Merseyside Fire & Rescue Service

2015/16 Statement of Accounts

MERSEYSIDE FIRE AND RESCUE AUTHORITY

ANNUAL STATEMENT OF ACCOUNTS 2015 – 2016

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Narrative Report by the Treasurer

Introduction

The Statement of Accounts sets out the financial activities of the Authority for the year ended 31st March 2016, with comparative figures for the previous financial year. These financial statements have been prepared in accordance with the 2015/16 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.

This Narrative Report (a change in requirements for 2015/16 replacing the Explanatory Foreword) provides information about Merseyside Fire and Rescue Authority (the Authority), including the key issues affecting the Authority in 2015/16 and the future. It also provides a summary of the financial position at 31 March 2016 and is structured as below:

- Background to the Authority & Key Information
- The Authority 2015/16 Non-Financial Performance
- The 2015/16 Revenue Budget and Financial Challenge
- 2015/16 Revenue Outturn Position
- Reserves
- Capital Strategy and Capital Programme 2015/16 to 2019/20
- Treasury Management
- Balance Sheet Financial Position at 31st March 2016
- Future Financial Challenge / Corporate Risks 2016/17 – 2019/20

This is followed by an explanation of the Financial Statements, including information on significant transactions during 2015/16.

Background to the Authority & Key Information

Merseyside is an area in the north west of England, which straddles the Mersey Estuary and includes the metropolitan districts of Knowsley, Liverpool, Sefton, St Helens and Wirral. Merseyside spans 249 square miles (645 Km2) of land containing a mix of high density urban areas, suburbs, semi-rural and rural locations, but overwhelmingly the land use is urban. It has a focused central business district, formed by Liverpool City Centre, but Merseyside is also a polycentric county and each of the metropolitan districts has at least one major town centre and outlying suburbs. Mid 2014 Office of National Statistics (ONS) estimated figures showed that Merseyside has a population total of 1,391,113 which is a 0.72% increase on the 2011 Census figures. The population is split 48.6% male and 51.4% female, with 17.7% of the population being children (0-15), 63.9% being of working age (16-64) and 18.4% above 65. Merseyside has an aging population. There are some areas of affluence, for example in West Wirral and North Sefton, but large areas of Merseyside fall within the highest ratings of social deprivation. There remain large pockets of deprivation with high levels of social exclusion and crime. According to the Indices of Multiple Deprivation 2015; out of 326 Local Authorities across England, Knowsley and Liverpool both appear in the top 10 most deprived Local Authorities. The Local Authority breakdown is as follows: Knowsley is ranked 2nd, Liverpool is ranked 4th, St Helens is ranked 25th, Wirral is ranked 36th and Sefton 41st.

Political Structure
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 2015/16 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 18 elected members meet together as the Fire and Rescue Authority and decide the Authority's overall policies and set the budget each year. At the Annual General Meeting (AGM) they establish and make appointments to the various committees as well as appointing the Chair and Vice Chair of the Authority and its committees.

The Authority has ultimate responsibility for decision making but delegates many decisions to committees as part of their terms of reference agreed at the AGM and to senior officers within Merseyside Fire and Rescue under the Authority's Scheme of Delegated Powers.

Management Structure
Supporting the work of the elected members is the organisational structure of the Authority led by a Chief Fire Officer supported by a Strategic Management Group Team (SMG). The current makeup of the SMG is detailed below:

- Chief Fire Officer
- Deputy Chief Fire Officer
- Director of Legal Services (Monitoring Officer)
- Treasurer (Section 151 Officer)
- Area Manager for Operational Preparedness
- Area Manager for Operational Response
- Director of Strategy and Performance
- Area Manager Strategic Change and Resources
- Area Manager for Community Risk Management

Integrated Risk Management Plan
It is a statutory requirement of the Fire and Rescue Service National Framework for fire authorities to produce an Integrated Risk Management Plan (IRMP). The IRMP is the key driver in the allocation of the Authority's resources in response to the risks facing Merseyside and states the main strategic themes that the Authority has been progressing and its plans for the future. The IRMP sets out the ways in which the Authority will deal with local risks and challenges. The Authority published its 2013/16 IRMP in June 2013 and a 2015/17 IRMP Supplement on 26th February 2015 that updated stakeholders on the progress made against the 2013/16 objectives and how the Authority intended to deal with any future challenges brought about as a consequence of continuing reductions in Government financial support for the Authority. The Supplementary IRMP reaffirmed the Authority's commitment to minimise the impact of any service cuts on the people of Merseyside and how the service would continue to keep the safety of the public and the effectiveness of firefighters as our priority. The IRMP can be found on the Authority's website at http://mfra.merseyfire.gov.uk/ieListDocuments.aspx?CId=158&MId=564&Ver=4

Mission & Aims
The Authority's Mission and Aims are outlined below. The approved 2015/16 financial plan prioritised the allocation of resources to reflect the priorities in the Mission and IRMP.

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.

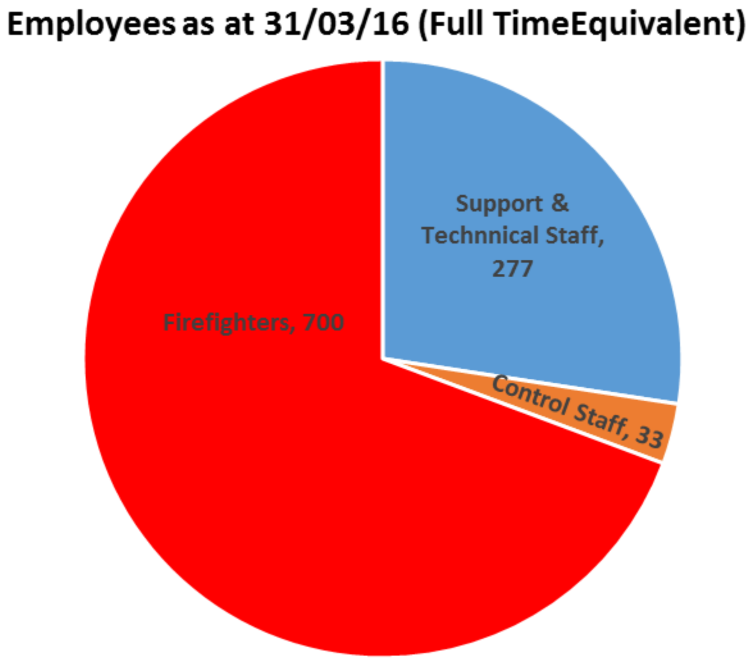
Excellent Operational Response
To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

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.

Staffing, Fire Appliances & Fire Stations

The Authority employed circa 1,000 Full Time Equivalents at the end of March 2016 to deliver its services. Most of the staff are involved in front line service delivery (Firefighters, Marine Rescue and Community Prevention work).



As a direct consequence of the scale of Government cuts there has been an inevitable impact on frontline services.

Ten years ago the Authority employed over 1,200 firefighters. At the end of 2015/16 the number was 700, a 42% reduction. Support and technical staff have reduced from 425 to 277 Full Time Equivalents since 2010/11, and some of these staff fulfilled important fire preventative work with the Merseyside community.

In 2015/16 the Authority had 28 fire appliances available, 24 wholetime and 4 wholetime retained (crewed on a 30 minute recall). Ten years ago it had 42 (24 hour crewed on immediate response).

The planned closure or merger of fire stations will reduce the number of fire stations from 26 to 22 once the programme has been fully implemented. Following the closure of Allerton community fire station the Authority had 25 community fire stations with a variety of duty systems at the end of 2015/16. These stations act as hubs for providing services to our communities. In addition to the community fire stations the Authority has a Water Rescue station, a Training and Development Academy, a headquarters and an operational workshop.

The above reductions reflect year-on-year cuts in Government grant support over the period. Further reductions in firefighters, fire appliances and stations are planned following the announcement by the Government of the indicative grant settlements for the Authority up to and including 2019/20.

The Authority 2015/16 Non-Financial Performance

The Authority monitors its performance and deliver of its objectives through a comprehensive performance management framework. The 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 Strategic Management Group. 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 the progress achieved and matters to be addressed. Copies of the Service Delivery Plan can be found on the Authority's website. The 2015/16 Authority's performance against the key performance indicators (PI) is summarised in the table below:

	KPI	Narrative	Performance 2014/15	Target 2015/16	Performance 2015/16	Status
Total Fires Attended	61	The total number of fires in Merseyside	6871	6580	7171	
	66	Number of primary fires attended	2503	2434	2618	
Dwelling Fires	44	Number of accidental fires in dwellings	1050	1082	1086	
	45	Number of fatalities from accidental dwelling fires	10	8	16	
	46	Number of injuries from accidental dwelling fires	121	118	112	
	48	Number of deliberate dwelling fires in occupied properties	163	169	171	
	48a	Number of deliberate dwelling fires in unoccupied properties	44	52	48	
	49	Number of deaths occurring in deliberate dwelling fires	2	1	0	
	50	Number of injuries occurring in deliberate dwelling fires	14	26	17	
	47	Percentage of accidental dwelling fires confined to room of origin	92.5%	92%	93.4%	
	137	Attendance Standard – the first attendance of an appliance at all life risk incidents in 10 minutes	96.2%	90%	95.9%	
Non Domestic Property	19	Number of deliberate fires in non-domestic premises	93	84	92	
	19a	Number of accidental fires in non-domestic premises	218	223	206	
Anti-Social Behaviour	61a	Number of deliberate vehicle fires	503	488	516	
	61b	Number of deliberate anti-social behaviour small fires	3917	4481	4035	
Road Traffic Collisions	36	Number of road traffic collisions (RTC) attended	580	541	550	
	40	Total number of injuries at road traffic collisions (RTC's) attended	454	442	364	
	42a	Number of fatalities at RTC's	11	8	7	

Within 10% of Target

Target Achieved

Performance 10% worse than last year

Key Performance Indicator 45 - Number of fatalities from accidental dwelling fires - Regrettably this indicator failed to meet the target set for 2015/16. Of the 16 fatalities 9 were over 65 years of age, 5 had a disability and 7 lived alone reinforcing the importance of intelligently targeting prevention work to those residents over 65 years of age or identified as vulnerable. The Authority continues to work closely with partners to ensure we deploy our resources effectively and efficiently.

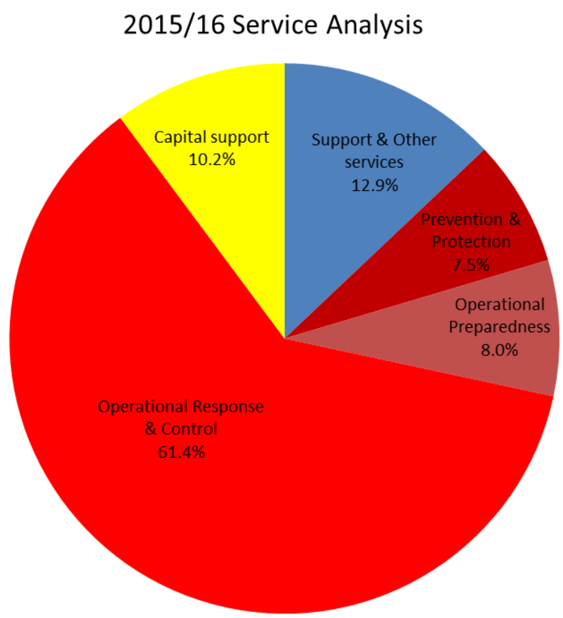
The 2015/16 Revenue Budget and Financial Challenge

The Authority determines its budget requirement by assessing the 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 faced an unprecedented financial challenge over the period 2011/12 – 2015/16 as the Government addressed the imbalances in national public spending. For 2011/12 to 2012/13 the Authority received the biggest grant cuts for any fire authority in the country from Central Government, a cumulative reduction of in excess of 13%. The Authority approved a saving plan to deliver savings totalling £9.2m to balance the budget over this period. The Government then announced in December 2012 further reductions in the Authority's funding for 2013/14 and 2014/15 (indicative figure) by 8.7% and 7.5% respectively, this was equivalent to a £6.3m cash reduction resulting in an overall need to identify a further £10.1m of savings. When the Government confirmed the grant reduction for 2014/15 and the cut for 2015/16 the Authority faced a further 10% (in real terms) cut to grant funding for 2015/16, requiring an additional £6.3m of savings. In total the Authority had to identify £25.6m of savings over the 2011/12 – 2015/16 period.

