

# Statement of Accounts 2016/17

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# Narrative Report

## Introduction

The purpose of this Report is to provide the reader with:

- An understanding of the Statement of Accounts.
- A review of the Authority's revenue and capital budget outturn for 2016/17.
- An explanation of the Authority's financial position at the end of the financial year.
- An overview of developments which may have an impact on the Authority both now and in the future.
- A commentary on the Authority's financial performance and economy, efficiency and effectiveness in its use of resources in the year which includes:
  - An analysis of the development and the performance of the Authority in the year and its position at the end of the year.
  - Details of the most relevant financial and non-financial performance indicators.

## Accounting Statements

The format of the Accounts for Fire and Rescue Authorities is prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is updated annually and is based on International Financial Reporting Standards (IFRS). This year the Code has a new requirement to include an Expenditure and Funding Analysis note. This analysis takes the revenue budget (net expenditure chargeable to taxation) and in the format used for reporting to Management and Authority Members, reconciles it to the figures shown in the Comprehensive Income and Expenditure Statement. The net revenue budget surplus for the year is then reconciled to the movement on the General Fund Reserve. Including the information in this format meets segmental reporting requirements. As it has a direct relationship to the Comprehensive Income and Expenditure Statement that follows, the Expenditure and Funding Analysis note precedes it in the Accounts. The Movement in Reserves Statement now follows on from the Comprehensive Income and Expenditure Statement.

The information contained within this Narrative Report is intended to be fair, balanced and concise. The Accounts and the Narrative Report are published on the Authority's website at [www.kent.fire-uk.org](http://www.kent.fire-uk.org).

To provide further detail and more clarity for the reader, each of the main accounts are supported by a number of notes and these follow on from the main statements that are described below.

**The main statements in these accounts comprise:**

**The Comprehensive Income and Expenditure Statement;** this is in two sections. The first section shows the net surplus or deficit on the provision of services as a result of income received and expenditure incurred over the financial year. The second section shows any other changes in net worth not included in the first section. Examples here will include any gain or loss on the current value of property plant and equipment and the remeasurement of the net defined benefit liability.

**The Movement in Reserves Statement (MIRS);** this statement shows the in-year movement on the reserves held by the Authority. These reserves are divided into two types, usable and unusable, with only the former being able to be applied to fund expenditure. This Statement also shows the change in the General Fund balance and the discretionary transfers that are undertaken to or from earmarked reserves.

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**The Balance Sheet;** this sets out the financial position of the Authority at the end of the financial year. The top section of the Balance Sheet provides details of assets and liabilities and the bottom section shows the amounts held in usable and unusable reserves.

**The Cash Flow Statement;** summarises the inflows and outflows of cash during the year analysed between those arising as a result of the Authority's operations, those arising from investing activity and those attributable to financing decisions.

**The Firefighters' Pension Fund Account;** details income and expenditure for the 1992, 2006 and the 2015 Firefighter's Pension Schemes.

A glossary of the main terms used is included on pages 63-65.

### Revenue Budget and Expenditure

Council Tax, Non Domestic Rate income and various government grants are used to fund the Authority's revenue expenditure budget. With year on year reductions in formula grant and to ensure that the revenue budget is sustainable over the medium term, the Authority agreed to increase council tax by 1.91%, resulting in an annual increase in a Band D property of £1.35 making a Band D council tax £72.00 per annum. With the £2,153k reduction in government funding only partly offset by the £1,470k increase in Council Tax, including the Authority's share of the surplus on Collection Funds, the Authority's budget for 2016/17 was reduced to £69,292k, a £683k reduction when compared to 2015/16.

Given the pressures and commitments faced by the Authority on areas such as pay awards, inflationary prices growth, commitments and other pressures totalling £3,099k, savings of £3,781k were required to balance the 2016/17 budget. Whilst £1,737k of these savings came from a review of base budgets, £980k came from savings in employer pension costs (LGPS and Firefighter) and £1,064k from savings in operational and service support staff pay. Wherever possible savings are made from vacant posts when individuals leave or retire from the service.

The revenue budget outturn for 2016/17 was an underspend of £632k. At the Authority meeting in July 2017, Members agreed that the final underspend would be transferred into the Infrastructure Reserve. The summary of the revenue budget and the final outturn is shown in the table below:

<b>Revenue Budget Outturn 2016/17</b>				
All figures shown are in £'000	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Outturn</b>	<b>Variance</b>
Service Costs	70,297	68,932	64,901	-4,031
Direct Pension Costs	1,547	1,548	2,177	629
Capital Financing Costs	1,156	1,156	1,115	-41
Transfers to Reserves	-3,708	-2,344	467	2,811
<b>Total</b>	<b>69,292</b>	<b>69,292</b>	<b>68,660</b>	
<b>Net Revenue Budget surplus for the Year</b>				<b>-632</b>
Funded From:				
Revenue Support Grant	12,081			
Non-Domestic Rates*	13,516			
Council Tax	43,695			
<b>Total</b>	<b>69,292</b>			

\*Non Domestic Rates is the Authority's share of Non Domestic Rates collected by Medway and Kent District Councils together with an amount for top up grant paid by the Government.

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A number of budget headings underspent in the year but these were partly offset by some additional costs pressures. The reasons for the most significant budget variances are detailed in the following table:

<b>Revenue Budget Variances</b>	<b>£'000</b>
Net Employee variances - Pay, Pension and Redundancy	-260
Lump sum contribution to LGPS deficit	449
Premises	217
Vehicles and equipment	-214
Supplies and services	-361
Icelandic debt provision no longer required	-93
Additional grants and other income	-253
Other net savings	-117
<b>Net Revenue Budget Underspend</b>	<b>-632</b>

At the end of the year £686k was transferred to the Rolling Budget Reserve to fund commitments made in 2016/17, but where the associated costs will not be incurred until after 1 April 2017.

### Grant Income

Grant receipts for the year are detailed in note 20 to the Accounts. In 2016/17 the Authority received £2,280k of revenue grants. These grants included funding for: New Dimensions and New Threats related work £1,048k, FireLink and its replacement Emergency Services Mobile Communications Programme (ESMCP) £584k, a small business rate relief grant of £413k and Transparency grant £8k. The Office of the Rail Regulator paid £174k towards the cost of the Channel Tunnel Safety Authority and a £53k European Union (EU) grant was received towards the cost of joint EU marine firefighting training. Any unspent grant at 31 March 2017 is rolled forward for use in later years.

### Provisions

This year the employee provision was used to meet the cost of backdated employer contributions arising from the Norman v Cheshire FRS case. The Icelandic debt provision was no longer required so the balance was credited back to revenue, contributing £93k to the underspend on the revenue budget.

### Revenue Reserves

At the February 2016 meeting of the Authority, Members agreed to continue to maintain the target level of General Fund balances (also known as the General Reserve) at 6% of the net revenue budget. In line with this requirement, the General Reserve position at 31 March 2017 is reduced by £50k to £4,150k.

In addition to the General Reserve, the Authority also holds a number of other reserves, earmarked for specific purposes, details of which can be found in Note 15 in the Statement of Accounts. At 31 March 2017, earmarked reserves had increased by £1,149k from the position reported at the end of the previous financial year. Nearly two thirds of the total held in earmarked reserves is within the Infrastructure Reserve, a significant part of which is planned to be used to funding the ongoing Station Development Programme so this reserve will significantly reduce over the next four years.

# Narrative Report

## Capital Budget and Expenditure

Capital expenditure is defined as the purchase, improvement or enhancement of an asset, where the benefit of the expenditure will last beyond the year in which it was incurred. Capital expenditure for 2016/17 was £5,627k against a revised budget of £6,445k.

Within the Station Development programme, work on the building at the Ramsgate Fire Station site slipped into 2017/18 however the building works at Chatham Fire Station were completed in January 2017. Premises works included replacement bay doors, boilers, roofs and drill yards. 23 new medium appliances and a new foam unit became operational in the year and two cars with 4 x 4 capability and operational equipment were also purchased. The table below gives a breakdown of the net £818k underspend which was largely due to expenditure being re-phased to future years. Re-phasing included expenditure on the Ramsgate Fire Station, multi role vehicles and the budget for audio visual display equipment where the contract was not awarded until May 2017.

<b>Capital Budget Variances</b> All figures shown are in £'000	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Outturn</b>	<b>Variance</b>
Station development programme	3,508	2,356	2,121	-235
Premises	312	175	242	67
Information and communication systems	210	180	-	-180
Vehicles and equipment	3,643	3,734	3,264	-470
<b>Total</b>	<b>7,673</b>	<b>6,445</b>	<b>5,627</b>	
<b>Net Capital Budget Underspend</b>				<b>818</b>

Details of the financing of the capital expenditure can be found in Note 22.

## Borrowing and Capital Reserves

The Authority did not plan to fund any capital expenditure from borrowing in 2016/17. In line with previous years, the Authority continues to use temporarily surplus cash balances instead of borrowing from external sources to fund unfinanced capital expenditure from earlier years. A loan of £300k matured during 2016/17 so was repaid, reducing the level of outstanding debt as at 31 March 2017 to £3,035k.

No capital assets were sold in 2016/17 and capital reserves totalling £8,348k comprising both unapplied grant and capital receipts were carried forward at 31 March 2017.

## Treasury Activity

In February 2016, Members agreed the Treasury Management and Investment Strategy for the forthcoming year. In 2016/17 greater use was made of Treasury Bills to increase the rate of interest earned but the general fall in interest rates post the Brexit decision in June 2016 meant that any anticipated increase in the rate did not materialise. In 2016/17 the Authority earned £152k of interest on cash deposits equating to an average interest rate earned of 0.37%.

