment	-	-	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Assets sold	(250)	-	-	-
Transfers from non current to current	440	-	(440)	-
Other movements	-	-	-	-
Balance outstanding at year-end	**440**	**250**	**-**	**-**

19. Creditors

	31 March 2015	31 March 2014
	£000	£000
Central Government bodies	(1,164)	(1,134)
Other local authorities	(1,688)	(1,763)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	(3,101)	(2,999)
Total	**(5,953)**	**(5,896)**

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 2014	-	(1,049)	-	(1,049)
Additional provisions made in 2014/15	-	(444)	-	(444)
Amounts used in 2014/15	-	272	-	272
Unused amounts reversed in 2014/15	-	-	-	-
Unwinding of discounting in 2014/15	-	-	-	-
Balance at 31 March 2015	**-**	**(1,221)**	**-**	**(1,221)**

Injury Compensation Claims

All of the injury compensation claims have currently been assessed as at 31st March 2015. 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 2014 £000		31 March 2015 £000
-	Usable Capital Receipts Reserve	-
1,585	Usable Capital Grants Unapplied	1,770
2,894	General Fund Balance	2,000
23,317	Earmarked Reserves **(Note 8)**	23,985
27,796	**Total Usable Reserves**	**27,755**

22. Unusable Reserves

31 March 2014 £000		31 March 2015 £000
6,123	Revaluation Reserve	11,897
-	Available for Sale Financial Instruments Reserve	-
(8,728)	Capital Adjustment Account	(6,507)
182	Financial Instruments Adjustment Account	130
(968,118)	Pensions Reserve	(1,034,371)
436	Collection Fund Adjustment Account	786
(1,136)	Accumulating Compensated Absences Adjustment Account	(1,212)
(971,241)	**Total Unusable Reserves**	**(1,029,277)**

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.

2013/14 £000		2014/15 £000	
6,517	**Balance at 1 April**		**6,123**
-	Upward revaluation of assets	12,889	
-	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6,575)	
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		6,314
(394)	Difference between fair value depreciation and historical cost depreciation	(395)	
-	Accumulated gains on assets sold or scrapped	(145)	
(394)	Amount written off to the Capital Adjustment Account		(540)
6,123	**Balance at 31 March**		**11,897**

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 2015.

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.

2013/14 £000			2014/15 £000
(16,384)	**Balance at 1 April**		**(8,728)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(4,274)	• Charges for depreciation and impairment of non current assets	(1,577)	
-	• Revaluation losses on Property, Plant and Equipment	(141)	
(169)	• Amortisation of intangible assets	(170)	
(619)	• Revenue expenditure funded from capital under statute	(791)	
-	• 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	(250)	
(5,062)			(2,929)
394	Adjusting amounts written out of the Revaluation Reserve		539
(4,668)	Net written out amount of the cost of non current assets consumed in the year		(2,390)
	Capital financing applied in the year:		
-	• Use of the Capital Receipts Reserve to finance new capital expenditure	244	
-	• Use of the Major Repairs Reserve to finance new capital expenditure	-	
5,449	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,245)	
215	• Application of grants to capital financing from the Capital Grants Unapplied Account	(185)	
3,333	• Statutory provision for the financing of capital investment charged against the General Fund	3,434	
3,327	• Capital expenditure charged against the General Fund	2,363	
12,324			4,611
-	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		-
(8,728)	**Balance at 31 March**		**(6,507)**

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 2015 will be charged to the General Fund over the next 4 years.

2013/14 £000		2014/15 £000	
235	**Balance at 1 April**		**182**
-	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	(52)	
(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		(52)
182	**Balance at 31 March**		**130**

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.

2013/14 £000		2014/15 £000
(1,002,225)	Balance at 1 April	(968,118)
84,561	Remeasurements of the net defined benefit liability/(asset)	(20,637)
(59,664)	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	(56,673)
9,210	Employer's pensions contributions and direct payments to pensioners payable in the year	11,057
(968,118)	**Balance at 31 March**	**(1,034,371)**

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.

2013/14 £000		2014/15 £000
133	Balance at 1 April	436
303	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	350
436	**Balance at 31 March**	**786**

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.

2013/14 £000			2014/15 £000
(1,344)	Balance at 1 April		(1,136)
672	Settlement or cancellation of accrual made at the end of the preceding year	492	
(464)	Amounts accrued at the end of the current year	(568)	
208	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		(76)
(1,136)	**Balance at 31 March**		**(1,212)**

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

2013/14 £000		2014/15 £000
(4,274)	Depreciation and impairment of non-current assets	(1,577)
-	Revaluation losses on property plant and equipment	(141)
(169)	Amortisation of intangible assets	(170)
(619)	Revenue expenditure treated as capital under statute	(791)
-	Movement in the Donated Assets Account	-
(50,454)	Movement in Pension Liability	(45,616)
-	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognized	(250)
298	(Increase)/Decrease in Creditors	(56)
249	Increase/(Decrease) in Debtors	51
26	Increase/(Decrease) in Stocks	70
(424)	(Increase)/Decrease in Provisions	(173)
(55,367)		**(48,653)**