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. The Authority has made significant efficiency savings, cut management costs and reduced support services to minimise the impact on frontline services, however there has been an unavoidable reduction in frontline services.

The Authority set its General Fund budget for 2015/16 at £62.169m and the allocation of resources reflected the Authority's approved mission and the fire risks facing Merseyside and in particular how the Authority would continue to keep the safety of the public and the effectiveness of firefighters as our priority. Approximately 70% of the budget is directly funding activities related to fire response or prevention work:



The Authority adopted a reserves strategy that maintained a General Reserve of £2.000m and Earmarked Reserves of £21.081m to cater for specific risks, projects and one-off initiatives and in particular to help it manage effectively the financial pressures. Authority's resources in response to the risks facing Merseyside

2015/16 Revenue Outturn Position

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 £62.169 million. 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 £1.571m million by the year end after taking into account £0.791 million of year-end earmarked reserves required to cover expenditure re-phased from 2015/16 into future years:

Year-End Revenue Position

	FIRE SERVICE BUDGET	FIRE AUTHORITY BUDGET	TOTAL BUDGET	ACTUAL	VARIANCE	Year-End Earmarked Reserves	Post Earmarked Reserves VARIANCE
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure							
Employee Costs	47.584	0.406	47.990	47.294	-0.696	0.027	-0.669
Premises Costs	2.788	0.000	2.788	2.513	-0.275	0.054	-0.221
Transport Costs	1.528	0.000	1.528	1.338	-0.190	0.000	-0.190
Supplies and Services	3.724	0.067	3.791	3.053	-0.738	0.608	-0.130
Agency Services	5.645	0.000	5.645	5.626	-0.019	0.000	-0.019
Central Support Services	0.487	0.094	0.581	0.494	-0.087	0.000	-0.087
Capital Financing	7.174	0.000	7.174	6.922	-0.252	0.000	-0.252
Income	-7.027	0.000	-7.027	-7.132	-0.105	0.102	-0.003
Net Expenditure	61.903	0.567	62.470	60.108	-2.362	**0.791**	**-1.571**
Contingency Pay&Prices	0.169		0.169	0.000	-0.169	0.000	-0.169
Interest on Balances	-0.372		-0.372	-0.203	0.169	0.000	0.169
	61.700	0.567	62.267	59.905	-2.362	**0.791**	**-1.571**
Movement on Reserves	-0.098		-0.098	2.264	2.362		
Overall Financial Position	61.602	0.567	62.169	62.169	**0.000**		
Year-End Earmarked Reserves						**0.791**	
Increase in Capital Investment Res.							**1.571**
Year-End funded Reserves							**2.362**

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.

Before any year-end reserves savings of £2.362m were identified and the key areas of under spending were;

- Vacancy management within the employee establishment resulted in a saving of £0.7m
- Following a successful business rates appeal the Authority received a refund for previous years payments of £0.2m
- The lower than expected diesel prices and other reactive vehicle maintenance costs resulted in transport cost savings of £0.2m
- The management of supplies and services expenditure resulted in a saving of £0.7m
- By using internal cash on a temporary basis the Authority managed to delay any new loans and saved on loan interest payments of £0.3m
- Increased fees, charges, interest and secondment income of £0.1m
- 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 £104.057m 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 represents the amount by which the Authority's overall net worth has moved 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 2015/16 year-end position:	-
1 Net creation of Earmarked Reserves**	(2,263)
2 Asset valuation / charges and Capital Funding Adjustments	
Revaluation losses	435
Charge for depreciation and impairment	4,733
Revaluation surplus Reversal	(151)
Impairment surplus Reversal	0
Surplus on revaluation of Fixed Assets	1,158
Other Operating Expenditure	10
Revenue expenditure funded from capital under statute (REFCUS)	733
Finance (interest on loans)	3,846
Capital Grants Income	(4,251)
3 Pension related adjustments	
Pension Costs calculated in accordance with IAS 19	14,717
Pension Contributions payable to pension fund	(7,825)
Pensions Interest Cost and expected return on pension assets	33,792
Non Distributable Costs (Pension Valuation Changes)	-
Reduction in value of the net defined pension liability	(140,160)
4 Other technical accounting adjustments	
Employee Compensated Absences Movement (leave/flexi c/fwd)	57
Council Tax Adjustment (accrual for under/over payments from collection fund)	76
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)	(2,040)
Remove Capital Financing – Debt Charges (Not reported in I&E Account)	(6,923)
Rounding adjustment	(1)
Total Comprehensive Income and Expenditure Statement	**(104,057)**

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 £4.733m reflects the notional consumption of assets during the year (a depreciation charge of £4.442m) and the reduction in the valuation of assets during the year (an impairment charge of £0.291m). A charge of £0.733m 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 £4.251m have been credited to the CIES in accordance with proper accounting practice.*

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 (£2.040m). The removal of capital financing charges relates to costs associated with; interest payments on loans of (£2.088m); the Minimum Revenue Provision of (£3.898m) (which is the amount set aside from revenue to repay debt); the direct revenue financing of capital expenditure (CERA) of (£0.987m); and other costs totaling £0.050m (the saving associated with the early repayment of debt).*

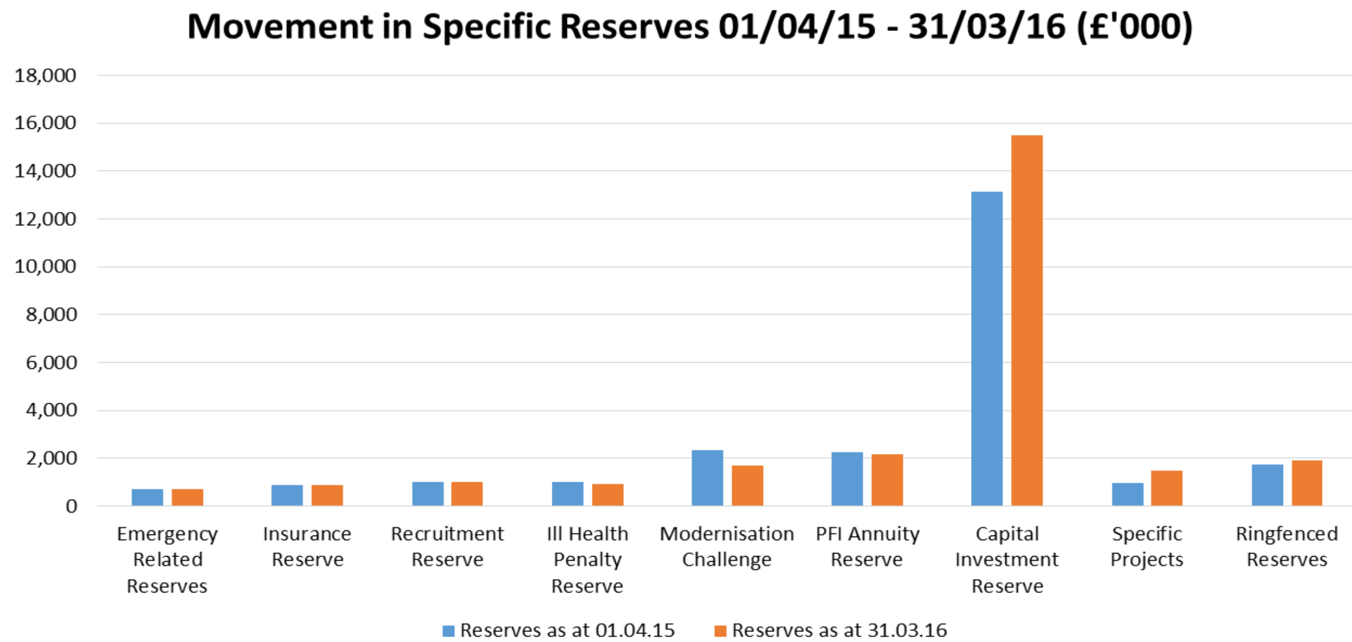
Whilst the CIES shows the true accounting position for the year, it is the General Fund position which more directly reflects the impact on Merseyside residents as it records only those expenses which statute allows to be charged against the Authority’s annual budget, the amounts to be set aside as reserves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

Reserves

The Authority maintains a number of useable reserves, as detailed in the Balance Sheet and in Note 8 of the core financial statement explanatory notes. Note 8 also provides a comment of the purpose of each of the useable reserves. In general though, the Authority sets aside money in the form of useable reserves to fund future planned investment, to mitigate financial risks, and to smooth savings.

At the end of 2015/16 the Authority’s earmarked reserves were £26.248m, a net increase of £2.263m on the value at the start of the year. This was as a consequence of the need at the year-end to increase specific earmarked reserves by £0.791m in order to carry forward 2015/16 funds into 2016/17 to meet projects now re-phased into 2016/17. In addition the £1.571m net underspend on the General Fund in 2015/16, after taking into account the year-end earmarked reserves (£0.791m), has been allocated to the Capital Investment Reserve to meet future investment needs. Net reserves of £0.100m were drawn down in the year to meet planned spend on specific projects. The Authority General Reserve has remained constant at £2.000m or 3% of the gross budget, and this provides a relatively small cushion to enable the Authority to cover the risk of unexpected events leading to significant unplanned expenditure.

The table below summarises the main types of earmarked reserves, most notable is the Capital Investment Reserve. Note that the Capital Investment Reserve will be drawn down in the coming years to fund fire station investment as the Authority merges stations, builds new stations and invests in its Training and Development Centre.



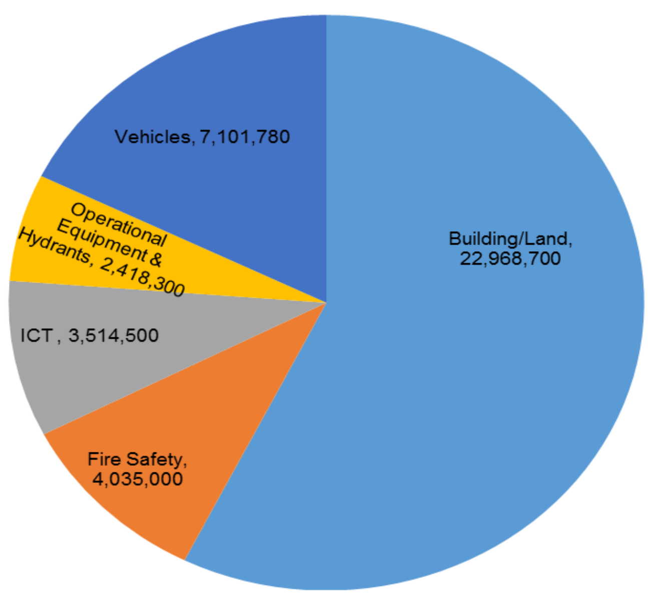
Capital Strategy and Capital Programme 2015/16 to 2019/20

Each financial year the Authority produces a capital programme to manage major capital schemes. Owing to the nature of capital expenditure a large number of schemes span more than one financial year so the programme is a rolling programme covering five financial years.

The starting point for the programme is an assessment of the capital investment requirements for the Authority for future years based upon needs identified by the various expert professionals in areas like buildings, vehicles, ICT, and operational equipment. The Authority manages its capital investment plans through its asset management plans and capital programme.