The day to day cash management activity is carried out by the Kent County Council treasury team although the Authority uses the services of a Treasury Adviser for independent treasury advice.

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## Pension Assets and Liabilities

The presentation of pension assets and liabilities within the accounts is a requirement of the legislation governing the preparation of these accounts. The overall impact of recognising the Authority's true net pension liability of £921,521k on the Balance Sheet has led to an overall negative balance of £802,379k.

The net pension liability for 2016/17 for firefighter pension schemes has increased by £175,710k to £894,143k. Movements on the pensions liability can be quite volatile and are not only dependent on the assumptions used but also there is an impact depending on whether it is a full or roll forward valuation. The Actuary for the firefighter pension schemes has carried out a roll forward valuation for 2016/17. Changes to the financial assumptions included a reduction in the discount rate and a change in the expectation of future inflationary pressures, have resulted in a substantial increase in the value of the defined benefit obligation. The reassessment of the net defined benefit liability has had a significant impact on the Comprehensive Income and Expenditure Statement resulting in a revised remeasurement of £165,212k in 2016/17 compared to £78,264k in 2015/16.

Full details of the pension fund assets and liabilities can be seen at note 24.

## Financial Climate and Impact on Services

**Financial Settlement and Budget** – Although the timescales for the Government to reduce and eliminate the national structural deficit have been extended, local authority services remain under continued financial pressure. The financial settlement for 2017/18 confirmed on 22 February 2017 was a reduction in grant of 11.6%, in line with the Authority's estimate. There was a small increase in the estimate for business rate income which increased by £250k but the Authority still required an increase in the Council Tax precept of 1.88% in order to continue to fund plans and maintain services.

The Authority took advantage of the Government's offer of guaranteed annual financial settlements up to 2019/20 by publishing an [Efficiency Plan](#) a copy of which was placed on the Authority's website.

In July 2016 the Government launched a consultation on the proposal for 100% retention of business rates by local government. The consultation focused on the implementation of the Government's proposals for greater fiscal devolution to local government. It looked at what other responsibilities should be devolved, ways of rewarding growth and sharing risk, local tax flexibilities, and accountability and accounting. However, by far the most important issue raised in the consultation relates to the question regarding the future funding arrangements for Fire and Rescue Authorities (FRAs). In this respect the consultation sought views as to whether FRAs should be removed from the business rates retention scheme and, instead, funded by a separate grant administered by the Home Office in a similar way to Police Authorities. However, the Queen's speech on the 21 June 2017 made no reference to the Local Government Finance Bill in the legislative programme. There is therefore currently a lack of clarity as to how or if this will be progressed

As no new capital grants from Government have been announced, this Authority is currently planning to fund the 2017/18 and later years capital plan through a combination of revenue funding, reserves or capital receipts.

The Authority has an outline four year [Medium Term Financial Plan](#) (MTFP) contained within the Budget Book approved at the Authority meeting in February 2017. The MTFP was developed in conjunction with the proposals contained within the [Safety and Wellbeing Plan 2016-2018](#) so as to ensure that future plans are funded and sustainable.

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**Safety and Wellbeing Plan** - The Authority works very closely with its partners to ensure Kent and Medway continues to be one of the safest areas to live and work in England. Careful planning and the ability to adapt and respond to change ensures the Authority is able to face the challenges ahead efficiently and effectively. As a result, performance has remained strong and the Authority continues to be one of the best performing Authorities in the country.

In the latest Safety and Wellbeing Plan (agreed in February 2016) the Authority laid out its plans for modernisation and improvement. The Plan provided an update on the Station Development programme. Two new fire stations at Rochester and Watling Street in Chatham have now opened together with a new Road Safety Experience in Rochester, an innovative centre which delivers road safety education to drivers of all ages. Work is currently underway to build a new fire station in Ramsgate.

The Plan also sets out proposals to ensure the Authority's fleet is used more flexibly, as this contributes to improved emergency cover in some areas of the county. Last year a trial was introduced to move one full-time fire engine from multi-pump stations to other areas of the county where it is difficult to achieve daytime on-call cover. This year the full benefits of the trial will be evaluated.

After the successful introduction of a flexible rostering pattern of work at some stations in 2014, the Authority is gradually rolling out this duty system to all whole-time shift fire stations. It is planned that all fire stations will have moved to the new system by January 2018. Having a flexible workforce allows the Authority to respond to changing demands in a short period of time, thus ensuring that the right resource is where it is needed.

Last year the Authority trialed a scheme to put some fire engines in on-call fire stations on the run when only three firefighters were available even though the primary aim is always to have a minimum of four firefighters. Improvements in technology, training and protective equipment mean that a crew of three can do a lot in the early stages of an incident to provide potentially life-saving help to the public. The evaluation of the trial showed that it was a success and therefore the Authority will be rolling it out to all fire stations over the next few years.

The Safety and Wellbeing Plan also detailed how the Authority continues to explore areas for collaboration with other agencies such as Kent Police and the South East Coast Ambulance Service (SECAmb). During 2016/17 fire crews began to attend an increased number of emergency medical responder calls, in situations where fire crews were more closely located to the incident than an ambulance crew. The early arrival of a fire crew to such incidents has helped colleagues from SECAmb save more lives and is an excellent example of important and beneficial joint working across the county.

The five overarching strategies published in 2013/14, set out the overall long term direction of the Authority. The strategies reflect the changing context in which the Authority operates such as climate change, demographic change and funding constraints. Progress made in delivering the strategies is described in the Authority's Corporate Plan, which is published annually and available on the Authority's website. The strategies cover every aspect of the Authority's work.

The Authority continues to look at ways to operate more efficiently, for example, by streamlining processes and making them leaner. Although the Authority has saved in the region of £17m over the past five years, it is quite clear that funding pressures will continue. Consequently the Authority is planning to deliver a further £8m savings between 2017/18 and 2019/20. The challenge is to make sure the Authority can achieve these savings and still maintain or enhance the services delivered to the public. The Authority will continue to keep the safety of local people, businesses and firefighters as it's priority when responding to these challenges.

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**Future Issues** - In January 2017 the Policing and Crime Act received royal assent. The Act introduced new duties on police, fire and rescue and emergency ambulance services to keep opportunities to collaborate under review, and further, to enter into collaboration agreements where it is in the interests of their efficiency or effectiveness. This sets a clear expectation that collaboration opportunities should be fully exploited. In addition the Act provides for the Police and Crime Commissioner, should they so wish, to take on board responsibility for the Fire and Rescue Service or to be a member on the Fire Authority. The Kent Police and Crime Commissioner has opted for the second option and asked to become a member of the Fire Authority.

The Authority already collaborates very closely with Kent Police and other public sector partners. This year more work has done with health not only in assisting in the provision of response to medical emergencies but also in the development of 'Safe and Well' visits where home safety visits to the vulnerable carried out by the Community Safety team also now include an assessment of the risk of trips and falls in the home.

The Home Office has indicated that fire and rescue services will in the near future be subject to a new national inspection regime similar to that in place for the Police. Given the announcement of the General Election the details of how the regime will work and when it will come into force have not yet been confirmed. However, early indications are that the inspection criteria will revolve around three areas: efficiency and collaboration, accountability and transparency, and the reform of the fire and rescue workforce.

In the summer of 2017 a new Safety and Wellbeing Plan will be developed for consultation in the autumn. The Plan will consider current and future demands on the service and estimated resources and will include budget proposals to meet those pressures.

### **The Development and Performance of the Authority in 2016/17 and Financial Position at 31 March 2017.**

#### **Budget Strategy**

The Authority's budget for 2016/17 reflected the ongoing implementation of decisions made in the 2016-18 Safety and Wellbeing Plan. The Authority has a prudent approach to budget development ensuring that expenditure plans are fully resourced and that savings proposed are achievable.

A high proportion of the Authority's revenue budget is spent on staffing costs and these are monitored closely. Posts that become vacant are reviewed by senior management to determine whether or not they need to be replaced. This ensures that the post is still necessary and that opportunities are not lost to make further efficiency savings.

The introduction of the flexible self-rostering system on stations has resulted in a reduction in the number of firefighter posts. This reduction has been achieved as colleagues retire or leave the service, however levels are such now that it is necessary to undertake an external recruitment campaign. This will be undertaken during 2017/18 and it is expected that new recruits will start to be trained in the second half of the year. In all areas of staffing, this Authority endeavours to achieve savings without the need for compulsory redundancies, wherever possible to do so. The Recruitment of on-call firefighters however, continues to be difficult, so the Authority continues to explore and find more innovative and flexible ways of using the existing resources.

#### **Reserves**

In these financially challenging and uncertain times General and Earmarked Reserves are an important tool to help mitigate against the risk of budget overspend and shortfalls in funding. The use of Earmarked Reserves is limited to smoothing the impact on revenue of expenditure that falls in peaks and troughs or for funding one-off expenditure as the use of an earmarked reserve to fund base budget day to day expenditure would not be sustainable.

## **Narrative Report**

The amount set aside in the Authority's General Reserve is subject to an annual assessment to ensure that the balance should cover the costs of a significant emergency or unforeseen event. The Authority has £4,150k in General Reserves at the 31 March 2017.

At 31 March 2017 the Authority's earmarked reserves are healthy having increased by £1.1m. Resources have been set aside in the Infrastructure Reserve to fund the Station Development programme, replacement fire appliances, vehicles, operational and IT equipment. As the revenue budget comes under greater pressure opportunities to replenish these balances will diminish as the current cycle of planned works and purchases are completed.