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

2013/14 £000		2014/15 £000
86	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	253
8	Proceeds from the sales of property plant and equipment, investment property and intangible assets	247
(3,772)	Loan interest	(3,896)
5,449	Capital grants	(1,245)
1,771		**(4,641)**

25. Cash Flow Statement – Investing Activities

2013/14 £000		2014/15 £000
9,375	Purchase of property, plant and equipment, investment property and intangible assets	7,850
3,000	Purchase of short-term and long-term investments	3,000
-	Other payments for investing activities	-
(8)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(247)
-	Proceeds from short-term and long-term investments	-
(5,565)	Other receipts from investing activities	(3,857)
6,802	**Net cash flows from investing activities**	**6,746**

26. Cash Flow Statement – Financing Activities

2013/14 £000		2014/15 £000
-	Cash receipts of short-term and long-term borrowing	-
-	Other receipts from financing activities	-
177	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	250
1,541	Repayments of short term and long term borrowing	1,516
3,802	Other payments for financing activities	3,907
5,520	**Net cash flows from financing activities**	**5,673**

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 2014/15	**Fire Service £000**	**Corporate Management £000**	**Total £000**
Fees, charges & other service income	(3,436)	-	**(3,436)**
Grants and Contributions	(3,813)	-	**(3,813)**
Total Income	**(7,249)**	**-**	**(7,249)**
Employee Costs	51,037	308	**51,345**
Premises Costs	3,054	-	**3,054**
Transport Costs	1,484	-	**1,484**
Supplies & Services	3,383	94	**3,477**
Agency Services	4,680	-	**4,680**
Central Support Services	345	83	**428**
Capital Financing – Debt Charges / MRP	7,617	-	**7,617**
Total Expenditure	**71,600**	**485**	**72,085**
Net Expenditure	**64,351**	**485**	**64,836**

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**

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.

2013/14 £000		2014/15 £000
66,572	Net expenditure in the Service Analysis	64,836
21,731	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in Analysis	17,313
(19,590)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(20,696)
68,713	**Cost of Services in Comprehensive Income and Expenditure Statement**	**61,453**

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.

2014/15	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	(3,436)	-	-	-	**(3,436)**	-	**(3,436)**
Grants and Contributions	(3,813)	-	-	-	**(3,813)**	(35,299)	**(39,112)**
Interest and investment income	-	-	-	-	**-**	(253)	**(253)**
Income from council tax	-	-	-	-	**-**	(28,164)	**(28,164)**
Non Distributable Costs	-	-	-	-	**-**	-	**-**
Total Income	**(7,249)**	**-**	**-**	**-**	**(7,249)**	**(63,716)**	**(70,965)**
Employee Costs	51,345	76	(11,058)	-	**40,363**	-	**40,363**
Premises Costs	3,054	-	-	-	**3,054**	-	**3,054**
Transport Costs	1,484	-	-	-	**1,484**	-	**1,484**
Supplies & Services	3,477	-	-	-	**3,477**	-	**3,477**
Agency Services	4,680	-	(2,021)	-	**2,659**	-	**2,659**
Central Support Services	428	-	-	-	**428**	-	**428**
Capital Financing – Debt Charges / MRP	7,617	-	(7,617)	-	**-**	3,896	**3,896**
Depreciation, impairments and revaluation losses	-	1,888	-	-	**1,888**	-	**1,888**
Revenue Expenditure Funded through Capital under Statute	-	791	-	-	**791**	-	**791**
Pension Costs calculated in accordance with IAS 19	-	14,558	-	-	**14,558**	42,115	**56,673**
Net Pension Interest Costs FRS17	-	-	-	-	**-**	-	**-**
Non Distributable Costs	-	-	-	-	**-**	-	**-**
Other Operating Expenses	-	-	-	-	**-**	-	**-**
Gain or Loss on Disposal of Non-current Assets	-	-	-	-	**-**	6	**6**
Total expenditure	**72,085**	**17,313**	**(20,696)**	**-**	**68,702**	**46,017**	**114,719**
Surplus or deficit on the provision of services	**64,836**	**17,313**	**(20,696)**	**-**	**61,453**	**(17,699)**	**43,754**

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**

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:

	2014/15 £000	2013/14 £000
Allowances	225	239
Expenses	14	23
Total	**239**	**262**

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) £	Pension Contribution ** £	Total
Chief Fire Officer – Dan Stephens	**2014/15**	**170,000**	**-**	**-**	**-**	**1,431**	**31,055**	**202,486**
	2013/14	**170,000**	**-**	**-**	**-**	**1,474**	**30,033**	**201,507**
Deputy Chief Fire Officer – Phil Garrigan	**2014/15**	**144,500**	**-**	**20**	**-**	**1,875**	**30,779**	**177,174**
	2013/14	**144,500**	**-**	**-**	**-**	**2,404**	**30,033**	**176,937**
Deputy Chief Executive – Kieran Timmins	**2014/15**	**144,500**	**-**	**-**	**-**	**10,089**	**19,652**	**174,241**
	2013/14	**144,500**	**-**	**-**	**-**	**9,669**	**16,040**	**170,209**

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.