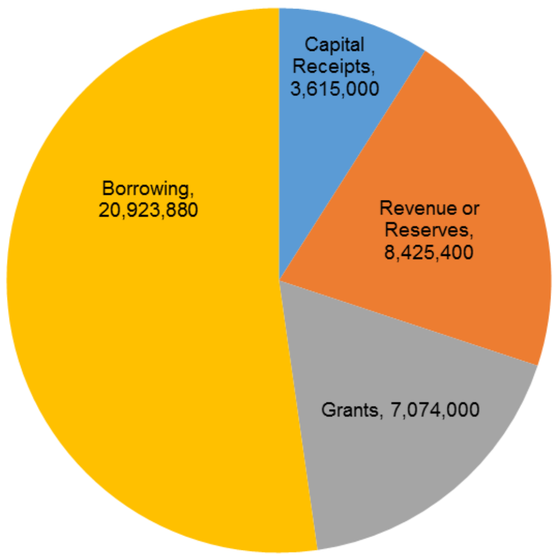
The chart below summarises the 2015/16 – 2019/20 capital budget of £40.004m over its planned investments which are mainly in the Authority's property, vehicles, fire safety (household smoke alarms) and ICT assets:

2015/16 – 2019/20 Planned Capital Investments (£'s)



This capital programme has a borrowing requirement of £20.924m million across the whole life of the plan. The proposed borrowing is unsupported borrowing or prudential which means the Government no longer provides any revenue grant funding to meet the revenue costs associated with the borrowing. This means all borrowing is "prudential" and the Authority must determine if it can afford and sustain the servicing of the associated debt and revenue costs. Current and future debt servicing costs as a consequence of the proposed capital programme have been built into the Authority's financial plan and revenue budget and are therefore deemed as affordable and sustainable. The chart below breaks down how the capital programme is funded:

2015/16 – 2019/20 Planned Capital Investments – Funding (£'s)



The 2015/16 capital budget and final expenditure together with the various sources of funding are shown below:

Programme	Final Budget £000	Actual Expenditure £000	Re-Phased from 2015/16 into 2016/17 £000	Variance £000
Expenditure				
Building/Land	2,988	1,984	859	-145
Fire Safety	735	733	0	-2
ICT	1,119	802	316	-1
Operational Equip & Hydrants	686	447	228	-11
Vehicles	1,103	800	304	1
TOTAL	**6,631**	**4,766**	**1,707**	**-158**
Financing				
Capital Receipts	1065	430	625	-10
Revenue and Reserves	987	987	0	0
Grants	732	763	0	31
Unsupported Borrowing	3,847	2,586	1,082	-179
TOTAL	**6,631**	**4,766**	**1,707**	**-158**

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 development of plans and proposals for a new fire station at Prescot
- Installation of smoke alarms
- Upgrades and replacement of ICT software and hardware
- The purchase of new hydraulic rescue equipment
- The purchase of new appliances and specialist vehicles.

Treasury Management

The Authority's Treasury Management Strategy is reviewed annually as part of the budget approval process. The Strategy Statement sets out the Authority's policies and parameters to provide an approved framework within which Officers undertake the day to day capital and treasury activities. The key elements are:

- The Treasury Management Strategy 2015/16
- The External Debt and Treasury Management Prudential Indicators and Limits for 2015/16 to 2017/18
- The Investment Strategy 2015/16
- The Minimum Revenue Provision (MRP) Statement included in section D which sets out the Authority's policy on MRP.

The Treasury Management Strategy Statement sets out how the Authority's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (The Chartered Institute of Public Finance & Accountancy) Codes of Practice.

The External Debt and Treasury Management Prudential Indicators and Limits is required by the CIPFA Treasury Management Code of Practice and identified within the Strategy statement.

The Investment Strategy sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010. The Authority's minimum long term credit rating requirement is Fitch A- or equivalent.

The Authority's Minimum Revenue Provision (MRP) Statement, sets out how the Authority will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

Borrowing:

As already stated 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 the 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 Authority's borrowing with the Public Works Loan Board reduced from £42.1m at the start of the year to £41.1m at the end following the repayment of £1.0m of loans in the year. Interest paid during the year on existing long term borrowing totalled £2.1m.

Balance Sheet Financial Position at 31st March 2016

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 increased by £104.057m over the year, and as a consequence the current net liability on total reserves has reduced from (£1,001.522m) to (£897.465m). 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 £934.895m 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.

Future Financial Challenge and Corporate Risks 2016/17 – 2019/20

The Authority continues to face significant financial challenges over the next few years as the Government seeks to balance public spending as a whole. Between 2011/12 and 2015/16 the Authority had already identified savings of over £25m to meet the challenge from cuts in Government grants over that period. Following the announcement of the 2016/17 Local Government Finance Settlement the Authority faces a significant reduction in the level of government grant support in 2016/17 and in each year up to and including 2019/20. The reduction in Government support over this period has meant the Authority faces at least an £11.0m financial challenge, assuming all budget assumptions remain valid. The Authority approved a financial plan to meet this challenge at the Budget meeting on 26th February 2016.

The Authority has planned prudently to minimise the impact on frontline services and 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. Already the Authority has seen the number of fire appliances in Merseyside reduce from 42 to only 24 plus 4 retained pumps, which equates to 33% overall reduction in appliance availability since 2010. In addition the number of Firefighters has fallen from over 1,200 firefighter to 700, a 42% reduction in firefighters over the same period. Following the closure of Allerton community fire station the Authority has 25 community fire stations with a variety of duty systems. These stations act as hubs for providing services to our communities. As a consequence of Government grant cuts to date the Authority has approved plans to merge a number of the stations which will see the total reduce to 22 over the next year or two.

In order to deliver the £11.0m required savings by 2019/20 the Authority will need to further reduce the number of firefighters, appliances and fire stations. The Authority will consult with the Merseyside community on its plans to deliver the operational changes during 2016 and approve the required changes as part of the IRMP planning process. The Authority will need to ensure its control frameworks deliver the required efficiencies and improvements.

The IRMP and the Authority's financial plan recognise that it will take a number of years to deliver these front line savings and in the interim the Chief Fire Officer will therefore need to manage staff dynamically to ensure in cash terms the firefighter savings are being delivered.

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

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

The future governance arrangements of the Merseyside Fire and Rescue Service is currently being considered by the Authority. On 10th February 2016 the Police and Crime Bill was introduced to the House of Commons. The Bill places a statutory duty on the three emergency services (Ambulance, Fire and Police) to keep collaboration opportunities under review and to collaborate where this would improve efficiency and effectiveness. The Authority is currently in discussions with Merseyside Police and North West Ambulance Service on developing opportunities for greater collaboration. As part of the discussions the Authority and the Merseyside Police Crime Commissioner are evaluating possible governance arrangements. The Police and Crime Bill includes two different models for a Police and Crime Commissioner, where a case is made to take on responsibility for fire and rescue services; the 'governance model' and the 'single employer' model. Where the Police and Crime Commissioner does not take on responsibility for fire and rescue services but wishes to enhance collaboration opportunities the Bill enables them to seek representation on the Fire and Rescue Authority (FRA) under the 'representation' model.

In addition under the Cities and Local Government Devolution Act (2016), in November 2015, the Government agreed to devolve a range of powers and responsibility to the Liverpool City Region Combined Authority. The model includes a directly elected City Region Mayor over the Combined Authority Area, with first elections taking place in May 2017. This may see the Merseyside Police and Crime Commissioner and Fire and Rescue Authority responsibilities at some future point transferring to the Liverpool City Region Mayor.

Over the coming year the Authority will work with the Merseyside Police, the Office of the Police and Crime Commissioner and the Liverpool City Region Mayor to establish the future governance arrangement for Merseyside Fire and Rescue Service.

Explanation of the Key Financial Statements

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

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

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

The Balance Sheet
The Balance Sheet shows the value as at the 31 March 2016 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 2015/16 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.

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 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**

	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 2015		**(2,000)**	**(23,985)**	**(1,770)**	**(27,755)**	**1,029,277**	**1,001,522**
Movement in reserves during 2015/16							
(Surplus) or deficit on provision of services		34,945	-	-	**34,945**	-	**34,945**
Other Comprehensive Income and Expenditure		-	-	-	**-**	(139,002)	**(139,002)**
Total Comprehensive Income and Expenditure		**34,945**	**-**	**-**	**34,945**	**(139,002)**	**(104,057)**
Adjustments between accounting basis & funding basis under regulations	7	(37,208)	-	(4,039)	**(41,247)**	41,247	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves		**(2,263)**	**-**	**(4,039)**	**(6,302)**	**(97,755)**	**(104,057)**
Transfers (to)/from Earmarked Reserves	8	2,263	(2,263)	**-**	**-**	-	**-**
Increase/Decrease in 2015/16		**-**	**(2,263)**	**(4,039)**	**(6,302)**	**(97,755)**	**(104,057)**
Balance at 31 March 2016 carried forward		**(2,000)**	**(26,248)**	**(5,809)**	**(34,057)**	**931,522**	**897,465**

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.

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000		Notes	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
8,534	(732)	7,802	Community Fire Safety		8,379	(774)	7,605
59,236	(6,517)	52,719	Firefighting and Rescue Operations		61,613	(6,358)	55,255
932	-	932	Corporate and Democratic Core		974	-	974
-	-	-	Non-Distributed Costs	40	10	-	10
68,702	**(7,249)**	**61,453**	**Cost Of Services**		**70,976**	**(7,132)**	**63,844**
6	-	6	Other Operating Expenditure	9	10	-	10
48,471	(2,713)	45,758	Financing and Investment Income and Expenditure	10	39,649	(2,214)	37,435
-	(63,463)	(63,463)	Taxation and Non-Specific Grant Income	11	-	(66,344)	(66,344)
		43,754	**(Surplus) or Deficit on Provision of Services**				**34,945**
		(6,314)	(Surplus) or deficit on revaluation of fixed assets				1,158
		20,637	Remeasurement of the Net Defined Benefit Liability				(140,160)
		14,323	**Other Comprehensive Income and Expenditure**				**(139,002)**
		58,077	**Total Comprehensive Income and Expenditure**				**(104,057)**

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 2015 £000		Notes	31 March 2016 £000
74,482	Property, Plant & Equipment	12	71,400
179	Intangible Assets	13	169
-	Assets Held for Sale	18	-
-	Long Term Investments	14	-
-	Long Term Debtors	14	-
74,661	**Long Term Assets**		**71,569**
-	Current Intangible Assets		-
13,041	Short Term Investments	14	14,058
440	Assets Held for Sale	18	400
466	Inventories	15	461
3,416	Short Term Debtors	16	5,247
10,400	Cash and Cash Equivalents	14 & 17	15,526
27,763	**Current Assets**		**35,692**
(1,743)	Short Term Borrowing	14	(2,760)
(5,953)	Short Term Creditors	19	(7,202)
(7,696)	**Current Liabilities**		**(9,962)**
(19,152)	Long Term Creditors	14	(18,845)
(1,221)	Provisions	20	(1,559)
(41,100)	Long Term Borrowing	14	(39,100)
(1,034,777)	Other Long Term Liabilities	14 & 40	(935,260)
(1,096,250)	**Long Term Liabilities**		**(994,764)**
(1,001,522)	**Net Assets**		**(897,465)**
27,755	Usable Reserves	21	34,057
(1,029,277)	Unusable Reserves	22	(931,522)
(1,001,522)	**Total Reserves**		**(897,465)**

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.

2014/15 £000		Notes	2015/16 £000
43,754	Net (surplus) or deficit on the provision of services		34,945
(48,653)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	23	(46,634)
(4,641)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	1,065
(9,540)	**Net cash flows from Operating Activities**		**(10,624)**
6,746	Investing Activities	25	321
5,673	Financing Activities	26	5,177
2,879	**Net increase or decrease in cash and cash equivalents**		**(5,126)**
(13,279)	Cash and cash equivalents at the beginning of the reporting period		(10,400)
(10,400)	**Cash and cash equivalents at the end of the reporting period**	17	**(15,526)**

Notes to the Core Financial Statements

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end of 31st March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, 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 2015/16 and the Service Reporting Code of Practice 2015/16, 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 Your Pension Service (Your Pension Service, PO Box 100, County Hall, Preston, Lancashire, PR1 0LD).
- 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 3.6% (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.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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 2016. 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. Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangements have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Authority in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Authority as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation

- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

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 2015/16 (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.

Impairment

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

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- Buildings – straight line allocation over the remaining life of the property as estimated by the valuer. The remaining life of the buildings range from 10 – 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 2016/17 (the Code) has introduced several changes in the accounting policies which will be required from 1st April 2016. The Code requires the disclosure of information relating to the expected impact of an accounting change required by a new standard that has been issued but not yet adopted. The following changes are not considered to have a significant impact on the 2015/16 Statement of Accounts:

- IAS 1 Presentation of Financial Statements (Disclosure Initiative). This will result in changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in reserves Statement and the introduction of the new Expenditure and Funding Analysis. This will also result in changes to the format of the Pension Fund Account and the Net Assets Statement
- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRS's 2010 – 2012 cycle
- Amendments to IFRS Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 cycle.