### **Cashflows**

The Cash Flow Statement in the Accounts details the cashflows for the year and shows that the Authority's cash balances had decreased by £5,133k over the year. The Authority uses its temporarily surplus cash balances to fund its capital financing requirement (in lieu of borrowing) with the remainder placed in interest bearing deposit accounts or invested in government treasury bills. At 31 March 2017 cash, deposits and investments totalled £38,493k. This comprises £33,084k which represents the money set aside in general and earmarked reserves, £8,348k of unused capital grants and receipts less £2,939k being the net of other assets and liabilities at the end of the financial year.

Over the next 4 years £1,610k of the Authority's loans from the Public Works Loan Board will be repaid and with over half of the Authority's reserves planned to be used for the Infrastructure Programme and other expenditure commitments, cash balances are expected to reduce over this timeframe.

## **The Authority's Financial and Non- Financial Performance Indicators**

### **Financial Performance**

Every year External Audit assesses the Authority's financial statements. The External Auditor's Audit Findings Report for 2015/16 was reported to the Authority meeting in July 2016. The report confirmed that the Authority has sound arrangements for developing, updating and implementing its medium term financial plan (MTFP). Focus on achievement of corporate priorities is evident through the financial planning process, and the MTFP ensures that resources are focused on priorities. Service and financial planning processes are well integrated, and the MTFP is consistent with other key strategies, including workforce plans. There are adequate plans in place to address identified funding gaps, and there is regular review of the MTFP and the assumptions made within it. It has performed sensitivity analysis on its financial model using a range of economic assumptions. The Authority responds to changing circumstances and manages its financial risks effectively.

The Authority's external auditors, Grant Thornton, issued their Annual Audit Letter on the 2015/16 accounts on 15 July 2016. The Auditor confirmed that an unqualified opinion had been issued on the 2015/16 accounts and that there were no matters arising that needed reporting in relation to value for money issues. The Authority was named in the Public Sector Audit Appointments Report on the results of local government audit work for 2015/16 as one of the 10% of all local authorities who published their 2015/16 accounts by 31 July 2016.

### **Governance Assurance Statement**

The Authority is required to undertake an annual review of its governance processes and to publish a Statement setting out the results of the review. The Statement, which is available on the Authority's website, shows how the Authority demonstrates good governance in its actions and also how it meets the requirements of the National Framework for Fire and Rescue Services.

# Narrative Report

## Transparency

The Authority publishes extensive performance and financial information on its website including transparency data on all spending over £250, a register of contracts and the pay of senior managers. This allows the public to see how well the Authority is performing and provides evidence of value for money. The public can request data from the Authority through the website.

## Non-Financial Performance

**Caring for the Environment** - The 'Caring for the Environment' strategy was one of five strategies agreed by the Authority. It set out how, the Authority aimed to protect the environment of Kent and Medway, in terms of buildings and the vehicles that are used in delivering the service. The target was to reduce CO2 emissions by 35% by 31 March 2017 compared to a baseline year of 2008/09.

In 2016/17 both electricity and gas usage increased compared to the previous year. Mileage has also increased, one factor being the additional mileage in responding to emergency Red 1 calls in support of the South East Coast Ambulance Trust (SECAmb). The overall position towards the target is a reduction of 26.5% in 2016/17 against baseline year. Members agreed to extend the current target to the end of 2017/18 and the organisation's approach to managing energy use and carbon reduction is being included in the asset management plan, scheduled to be developed during the year.

**Property** –The new station at Chatham has been completed and is now operational. The site at Ramsgate has been cleared and the contractor will start on site in May. All these new buildings have been designed to meet current standards for energy efficiency, and as such will include building management systems and controls, insulation, LED lighting, facilities for collecting surface water for training purposes and natural ventilation rather than using air conditioning.

Environmental improvements to the existing estate have included installing low energy LED lighting technology. In addition, there is an on-going programme to re-roof buildings, replace windows and appliance bay doors, all of which will improve insulation.

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## Service Performance

The Authority has a comprehensive set of performance indicators some of which are considered to be strategic due to their importance in monitoring the performance of the Authority. Members approve the targets that are set for all the strategic indicators and regular reports are provided to Members to keep them updated of performance against these indicators.

In 2016/17 the Authority experienced a small increase in the number of fires compared to the previous year. Two years of warm dry summers has resulted in a higher than usual number of outdoor fires which has affected the overall number of fires recorded. Similar trends were seen across the country as highlighted by the most recent Fire Statistics, published by the Home Office in August 2016, covering the 2015/16 financial year. Performance against the three-year average target set for the period of 2015-18 is projected to be 21% higher than the target. The Authority saw an increase in the number of casualties as a result of accidental fires in 2016/17 compared to the year before.

Accidental dwelling fires (ADFs) accounted for 21% of all the accidental fires attended in 2016/17. Historically, the Authority has performed very well in this area and has been amongst the top performers nationally for more than ten consecutive years. This trend continued in 2016/17 when the Authority attended the lowest number of ADFs ever recorded. This means that performance is projected to be 8.9% lower than the three-year average target set for 2015-18.

Reducing the number of road traffic collisions (RTCs) across Kent and Medway and the number of people killed or seriously injured (KSI) as a result continues to be a priority for the Authority. In 2016/17 the Authority attended 1,090 RTCs, an 18% increase on the year before. The latest figures available show that in the period of January – June 2016 there were 432 KSIs on Kent's and Medway's roads compared to 293 in the same period the previous year. The Authority continues to work with its partners to promote road safety across the county. The recently opened Road Safety Experience at Rochester provides an innovative education facility for young people.

The Authority's response times to life-threatening incidents has not changed significantly compared to previous years. They remain slightly below the levels we would like to achieve at 78% v 80% target of attending life threatening situations within 10 minutes and 87% v target of 89% within 12 minutes. The latest national report detailing statistics on response times to fire incidents for 2016/17, highlighted a rise in response times nationally to all types of primary fire incidents over recent years. This publication identified the Authority as being the top fourth best performer amongst its neighbouring group.

The detail of the progress against all of the Authority's key performance indicators is reported regularly to Members of the Authority, a copy of the report is available on the Authority's website.

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## Use of Resources Summary

The Authority has continued to make changes to the way that frontline and back office activities are delivered. Investment has been made in electronic systems to reduce administration and simplify internal processes. Working closely with partners the Authority is looking to achieve efficiencies, wherever possible to do so, through joint procurement or joint working.

This year the building works of the new Chatham Fire Station were completed. This project did overspend slightly but this was largely as a result of unexpected difficulties on the site and delays by the water utility company. The old site is now surplus to requirements and consequently the old fire station has now been demolished in readiness for the sale of the site.

Last year the Authority planned to deliver £3.8m of base revenue budget savings as set out in the budget for 2016/17 and over the next four years the Authority has the challenge to make an estimated further £8m of savings which need to be both sustainable and deliverable so that a high quality and effective service can continue to be delivered.

The Government, as part of the 2016/17 funding settlement, provided local authorities, including fire and rescue authorities (FRAs), with an opportunity to confirm their acceptance of a four-year funding offer, providing that Efficiency Plans were published by the authority concerned no later than October 2016. This Authority agreed to accept this offer and therefore the provisional funding settlement figures for 2017/18 through to 2019/20 have been guaranteed. The Efficiency Plan has been published on the Authority's website.

Included in the 2017/18 budget is growth for meeting the cost of the Government's new apprenticeship levy. Any other new initiatives such as this, or reductions in S31 grant funding will mean that spending or saving plans may need to be revisited.

However, the current financial position of the Authority remains strong. The Authority has been able to invest in new assets without needing to borrow and long term debt is reducing. Reserve levels are healthy and sufficient funds are set aside in Earmarked Reserves to progress the planned investment in new stations and property, vehicle and equipment assets and to help mitigate other one-off future costs or risks.

For further information on the accounts please contact the Assistant Director, Finance on 01622 692121 ext 8262 or write to the Assistant Director, Finance, KFRS Headquarters, The Godlands, Tovil, Maidstone, Kent, ME15 6XB.

# Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director, Finance and Corporate Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

## The Director, Finance and Corporate Services' Responsibilities

The Director, Finance and Corporate Services, is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the *CIPFA Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Director, Finance and Corporate Services, has:-

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

The Director, Finance and Corporate Services, has also:-

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

In my view, the accounts which follow give a true and fair view of the financial position of the Kent and Medway Towns Fire Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

**Nick Chard**  
**Chairman of the Authority**  
**Kent and Medway Towns Fire Authority**

**Charles Kerr**  
**Director, Finance and Corporate Services**  
**Kent and Medway Towns Fire Authority**

**18 July 2017**

# Report of the Auditors to the Members of Kent and Medway Towns Fire Authority

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT AND MEDWAY TOWNS FIRE AUTHORITY

We have audited the financial statements of Kent and Medway Towns Fire Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Firefighters' Pension Fund Account and the Firefighters' Pension Fund Net Assets Statement. 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 2016/17.

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 Authority's 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 Director, Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities, the Director, Finance and Corporate Services 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Director, Finance and Corporate Services; 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.

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## 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 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

### Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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.

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## **Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

## **Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

**Paul Hughes**  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

**Grant Thornton UK**  
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**NW1 2EP**

**18 July 2017**

## Expenditure and Funding Analysis - Note

The Expenditure and Funding Analysis note shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making between the Authority's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement which follows.