The Management Team is under review at the time of writing the Statement of Accounts.

*The three officers receive the same cash allowance for a car but the taxable benefit is different depending on the officer's role.

**The Chief Fire Officer and Deputy Chief Fire Officer are members of the Firefighters Pension Scheme whilst the Deputy Chief Executive is a member of the Local Government Pension Scheme.

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	2014/15 Number of employees	2013/14 Number of employees
£50,000 - £54,999	22	22
£55,000 - £59,999	16	13
£60,000 - £64,999	12	11
£65,000 - £69,999	6	2
£70,000 - £74,999	9	2
£75,000 - £79,999	4	2
£80,000 - £84,999	1	-
£85,000 - £89,999	-	-
£90,000 - £94,999	1	6
£95,000 - £99,999	1	-
£100,000 - £104,999	3	-
Total	**75**	**58**

Note a – In 2014/15 65 of the 75 staff receiving over £50,000 are firefighting staff (in 2013/14 this was 47 of the 58), who provide fire cover (many of whom are receiving additional payments for working extra time or working more flexibly and providing resilience).

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 2014/15 1 of the 75 staff received a termination payment which resulted in the member of staff receiving more than £50,000 remuneration for the year.

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	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15
£0 - £20,000	-	-	16	3	16	3	151,775	30,630
£20,001 - £40,000	-	-	3	3	3	3	74,811	82,663
£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	**-**	**-**	**19**	**6**	**19**	**6**	**226,586**	**113,293**

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:

	2014/15 £000	2013/14 £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	(4)	(5)
Fees payable in respect of other services by National Fraud Initiative during the year	-	-
Total	**39**	**38**

32. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2014/15 £000	2013/14 £000
Credited to Taxation and Non Specific Grant Income		
Council tax income/Local share non domestic rates	(28,164)	(27,060)
Non domestic rates	(13,785)	(13,521)
Non-ring fenced Government grants:		
Revenue Support Grant	(22,759)	(26,441)
Capital Grants and Contributions:		
General Capital Grant (Department for Communities and Local Government) (DCLG)	(2,129)	(2,129)
Breathing Apparatus Telemetry Units Grant (DCLG)	(92)	-
Merseyside Police Joint Control Room*	3,466	(3,321)
Total	**(63,463)**	**(72,472)**
Credited to Services		
New Dimensions Grant (Department for Communities and Local Government)	(1,001)	(999)
Fire Control Implementation Grant (Department for Communities and Local Government)	(244)	(215)
PFI Credits (Department for Communities and Local Government)	(2,097)	(2,097)
Other Grants (Department for Communities and Local Government)	(391)	(244)
Total	**(3,733)**	**(3,555)**

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

*This adjustment relates to the reversal of receipts received in previous years from Merseyside Police, for the building of the Joint Control Centre (JCC). This was originally treated as a capital grant as no formal agreement had been completed. During 2014-15 discussions and tests were concluded and a finance lease was agreed appropriate for the operation of JCC. This adjustment moves the contribution to the Finance Lease debtor shown in Note 35.

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.

2013/14 Receipts	2013/14 Payments	Related Party Transactions	2014/15 Receipts	2014/15 Payments
		Central Government		
13,522		Redistributed National Non-Domestic Rates	13,785	
26,441		Revenue Support Grant	22,759	
2,343		Capital Grants	2,035	
	3,010	Employers National Insurance Contributions		2,868
		Local Authority Precept		
2,505		Knowsley	2,507	
8,136		Liverpool	8,657	
3,678		St. Helens	3,786	
6,013		Sefton	6,271	
6,728		Wirral	6,943	
		Pensions		
	1,757	Merseyside Superannuation Fund Employers Contributions		3,717
25,140	27,724	Pension Fund (DCLG)	26,468	31,002
		Other		
3,321	-	Merseyside Police Authority (MPA)	1,334	-

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 2014/15 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 2014/15, 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 2014/15.

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 and Rescue Service. 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 Service, and that those transactions should be consolidated into the Authority's financial accounts. The FSN did maintain an independent bank account in 2015/16 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 2014/15.

Joint Control Centre

Merseyside Fire and Rescue and Merseyside Police Authorities had entered into a contract to develop and build a joint Merseyside Command and Control Centre. The proposed design solution included 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. Work on the project started on the 8th April 2013 and the project was 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.