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 as construction dates are confirmed in 2016-17.

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 31st March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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 £120,000 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 £9.3m.
Arrears	At 31st March 2016, the Authority had a balance of sundry debtors of £706,000. A review of significant balances suggested that an impairment for doubtful debts of 1.3% (£9,500) 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 £9,500 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 £98,000 in the provision.

5. Material Items of Income and Expense

The following services have been outsourced to an external provider.

	2015/16 £000	2014/15 £000
IT & Communications	1,884	1,885
Estates	792	-

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 2015/16

2015/16	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(4,553)			4,553
Revaluation losses on Property Plant and Equipment	(284)			284
Amortisation of intangible assets	(179)			179
Capital grants and contributions applied	4,251		(4,039)	(212)
Income in relation to donated assets	-			-
Revenue expenditure funded from capital under statute	(733)			733
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	(440)			440
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	4,180			(4,180)
Capital expenditure charged against the General Fund	987			(987)
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	430	(430)		-
Use of the Capital Receipts Reserve to finance new capital expenditure		430		(430)
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	(50)			50
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)**	(48,509)			48,509
Employer's pensions contributions and direct payments to pensioners payable in the year	7,825			(7,825)
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	(76)			76
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	(57)			57
Total Adjustments	**(37,208)**	**-**	**(4,039)**	**41,247**

Adjustments between Accounting Basis and Funding Basis under Regulations 2014/15

2014/15	Usable Reserves			
	General Fund Balance £000	Capital Receipts Reserve £000	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	(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**

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 2015/16.

	Balance at 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance at 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000
Emergency Related Reserves:							
Bellwin Reserve	**147**	-	-	**147**	-	-	**147**
Insurance Reserve	**370**	-	500	**870**	-	-	**870**
Emergency Planning Reserve	**75**	-	-	**75**	-	-	**75**
Catastrophe Reserve	**1,000**	(500)	-	**500**	-	-	**500**
Modernisation Challenge:							
Smoothing Reserve	**6,750**	(5,055)	-	**1,695**	(372)	-	**1,323**
Severance Reserve	**721**	(100)	-	**621**	(256)	-	**365**
Pensions Reserve	**908**	(248)	340	**1,000**	(100)	-	**900**
Recruitment Reserve	**1,000**	-	-	**1,000**	-	-	**1,000**
SMG Reserve	**100**	(100)	-	**-**	-	-	**-**
Capital Investment:							
Capital Investment Reserve	**4,277**	(1,847)	9,609	**12,039**	(655)	3,055	**14,439**
PFI Annuity Reserve	**2,251**	(2,122)	2,097	**2,226**	(2,151)	2,097	**2,172**
Equality/DDA Investment Reserve	**510**	(225)	-	**285**	-	-	**285**
Firefighter Safety Investment Reserve	**1,000**	(200)	-	**800**	(40)	-	**760**
Facing the Future Reserve	**800**	(800)	-	**-**	-	-	**-**
Specific Projects:							
Community Sponsorship Reserve	**13**	(13)	4	**4**	(4)	2	**2**
Equipment Reserve	**191**	(102)	133	**222**	(65)	265	**422**
Contestable Research Fund Reserve	**25**	-	-	**25**	-	-	**25**
Clothing Reserve	**-**	-	16	**16**	-	150	**166**
CFOA Road Safety Reserve	**-**	-	100	**100**	-	-	**100**
Fire Service Direct Reserve	**6**	(6)	-	**-**	-	-	**-**
Healthy Living / Olympic Legacy Reserve	**80**	(45)	73	**108**	(85)	11	**34**
Water Rescue Reserve	**5**	(5)	-	**-**	-	-	**-**
Training Reserve	**-**	-	-	**-**	-	230	**230**
Communications Reserve	**-**	-	-	**-**	-	17	**17**
Inflation:							
Inflation Reserve	**1,500**	(1,000)	-	**500**	-	-	**500**
Total	**21,729**	**(12,368)**	**12,872**	**22,233**	**(3,728)**	**5,827**	**24,332**
Ringfenced Reserves							
F.R.E.E Reserve	**44**	(3)	11	**52**	(1)	-	**51**
Princes Trust Reserve	**343**	(64)	89	**368**	-	-	**368**
Community Youth Team Reserve	**58**	(5)	5	**58**	-	-	**58**
Beacon Peer Project Reserve	**62**	(12)	12	**62**	-	-	**62**
Innovation Fund Reserve	**170**	(10)	11	**171**	(5)	7	**173**
Regional Control Reserve	**18**	(18)	-	**-**	-	-	**-**
Energy Reserve	**85**	(75)	74	**84**	-	72	**156**
St Helen's District Reserve	**15**	(9)	4	**10**	(4)	4	**10**
New Dimensions Reserve	**793**	-	154	**947**	-	91	**1,038**
Total	**1,588**	**(196)**	**360**	**1,752**	**(10)**	**174**	**1,916**
Total Earmarked Reserves	**23,317**	**(12,564)**	**13,232**	**23,985**	**(3,738)**	**6,001**	**26,248**

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.

Training Reserve

This reserve has been created to allow additional resources and training for the additional costs required for emergency services collaboration.

Communications Reserve

This reserve has been created to allow for increased investment in corporate communications.

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

2014/15 £000		2015/16 £000
6	(Gains)/losses on the disposal of non current assets	10
6	**Total**	**10**

10. Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
3,896	Interest payable and similar charges	3,846
44,575	Pensions interest cost	35,803
(2,460)	Expected return on pensions assets	(2,011)
(253)	Interest receivable and similar income	(203)
-	Other investment income	-
45,758	**Total**	**37,435**

11. Taxation and Non Specific Grant Income

2014/15 £000		2015/16 £000
(24,190)	Council tax income	(25,429)
(3,974)	National non domestic rates (Local share)	(3,887)
-	National non domestic rates pool	-
(13,785)	National non domestic rates top up grant	(14,048)
(22,759)	Revenue support grant	(18,729)
1,245	Capital grants and contributions	(4,251)
(63,463)	**Total**	**(66,344)**

12. Property, Plant and Equipment Movements on Balances

Movements in 2015/16:

	Land & Buildings	Assets Under Construction	Vehicles & Equipment	Total Property, Plant and Equipment	PFI Assets Included in Property Plant and Equipment
Cost or Valuation					
At 1 April 2015	**63,115**	**345**	**22,265**	**85,725**	**18,825**
Additions	472	1,459	1,933	3,864	-
Donations	-	-	-	-	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,158)	-	-	(1,158)	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	151	-	-	151	-
Derecognition Disposals	(551)	-	-	(551)	-
Derecognition Other	-	-	(2,780)	(2,780)	-
Assets reclassified (to)/from Held for Sale	(835)	-	-	(835)	-
Other movements in Cost or Valuation	867	(1,158)	-	(291)	-
At 31 March 2016	**62,061**	**646**	**21,418**	**84,125**	**18,825**
Accumulated Depreciation and Impairment					
At 1 April 2015	**-**	**-**	**(11,243)**	**(11,243)**	**-**
Depreciation Charge	(2,033)	-	(2,229)	(4,262)	(475)
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	-	-	2,780	2,780	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-
Other movements in Depreciation and Impairment	-	-	-	-	-
At 31 March 2016	**(2,033)**	**-**	**(10,692)**	**(12,725)**	**(475)**
Net Book Value					
At 31 March 2016	**60,028**	**646**	**10,726**	**71,400**	**18,350**
At 31 March 2015	**63,115**	**345**	**11,022**	**74,482**	**18,825**
Nature of Asset Holding					
Owned	35,386	646	10,726	46,758	-
Finance Lease	6,292	-	-	6,292	-
PFI	18,350	-	-	18,350	18,350
Total	**60,028**	**646**	**10,726**	**71,400**	**18,350**

Property, Plant and Equipment Movements on Balances

Comparative Movements in 2014/15:

	Land & Buildings	Assets Under Construction	Vehicles & Equipment	Total Property, Plant and Equipment	PFI Assets Included in Property Plant and Equipment
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**

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 10 – 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 2015/16

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

	I&E Account £000	MIRS Reversal £000	Fixed Assets £000	Intangible Assets £000	AHFS £000	Revaluation Reserve £000
Depreciation						
Fixed Assets	4,262	(4,262)	(4,262)	-	-	-
Intangible Assets	179	(179)	-	(179)	-	-
Total	**4,441**	**(4,441)**	**(4,262)**	**(179)**	**-**	**-**
Impairments						
Loss on Allerton Road Fire Station	435	(435)	-	-	(435)	-
General Impairments (L&B)	291	(291)	(291)	-	-	-
Revaluation Losses	-	-	-	-	-	-
Total	**726**	**(726)**	**(291)**	**-**	**(435)**	**-**
Reversal of Prior Year						
Impairments	-	-	-	-	-	-
Revaluation Losses	(151)	151	151	-	-	-
Total	**(151)**	**151**	**151**	**-**	**-**	**-**
Grand Total	**5,016**	**(5,016)**	**(4,402)**	**(179)**	**(435)**	**-**
Revaluation Gain	-	-	-	-	-	-
Reversal of PY Impairments	-	-	-	-	-	-
Reversal of PY Revaluation Gain	-	-	(1,158)	-	-	1,158
Net Gain	**-**	**-**	**(1,158)**	**-**	**-**	**1,158**

Capital Commitments

At 31st March 2016, 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 2016/17 and future years is £0.7m. Similar commitments at 31st March 2015 were £1.8m. The commitments can be analysed as follows:

• Building Schemes	£0.3m
• Equipment and ICT Schemes	£0.3m
• Vehicles	£0.1m
	£0.7m

Effects of Changes in Estimates

Allerton Road Fire Station was put up for sale and transferred to Assets Held for Sale in 2015/16. The asset has subsequently been sold in 2016-17 at the valuation currently held in assets held for sale (£400,000).

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	-	646	21,418	**22,064**
Valued at Depreciated Replacement Cost (DRC) at:				
31 March 2015	48,421	-	-	**48,421**
Values at fair value as at:				
31 March 2015	13,640	-	-	**13,640**
Total Cost or Valuation	**62,061**	**646**	**21,418**	**84,125**

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:

	2015/16 Software Licenses £000	2014/15 Software Licenses £000
Balance at start of year:		
• Gross carrying amounts	519	509
• Accumulated amortisation	(340)	(169)
Net carrying amount at start of year	179	340
Additions:		
• Internal Development	-	-
• Purchases	169	10
• 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	(179)	(171)
Other changes	-	-
Net carrying amount at end of year	**169**	**179**
Comprising:		
Gross carrying amounts	688	519
Accumulated amortisation	(519)	(340)
Total	**169**	**179**

14. Financial Instruments

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
Investments				
Loans and receivables – Investments	-	-	14,058	13,041
– Cash & Bank	-	-	15,526	10,400
Available-for-sale financial assets	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total investments	**-**	**-**	**29,584**	**23,441**
Debtors				
Loans and receivables	-	-	-	-
Financial assets carried at contract amounts	-	-	-	-
Total included in Debtors	**-**	**-**	**-**	**-**
Borrowings				
Financial liabilities at amortised cost (PWLB)	(39,100)	(41,100)	(2,000)	(1,000)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total borrowings	**(39,100)**	**(41,100)**	**(2,000)**	**(1,000)**
Other Long Term Liabilities				
Finance lease liabilities	-	-	-	-
PFI liabilities	(18,845)	(19,152)	(307)	(282)
Merseyside Residual Debt	(365)	(406)	(41)	(41)
Total other long term liabilities	**(19,210)**	**(19,558)**	**(348)**	**(323)**
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	-	-
PWLB interest carried at contract amount	-	-	(412)	(420)
Total creditors	**-**	**-**	**(412)**	**(420)**
Total borrowing	**(58,310)**	**(60,658)**	**(2,760)**	**(1,743)**