All figures are in £'000

			2015/16				2016/17
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement					
See note 6			See note 6				
36,164	9,677	45,841	Service Delivery	36,089	7,400	43,489	
6,042	1,212	7,254	Operational Policy and Resilience	5,830	881	6,711	
4,300	19	4,319	Executive Support	4,817	213	5,030	
11,315	6	11,321	Finance and Corporate Services	13,107	241	13,348	
14,598	-8,857	5,741	Pensions Financing and Other Costs	8,776	-4,951	3,825	
<b>72,419</b>	<b>2,057</b>	<b>74,476</b>	<b>Net Cost of Services</b>	<b>68,619</b>	<b>3,784</b>	<b>72,403</b>	
-70,405	13,662	-56,743	Other Income and Expenditure	-69,718	13,333	-56,385	
<b>2,014</b>	<b>15,719</b>	<b>17,773</b>	<b>Surplus or Deficit</b>	<b>-1,099</b>	<b>17,117</b>	<b>16,018</b>	
	-33,999		Opening General and Earmarked Reserves Balance		-31,985		
	2,014		Movement in reserve balances in the year		-1,099		
	<b>-31,985</b>		<b>Closing General and Earmarked Reserves Balance</b>		<b>-33,084</b>		

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year for providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from Council Tax. The Authority raises Council Tax to fund expenditure in accordance with regulations and this may be different from the accounting cost basis. The Council Tax position is shown in the Movement in Reserves Statement.

All figures are in £'000

			2015/16			2016/17	
Gross Expenditure	Gross Income	Net Expenditure		Notes	Gross Expenditure	Gross Income	Net Expenditure
45,911	-70	45,841	Service Delivery		43,554	-65	43,489
10,570	-3,316	7,254	Operational Policy and Resilience		10,151	-3,440	6,711
4,359	-40	4,319	Executive Support		5,048	-18	5,030
11,924	-603	11,321	Finance and Corporate Services		14,123	-775	13,348
5,741	-	5,741	Pensions Financing and Other Costs		3,825	-	3,825
78,505	-4,029	74,476	<b>Cost of Services</b>	7	<b>76,701</b>	<b>-4,298</b>	<b>72,403</b>
-	-622	-622	Gain or loss on disposal of assets		832	-	832
<b>Financing &amp; Investment Income &amp; Expenditure</b>							
172	-	172	Interest payable and similar charges		146	-	146
25,945	-	25,945	Net interest on the defined benefit liability	7	26,973		26,973
-	-159	-159	Interest and Investment income		-	-152	-152
<b>Taxation and Non Specific Grant Income</b>							
	-42,036	-42,036	Council tax income	16		-43,743	-43,743
	-13,361	-13,361	Non domestic rates and top up grant	16		-14,079	-14,079
	-14,804	-14,804	Non ring-fenced grants			-12,501	-12,501
	-8	-8	Capital grants	20		-	-
	-11,870	-11,870	Government grant payable to pension fund	28		-13,861	-13,861
	<b>17,733</b>	<b>17,733</b>	<b>Deficit on Provision of Services</b>				<b>16,018</b>
	-2,801	-2,801	Net gain on revaluation of property plant and equipment	16			-1,195
	-4	-4	Surplus on revaluation of available for sale financial assets	16			-7
	-78,264	-78,264	Remeasurements of the net defined benefit liability	16			165,212
	<b>-81,069</b>	<b>-81,069</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>164,010</b>
	<b>-63,336</b>	<b>-63,336</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>180,028</b>

## **Movement in Reserves Statement**

The Movement in Reserves Statement which follows, shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those reserves that can be applied to fund expenditure or reduce the requirement for future council tax) and other reserves. The Code requires the previous year's figures to be disclosed in this Statement; hence both years are shown below. The 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 arrive at the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure. The Net Increase/Decrease before the Transfers to Earmarked Reserves line in the table below shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves are undertaken by the Authority. The following sets out a description of the reserves that adjustments are made against.

### **General Fund Balance**

The General Fund is the statutory fund into which all receipts of the Authority are required to be paid and from which all liabilities are met, except to the extent that statutory rules might provide otherwise. These rules can specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting 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.

### **Earmarked Reserves**

The Authority holds a number of discretionary Earmarked Reserves to fund future expenditure or potential future budget pressures. If an Earmarked Reserve is no longer required for its designated purpose the funds will be returned to the General Fund.

### **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.

### **Unapplied Capital Grants Reserve**

The Capital Grant Unapplied Account (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 capital expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

## Movement in Reserves Statement

The Net Increase/Decrease before the Transfers to Earmarked Reserves line in the table below shows the statutory General Fund Balance before any discretionary transfers to or from Earmarked Reserves are undertaken by the Authority. The 2016/17 Movement in Reserves Statement follows on from the 2015/16 Statement below:

2015/16		General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
All figures are in £'000								
	Notes							
<b>Balance at 31 March 2015 brought forward</b>		<b>-4,244</b>	<b>-29,755</b>	<b>-5,434</b>	<b>-916</b>	<b>-40,349</b>	<b>726,036</b>	<b>685,687</b>
Movement in reserves during 2015/16:								
Deficit on the provision of services	7	17,733	-	-	-	17,733	-	17,733
<i>Other Comprehensive Income and Expenditure</i>								
Remeasurements of the net defined benefit liability	24	-	-	-	-	-	-78,264	-78,264
Revaluation gains	16	-	-	-	-	-	-2,805	-2,805
<b>Total Comprehensive Income and Expenditure</b>		<b>17,733</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,733</b>	<b>-81,069</b>	<b>-63,336</b>
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>								
Pension costs transferred to or from the Pensions Reserve:								
Net retirement benefits as per IAS19	24	-45,435	-	-	-	-45,435	45,435	-
Gain in relation to government grant payable to the pension fund	24	11,870	-	-	-	11,870	-11,870	-
Employers contribution to pension schemes	16	9,131	-	-	-	9,131	-9,131	-
Amount by which Council Tax and non-domestic rate income is different from the amount taken to the General Fund	16	-216	-	-	-	-216	216	-
Amount by which the employee benefit adjustment different from the amount taken to the General Fund	16	-17	-	-	-	-17	17	-

## Movement in Reserves Statement

2015/16 continued

All figures are in £'000

	Notes	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
<i>Reversal of entries included in the deficit on the Provision of Services, in relation to Capital Expenditure, to the Capital Reserves</i>								
Depreciation and impairment of non current assets	8	-4,245	-	-	-	-4,245	4,245	-
Revaluation gains/(losses) on property, plant and equipment	8	72	-	-	-	72	-72	-
Revaluation gains/(losses) losses on assets held for sale		-150	-	-	-	-150	150	-
Assets sold written out as part of the gain/(loss) on disposal	8	-2,264	-	-	-	-2,264	2,264	-
<i>Adjustments between Revenue and Capital Resources</i>								
Transfer of cash sale proceeds as part of loss on disposal		2,915	-	-2,915	-	-	-	-
Contribution from the Capital Receipts Reserve towards administrative cost of disposal on non current assets		-29	-	29	-	-	-	-
Statutory provision for the repayment of debt	16	480	-	-	-	480	-480	-
Voluntary provision for the repayment of debt	16	489	-	-	-	489	-489	-
Capital expenditure funded from revenue contribution	16	11,672	-	-	-	11,672	-11,672	-
<i>Adjustments to Capital Resources</i>								
Application of capital grant to finance capital expenditure		8	-	-	888	896	-896	-
<b>Net increase/decrease before transfer to Earmarked Reserves</b>	15	<b>2,014</b>	<b>-</b>	<b>-2,886</b>	<b>888</b>	<b>16</b>	<b>-63,352</b>	<b>-63,336</b>
Transfers to/from Earmarked Reserves		-1,970	1,970	-	-	-	-	-
(Increase)/Decrease in 2015/16	15	44	1,970	-2,886	888	16	-63,352	-63,336
<b>Balance at 31 March 2016</b>		<b>-4,200</b>	<b>-27,785</b>	<b>-8,320</b>	<b>-28</b>	<b>-40,333</b>	<b>662,684</b>	<b>622,351</b>

## Movement in Reserves Statement

2016/17		General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
All figures are in £'000								
	Notes							
<b>Balance at 31 March 2016 brought forward</b>		<b>-4,200</b>	<b>-27,785</b>	<b>-8,320</b>	<b>-28</b>	<b>-40,333</b>	<b>662,684</b>	<b>622,351</b>
Movement in reserves during 2016/17:								
Deficit on the provision of services	7	16,018	-	-	-	<b>16,018</b>	-	<b>16,018</b>
<i>Other Comprehensive Income and Expenditure</i>								
Remeasurements of the net defined benefit liability	24	-	-	-	-	-	159,686	<b>159,686</b>
Changes to injury scheme	24						5,526	<b>5,526</b>
Revaluation gains	16	-	-	-	-	-	-2,099	<b>-2,099</b>
Revaluation losses charged to revaluation reserve							904	<b>904</b>
Surplus on revaluation of available for sale financial assets	16						-7	<b>-7</b>
<b>Total Comprehensive Income and Expenditure</b>		<b>16,018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,018</b>	<b>164,010</b>	<b>180,028</b>
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>								
Pension costs transferred to or from the Pensions Reserve:								
Net retirement benefits as per IAS19	24	-40,448	-	-	-	<b>-40,448</b>	40,448	-
Gain in relation to government grant payable to the pension fund	24	13,861	-	-	-	<b>13,861</b>	-13,861	-
Employers contribution to pension schemes	16	8,519	-	-	-	<b>8,519</b>	-8,519	-
Financial instruments transferred to or from the available for sale financial instruments reserve	16	-4	-	-	-	<b>-4</b>	4	-