	2014/15 £000	2013/14 £000
Opening Capital Financing Requirement	(71,272)	(65,286)
Capital Investment		
Property, Plant and Equipment	(7,049)	(17,689)
Investment Properties	-	-
Intangible Assets	(10)	(2)
Revenue Expenditure Funded from Capital under Statute	(791)	(619)
Sources of Finance		
Capital receipts	244	-
Government grants and other contributions	3,371	5,664
Sums set aside from revenue:		
• Direct revenue contributions	2,363	3,327
• [MRP/loans fund principal]	3,434	3,333
Closing Capital Financing Requirement	**(69,710)**	**(71,272)**
Explanation of movement in year		
Increase/(Decrease) in underlying need to borrowing (supported by Government financial assistance)	-	-
Increase/(Decrease) in underlying need to borrowing (unsupported by Government financial assistance)	(1,562)	(2,949)
Assets acquired under finance leases	-	-
Assets acquired under PFI contracts	-	8,935
Increase/(decrease) in Capital Financing Requirement	**(1,562)**	**5,986**

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 2015 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 2015 £000	31 March 2014 £000
Other Land and Buildings	6,420	6,029
Vehicles, Plant, Furniture and Equipment	-	-
Total	**6,420**	**6,029**

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 building was revalued in the year by £0.514m

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 2015 £000	31 March 2014 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	-	-
Non-current	-	-
Finance Costs payable in future years	-	-
Total	**-**	**-**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Not later than one year	-	-	-	-
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
Total	**-**	**-**	**-**	**-**

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 2015 £000	31 March 2014 £000
Not later than one year	88	152
Later than one year and not later than five years	6	82
Later than five years	-	-
Total	**94**	**234**

Authority as Lessor

Finance Leases

The Authority in conjunction with Merseyside Police has built a Joint Command and Control Centre. The lease to the Police is for a period of 40 years. The Police have invested all capital monies up front to the value of their share of the asset and no residual value is anticipated for the property when the lease comes to an end. There is therefore no long term debtor for the lease as all the liabilities have been paid up front. The gross investment is made up of the following amounts:

	31 March 2015 £000	31 March 2014 £000
Finance lease debtor		
Proportion of build costs	4,800	-
Paid	(4,800)	-
Total	**-**	**-**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Not later than one year	*(600)	-	-	-
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
Total	**(600)**	**-**	**-**	**-**

*This final payment relates to the final invoice and outstanding retentions at 31/03/2015.

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 Service. 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 31st March 2014	1,140	19,075	20,215
Revaluation losses	(115)	(747)	(862)
Depreciation/Impairment	-	(528)	(528)
Value at 31st March 2015	**1,025**	**17,800**	**18,825**

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 2014/15 and future payments will be made as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2015/16	612	282	1,756	2,650
Payable within 2 to 5 years	2,672	1,399	6,831	10,902
Payable within 6 to 10 years	3,796	2,547	7,892	14,235
Payable within 11 to 15 years	4,387	3,874	6,732	14,993
Payable within 16 to 20 years	5,082	5,922	4,846	15,850
Payable within 21 to 25 years	3,866	5,409	1,576	10,851
Payable within 26 to 30 years	-	-	-	-
Total	**20,415**	**19,433**	**29,633**	**69,481**
Paid in 2014/15	619	250	1,771	2,640
Grand Total	**21,034**	**19,683**	**31,404**	**72,121**

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 2015 £000	31 March 2014 £000
Balance outstanding at start of year	(19,684)	(10,904)
Payments during the year	250	155
Capital expenditure incurred in the year	-	(8,935)
Other movements	-	-
Total	**(19,434)**	**(19,684)**

37. Impairment Losses

The Authority incurred expenditure of £760,000 in 2014/15 and £201,000 in 2013/14 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. Revaluation losses in the year equated to £3,509,000 but reversal of prior year revaluation losses and impairments equated to £6,575,000. 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 2014/15.

39. Termination Benefits

The Authority terminated the contracts of a number of employees in 2014/15, incurring liabilities of £113,000 (£227,000 in 2013/14) – 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 recue 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

2013/14				2014/15		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
			Comprehensive Income and Expenditure Statement			
			Cost of Services			
1,892	-	1,892	• current service cost	1,735	-	1,735
-	-	-	• past service costs	-	-	-
43	-	43	• settlements and curtailments	-	-	-
42	-	42	• administration expenses	43	-	43
			Financing and Investment Income and Expenditure			
1,141	36	1,177	• Net interest expense	717	38	755
3,118	**36**	**3,154**	***Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services***	**2,495**	**38**	**2,533**
			Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement			
			Remeasurement of the net defined benefit liability Comprising:			
(1,198)	-	(1,198)	• Return on scheme assets (excluding the amount included in the net interest expense)	(4,235)	-	(4,235)
515	11	526	• Actuarial gains and losses arising on changes in demographic assumptions	-	-	-
(5,995)	(29)	(6,024)	• Actuarial gains and losses arising on changes in financial assumptions	12,809	81	12,890
(3,614)	42	(3,572)	• Other experiences (gain)/loss on liabilities	-	-	-
(7,174)	**60**	**(7,114)**	***Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement***	**11,069**	**119**	**11,188**
			Movement in Reserves Statement			
(3,118)	(36)	(3,154)	• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(2,495)	(38)	(2,533)
			Actual amount charged against the General Fund Balance for pensions in the year:			
1,842	-	1,842	• Employers' contributions payable to scheme	3,813	-	3,813
	51	51	• Retirement benefits payable to pensioners	-	52	52