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:

	2015/16					2014/15				
	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	3,846	-	-	-	**3,846**	3,896	-	-	-	**3,896**
Losses on derecognition	-	-	-	-	**-**	-	-	-	-	**-**
Reductions in fair value	-	-	-	-	**-**	-	-	-	-	**-**
Impairment losses	-	-	-	-	**-**	-	-	-	-	**-**
Fee expense	-	-	-	-	**-**	-	-	-	-	**-**
Total expense in Surplus or Deficit on the Provision of Services	**3,846**	**-**	**-**	**-**	**3,846**	**3,896**	**-**	**-**	**-**	**3,896**
Interest income	-	(203)	-	-	**(203)**	-	(253)	-	-	**(253)**
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	**-**	**(203)**	**-**	**-**	**(203)**	**-**	**(253)**	**-**	**-**	**(253)**
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	**3,846**	**(203)**	**-**	**-**	**3,643**	**3,896**	**(253)**	**-**	**-**	**3,643**

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 2016 of 2.1% 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 2016		31 March 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
PWLB Short & Long term loans	41,100	55,812	42,100	69,103

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 higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31st March 2016) arising from a commitment to pay interest to lenders above 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	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000	£000	£000
Balance outstanding at start of year	354	288	112	108	466	396
Purchases	358	458	699	799	1,057	1,257
Recognised as an expense in the year	(359)	(392)	(703)	(795)	(1,062)	(1,187)
Written off balances	-	-	-	-	-	-
Reversals of write-offs in previous years	-	-	-	-	-	-
Balance outstanding at year-end	**353**	**354**	**108**	**112**	**461**	**466**

16. Debtors

	31 March 2016 £000	31 March 2015 £000
Central Government bodies	202	343
Other local authorities	3,943	2,136
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	1,102	937
Total	**5,247**	**3,416**

17. Cash and Cash Equivalents

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

31 March 2015 £000		31 March 2016 £000
7	Cash held by the Authority	7
6,391	Bank current accounts	7,616
4,002	Short-term deposits with building societies	7,903
10,400	**Total Cash and Cash Equivalents**	**15,526**

The bank current account includes the pension fund debtor of £7.711m as at the 31st March 2016 and £6.798m as at the 31st March 2015. 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 £0.095m as at the 31st March 2016 and £0.407m as at 31st March 2015 before taking account of this debtor.

18. Assets Held for Sale

	Current		Non Current	
	2015/16	2014/15	2015/16	2014/15
	£000	£000	£000	£000
Balance outstanding at start of year	**440**	**250**	**-**	**-**
Assets newly classified as held for sale:				
Property, Plant and Equipment	-	-	835	670
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Revaluation losses	-	-	(435)	(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	(440)	(250)	-	-
Transfers from non current to current	400	440	(400)	(440)
Other movements	-	-	-	-
Balance outstanding at year-end	**400**	**440**	**-**	**-**

19. Creditors

	31 March 2016	31 March 2015
	£000	£000
Central Government bodies	(1,541)	(1,164)
Other local authorities	(3,217)	(1,688)
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	(2,444)	(3,101)
Total	**(7,202)**	**(5,953)**

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

20. Provisions

	Outstanding Legal Cases £000	Injury and Damage Compensation Claims £000	Business Rates Appeals £000	Total £000
Balance at 1 April 2015	**-**	**(1,221)**	**(460)**	**(1,681)**
Additional provisions made in 2015/16	-	(343)	(115)	(458)
Amounts used in 2015/16	-	580	-	580
Unused amounts reversed in 2015/16	-	-	-	-
Unwinding of discounting in 2015/16	-	-	-	-
Balance at 31 March 2016	**-**	**(984)**	**(575)**	**(1,559)**

Injury Compensation Claims

All of the injury compensation claims have currently been assessed as at 31st March 2016. 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.

Business Rates Appeals

This relates to Merseyside Fire service's share of appeals at 31st March 2016 from the five precepting authorities.

21. Usable Reserves

31 March 2015 £000		31 March 2016 £000
-	Usable Capital Receipts Reserve	-
1,770	Usable Capital Grants Unapplied	5,809
2,000	General Fund Balance	2,000
23,985	Earmarked Reserves **(Note 8)**	26,248
27,755	**Total Usable Reserves**	**34,057**

22. Unusable Reserves

31 March 2015 £000		31 March 2016 £000
11,897	Revaluation Reserve	10,123
(6,507)	Capital Adjustment Account	(6,270)
130	Financial Instruments Adjustment Account	79
(1,034,371)	Pensions Reserve	(934,895)
786	Collection Fund Adjustment Account	710
(1,212)	Accumulating Compensated Absences Adjustment Account	(1,269)
(1,029,277)	**Total Unusable Reserves**	**(931,522)**

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.

2014/15 £000		2015/16 £000	
6,123	**Balance at 1 April**		**11,897**
12,889	Upward revaluation of assets	-	
(6,575)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,158)	
6,314	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(1,158)
(395)	Difference between fair value depreciation and historical cost depreciation	(567)	
(145)	Accumulated gains on assets sold or scrapped	(49)	
(540)	Amount written off to the Capital Adjustment Account		(616)
11,897	**Balance at 31 March**		**10,123**

Available for Sale Financial Instruments Reserve

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

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

The Authority had no available for sale financial instruments at 31 March 2016.

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.

2014/15 £000			2015/16 £000
(8,728)	**Balance at 1 April**		**(6,507)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(1,577)	• Charges for depreciation and impairment of non current assets	(4,553)	
(141)	• Revaluation losses on Property, Plant and Equipment	(284)	
(170)	• Amortisation of intangible assets	(179)	
(791)	• Revenue expenditure funded from capital under statute	(733)	
(250)	• 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	(440)	
(2,929)			(6,189)
539	Adjusting amounts written out of the Revaluation Reserve		617
(2,390)	Net written out amount of the cost of non current assets consumed in the year		(5,572)
	Capital financing applied in the year:		
244	• Use of the Capital Receipts Reserve to finance new capital expenditure	430	
-	• Use of the Major Repairs Reserve to finance new capital expenditure	-	
(1,245)	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	80	
(185)	• Application of grants to capital financing from the Capital Grants Unapplied Account	132	
3,434	• Statutory provision for the financing of capital investment charged against the General Fund	4,180	
2,363	• Capital expenditure charged against the General Fund	987	
4,611			5,809
-	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		-
(6,507)	**Balance at 31 March**		**(6,270)**

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 2016 will be charged to the General Fund over the next 3 years.

2014/15 £000		2015/16 £000	
182	**Balance at 1 April**		**130**
-	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	
(52)	Proportion of discounts received in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(51)	
(52)	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		(51)
130	**Balance at 31 March**		**79**

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.

2014/15 £000		2015/16 £000
(968,118)	Balance at 1 April	(1,034,371)
(20,637)	Remeasurements of the net defined benefit liability/(asset)	140,160
(56,673)	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	(48,509)
11,057	Employer's pensions contributions and direct payments to pensioners payable in the year	7,825
(1,034,371)	**Balance at 31 March**	**(934,895)**

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.

2014/15 £000		2015/16 £000
436	Balance at 1 April	786
350	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	(76)
786	**Balance at 31 March**	**710**

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.

2014/15 £000			2015/16 £000
(1,136)	Balance at 1 April		(1,212)
492	Settlement or cancellation of accrual made at the end of the preceding year	621	
(568)	Amounts accrued at the end of the current year	(678)	
(76)	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		(57)
(1,212)	**Balance at 31 March**		**(1,269)**

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

2014/15 £000		2015/16 £000
(1,577)	Depreciation and impairment of non-current assets	(4,553)
(141)	Revaluation losses on property plant and equipment	(284)
(170)	Amortisation of intangible assets	(179)
(791)	Revenue expenditure treated as capital under statute	(733)
-	Movement in the Donated Assets Account	-
(45,616)	Movement in Pension Liability	(40,684)
(250)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognized	(440)
(56)	(Increase)/Decrease in Creditors	(1,248)
51	Increase/(Decrease) in Debtors	1,255
70	Increase/(Decrease) in Stocks	(5)
(173)	(Increase)/Decrease in Provisions	237
(48,653)		**(46,634)**

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

2014/15 £000		2015/16 £000
253	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	203
247	Proceeds from the sales of property plant and equipment, investment property and intangible assets	457
(3,896)	Loan interest	(3,846)
(1,245)	Capital grants	4,251
(4,641)		**1,065**

25. Cash Flow Statement – Investing Activities

2014/15 £000		2015/16 £000
7,850	Purchase of property, plant and equipment, investment property and intangible assets	4,766
3,000	Purchase of short-term and long-term investments	1,000
-	Other payments for investing activities	-
(247)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(457)
-	Proceeds from short-term and long-term investments	-
(3,857)	Other receipts from investing activities	(4,988)
6,746	**Net cash flows from investing activities**	**321**

26. Cash Flow Statement – Financing Activities

2014/15 £000		2015/16 £000
-	Cash receipts of short-term and long-term borrowing	-
-	Other receipts from financing activities	-
250	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts	282
1,516	Repayments of short term and long term borrowing	1,041
3,907	Other payments for financing activities	3,854
5,673	**Net cash flows from financing activities**	**5,177**

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 2015/16	Fire Service £000	Corporate Management £000	Total £000
Fees, charges & other service income	(3,234)	-	**(3,234)**
Grants and Contributions	(3,898)	-	**(3,898)**
Total Income	**(7,132)**	**-**	**(7,132)**
Employee Costs	46,898	317	**47,215**
Premises Costs	2,513	-	**2,513**
Transport Costs	1,338	-	**1,338**
Supplies & Services	3,039	93	**3,132**
Agency Services	5,626	-	**5,626**
Central Support Services	413	81	**494**
Capital Financing – Debt Charges / MRP	6,922	-	**6,922**
Total Expenditure	**66,749**	**491**	**67,240**
Net Expenditure	**59,617**	**491**	**60,108**

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**

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.

2014/15 £000		2015/16 £000
64,836	Net expenditure in the Service Analysis	60,108
17,313	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in Analysis	20,523
(20,696)	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(16,787)
61,453	**Cost of Services in Comprehensive Income and Expenditure Statement**	**63,844**

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.

2015/16	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	(3,234)	-	-	-	**(3,234)**	-	**(3,234)**
Grants and Contributions	(3,898)	-	-	-	**(3,898)**	(37,028)	**(40,926)**
Interest and investment income	-	-	-	-	**-**	(203)	**(203)**
Income from council tax	-	-	-	-	**-**	(29,316)	**(29,316)**
Non Distributable Costs	-	-	-	-	**-**	-	**-**
Total Income	**(7,132)**	**-**	**-**	**-**	**(7,132)**	**(66,547)**	**(73,679)**
Employee Costs	47,215	57	(7,825)	-	**39,447**	-	**39,447**
Premises Costs	2,513	-	-	-	**2,513**	-	**2,513**
Transport Costs	1,338	-	-	-	**1,338**	-	**1,338**
Supplies & Services	3,132	-	-	-	**3,132**	-	**3,132**
Agency Services	5,626	-	(2,040)	-	**3,586**	-	**3,586**
Central Support Services	494	-	-	-	**494**	-	**494**
Capital Financing – Debt Charges / MRP	6,922	-	(6,922)	-	**-**	3,846	**3,846**
Depreciation, impairments and revaluation losses	-	5,016	-	-	**5,016**	-	**5,016**
Revenue Expenditure Funded through Capital under Statute	-	733	-	-	**733**	-	**733**
Pension Costs calculated in accordance with IAS 19	-	14,707	-	-	**14,707**	33,792	**48,499**
Net Pension Interest Costs FRS17	-	-	-	-	**-**	-	**-**
Non Distributable Costs	-	10	-	-	**10**	-	**10**
Other Operating Expenses	-	-	-	-	**-**	-	**-**
Gain or Loss on Disposal of Non-Current Assets	-	-	-	-	**-**	10	**10**
Total Expenditure	**67,240**	**20,523**	**(16,787)**	**-**	**70,976**	**37,648**	**108,624**
Surplus or deficit on the provision of services	**60,108**	**20,523**	**(16,787)**	**-**	**63,844**	**(28,899)**	**34,945**

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**

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:

	2015/16 £000	2014/15 £000
Allowances	224	225
Expenses	14	14
Total	**238**	**239**

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 Note 3 £	Total
Chief Fire Officer – Dan Stephens	2015/16	170,000	-	-	-	913	32,420	203,333
	2014/15	170,000	-	-	-	1,431	31,055	202,486
Deputy Chief Fire Officer	2015/16	144,500	-	-	-	975	31,356	176,831
	2014/15	144,500	-	20	-	1,875	30,779	177,174
Deputy Chief Executive	2015/16	56,226	-	-	144,500	2,807	6,920	210,453
Note 1	2014/15	144,500	-	-	-	10,089	19,652	174,241
Area Manager 3rd Officer Operational Preparedness	2015/16	92,035	-	-	-	2,430	18,231	112,696
	2014/15	101,865	-	-	-	1,951	19,306	123,122
Area Manager 3rd Officer Operational Response	2015/16	92,035	-	-	-	925	13,090	106,050
	2014/15	102,633	-	-	-	1,335	19,269	123,237
Director of Legal, Procurement & Democratic Services	2015/16	91,499	-	-	-	35	12,231	103,765
	2014/15	90,849	-	-	-	48	12,201	103,098
Treasurer Note 2	2015/16	59,936	-	-	-	-	7,707	67,643

The Authority restructured the Management Team in August 2015 in order to deliver savings of £0.500m per annum. The executive team was reduced from three roles to just two Principal Fire Officers.