## Movement in Reserves Statement

2016/17 continued

	Notes	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
All figures are in £'000								
Amount by which Council Tax and non-domestic rate income is different from the amount taken to the General Fund	16	611	-	-	-	611	-611	-
Amount by which the employee benefit adjustment different from the amount taken to the General Fund	16	-12	-	-	-	-12	12	-
<i>Reversal of entries included in the deficit on the Provision of Services, in relation to Capital Expenditure, to the Capital Reserves</i>								
Depreciation and impairment of non current assets	8	-4,585	-	-	-	-4,585	4,585	-
Revaluation gains/(losses) on property, plant and equipment	8	-818	-	-	-	-818	818	-
Revaluation gains/(losses) losses on assets held for sale		-9	-	-	-	-9	9	-
Assets sold written out as part of the gain/(loss) on disposal	8	-828	-	-	-	-828	828	-
<i>Adjustments between Revenue and Capital Resources</i>								
Statutory provision for the repayment of debt	16	461	-	-	-	461	-461	-
Voluntary provision for the repayment of debt	16	508	-	-	-	508	-508	-
Capital expenditure funded from revenue contribution	16	5,627	-	-	-	5,627	-5,627	-
<b>Net increase/decrease before transfer to Earmarked Reserves</b>	15	<b>-1,099</b>	-	-	-	<b>-1,099</b>	<b>181,127</b>	<b>180,028</b>
Transfers to/from Earmarked Reserves		1,149	-1,149	-	-	-	-	-
(Increase)/Decrease in 2016/17	15	50	-1,149	-	-	-1,099	181,127	180,028
<b>Balance at 31 March 2017</b>		<b>-4,150</b>	<b>-28,934</b>	<b>-8,320</b>	<b>-28</b>	<b>-41,432</b>	<b>843,811</b>	<b>802,379</b>

## Balance Sheet

The Balance Sheet shows the value as at the 31 March 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; usable and unusable reserves. Only the usable reserves represent resources available to the Authority to spend on services, the purchase of assets or to repay debt. Unusable reserves cannot be used by the Authority.

<b>31 March 2016</b>		<b>31 March 2017</b>	
All figures are in £'000		Notes	
	Property, Plant and Equipment		
62,353	Land and buildings	8	64,051
15,618	Vehicles, plant and equipment	8	17,472
4,896	Assets under construction	8	1,009
<b>82,867</b>	<b>Long Term Assets</b>		<b>82,532</b>
27,741	Short Term Investments	9	31,659
310	Assets Held for Sale	12	1,226
109	Inventories		95
7,337	Short term Debtors	10	9,955
11,967	Cash and Cash Equivalents	9,11	6,846
<b>47,464</b>	<b>Current Assets</b>		<b>49,781</b>
-	Cash and Cash Equivalents	9,11	-12
-300	Short Term Borrowing	9	-305
-9,596	Short Term Creditors	13	-9,178
-1,510	Provisions	14	-946
<b>-11,406</b>	<b>Current Liabilities</b>		<b>-10,441</b>
-3,035	Long Term Borrowing	9	-2,730
	Other Long Term Liabilities:		
-718,433	Firefighters' pension liability	24	-894,143
-19,808	Net LGPS pension liability	24	-27,378
<b>-741,276</b>	<b>Long Term Liabilities</b>		<b>-924,251</b>
<b>-622,351</b>	<b>Net Assets</b>		<b>-802,379</b>
	Usable Reserves:		
-4,200	General reserves	15	-4,150
-27,785	Earmarked reserves	15	-28,934
-8,320	Usable capital receipts		-8,320
-28	Usable grants		-28
662,684	Unusable Reserves	16	843,811
<b>622,351</b>	<b>Total Reserves</b>		<b>802,379</b>

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the financial year. 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 council tax 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.

31 March 2016	All figures are in £'000	Notes	31 March 2017
<b>Operating Activities</b>			
<b>Cash Outflows</b>			
49,929	Cash paid to and on behalf of employees	7	51,834
180	Interest paid	7	152
13,681	Cash paid to suppliers of goods and services	7	16,049
<b>63,790</b>	<b>Cash outflows generated from operating activities</b>		<b>68,035</b>
<b>Cash inflows</b>			
-41,854	Precepts received	7	-43,695
-14,361	Revenue support grant	7	-12,081
-6,407	Business Rates	7	-6,102
-7,353	Business Rate top up grant	7	-7,414
-8	Capital grant and contributions	7	-
-2,645	Other revenue grants	7, 20	-1,266
-1,464	Cash received for goods and services	7	-2,027
-165	Interest received	7, 26	-158
-340	Other operating cash receipts	7	-461
<b>-74,597</b>	<b>Cash inflows generated from operating activities</b>		<b>-73,204</b>
<b>-10,807</b>	<b>Net cash inflow from operating activity</b>		<b>-5,169</b>
<b>Investing Activities</b>			
12,654	Purchase of property, plant and equipment	22	6,087
-2,886	Proceeds from sale of property, plant and equipment		-
1,385	Temporary investments		3,915
<b>11,153</b>	<b>Net cash flows generated from investing activity</b>		<b>10,002</b>
<b>Financing Activities</b>			
425	Repayment of amounts borrowed	9	300
-117	Dividends received from Icelandic Banks		-
<b>308</b>	<b>Net cash flows from financing activities</b>		<b>300</b>
<b>654</b>	<b>Net increase/decrease in cash and cash equivalents</b>		<b>5,133</b>
12,621	Cash and cash equivalents at 1 April	11	11,967
<b>-654</b>	<b>Movement in year</b>		<b>-5,133</b>
11,967	Cash and cash equivalents at 31 March	11	6,834

# Notes to the Statement of Accounts

## 1. Accounting policies

Detailed below are the general accounting policies of the Authority. Other policies which refer to specific financial statement lines are detailed with the relevant note to the accounts. The policy is shown shaded in the relevant note.

### General Principles

The accounts of the Fire and Rescue Authority have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2016/17 (the Code) supported by International Financial Reporting Standards (IFRS) and other approved accounting standards. The accounts have been prepared with the objective of providing financial information that is useful to a wide range of users in making decisions about providing resources to the Authority and assessing the stewardship of the Authority's management.

Accounting policies are the principles, bases, and practices applied when preparing accounts, that specify how the effects of transactions and other events are to be reflected in the Statement of Accounts through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. When selecting and applying accounting policies the qualitative characteristics of financial information such as relevance, materiality and a faithful representation are taken into account.

#### 1.1 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention modified to account for the revaluation of property, plant and equipment. They are prepared on a going concern basis.

The particular policies adopted by the Authority are shown below. They have been applied consistently in dealing with items considered material in relation to the accounts.

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 or provision of services is recognised in the financial year when the goods are sold or when the services are provided.

Revenue relating to council tax and non-domestic rates (NDR) shall be measured at the full amount receivable (net of any impairment losses).

Expenditure on goods and services (including services provided by employees) are recorded as expenditure in the financial year that they are received. Adjustments are made at the end of the financial year if a significant portion of goods received will not be used until the following year i.e. fuel stock.

Interest receivable on deposits and payable on loans is accounted for as income and expenditure respectively, on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contracts.

Where income or expenditure has been recognised but the cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. The balance on debtors may be written down by a provision to reflect an estimate of the amount of any debts that may not be recovered.

# Notes to the Statement of Accounts

## 1.2 Critical accounting, judgements and key sources of estimation uncertainty

In the application of the Authority's accounting policies, Officers are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates, but the estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision, and future periods, if the revision affects both current and future periods.

### 1.2.1 Critical judgements in applying accounting policies

The Authority is required to disclose any critical judgements, apart from those involving estimations that Officers have made in the process of applying the Authority's accounting policies. See Note 3 for details.

## 1.3 Other expenses

Other operating expenses, such as for goods and services are recognised in the accounts in the financial year in which the goods are delivered or the services received. The exception to this is for utility bills where the accounts may include a twelve month charge for certain utilities but the charge is not necessarily adjusted to match the financial year as it is not considered material nor always practical to do so, but, where appropriate, it does represent a charge for a twelve month period.

## 1.4 Income

Income is accounted for in the financial year where the goods or services were provided. Income includes, contract income for the provision of firefighting services in the Channel Tunnel, contributions from third parties towards joint-funded projects, insurance recoveries and income from the sale of obsolete vehicles and equipment. Debtors are shown net of any provision made for bad or doubtful debts.

## 1.5 Government Grants and Contributions

Where the condition of a grant or contribution has been satisfied for any grant or contribution received or where there is reasonable assurance it will be received, the amount of the grant or contribution will be included in the Comprehensive Income and Expenditure Statement. Conditions are defined as stipulations that specify the terms under which a grant or contribution is to be used.

If the conditions have not yet been met then any grant or contribution received would be shown in the Balance Sheet as a receipt in advance within creditors. When conditions for a grant or contribution have been satisfied, the grant or contribution is credited to the relevant service line (within gross income) or as 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.

# Notes to the Statement of Accounts

## 1.6 Revenue expenditure funded from capital under statute

This is expenditure which qualifies as capital for control purposes, but which does not result in the acquisition, creation or enhancement of a property, plant or equipment asset. These costs are charged direct to revenue expenditure and any related capital grant will also be credited to revenue income.

## 1.7 Treatment of Value Added Tax

VAT paid and received is accounted for separately and is not included as income or expenditure of the Authority, except where it is not recoverable.

## 1.8 Redemption of Debt

The Authority is required to set aside an amount each year for the redemption of debt. There is a statutory requirement for the Authority to charge the council tax payer with a minimum revenue provision (MRP) which represents 4% of the outstanding borrowing liability. In addition, the Authority makes additional voluntary provisions which aligns the charge to the Council Tax payer with the life of the asset.

## 1.9 Prior Period Adjustments

These adjustments are only made when there are changes in accounting policies required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions or other events and conditions on the Authority's financial position. Where a prior year adjustment is made it adjusts the opening balances and comparative amounts for the period as if the new policy had always been applied.