Firefighters Pension Scheme

2013/14					2014/15			
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				
				Cost of Services				
13,450	540	910	14,900	• current service cost	11,560	450	770	12,780
-	-	-	-	• past service costs	-	-	-	-
-	-	-	-	• settlements and curtailments	-	-	-	-
				Financing and Investment Income and Expenditure				
38,750	2,570	290	41,610	• Net interest expense	38,590	2,440	330	41,360
52,200	**3,110**	**1,200**	**56,510**	***Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services***	**50,150**	**2,890**	**1,100**	**54,140**
				Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement				
				Remeasurement of the net defined benefit liability Comprising:				
(19,212)	-	409	(18,803)	• Return on scheme assets (excluding the amount included in the net interest expense)	(22,520)	-	412	(22,108)
-	-	-	-	• Actuarial gains and losses arising on changes in demographic assumptions	(49,270)	(23,310)	(1,260)	(73,840)
(20,630)	(3,820)	(680)	(25,130)	• Actuarial gains and losses arising on changes in financial assumptions	129,400	3,830	2,590	135,820
(28,620)	(1,730)	(10)	(30,360)	• Other experiences (gain)/loss on liabilities	(26,530)	(930)	(430)	(27,890)
(16,262)	**(2,440)**	**919**	**(17,783)**	***Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement***	**81,230**	**(17,520)**	**2,412**	**66,122**
				Movement in Reserves Statement				
(52,200)	(3,110)	(1,200)	(56,510)	• reversal of net charges made to the Surplus or Deficit for the provision of Services for post-employment benefits in accordance with the Code	(50,150)	(2,890)	(1,100)	(54,140)
				Actual amount charged against the General Fund Balance for pensions in the year:				
5,398	-	219	5,617	• Employers' contributions payable to scheme	5,200	-	212	5,412
-	1,700	-	1,700	• Retirement benefits payable to pensioners	-	1,780	-	1,780

- The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2015 is a deficit of £20,637m and to the 31 March 2014 is a surplus of £84.561m.

- 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

2013/14				2014/15		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
(71,363)	(871)	(72,234)	Present value of the defined benefit obligation	(87,596)	(938)	(88,534)
52,246	-	52,246	Fair value of scheme assets	61,223	-	61,223
(19,117)	(871)	(19,988)	***Net liability arising from defined benefit obligation***	(26,373)	(938)	(27,311)

Firefighters Pension Scheme

2013/14					2014/15			
Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000		Old Scheme £000	Injury Awards £000	New Scheme £000	Total £000
(885,020)	(56,110)	(7,000)	(948,130)	Present value of the defined benefit obligation	(961,050)	(36,810)	(9,200)	(1,007,060)
-	-	-	-	Fair value of scheme assets	-	-	-	-
(885,020)	(56,110)	(7,000)	(948,130)	***Net liability arising from defined benefit obligation***	(961,050)	(36,810)	(9,200)	(1,007,060)

Reconciliation of the Movements in the Fair Value of Scheme Assets

Local Government Pension Scheme

2013/14 Funded Benefits £000	2013/14 Unfunded Benefits £000	2013/14 Total £000		2014/15 Funded Benefits £000	2014/15 Unfunded Benefits £000	2014/15 Total £000
48,372	-	48,372	Opening fair value of scheme assets	52,246	-	52,246
2,046	-	2,046	Interest income	2,460	-	2,460
			Remeasurement gain/(loss):			
1,198	-	1,198	• Return on scheme assets (excluding the amount included in the net interest expense)	4,235	-	4,235
(42)	-	(42)	• Administration Expenses	(43)	-	(43)
1,842	51	1,893	Contributions from employer	3,813	52	3,865
543	-	543	Contributions from employees into the scheme	585	-	585
(1,713)	(51)	(1,764)	Benefits paid	(2,073)	(52)	(2,125)
52,246	-	52,246	***Net liability arising from defined benefit obligation***	61,223	-	61,223

Firefighters Pension Scheme

2013/14 Old Scheme £000	2013/14 Injury Awards £000	2013/14 New Scheme £000	2013/14 Total £000		2014/15 Old Scheme £000	2014/15 Injury Awards £000	2014/15 New Scheme £000	2014/15 Total £000
-		-	-	Opening fair value of scheme assets	-		-	-
				Remeasurement gain/(loss):				
19,212	-	(409)	18,803	• Return on scheme assets (excluding the amount included in the net interest expense)	22,520	-	(412)	22,108
5,398	1,700	219	7,317	Contributions from employer	5,200	1,780	212	7,192
3,110	-	190	3,300	Contributions from employees into the scheme	3,280	-	200	3,480
(27,720)	(1,700)		(29,420)	Benefits paid	(31,000)	(1,780)		(32,780)
-	-	-	-	***Net liability arising from defined benefit obligation***	-	-	-	-

Return on scheme assets is effectively a balancing figure because we know that there is no opening or closing assets in the Firefighters Pension Scheme. Although this statement is not provided by the actuary it is required in order to prevent the top up grant going through the Comprehensive Income and Expenditure Account. The return on scheme assets is combined with the other return on assets for both schemes.