Note 1
The Deputy Chief Executive post was declared redundant on the 31st July as part of the Management Team restructure.

Note 2
The Treasurer post was appointed on the 1st August as part of the Management Team restructure.

Note 3
The employers pension scheme contribution rate varies between the different firefighter pension schemes and the local governments 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	2015/16 Number of employees	2014/15 Number of employees
£50,000 - £54,999	28	22
£55,000 - £59,999	15	16
£60,000 - £64,999	4	12
£65,000 - £69,999	9	6
£70,000 - £74,999	2	9
£75,000 - £79,999	1	4
£80,000 - £84,999	-	1
£85,000 - £89,999	-	-
£90,000 - £94,999	-	-
£95,000 - £99,999	1	1
£100,000 - £104,999	-	1
Total	**60**	**72**

Note a – In 2015/16 50 of the 60 staff receiving over £50,000 are firefighting staff (in 2014/15 this was 63 of the 72), 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 2015/16 1 of the 64 staff and 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		Total Cost of Exit Packages in Each Band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£0 - £20,000	-	-	3	1	3	1	30,630	10,088
£20,001 - £40,000	-	-	3	3	3	3	82,663	78,016
£40,001 - £60,000	-	-	-	1	-	1	-	45,350
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	1	-	1	-	144,920
£150,001 - £200,000	-	-	-	-	-	-	-	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
Total	**-**	**-**	**6**	**6**	**6**	**6**	**113,293**	**278,374**

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:

	2015/16 £000	2014/15 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	32	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)
Fees payable in respect of other services by National Fraud Initiative during the year	-	-
Total	**32**	**39**

32. Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

	2015/16 £000	2014/15 £000
Credited to Taxation and Non Specific Grant Income		
Council tax income/Local share non domestic rates	(29,316)	(28,164)
Non domestic rates	(14,048)	(13,785)
Non-ring fenced Government grants:		
Revenue Support Grant	(18,729)	(22,759)
Capital Grants and Contributions:		
General Capital Grant (Department for Communities and Local Government) (DCLG)	-	(2,129)
Breathing Apparatus Telemetry Units Grant (DCLG)	-	(92)
Merseyside Police Joint Control Room*	-	3,466
Fire Transformation Grant (DCLG)	(4,171)	-
Merger Grant Recovery Costs (North West Ambulance Service)	(80)	-
Total	**(66,344)**	**(63,463)**
Credited to Services		
New Dimensions Grant (Department for Communities and Local Government)	(899)	(1,001)
Fire Control Implementation Grant (Department for Communities and Local Government)	(246)	(244)
PFI Credits (Department for Communities and Local Government)	(2,097)	(2,097)
Other Grants (Department for Communities and Local Government)	(656)	(391)
Total	**(3,898)**	**(3,733)**

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.

2014/15 Receipts	2014/15 Payments	Related Party Transactions	2015/16 Receipts	2015/16 Payments
		Central Government		
13,785	-	Redistributed National Non-Domestic Rates	14,048	-
22,759	-	Revenue Support Grant	18,729	-
2,035	-	Capital Grants	212	-
-	2,868	Employers National Insurance Contributions		2,781
		Local Authority Precept		
2,507	-	Knowsley	2,658	-
8,657	-	Liverpool	9,003	-
3,786	-	St. Helens	3,953	-
6,271	-	Sefton	6,465	-
6,943	-	Wirral	7,237	-
		Pensions		
-	3,717	Merseyside Superannuation Fund Employers Contributions	-	1,151
26,468	31,002	Pension Fund (DCLG)	32,662	38,083
		Other		
1,334	-	Merseyside Police Authority (MPA)	551	-

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 grant income.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members' allowances paid in 2015/16 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 2015/16, 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 2015/16.

Entities Controlled or Significantly Influenced by the Authority

Fire Support Network - (Name changed to Community Risk Intervention Service on the 1st April 2016)

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 had 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.

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.

	2015/16 £000	2014/15 £000
Opening Capital Financing Requirement	(69,710)	(71,272)
Capital Investment		
Property, Plant and Equipment	(3,864)	(7,049)
Investment Properties	-	-
Intangible Assets	(169)	(10)
Revenue Expenditure Funded from Capital under Statute	(733)	(791)
Sources of Finance		
Capital receipts	430	244
Government grants and other contributions	763	3,371
Sums set aside from revenue:		
• Direct revenue contributions	987	2,363
• [MRP/loans fund principal]	4,180	3,434
Closing Capital Financing Requirement	**(68,116)**	**(69,710)**
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)	(1,594)	(1,562)
Assets acquired under finance leases	-	-
Assets acquired under PFI contracts	-	-
Increase/(decrease) in Capital Financing Requirement	**(1,594)**	**(1,562)**

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 2016 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 2016 £000	31 March 2015 £000
Other Land and Buildings	6,292	6,420
Vehicles, Plant, Furniture and Equipment	-	-
Total	**6,292**	**6,420**

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 youth facility is currently in the process of being transferred to Liverpool Mutual Homes.

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 2016 £000	31 March 2015 £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 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £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 2016 £000	31 March 2015 £000
Not later than one year	51	88
Later than one year and not later than five years	44	6
Later than five years	-	-
Total	**95**	**94**

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 2016 £000	31 March 2015 £000
Finance lease debtor	-	-
Proportion of build costs	5,351	4,800
Paid	(5,351)	(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 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £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 2015	**1,025**	**17,800**	**18,825**
Revaluation losses	-	-	-
Depreciation/Impairment	-	(475)	(475)
Value at 31st March 2016	**1,025**	**17,325**	**18,350**

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 2015/16 and future payments will be made as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2016/17	647	307	1,743	2,697
Payable within 2 to 5 years	2,772	1,521	6,751	11,044
Payable within 6 to 10 years	3,943	2,769	7,723	14,435
Payable within 11 to 15 years	4,560	4,215	6,443	15,218
Payable within 16 to 20 years	5,283	6,449	4,371	16,103
Payable within 21 to 25 years	2,782	3,891	932	7,605
Payable within 26 to 30 years	-	-	-	-
Total	**19,987**	**19,152**	**27,963**	**67,102**
Paid in 2015/16	627	282	1,758	2,667
Grand Total	**20,614**	**19,434**	**29,721**	**69,769**

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 2016 £000	31 March 2015 £000
Balance outstanding at start of year	(19,434)	(19,684)
Payments during the year	282	250
Capital expenditure incurred in the year	-	-
Other movements	-	-
Total	**(19,152)**	**(19,434)**

The PFI liability represents the outstanding long term liability to the contractor for capital expenditure. A fair value disclosure has not been provided for the PFI liability as the actual borrowing lies with the PFI provider and not the Authority. The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is no basis on which the Authority can exchange a financial liability held by a third party, as they are not directly a market participant.

37. Impairment Losses

The Authority incurred expenditure of £291,000 in 2015/16 and £760,000 in 2014/15 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 £435,000 but reversal of prior year revaluation losses equated to £151,000. These disclosures are consolidated in Note 12 reconciling the movement in the year in Property Plant and Equipment.

38. Capitalisation of Borrowing Costs

The Authority has not capitalised any borrowing costs in 2015/16.

39. Termination Benefits

The Authority terminated the contracts of 6 employees in 2015/16, incurring liabilities of £278,000 (£113,000 in 2014/15) – see note 30 for the number of exit packages and the total cost per band.

40. Defined Benefit Pension Schemes

Participation in pension schemes

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

The Authority participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Merseyside Pension Fund - this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

Transactions relating to post-employment benefits

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

Local Government Pension Scheme

2014/15				2015/16		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
			Comprehensive Income and Expenditure Statement			
			Cost of Services			
1,735	-	1,735	• current service cost	2,064	-	2,064
-	-	-	• past service costs	-	-	-
-	-	-	• settlements and curtailments	-	-	-
43	-	43	• administration expenses	43	-	43
			Financing and Investment Income and Expenditure			
717	38	755	• Net interest expense	852	30	882
2,495	**38**	**2,533**	***Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services***	**2,959**	**30**	**2,989**
			Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement			
			Remeasurement of the net defined benefit liability Comprising:			
(4,235)	-	(4,235)	• Return on scheme assets (excluding the amount included in the net interest expense)	1,640	-	1,640
-	-	-	• Actuarial gains and losses arising on changes in demographic assumptions	-	-	-
12,809	81	12,890	• Actuarial gains and losses arising on changes in financial assumptions	(5,166)	(31)	(5,197)
-	-	-	• Other experiences (gain)/loss on liabilities	-	-	-
11,069	**119**	**11,188**	***Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement***	**(567)**	**(1)**	**(568)**
			Movement in Reserves Statement			
(2,495)	(38)	(2,533)	• Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(2,959)	(30)	(2,989)
			Actual amount charged against the General Fund Balance for pensions in the year:			
3,813	-	3,813	• Employers' contributions payable to scheme	1,158	-	1,158
-	52	52	• Retirement benefits payable to pensioners	-	50	50

Firefighters Pension Scheme

2014/15					2015/16				
FPS 1992 £000	Injury Awards £000	FPS 2006 £000	Total £000		FPS 1992 £000	Injury Awards £000	FPS 2006 £000	FPS 2015 £000	Total £000
				Comprehensive Income and Expenditure Statement					
				Cost of Services					
11,560	450	770	12,780	• current service cost	9,470	510	10	2,610	12,600
-	-	-	-	• past service costs	-	10	-	-	10
-	-	-	-	• settlements and curtailments	-	-	-	-	-
				Financing and Investment Income and Expenditure					
38,590	2,440	330	41,360	• Net interest expense	31,360	1,190	300	60	32,910
50,150	**2,890**	**1,100**	**54,140**	***Total Post-employment Benefits Charged to the Surplus or Deficit on the Provision of Services***	**40,830**	**1,710**	**310**	**2,670**	**45,520**
				Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement					
				Remeasurement of the net defined benefit liability Comprising:					
(22,520)	-	412	(22,108)	• Return on scheme assets (excluding the amount included in the net interest expense)	(27,556)	-	5	1,868	(25,683)
(49,270)	(23,310)	(1,260)	(73,840)	• Actuarial gains and losses arising on changes in demographic assumptions	(14,010)	(440)	(110)	(40)	(14,600)
129,400	3,830	2,590	135,820	• Actuarial gains and losses arising on changes in financial assumptions	(68,800)	(1,180)	(2,190)	(260)	(72,430)
(26,530)	(930)	(430)	(27,890)	• Other experiences (gain)/loss on liabilities	(18,830)	(4,970)	200	(290)	(23,890)
81,230	**(17,520)**	**2,412**	**66,122**	***Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement***	**(88,366)**	**(4,880)**	**(1,785)**	**3,948**	**(91,083)**
				Movement in Reserves Statement					
(50,150)	(2,890)	(1,100)	(54,140)	• Reversal of net charges made to the Surplus or Deficit for the provision of Services for post-employment benefits in accordance with the Code	(40,830)	(1,710)	(310)	(2,670)	(45,520)
				Actual amount charged against the General Fund Balance for pensions in the year:					
5,200	-	212	5,412	• Employers' contributions payable to scheme	3,754	-	5	1,058	4,817
-	1,780	-	1,780	• Retirement benefits payable to pensioners	-	1,800	-	-	1,800

- The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2016 is a surplus of £140.160m and to the 31 March 2015 is a deficit of £20.637m.