## 2. Accounting Standards that have been issued but have not yet been adopted

The Authority has considered the impact of accounting changes that will be required by any new accounting standards that have been issued but not yet adopted by the Code for 2016/17. There are a number of new standards being introduced in the 2017/18 Code but they will not come into effect until April 2018. These changes relate to available for sale financial instruments and revenue contracts. Changes to accounting arrangements for leases are expected to be made from April 2019. These changes are not expected to have a material impact on the Authority's Accounts but it will be dependent on arrangements in place at that time and further details of the potential impact will be disclosed when more information becomes available.

## 3. Critical Judgements in Applying Accounting Policies

At the current time there are no critical judgements that have been made that will affect these Statements. There is a certain amount of uncertainty about future levels of Government funding. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

## 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 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 assumptions and estimates. The items in the Authority's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

## Notes to the Statement of Accounts

### 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. If the Authority had to make cuts to its spending and was unable to sustain its current spending on repairs and maintenance it could bring into doubt the useful lives assigned to assets.

The carrying value of depreciating assets at 31 March is £63m. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for property plant and equipment assets would increase by £417k for every year that useful lives had to be reduced.

### Pension 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. Actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied. The carrying amount of the defined benefit obligation on all Pension Schemes at 31 March 2017 is £978,570k.

The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the Pension Scheme liabilities of £18,738k.

Furthermore, a one year increase in the life expectancy assumptions across all schemes would give rise to an increase in the liability of £38,302k.

The table on page 54 provides further details on the assumptions used and their financial impact.

### 5. Events after the reporting Period

There are no events to report.

## Notes to the Statement of Accounts

### 6. Expenditure and Funding Analysis – Adjustments Between Funding and Accounting Basis

For internal reporting and budget monitoring purposes, the revenue budget is in a different format from the presentation required by the CIPFA Code for the Comprehensive Income and Expenditure Statement. The table below provides a reconciliation of the final revenue budget underspend on services compared to the deficit shown on the Comprehensive Income and Expenditure Statement.

2015/16				2016/17					
Adjustment for Capital Purposes	Net Change for the Pensions Adjustment	Other Differences	Total Adjustments		Adjustment for Capital Purposes	Net Change for the Pensions Adjustment	Other Differences	Total Adjustments	
All figures are in £'000									
3,970	5,679	28	9,677	Service Delivery	5,059	2,338	3	7,400	
182	1,040	-10	1,212	Operational Policy and Resilience	195	672	14	881	
16	-	3	19	Executive Support	-	218	-5	213	
-1	11	-4	6	Finance and Corporate Services	119	122	-	241	
-12,486	3,629	-	-8,857	Pensions Financing and Other Costs	-6,556	1,605	-	-4,951	
<b>-8,319</b>	<b>10,359</b>	<b>17</b>	<b>2,057</b>	<b>Net Cost of Services</b>	<b>-1,183</b>	<b>4,955</b>	<b>12</b>	<b>3,784</b>	
<b>-630</b>	<b>14,076</b>	<b>216</b>	<b>13,662</b>	<b>Other Income and Expenditure from the Funding Analysis</b>	<b>828</b>	<b>13,113</b>	<b>-608</b>	<b>13,333</b>	
-8,949	24,435	233	15,719	Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Deficit	-355	18,068	-596	17,117	

## Notes to the Statement of Accounts

### 7. Expenditure and Income Analysed By Nature

The following table provides a breakdown of expenditure and income by type that is included in the calculation of the deficit on the provision of services. These costs include notional charges which are reversed when identifying the amount to be charged to taxation.

All figures are in £'000	2016/17	2015/16
Employee expenses	52,262	51,831
Other operating expenses	14,060	11,977
Depreciation	4,585	4,245
Revaluation gains on property, plant and equipment	827	78
IAS 19 adjustment	4,955	10,358
Employee leave accrual	12	17
Interest payments	146	172
Pensions interest cost	28,737	27,480
Expected returns on pensions asset	-1,794	-1,567
LGPS administration expenses	30	32
Gain or losses on disposal of assets	832	-622
<b>Total Expenditure</b>	<b>104,652</b>	<b>104,001</b>
Pension Fund grant	-13,861	-11,870
Capital grants	-	-8
Fees, charges and other service income	-2,439	-2,349
Interest and investment income	-152	-159
Income from Council Tax	-43,743	-42,036
Income from non domestic rates and top up grant	-14,079	-13,361
Other Government grants and contributions	-14,360	-16,485
<b>Total Income</b>	<b>-88,634</b>	<b>-86,268</b>
<b>Deficit on the Provision of Services</b>	<b>16,018</b>	<b>17,733</b>

# Notes to the Statement of Accounts

## 8. Property, Plant and Equipment

### Policy:

Valuation - Where Property, Plant and Equipment has physical substance, are held for the production or the supply of goods and services or administrative purposes and are expected to provide a benefit for more than one year, they are classified as capital assets. Expenditure in relation to these assets is recognised on an accruals basis and all expenditure on vehicles and building components is capitalised. There is a de-minimis limit of £10k for all other individual items of capital expenditure. Items that form part of the initial equipping of a new operational vehicle or in the setting up of a new building are capitalised as part of that project irrespective of their individual cost.

Work that has not been completed at the end of the year is carried forward in "assets under construction".

Assets are initially measured at cost and then carried on the Balance Sheet using the following measurement bases:

- Fire stations and other specialised buildings – Current value estimated using a depreciated replacement cost methodology utilising the concept of the modern equivalent asset.
- Houses and other non-specialised buildings – Current value based on existing use.
- Vehicles and equipment – Current value estimated using depreciated historic cost.
- Assets under construction – Actual cost.
- Surplus assets – Fair value based on the price that would be received on the sale of the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Authority revalues its entire land and building portfolio every 5 years. A full valuation was carried out as at 31 March 2013 using a component valuation approach, with the most significant elements of a building being separately valued and the remaining useful life assessed for each element. At the end of each year values are reviewed and an adjustment made for any impairment or increase in valuation as appropriate, to reflect any significant changes in values during the year, primarily this will relate to land values. Material additions to the premises estate are valued at the date of acquisition or when the capital works to the property are completed and the property brought into use.

Valuations are updated for specific properties where significant improvements or modifications are made. Other minor replacements or works below £100k are included within additions at actual cost unless the actual value is expected to be materially different.

Revaluation gains are taken to the revaluation reserve and revaluation losses are written off against any balance on the revaluation reserve for that asset or to the Comprehensive Income and Expenditure Statement if the balance on the revaluation reserve is less than the loss.

Depreciation -The charge for depreciation is calculated on a straight line basis over the estimated useful life of the asset taking into account the residual value of the asset. Estimated useful lives and residual values for property and plant are reviewed periodically, whereas the life and residual values of vehicles are reviewed annually. Depreciation is charged to the relevant service line in the Comprehensive Income and Expenditure Statement from the date that the asset is completed.

Where a large asset such as a fire station, includes a number of components which have significantly different asset lives, the components are treated as separate assets and depreciated over their own useful economic life.

Property, plant, vehicles and equipment under construction are not depreciated. At the end of the financial year a review is undertaken to see whether any asset has suffered an impairment loss. When impairment losses are identified they are charged to the revaluation reserve up to the amount

## Notes to the Statement of Accounts

of the accumulated gain. Where there is no balance or an insufficient balance on the revaluation reserve the loss is charged to the relevant service line in the Comprehensive Income and Expenditure Statement. When an impairment loss subsequently reverses, the relevant service line is credited with the reversal up to the amount of the original loss, adjusted for the depreciation that would have been charged if a loss had not been recognised.

At the 31 March 2017 the Authority had capital commitments of £7,439k in relation to new fire station builds and vehicles (£3,906k at 31 March 2016).

This is the range of useful asset lives used in the calculation of depreciation for each class of asset:

<b>Class Of Asset</b>	<b>Asset life for depreciation purposes</b>
Buildings	10 to 65
Roofs	5 to 50
Drill yard	5 to 65
Drill towers	5 to 45
Bay doors	10 to 20
Boilers and generators	10 to 25
Fire appliances	13 to 15
Cars and vans	5 to 7
Other operational vehicles	5 to 20
IT Equipment	3 to 10

In addition to land and buildings the Authority has a fleet of fire appliances, specialist vehicles and cars. This table provides an analysis of property assets at 31 March and disposals during the year:

	<b>Property held at 31 March 2017</b>		
	<b>Operational</b>	<b>Held for sale</b>	<b>Sold in year</b>
Fire Stations	57	1	-
Headquarters	1	-	-
Residential houses	25	4	-
Technical rescue centre	1	-	-
Training centre	1	-	-
Other	1	1	-

### Revaluations

The Authority's external Valuers, Deloitte LLP carried out a full valuation of the Authority's entire land and building portfolio at 31 March 2013 and have produced an interim revaluation as at 31 March 2017 to reflect increased residential property land values in some areas. The valuations have been carried out in accordance with the requirements of the Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards published in January 2014. The majority of the properties are classified as property, plant and equipment and are valued to current value in existing use.

The Authority's fire stations, Technical Rescue Centre, training facilities and houses used as offices are specialised operational properties and are valued at current value using the depreciated replacement cost method with a consideration of the assumed modern equivalent asset. The Authority's houses which are occupied for operational purposes and the store are valued at current value in existing use.

Vehicle, plant and equipment assets are initially included at historical cost as a proxy for current value. The value and remaining life of fire appliances are subject to an annual review by the Engineering Team.