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

Local Government Pension Scheme

2013/14 Funded Benefits £000	2013/14 Unfunded Benefits £000	2013/14 Total £000		2014/15 Funded Benefits £000	2014/15 Unfunded Benefits £000	2014/15 Total £000
(76,505)	(862)	(77,367)	Opening balance at 1 April	(71,363)	(871)	(72,234)
(1,892)	-	(1,892)	Current service cost	(1,735)	-	(1,735)
(3,187)	(36)	(3,223)	Interest cost	(3,177)	(38)	(3,215)
(543)	-	(543)	Contributions by scheme participants	(585)	-	(585)
			Remeasurement (gains) and losses:			
(515)	(11)	(526)	• Actuarial gains/losses arising from changes in demographic assumptions	-	-	-
5,995	29	6,024	• Actuarial gains/losses arising from changes in financial assumptions	(12,809)	(81)	(12,890)
3,614	(42)	3,572	• Other experience gains and losses	-	-	-
-	-	-	Past service cost	-	-	-
(43)	-	(43)	Settlements and curtailments	-	-	-
1,713	51	1,764	Benefits paid	2,073	52	2,125
(71,363)	**(871)**	**(72,234)**	**Closing balance at 31 March**	**(87,596)**	**(938)**	**(88,534)**

Firefighters Pension Scheme

2013/14 Old Scheme £000	2013/14 Injury Awards £000	2013/14 New Scheme £000	2013/14 Total £000		2014/15 Old Scheme £000	2014/15 Injury Awards £000	2014/15 New Scheme £000	2014/15 Total £000
(906,680)	(60,250)	(6,300)	(973,230)	Opening balance at 1 April	(885,020)	(56,110)	(7,000)	(948,130)
(13,450)	(540)	(910)	(14,900)	Current service cost	(11,560)	(450)	(770)	(12,780)
(38,750)	(2,570)	(290)	(41,610)	Interest cost	(38,590)	(2,440)	(330)	(41,360)
(3,110)	-	(190)	(3,300)	Contributions by scheme participants	(3,280)	-	(200)	(3,480)
				Remeasurement (gains) and losses:				
-	-	-	-	• Actuarial gains/losses arising from changes in demographic assumptions	49,270	23,310	1,260	73,840
20,630	3,820	680	25,130	• Actuarial gains/losses arising from changes in financial assumptions	(129,400)	(3,830)	(2,590)	(135,820)
28,620	1,730	10	30,360	• Other experience gains and losses	26,530	930	430	27,890
-	-	-	-	Past service cost	-	-	-	-
-	-	-	-	Settlements and curtailments	-	-	-	-
27,720	1,700	-	29,420	Benefits paid	31,000	1,780	-	32,780
(885,020)	**(56,110)**	**(7,000)**	**(948,130)**	**Closing balance at 31 March**	**(961,050)**	**(36,810)**	**(9,200)**	**(1,007,060)**

Local Government Pension Scheme assets comprised:

2013/14 Quoted Prices in Active Markets £000	2013/14 Quoted Prices not in Active Markets £000	2013/14 Total £000		2014/15 Quoted Prices in Active Markets £000	2014/15 Quoted Prices not in Active Markets £000	2014/15 Total £000
1,387	-	1,387	**Cash & Cash Equivalents**	1,857	-	1,857
			Equity Instruments:			
13,813	-	13,813	• UK	14,608	-	14,608
15,908	-	15,908	• Overseas	18,440	-	18,440
29,721	-	29,721	Sub-total equity instruments	33,048	-	33,048
			Bonds:			
1,379	-	1,379	• UK Corporate	1,586	-	1,586
2,204	-	2,204	• UK Government	3,061	-	3,061
4,972	-	4,972	• UK Index Linked	5,975	-	5,975
8,555	-	8,555	Sub-total bonds	10,622	-	10,622
			Property:			
-	2,551	2,551	• UK Direct Property	-	3,428	3,428
322	827	1,149	• UK Property Managed	202	814	1,016
-	490	490	• Overseas Property Managed	-	612	612
322	3,868	4,190	Sub-total property	202	4,854	5,056
			Private Equity:			
37	1,343	1,380	• UK	24	1,831	1,855
-	1,267	1,267	• Overseas	-	1,678	1,678
37	2,610	2,647	Sub-total private equity	24	3,509	3,533
			Other Investment Funds:			
148	2,139	2,287	• Hedge Funds UK	153	331	484
-	78	78	• Hedge Funds Overseas	-	1,867	1,867
-	473	473	• Infrastructure UK	-	857	857
158	415	573	• Infrastructure Overseas	165	508	673
762	728	1,490	• Opportunities UK	1,120	1,255	2,375
449	396	845	• Opportunities Overseas	184	667	851
1,517	4,229	5,746	Sub-total other investment funds	1,622	5,485	7,107
41,539	**10,707**	**52,246**	**Total assets**	**47,375**	**13,848**	**61,223**