- 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

2014/15				2015/16		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
(87,596)	(938)	(88,534)	Present value of the defined benefit obligation	(85,635)	(887)	(86,522)
61,223	-	61,223	Fair value of scheme assets	60,987	-	60,987
(26,373)	**(938)**	**(27,311)**	***Net liability arising from defined benefit obligation***	**(24,648)**	**(887)**	**(25,535)**

Firefighters Pension Scheme

2014/15					2015/16				
FPS 1992 £000	Injury Awards £000	FPS 2006 £000	Total £000		FPS 1992 £000	Injury Awards £000	FPS 2006 £000	FPS 2015 £000	Total £000
(961,050)	(36,810)	(9,200)	(1,007,060)	Present value of the defined benefit obligation	(868,930)	(30,130)	(7,410)	(2,890)	(909,360)
-	-	-	-	Fair value of scheme assets	-	-	-	-	-
(961,050)	**(36,810)**	**(9,200)**	**(1,007,060)**	***Net liability arising from defined benefit obligation***	**(868,930)**	**(30,130)**	**(7,410)**	**(2,890)**	**(909,360)**

Reconciliation of the Movements in the Fair Value of Scheme Assets

Local Government Pension Scheme

2014/15				2015/16		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
52,246	**-**	**52,246**	Opening fair value of scheme assets	**61,223**	**-**	**61,223**
2,460	**-**	**2,460**	Interest income	**2,011**	**-**	**2,011**
			Remeasurement gain/(loss):			
4,235	**-**	**4,235**	• Return on scheme assets (excluding the amount included in the net interest expense)	**(1,640)**	**-**	**(1,640)**
(43)	**-**	**(43)**	• Administration expenses	**(43)**	**-**	**(43)**
3,813	**52**	**3,865**	Contributions from employer	**1,158**	**50**	**1,208**
585	**-**	**585**	Contributions from employees into the scheme	**578**	**-**	**578**
(2,073)	**(52)**	**(2,125)**	Benefits paid	**(2,300)**	**(50)**	**(2,350)**
61,223	**-**	**61,223**	***Net liability arising from defined benefit obligation***	**60,987**	**-**	**60,987**

Firefighters Pension Scheme

2014/15					2015/16				
FPS 1992 £000	Injury Awards £000	FPS 2006 £000	Total £000		FPS 1992 £000	Injury Awards £000	FPS 2006 £000	FPS 2015 £000	Total £000
-		**-**	**-**	Opening fair value of scheme assets	**-**	**-**	**-**	**-**	**-**
				Remeasurement gain/(loss):					
22,520	**-**	**(412)**	**22,108**	• Return on scheme assets (excluding the amount included in the net interest expense)	**27,556**	**-**	**(5)**	**(1,868)**	**25,683**
5,200	**1,780**	**212**	**7,192**	Contributions from employer	**3,754**	**1,800**	**5**	**1,058**	**6,617**
3,280	**-**	**200**	**3,480**	Contributions from employees into the scheme	**2,370**	**-**	**-**	**880**	**3,250**
(31,000)	**(1,780)**		**(32,780)**	Benefits paid	**(33,680)**	**(1,800)**	**-**	**(70)**	**(35,550)**
-	**-**	**-**	**-**	***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

2014/15				2015/16		
Funded Benefits £000	Unfunded Benefits £000	Total £000		Funded Benefits £000	Unfunded Benefits £000	Total £000
(71,363)	(871)	(72,234)	Opening balance at 1 April	(87,596)	(938)	(88,534)
(1,735)	-	(1,735)	Current service cost	(2,064)	-	(2,064)
(3,177)	(38)	(3,215)	Interest cost	(2,863)	(30)	(2,893)
(585)	-	(585)	Contributions by scheme participants	(578)	-	(578)
			Remeasurement (gains) and losses:			
-	-	-	• Actuarial gains/losses arising from changes in demographic assumptions	-	-	-
(12,809)	(81)	(12,890)	• Actuarial gains/losses arising from changes in financial assumptions	5,166	31	5,197
-	-	-	• Other experience gains and losses	-	-	-
-	-	-	Past service cost	-	-	-
-	-	-	Settlements and curtailments	-	-	-
2,073	52	2,125	Benefits paid	2,300	50	2,350
(87,596)	**(938)**	**(88,534)**	**Closing balance at 31 March**	**(85,635)**	**(887)**	**(86,522)**

Firefighters Pension Scheme

2014/15					2015/16				
FPS 1992 £000	Injury Awards £000	FPS 2006 £000	Total £000		FPS 1992 £000	Injury Awards £000	FPS 2006 £000	FPS 2015 £000	Total £000
(885,020)	(56,110)	(7,000)	(948,130)	Opening balance at 1 April	(961,050)	(36,810)	(9,200)	-	(1,007,060)
(11,560)	(450)	(770)	(12,780)	Current service cost	(9,470)	(510)	(10)	(2,610)	(12,600)
(38,590)	(2,440)	(330)	(41,360)	Interest cost	(31,360)	(1,190)	(300)	(60)	(32,910)
(3,280)	-	(200)	(3,480)	Contributions by scheme participants	(2,370)	-	-	(880)	(3,250)
				Remeasurement (gains) and losses:					
49,270	23,310	1,260	73,840	• Actuarial gains/losses arising from changes in demographic assumptions	14,010	440	110	40	14,600
(129,400)	(3,830)	(2,590)	(135,820)	• Actuarial gains/losses arising from changes in financial assumptions	68,800	1,180	2,190	260	72,430
26,530	930	430	27,890	• Other experience gains and losses	18,830	4,970	(200)	290	23,890
-	-	-	-	Past service cost	-	(10)	-	-	(10)
-	-	-	-	Settlements and curtailments	-	-	-	-	-
31,000	1,780	-	32,780	Benefits paid	33,680	1,800	-	70	35,550
(961,050)	**(36,810)**	**(9,200)**	**(1,007,060)**	**Closing balance at 31 March**	**(868,930)**	**(30,130)**	**(7,410)**	**(2,890)**	**(909,360)**

Local Government Pension Scheme assets comprised:

2014/15				2015/16		
Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total		Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total
1,857	-	1,857	**Cash & Cash Equivalents**	2,096	-	2,096
			Equity Instruments:			
14,608	-	14,608	• UK	13,190	-	13,190
18,440	-	18,440	• Overseas	18,398	-	18,398
33,048	-	33,048	Sub-total equity instruments	31,588	-	31,588
			Bonds:			
1,586	-	1,586	• UK Corporate	1,477	-	1,477
3,061	-	3,061	• UK Government	2,798	-	2,798
5,975	-	5,975	• UK Index Linked	5,412	-	5,412
10,622	-	10,622	Sub-total bonds	9,687	-	9,687
			Property:			
-	3,428	3,428	• UK Direct Property	-	3,495	3,495
202	814	1,016	• UK Property Managed	250	968	1,218
-	612	612	• Overseas Property Managed	-	719	719
202	4,854	5,056	Sub-total property	250	5,182	5,432
			Private Equity:			
24	1,831	1,855	• UK	12	2,240	2,252
-	1,678	1,678	• Overseas	-	1,962	1,962
24	3,509	3,533	Sub-total private equity	12	4,202	4,214
			Other Investment Funds:			
153	331	484	• Hedge Funds UK	154	330	484
-	1,867	1,867	• Hedge Funds Overseas	-	1,647	1,647
-	857	857	• Infrastructure UK	-	1,225	1,225
165	508	673	• Infrastructure Overseas	246	786	1,032
1,120	1,255	2,375	• Opportunities UK	1,056	1,740	2,796
184	667	851	• Opportunities Overseas	82	704	786
1,622	5,485	7,107	Sub-total other investment funds	1,538	6,432	7,970
47,375	**13,848**	**61,223**	**Total assets**	**45,171**	**15,816**	**60,987**

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	
	2015/16	2014/15	2015/16	2014/15
Long-term expected rate of return on assets in the scheme:				
Equity Investments	-	6.5%	-	-
Government Bonds	-	2.2%	-	-
Other Bonds	-	2.9%	-	-
Property	-	5.9%	-	-
Cash Liquidity	-	0.5%	-	-
Other	-	N/A	-	-
Interest on Plan	3.6%	3.3%	-	-
Mortality assumptions:				
Longevity at 65 current pensioners:				
Men	22.5	22.4	22.3	22.5
Women	25.4	25.3	22.3	22.5
Longevity at 65 for future pensioners:				
Men	24.9	24.8	24.6	24.8
Women	28.2	28.1	24.6	24.8
Rate of CPI inflation	2.0%	2.0%	2.2%	2.2%
Rate of increase in salaries	3.5%	3.5%	4.2%	4.2%
Rate of increase in pensions	2.0%	2.0%	2.2%	2.2%
Rate for discounting scheme liabilities	3.6%	3.3%	3.6%	3.3%
Take-up of option to convert annual pension into retirement lump sum	50%	50%	-	-

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

Impact on the Defined Benefit Obligation in the Local Government Pension Scheme

	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	1,669	(1,669)
Rate of inflation (increase or decrease by 0.1%)	1,699	(1,699)
Rate of increase in salaries (increase or decrease by 0.1%)	462	(462)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(1,666)	1,666

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 £1.208m contributions to the scheme in 2016/2017. 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)	22,000	(22,000)
Rate of increase in salaries (increase or decrease by 0.1%)	800	(800)
Rate of increase in pensions (increase or decrease by 0.1%)	14,080	(14,080)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(16,580)	16,580

Impact on the Authority's Cash Flows

The Authority anticipates paying £4.770m contributions to the scheme in 2016/2017.

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.
- UK Local Authorities

- Money Market Funds
- Enhanced Money Market (Cash) 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 2015/16 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
• Enhanced Money Market (Cash) 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.

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.

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.

Credit ratings are only the starting point when considering credit risk. The Code of Practice requires the Authority to supplement credit rating information with additional operational market information which will be applied before making any specific investment decision from the agreed pool of counterparties. Credit Default Swaps and negative rating watches/outlooks are examined and the financial press, internet and financial information systems are monitored for market information regarding its counterparties. It also receives daily e-mails from various market participants that could identify potential problems. Any information that casts doubt on an institution's creditworthiness is acted on by suspending investment with that institution.

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 £14m 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 31st March 2016 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 2016 £000	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2016 %	Estimated maximum exposure to default and uncollectability at 31 March 2016 £000	Estimated maximum exposure at 31 March 2015 £000
	A	B	C	(A X C)	
Investments	14,057	-	-	-	-
Customers	706	2.34	1.34	9	9
				9	**9**

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 £0.077m of the £0.706m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2016 £000	31 March 2015 £000
Less than three months	51	67
Three months to one year	17	38
More than one year	9	9
Total	**77**	**114**

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 2016 £000	31 March 2015 £000	Merseyside Residual Debt (MRD) 31 March 2016 £000	31 March 2015 £000
Less than one	2,000	1,000	41	41
Between one and two	1,000	2,000	41	41
Between two and five	1,215	1,765	123	123
Between five and ten	3,165	3,615	201	203
Between ten and fifteen	-	-	-	38
Between fifteen and twenty	-	-	-	-
Between twenty and twenty five	2,000	2,000	-	-
Between twenty five and thirty	-	-	-	-
Between thirty and thirty five	6,000	5,500	-	-
Between thirty five and forty	17,750	14,250	-	-
Between forty and forty five	7,970	11,970	-	-
More than forty five	-	-	-	-
Total	**41,100**	**42,100**	**406**	**446**

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 2016, 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	4
Increase in interest receivable on variable rate investments	(262)
Increase in Government grant receivable for financing costs	-
Impact on Surplus or Deficit on the Provision of Services	**(258)**
Decrease in fair value of fixed rate investment assets	-
Impact on Other Comprehensive Income and Expenditure	**(258)**
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) (See Note 14)	(224)

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.