## Notes to the Statement of Accounts

2015/16

Land and Buildings      Vehicles, Plant and Equipment      Assets under Construction      Surplus Assets      Total Property, Plant and Equipment

All figures are in £'000

<b>Cost or Valuation at 1 April 2015</b>	<b>53,501</b>	<b>32,535</b>	<b>5,169</b>	<b>458</b>	<b>91,663</b>
Additions	6,598	1,816	4,154	-	12,568
Revaluation increases recognised in the revaluation reserve	2,693	94	-	14	2,801
Revaluation increases recognised in the deficit on the provision of services	69	3	-	-	72
De-recognition – disposals	-1,012	-2,179	-	-8	-3,199
Assets reclassified	-	-	-	-460	-460
Assets under construction completed in year	2,191	2,236	-4,427	-	-
Other movements in cost or valuation	-1,687	-459	-	-4	-2,150
<b>Cost or Valuation at 31 March 2016</b>	<b>62,353</b>	<b>34,046</b>	<b>4,896</b>	<b>-</b>	<b>101,295</b>
Accumulated Depreciation and Impairment at 1 April 2016	-3	-18,321	-	-8	-18,332
Depreciation/impairment charge	-1,686	-2,555	-	-4	-4,245
Downward revaluation recognised in the deficit on the provision of services	-	-	-	-	-
De-recognition – disposals	2	1,989	-	8	1,999
Other movements in depreciation and impairment	1,687	459	-	4	2,150
<b>Accumulated Depreciation and Impairment at 31 March 2016</b>	<b>-</b>	<b>-18,428</b>	<b>-</b>	<b>-</b>	<b>-18,428</b>
<b>Net Book Value at 31 March 2016</b>	<b>62,353</b>	<b>15,618</b>	<b>4,896</b>	<b>-</b>	<b>82,867</b>
Net Book Value at 31 March 2015	53,498	14,214	5,169	450	73,331

## Notes to the Statement of Accounts

2016/17

	Land and Buildings	Vehicles, Plant and Equipment	Assets under Construction	Surplus Assets	Total Property, Plant and Equipment
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All figures are in £'000

<b>Cost or Valuation at 1 April 2016</b>	<b>62,353</b>	<b>34,046</b>	<b>4,896</b>	-	<b>101,295</b>
Additions	1,602	3,308	717	-	5,627
Revaluation increases recognised in the revaluation reserve	1,202	-8	-	-	1,194
Revaluation increases recognised in the deficit on the provision of services	-787	-31	-	-	-818
De-recognition – disposals	-825	-3,961	-	-	-4,786
Assets reclassified	-925	-	-	-	-925
Assets under construction completed in year	3,335	1,269	-4,604	-	-
Other movements in cost or valuation	-1,904	-1,517	-	-	-3,421
<b>Cost or Valuation at 31 March 2017</b>	<b>64,051</b>	<b>33,106</b>	<b>1,009</b>	-	<b>98,166</b>
<b>Accumulated Depreciation and Impairment at 1 April 2016</b>	-	<b>-18,428</b>	-	-	<b>-18,428</b>
Depreciation/impairment charge	-1,973	-2,582	-	-	-4,555
Downward revaluation recognised in the deficit on the provision of services	-	-30	-	-	-30
De-recognition – disposals	69	3,889	-	-	3,958
Other movements in depreciation and impairment	1,904	1,517	-	-	3,421
<b>Accumulated Depreciation and Impairment at 31 March 2017</b>	-	<b>-15,634</b>	-	-	<b>-15,634</b>
<b>Net Book Value at 31 March 2017</b>	<b>64,051</b>	<b>17,472</b>	<b>1,009</b>	-	<b>82,532</b>
Net Book Value at 31 March 2016	62,353	15,618	4,896	-	82,867

# Notes to the Statement of Accounts

## 9. Financial Instruments

### Policy:

#### Financial assets

Financial assets are classified into two types:

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

Financial assets are recognised in the Statement of Accounts when the Authority becomes party to the financial instrument contract, or, in the case of debtors, when the goods or services have been provided or delivered. Financial assets are de-recognised when the contractual rights have expired or the asset has been transferred.

Loans and receivables are initially valued at fair value and are subsequently measured at amortised cost. For debtors this will be the invoice amount.

Available for sale assets are valued at fair value through profit and loss.

The Authority reviews its financial assets annually. Where there is a likelihood arising from a past event that payments due under the contract will not be made, the asset will be written down and a charge made to the Financing and Investment Income and Expenditure section in the Comprehensive Income and Expenditure Statement. Interest receivable on deposits is credited to revenue in the financial year to which it relates.

#### Financial liabilities

Financial liabilities are recognised in the Statement of Accounts when the Authority becomes party to the contractual provisions of the financial instrument, or, in the case of creditors, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or otherwise discharged.

Financial liabilities are initially recognised at fair value and are carried at their amortised cost. For creditors this will be the invoice amount.

The Authority has liabilities in relation to loans borrowed from the Public Works Loans Board, described as financial liabilities at amortised cost and creditors for goods and services received which are categorised as other financial liabilities.

Interest payable is charged to the Financing and Investment Income and Expenditure section in the Comprehensive Income and Expenditure Statement in the year to which it relates.

Valuation techniques used to measure fair value are categorised into levels 1, 2 and 3 where level 1 has an active market with quoted prices for similar instruments, level 2 has some directly observable market information other than Level 1 inputs and level 3 has no market information and valuation requires significant judgement by management.

## Notes to the Statement of Accounts

### Categories of Financial Instruments

The categories of financial instruments that are carried in the Balance Sheet are shown in the table that follows:

All figures are in £'000	Long Term 31 March		Short Term 31 March	
	2017	2016	2017	2016
<b>Investments</b>				
Available for sale financial assets <sup>1</sup>	-	-	8,449	7,691
Short term investments <sup>3</sup>	-	-	23,210	20,050
Cash and cash equivalents <sup>3</sup>	-	-	6,846	11,967
<b>Debtors</b>	-	-		
Long term debtors <sup>2</sup>	-	-		-
Short term debtors <sup>3</sup>	-	-	893	635
<b>Borrowings</b>				
Long term borrowing <sup>3</sup>	-2,730	-3,035		-
Short term borrowing <sup>3</sup>	-	-	-305	-300
Cash and cash equivalents <sup>3</sup>	-	-	-12	-
<b>Creditors</b>				
Short term creditors <sup>3</sup>	-	-	-3,065	-3,142

<sup>1</sup> at fair value through profit and loss using a level 1 valuation technique

<sup>2</sup> carried at contract amount

<sup>3</sup> carried at amortised cost

The fair value of loans borrowed from the Public Works Loan Board (PWLB) is £3,612k compared to their book value of £3,035k (£3,972k: £3,335k in 2015/16). The fair value of the loans is higher than the carrying amount because the Authority's portfolio of loans comprises 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 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The PWLB charge a penalty for the early repayment of loans. The penalty calculation compares the interest rate being paid on a loan to current borrowing interest rates and if the current rates are lower a penalty will arise. At the 31 March 2017 the penalty payable if the loans were repaid on that date would be £542k.

### 10. Debtors

All figures are in £'000	31 March	
	2017	2016
Central government bodies <sup>1</sup>	412	652
Other local authorities <sup>1</sup>	188	158
Collection Fund	3,601	3,066
Pension Fund	4,142	2,164
Other entities and individuals <sup>1</sup>	1,612	1,297
<b>Total Debtors</b>	<b>9,955</b>	<b>7,337</b>

<sup>1</sup> Part is included in the amount shown as short term debtors in Note 9.

Collection Fund debtors at 31 March 2017 are shown net of provisions for bad and doubtful debts £1,846k (£1,950k at 31 March 2016).

## Notes to the Statement of Accounts

### 11. Cash and Cash Equivalents

**Policy:** Cash and cash equivalents are represented by cash in hand and deposits with financial institutions that are immediately repayable without penalty.

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.

All figures are in £'000	31 March	
	2016/17	2015/16
Bank current accounts and cash held by the Authority	34	47
Short term deposits with banks	6,800	11,920
<b>Total Cash and Cash Equivalents</b>	<b>6,834</b>	<b>11,967</b>

### 12. Assets Held for Sale

**Policy:** Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and they meet the criteria contained in the Code. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value, less disposal costs. Fair value is the open market value including alternative uses.

The profit or loss arising on the disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in the Comprehensive Income and Expenditure Statement as a gain or loss on disposal. Where a non-current asset is sold for £10k or more the amount is credited to income and then transferred to usable capital receipts in the Balance Sheet where it is available to fund new capital expenditure.

Non-current assets that are to be scrapped or demolished do not qualify for recognition as held for sale. They are retained as property plant and equipment or surplus assets and their economic life will be adjusted accordingly. Depreciation is not charged on assets held for sale.

All figures are in £'000	31 March	
	2016/17	2015/16
Balance at start of year	310	1,063
Assets newly classified as held for sale	925	460
Revaluation losses	-9	-150
Assets sold in year	-	-1,063
<b>Total Assets Held For Sale</b>	<b>1,226</b>	<b>310</b>

### 13. Creditors

All figures are in £'000	31 March	
	2017	2016
Central government bodies <sup>1</sup>	2,422	1,630
Collection fund receipts in advance	1,107	1,149
Collection Fund creditor	338	355
Other local authorities <sup>1,2</sup>	1,104	724
Other entities and individuals <sup>1,2</sup>	4,207	5,738
<b>Total Creditors</b>	<b>9,178</b>	<b>9,596</b>

<sup>1</sup> Includes part of the amount shown as short term creditors in Note 9.

<sup>2</sup> Includes part of capital creditors totalling £743k (£1,204k at 31 March 2016).

# Notes to the Statement of Accounts

## 14. Provisions

**Policy:** It is the policy of the Authority to make provisions in the accounts where there is an obligation to make a payment but where the amount or timing is uncertain. Provisions are charged to expenditure when the Authority becomes aware of the obligation based on the best estimate of the likely settlement. When payments are eventually made, they are charged direct to the provision.