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	
	2014/15	2013/14	2014/15	2013/14
Long-term expected rate of return on assets in the scheme:				
Equity Investments	6.5%	7.0%	-	-
Government Bonds	2.2%	3.4%	-	-
Other Bonds	2.9%	4.3%	-	-
Property	5.9%	6.2%	-	-
Cash Liquidity	0.5%	0.5%	-	-
Other	N/A	N/A	-	-
Mortality assumptions:				
Longevity at 65 current pensioners:				
Men	22.4	22.3	22.5	23.5
Women	25.3	25.2	22.5	25.5
Longevity at 65 for future pensioners:				
Men	24.8	24.7	24.8	26.6
Women	28.1	28.0	24.8	28.6
Rate of CPI inflation	2.0%	2.4%	2.2%	2.5%
Rate of increase in salaries	3.5%	3.9%	4.2%	4.5%
Rate of increase in pensions	2.0%	2.4%	2.2%	2.5%
Rate for discounting scheme liabilities	3.3%	4.5%	3.3%	4.4%
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)	1,708	(1,708)
Rate of inflation (increase or decrease by 0.1%)	1,739	(1,739)
Rate of increase in salaries (increase or decrease by 0.1%)	473	(473)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(1,704)	1,704

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 £1.207m contributions to the scheme in 2015/2016. This forecast excludes the £2,538m fixed payment element of the deficit paid in 2014/15 for the 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 was 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)	25,200	(25,200)
Rate of increase in salaries (increase or decrease by 0.1%)	1,960	(1,960)
Rate of increase in pensions (increase or decrease by 0.1%)	16,960	(16,960)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(19,740)	19,740

Impact on the Authority's Cash Flows

The Authority anticipates paying £4.991m contributions to the scheme in 2015/2016.

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 2014/15 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

No limits on investments with the UK Government and Local Authorities were set because they are considered to be of the highest credit quality and are essentially risk free. The limits placed on the other categories reflected some uncertainty and marginally higher risk profile of the institutions within those categories.

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 2015 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 2015 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2015 %	Estimated maximum exposure to default and uncollectability at 31 March 2015 £000	Estimated maximum exposure at 31 March 2014 £000
	A	B	C	(A X C)	
Investments	13,041	-	-	-	-
Customers	442	2.37	2.00	9	7
				9	**7**

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 £0.114m of the £0.442m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2015 £000	31 March 2014 £000
Less than three months	67	153
Three months to one year	38	9
More than one year	9	6
Total	**114**	**168**

Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Authority seeks to maintain liquid short term deposits of at least £1 million available daily. 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) 31 March 2015 £000	31 March 2014 £000	Merseyside Residual Debt (MRD) 31 March 2015 £000	31 March 2014 £000
Less than one	1,000	1,475	41	41
Between one and two	2,000	1,000	41	41
Between two and five	1,765	3,500	123	123
Between five and ten	3,615	3,880	203	203
Between ten and fifteen	-	-	38	79
Between fifteen and twenty	-	-	-	-
Between twenty and twenty five	2,000	2,000	-	-
Between twenty five and thirty	-	-	-	-
Between thirty and thirty five	5,500	4,500	-	-
Between thirty five and forty	14,250	12,360	-	-
Between forty and forty five	11,970	14,860	-	-
More than forty five	-	-	-	-
Total	**42,100**	**43,575**	**446**	**487**

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 of 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 2015, 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	(335)
Increase in Government grant receivable for financing costs	(12)
Impact on Surplus or Deficit on the Provision of Services	**(342)**
Decrease in fair value of fixed rate investment assets	-
Impact on Other Comprehensive Income and Expenditure	**(342)**
Increase 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)	691

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 yet to be identified are not deemed to be material.

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (i.e. Overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered). The backdated claims have, however, been limited, with the tribunal ruling that workers can only make claims if it is less than three months since their last incorrect payment of holiday pay. 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.

The Pension Ombudsman has said GAD failed to review the commutation factors from 1998 to 2006 applicable to the calculation of the lump sum within the Firefighters Pension Scheme. Commutation is a procedure where a member of the pension scheme gives up part of their pension in exchange for a lump sum. The Ombudsman ordered that commutation factors should have been reviewed in 2001 and 2004 and that firefighters who retired between 1st December 2001 and 21st August 2006 should be compensated. Firefighters pension schemes are currently working on behalf of the government to identify such affected individuals and ensure that appropriate payments are made.