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. In March 2016 we have now been informed by Municipal Mutual Insurance Limited the 15% will need to be increased to 25%. This payment of £180,000 was paid in May 2016. 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

2014/15 £000		2015/16 £000	
	Contributions receivable:		
	Fire Authority:		
(5,001)	• contributions in relation to pensionable pay	(4,546)	
(411)	• early retirements	(271)	
-	• Grant Revised Commutation Factor (GAD v Milne)	(4,368)	
(3,481)	Firefighters contributions	(3,253)	
(8,893)			**(12,438)**
-	**Transfers in from other authorities**		
	Benefits payable:		
26,112	• Pensions	27,089	
4,690	• commutation and lump sum retirement benefits	6,403	
-	• lump sum death benefits	-	
-	• Revised Commutation Factor (GAD v Milne)	4,339	
30,802			**37,831**
	Payments to and on account of leavers:		
200	• transfers out to other authorities	252	
-	• refunds of contributions	-	
200			**252**
22,109	**Net amount payable for the year**		**25,645**
(22,109)	Top – up grant payable by the Government		(25,645)
-			**-**

<u>Revised Commutation Factors (Milne v's GAD)</u>

This case led to the revised calculations of commutation factors for firefighters retiring between 1st December 2001 and 21st August 2006. The recalculations were paid in 2015-16 and the figures are shown directly on the Pension Fund Account.

Net Assets Statement

2014/15 £000		2015/16 £000
	Current assets	
-	Contributions due from the Fire Authority	-
-	Recoverable overpayments of pensions	-
6,798	Debtors	7,711
(6,798)	Cash	(7,711)
	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	Pensionable Pay Deductions	2015 Scheme
Employer's Contributions	21.7%	11.9%	Employer's Contributions	14.3%
Employee Contributions:			Employee Contributions:	
£0 - £15,150	11.0%	8.5%	£0 - £27,000	10.0%
£15,151 - £21,210	12.2%	9.4%	£27,001 - £50,000	12.2%
£21,211 - £30,300	14.2%	10.4%	£50,001 - £142,500	13.5%
£30,301 - £40,400	14.7%	10.9%	£142,501 >	14.5%
£40,401 - £50,500	15.2%	11.2%		
£50,501 - £60,600	15.5%	11.3%		
£60,601 - £101,000	16.0%	11.7%		
£101,001 - £121,200	16.5%	12.1%		
£121,201 - £142,500	17.0%	12.5%		
£142,501 >	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 2016 £000	31 March 2015 £000
Central Government bodies	5,421	4,534
Other local authorities	-	-
NHS bodies	-	-
Public corporations and trading funds	-	-
Other entities and individuals	2,290	2,264
Total	**7,711**	**6,798**

Contingent Liability

A case has recently been settled for firefighters employed before the age of 20 who have served for over 30 years before reaching the minimum retirement age of 50 and it has been confirmed that affected pension scheme members will receive a refund of contributions of the FPS1992 pension scheme when regulations have been amended. It should be noted this figure is considered non-material for Merseyside Fire and Rescue Service.

Statement of Responsibilities for the Statement of Accounts

The Treasurer responsibilities

The Treasurer 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 Treasurer 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 Treasurer has also:

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

This Statement of Accounts gives a true and fair view of the financial position of the Authority as at the 31st March 2016 and of its expenditure and income for the year ended 31st March 2016.

Ian Cummins
Treasurer
28th July 2016

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 2015 to 31st March 2016, were approved for issue on 28th July 2016 by Merseyside Fire and Rescue Policy and Resources Committee **(Report CFO/62/16).**

Chair of the Policy and Resources Committee Meeting Approving the Accounts
28th July 2016

INDEPENDENT AUDITOR'S REPORT TO MERSEYSIDE FIRE AND RESCUE AUTHORITY

We have audited the financial statements of Merseyside Fire and Rescue Authority (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the Firefighters' Pension Fund financial statements comprising the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and Auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and Auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Michael Thomas

Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Royal Liver Building;
Liverpool
L3 1PS

29 July 2016

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.

2015-2016 MERSEYSIDE FIRE AND RESCUE AUTHORITY ANNUAL GOVERNANCE STATEMENT

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, 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 2016.

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 26th February 2015. The IRMP Supplement established the service priorities for 2015/17.

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 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.

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 Strategic Management Group. 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 Policy and decision making process

The Authority has meaningful democratic control over its activities via an **approved committee structure** with agreed Terms of Reference that are reviewed once a year by the Authority at its Annual General Meeting. The Authority has a **written Constitution** that was reviewed in 2015/16 and approved by the Authority at its meeting on 11th June 2015 (CFO/045/15), 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 Strategic Managers 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. Information regarding policies and procedures is held on the intranet, and these are continuingly enhanced and developed through the introduction of new policies and procedures as and when required. The Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of standing orders, financial instructions and the scheme of delegation which clearly define how decisions are taken and the processes and controls required to manage risks. The list below outlines some of the **key policies and process in place to enhance the internal control system** that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Financial Regulations, Procedural & Contract Standing Orders, Scheme of Delegation
- Anti-Fraud & Corruption Policy & Strategy
- Fraud Response Plan
- Confidential Reporting Policy
- Complaints procedure
- Security & Information Governance
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Full range of Equality and Diversity schemes
- Staffing Model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedure, discipline process, through to performance development reviews

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

3.4.6 Internal Audit function

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

3.4.7 Risk Management Strategy

The Authority has a well established and embedded risk management strategy. The Audit Sub-Committee has corporate ownership of the risk register and receive quarterly updates on any new risks or changes to risks. As all Authority and service reports to SMG have a standing section on risk this allows SMG 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 11th June 2015 the format and structure of its democratic decision process by approving the powers and make-up of the approved committees. The full and detailed list of committee responsibilities can be found in the Constitution document on the Authority's web site, but are summarised as follows;

- The Authority – approves the Authority’s budget and precept, considers variations to standing orders & financial regulations; the revenue budget and capital plan; issuing of a precept; adopting a members’ allowance scheme; appointment to committees; scheme of delegation to officers; any matters which by law must be reserved to the Authority itself; maintain a Constitution.

- The Policy and Resources Committee **–** to determine new strategies, policies or changes in strategy relating to the development and delivery of services. Exercise financial control over expenditure within the approved revenue budgets and capital programme of the Authority. Establish and direct procedures for the implementation, monitoring and amendment of the revenue budget and capital programme and all other financial matters that impact on the Authority’s financial position. Consider all matters related to the management of the Authority’s assets including buildings, land, ICT and other assets.

- The Community Safety and Protection Committee – Consider all matters related to the development and delivery of services appropriate to this Committee. This includes matters relating to: Operational Preparedness; Operational Response; and Prevention and Protection. Considers all matters related to the delivery of services to the diverse communities of Merseyside, and the development, promotion and delivery of a coordinated strategy for developing and maintaining safer communities.

- The Performance and Scrutiny Committee – to review/or scrutinise decisions made or actions taken in connection with the discharge of any of the Authority’s functions. To have oversight of the IRMP and Service Delivery Plan priorities concerning the development of service delivery strategies. To monitor the progress of the Service against actions identified in the Service Delivery Plan and IRMP

- Task and Finish / Efficiency Review Groups – The Performance and Scrutiny Committee will agree to set up task and finish groups and/or efficiency review groups as required.

- The Audit Sub Committee – To consider the internal audit’s annual report and opinion, and a summary of internal audit activity and the level of assurance it can give the Authority’s corporate governance arrangements. To consider the external auditor’s annual letter, relevant reports, and the report to those charged with governance. To determine allegations made under the Members Code of Conduct Procedure and refer sanctions proposed and any complaint allegation requiring further investigation to the full Authority. To act as Investigating and Disciplinary Committee where an allegation which could constitute misconduct or gross misconduct is made against the Chief Fire Officer, Deputy Chief Fire Officer or the Monitoring Officer.

  Receive reports on the effectiveness of internal control processes, including probity and to receive Internal Audit reports in this respect. Liaise with the external audit function 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’s letter. Consider all matters relating to internal and external audit activity and all matters relating to the regulatory framework.

- The Appeals Committee – to consider grievances appeals as identified in the Agreed Grievance Procedure. Consider whether to assent to applications for specific licences (explosives).

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 2015/16 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 Treasurer fulfils this role and is a qualified and experienced accountant. The Treasurer 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 Treasurer ensures the Authority has an approved, realistic and affordable five year financial plan for 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 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 affective enhancement to the budget control process.

4.4.6 Grant Thornton approved an unqualified Statement of Accounts for 2014/15 and it is anticipated this will be repeated in 2015/16. A detailed year-end report is presented to the Authority 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 2015/16, 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 2015 accords with proper practice. The 2015/16 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 2015/16 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. 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 2015/16 statutory financial statements and make a VFM conclusion during the 2016/17 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 2015/16 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2014/15 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2014/15 financial statements.

SIGNIFICANT GOVERNANCE ISSUES

4.7 Following the announcement of the 2016/17 Local Government Finance Settlement the Authority faces a significant reduction in the level of government grant support in 2016/17 and in each year up to and including 2019/20. The reduction in Government support over this period has meant the Authority faces at least an £11.0m financial challenge, assuming all budget assumptions remain valid. The Authority approved a financial plan to meet this challenge at the Budget meeting on 26th February 2016.

4.8 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 The Authority's proposals to deliver the approved savings required in the current financial plan involves significant rationalisation of front line and support services. The Authority has already reduced the number of front line appliances from 42 to 28 and has plans to merge a number of fire stations that will see the number fall from 25 to 22. In order to deliver the £11.0m required savings by 2019/20 the Authority will need to further reduce the number of firefighters, appliances and fire stations. The Authority will consult with the Merseyside community on its plans to deliver the operational changes during 2016 and approve the required changes as part of the IRMP planning process. The Authority will need to ensure its control frameworks deliver the required efficiencies and improvements.

4.9.1 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 Treasurer 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 The future governance arrangements of the Merseyside Fire and Rescue Service is currently being considered by the Authority. On 10th February 2016 the Police and Crime Bill was introduced to the House of Commons. The Bill places a statutory duty on the three emergency services (Ambulance, Fire and Police) to keep collaboration opportunities under review and to collaborate where this would improve efficiency and effectiveness. The Authority is currently in discussions with Merseyside Police and North West Ambulance Service on developing opportunities for greater collaboration. As part of the discussions the Authority and the Merseyside Police Crime Commissioner are evaluating possible governance arrangements. The Police and Crime Bill includes two different models for a Police and Crime Commissioner, where a case is made to take on responsibility for fire and rescue services; the 'governance model' and the 'single employer' model. Where the Police and Crime Commissioner does not take on responsibility for fire and rescue services but wishes to enhance collaboration opportunities the Bill enables them to seek representation on the Fire and Rescue Authority (FRA) under the 'representation' model.

4.11 In addition under the Cities and Local Government Devolution Act (2016), in November 2015, the Government agreed to devolve a range of powers and responsibility to the Liverpool City Region Combined Authority. The model includes a directly elected City Region Mayor over the Combined Authority Area, with first elections taking place in May 2017. This may see the Merseyside Police and Crime Commissioner and Fire and Rescue Authority responsibilities at some future point transferring to the Liverpool City Region Mayor.

4.12 Over the coming year the Authority will work with the Merseyside Police, the Office of the Police and Crime Commissioner and the Liverpool City Region Mayor to establish the future governance arrangement for Merseyside Fire and Rescue Service.

Signed……………………………………	Signed……………………………………
J. STAPLETON	D. STEPHENS
CHAIR of Audit Sub-Committee	CHIEF FIRE OFFICER

Signed ……………………………………
I. CUMMINS
TREASURER