Municipal Mutual Insurance Limited

Municipal Mutual Insurance Limited issued a levy notice on 1st January 2014 by the Scheme Administrator at a rate of 15% on Established Scheme Liabilities which exceeded £50,000 in aggregate. This equated to £250,000 which was paid in January 2014 with Municipal Mutual Insurance Limited covering the balance. We have now been informed by Municipal Mutual Insurance Limited the 15% levy may need to be increased to 26%. Also due to scheme changes, scheme members will need to pay 100% of the claim up front before being able to see the 85% reimbursement from Municipal Mutual Insurance. The Authority has increased its Insurance Reserve in 2014-15 by £500K to cover any potential increases in levies.

Firefighters Pension Fund Accounts

Fund Account

2013/14 £000		2014/15 £000	
	Contributions receivable:		
	Fire Authority:		
(5,266)	• contributions in relation to pensionable pay	(5,001)	
(351)	• early retirements	(411)	
-	• other	-	
(3,299)	Firefighters contributions	(3,481)	
(8,916)			**(8,893)**
-	**Transfers in from other authorities**		**-**
	Benefits payable:		
25,150	• Pensions	26,112	
2,462	• commutation and lump sum retirement benefits	4,690	
-	• lump sum death benefits	-	
-	• other	-	
27,612			**30,802**
	Payments to and on account of leavers:		
112	• transfers out to other authorities	200	
-	• refunds of contributions	-	
112			**200**
18,808	**Net amount payable for the year**		**22,109**
(18,808)	Top – up grant payable by the Government		(22,109)
-			**-**

Net Assets Statement

2013/14 £000		2014/15 £000
	Current assets	
-	Contributions due from the Fire Authority	-
-	Recoverable overpayments of pensions	-
4,751	Debtors	6,798
(4,751)	Cash	(6,798)
	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	12.2%	9.4%
£21,001 - £30,000	14.2%	10.4%
£30,001 - £40,000	14.7%	10.9%
£40,001 - £50,000	15.2%	11.2%
£50,001 - £60,000	15.5%	11.3%
£60,001 - £100,000	16.0%	11.7%
£100,001 - £120,000	16.5%	12.1%
£120,001 >	17.0%	12.5%

Ill Health Contributions

Ill 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 2015 £000	31 March 2014 £000
Central Government bodies	4,534	2,584
Other local authorities	-	-
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	2,264	2,167
Total	**6,798**	**4,751**

Statement of Responsibilities for 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 2015 and of its expenditure and income for the year ended 31st March 2015.

Ian Cummins
Treasurer
17th September 2015

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.

Statement of Approval for the Statement of Accounts

The statement of accounts for the year 1st April 2014 to 31st March 2015, were approved for issue on 17th September 2015 by Merseyside Fire and Rescue Authority **(Report CFO/75/15).**

Chair of the Authority Meeting Approving the Accounts
17th September 2015

AUDITORS REPORT TO FOLLOW

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 2014-2015

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 31st March 2015.

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 a 2015-2017 IRMP Supplement at its meeting on the 26th February 2015, and the IRMP Supplement established the service priorities for 2015-2017.

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.

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 <u>Policy and decision making process</u>
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 2014/15 and approved by the Authority at its meeting on 26th June 2014 (CFO/069/14), 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 systems** 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 Grant Thornton 2014/15 Annual Audit Letter and Audit Findings Report;

"The Authority continues to show strong financial resilience and good financial planning and management."

"The Authority has proper arrangements in place for securing financial resilience. The Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."

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 26th June 2014 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 co-ordinated 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.(From 2015/16 this committee will be discontinued and quarterly reports on industrial relations matters will go directly to the Authority meeting)

- 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 Disciplnary 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.

- The Appeals Committee – consider and determine all requests for reconsideration of cases under the Firefighters' Pension Scheme. Consider grievance appeals as identified in the Agreed Grievance Procedure.

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 2014/15 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 2013/14 and it is anticipated this will be repeated in 2014/15. 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 2014/15, 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:

"it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue Service for the year ended 31st March 2014 accords with proper practice. The 2014/15 fundamental systems audits have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of Major or Moderate. Based on the audit work carried out in 2014/15 we are not aware of any significant control weaknesses within the Service 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 Grant Thornton, 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 2014/15 statutory financial statements and make a VFM conclusion during the 2015/16 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 2014/15 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2013/14 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2013/14 financial statements.

SIGNIFICANT GOVERNANCE ISSUES

4.7 The Government has announced the level of grant it will provide to the Fire and Rescue Authority up to 2015/16. The reduction was anticipated by the Authority when it approved a two year saving plan of £6.3m in 2014/15. The funding reduction means that over the 2010/11 – 2015/16 period the Service has had to deliver £26.3m of savings.

4.8 The Authority approved a financial plan on 26th February 2015, that will deliver the required savings based upon those government announcements that have already been made. The Authority, however, recognises that any future government (post the

May 2015 elections) 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's proposals to deliver the approved savings required in the current financial plan 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 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, firefighter 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……………………………………
D. Roberts
CHAIR of Audit Sub-Committee

Signed……………………………………
D. STEPHENS
CHIEF FIRE OFFICER

Signed ……………………………………
K. TIMMINS
DEPUTY CHIEF EXECUTIVE