The level of the provision is kept under review and if the provision is not required it is reversed and credited back to expenditure in that financial year. Debtors in the Balance Sheet are reduced by the provisions made for aged debtors.

### Insurance Provision

The Authority has external cover for insurance claims. At 31 March 2017 an estimate is made of the excess that would be payable for claims notified but not yet settled. An insurance provision therefore needs to be maintained to fund these potential claims. Whilst many claims are settled within a year some do take a number of years to be resolved.

### Icelandic Bank

In recognition of the Authority's share in the loss that was incurred as a result of investments placed with Icelandic Banks, a provision had been made for a potential net loss. The provision has been reduced in previous years as monies have been repaid. All of the monies due have now been recovered with interest however, some of the repayment was made in Icelandic Kroner to an escrow account. Whilst the funds have not yet been released from the escrow account the balance on the provision is no longer required and £93k has been credited back to the revenue account.

### Other Employee Provisions

The Authority had made a provision for the cost of backdated employer pension contributions that were expected to be payable following the decision in the High Court Case in Norman v Cheshire Fire and Rescue Service. The decision in this case meant that certain payments made previously should have been treated as pensionable and some backdating was required. The amounts have now been agreed and the backdated amount for employer pension contributions have now been credited to the Firefighters Pension Fund.

### Non-Domestic Rate Appeals

This provision is the Authority's share of amounts provided for by Kent billing authorities for Non-Domestic Rates appeals.

	<b>Insurance Provision</b>	<b>Icelandic Bank</b>	<b>Other Employee Provision</b>	<b>Non- Domestic Rates Appeals</b>	<b>Total</b>
All figures are in £'000					
Balance at 1 April 2016	139	93	446	832	1,510
Movements in 206/17:					
Additional provisions made	105	-	-	813	918
Amounts used	-82	-	-437	-832	-1,351
Unused amounts reversed	-29	-93	-9	-	-131
<b>Balance at 31 March 2017</b>	<b>133</b>	<b>0</b>	<b>0</b>	<b>813</b>	<b>946</b>

# Notes to the Statement of Accounts

## 15. Usable Reserves

**Policy:** The Authority maintains a general fund balance equivalent to approximately 6% of the net revenue budget (or £4m whichever is the higher) and also a number of Earmarked Reserves which are held for specific policy purposes or future expenditure. The Authority makes use of Earmarked Reserves in order to smooth the impact of peaks of expenditure and also to ensure resources are available to meet known commitments and liabilities.

Reserves are created by appropriating amounts out of the general fund balance in the Movement in Reserves Statement. When expenditure to be funded from the reserve is incurred it is charged to the appropriate service line in year. The reserve is then appropriated back into the general fund balance in the Movement in Reserves Statement so that there is no charge in that year to the council tax payer.

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement. The purpose of each of the Earmarked Reserves is described below.

### **Business Continuity**

This reserve has been established to provide an emergency source of funds in the event of any circumstance affecting service delivery.

### **Community Safety Initiatives**

A reserve set up to provide funding for Community Safety Initiatives including costs associated with the development and replacement of exhibits at the new Road Safety Experience.

### **Fire Control**

This reserve was held to fund future Control system related projects. The balance has now been consolidated for these purposes within the Infrastructure Reserve.

### **Fire Museum**

This reserve held a bequest for the maintenance and improvement of the Fire Museum. The balance on the reserve was transferred to the Kent Firefighting Museum Trustees who are now responsible for storing and maintaining the museum assets.

### **Government Grants**

This reserve contains unspent government grants that are being rolled forward for use in future years.

### **Improvement and Efficiency**

This reserve has been established to meet the costs of organisational change and other improvement or efficiency initiatives.

### **Infrastructure**

This reserve has been established to provide resources to fund the Station Development programme, replacement or improvement of premises, vehicles, IS/IT or operational equipment assets.

### **Insurance**

This reserve was set up to assist in smoothing out the cost of insurance claim volatility between financial years and also includes a contingency for any increase in insurance costs.

### **Local Government Resource Review**

This reserve was been created to fund any potential loss in relation to the Authority's share of Medway Council and Kent District's collection funds on Council Tax and Business Rates.

### **Performance Reward Grant**

This reserve contains performance reward grant (PRG) that is being rolled forward for use on community initiatives and projects in future years.

## Notes to the Statement of Accounts

### Rolling Budgets

The reserve holds funds rolled forward for expenditure commitments arising from activities that were planned and provided for in 2016/17 but where the goods or services were not delivered by 31 March.

### Workforce Reduction

To support any required resource requirements in relation to the Authority's workforce.

This table below sets out the amounts set aside from the General Fund in Earmarked Reserves to provide financing for future expenditure plans and the amounts transferred from Earmarked Reserves to meet General Fund expenditure in 2016/17.

All figures are in £'000	Balance at 1 April 2016	Net Reserve Transfers 2016/17	Balance at 31 March 2017
<b>General fund balance</b>	<b>4,200</b>	<b>-50</b>	<b>4,150</b>
Earmarked Reserves:			
- Business Continuity	500	-	500
- Community Safety Initiatives	200	-	200
- Fire Control	1,323	-1,323	0
- Fire Museum	46	-46	0
- Government Grants	727	-193	534
- Improvement and Efficiency	938	-	938
- Infrastructure	18,489	3,073	21,562
- Insurance	500	-	500
- Local Government Resource Review	1,000	-	1,000
- Performance Reward Grant	261	-247	14
- Rolling Budgets	801	-115	686
- Workforce Reduction	3,000	-	3,000
<b>Total earmarked reserves</b>	<b>27,785</b>	<b>1,149</b>	<b>28,934</b>
<b>Total general and earmarked reserves</b>	<b>31,985</b>	<b>1,099</b>	<b>33,084</b>

### 16. Unusable reserves

**Policy:** The Balance Sheet includes a number of reserves that are maintained to manage the accounting processes for non-current assets, retirement and employee benefits, available for sale financial assets and the collection fund adjustments. These reserves are not distributable and cannot be used to support spending.

This table summarises the items included within unusable reserves. Details of movements on the various reserves are in the paragraphs that follow.

All figures are in £'000	2016/17	2015/16
Revaluation reserve	-16,736	-16,364
Accumulated absences account	722	710
Pensions reserve	921,521	738,241
Collection fund adjustment account	-1,342	-731
Available for Sale Reserve	-7	-4
Capital adjustment account	-60,347	-59,168
<b>Total useable reserves</b>	<b>843,811</b>	<b>662,684</b>

## Notes to the Statement of Accounts

**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.

All figures are in £'000	2016/17	2015/16
<b>Balance at 1 April</b>	<b>-16,364</b>	<b>-14,924</b>
Upward revaluation of assets	-2,099	-2,801
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	904	-
Difference between fair value depreciation and historical cost depreciation	726	575
Accumulated gains on assets sold or scrapped	97	786
<b>Balance at 31 March</b>	<b>-16,736</b>	<b>-16,364</b>

### Accumulated Absences Account

**Policy:** Salaries, wages and employment related payments, including the value of leave earned but not yet taken are recognised in the period in which the service is received from employees. An accrual will be made for the cost of any unused leave entitlement at the end of the year which has been carried into the following year. The accrual is based on the amount of holiday pay that would be paid for each day owed and it includes an estimate for the related cost of pension contributions and national insurance that would also be payable.

The cost of the accrual for holiday pay and overheads is charged to the Surplus or Deficit on the Provision of Services and reversed out through the Movement in Reserves Statement so that the charge has no effect on the Council Tax payer.

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year i.e. annual leave owed. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

All figures are in £'000	2016/17	2015/16
<b>Balance at 1 April</b>	<b>710</b>	<b>693</b>
Settlement or cancellation of accrual made at the end of the preceding year	-710	-693
Amounts accrued at the end of the current year	722	710
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	12	17
<b>Balance at 31 March</b>	<b>722</b>	<b>710</b>

## Notes to the Statement of Accounts

**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. Statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or as it eventually pays any pensions for which it is directly responsible. The balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources that 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.

All figures are in £'000	2016/17	2015/16
<b>Balance at 1 April</b>	<b>738,241</b>	<b>792,071</b>
Remeasurements of the net defined benefit liability	165,212	-78,264
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	25,201	32,181
Employer's pensions contributions and direct payments to pensioners payable in the year	-7,133	-7,747
<b>Balance at 31 March</b>	<b>921,521</b>	<b>738,241</b>

**Collection Fund Adjustment Account** - The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income and Non Domestic Rate income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Non Domestic Rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

All figures are in £'000	2016/17	2015/16
<b>Balance at 1 April</b>	<b>-731</b>	<b>-947</b>
Remeasurements of the net defined benefit liability		
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income for the year in accordance with statutory requirements	-48	-182
Amount by which non domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from non domestic rates income for the year in accordance with statutory requirements	-563	398
<b>Balance at 31 March</b>	<b>-1,342</b>	<b>-731</b>

**Available for Sale Reserve** – This reserve manages changes in the fair value of available for sale financial assets which are charged to Other Comprehensive Income and Expenditure. On disposal of the financial asset the cumulative gain or loss previously charged to Other Comprehensive Income and Expenditure is transferred from the reserve and recognised in the Surplus or Deficit on the provision of Services in the Comprehensive Income and Expenditure Statement.

All figures are in £'000	2016/17	2015/16
<b>Balance at 1 April</b>	<b>-4</b>	<b>-</b>
Gains recognised on disposal	4	-
Revaluation gains	-7	-4
<b>Balance at 31 March</b>	<b>-7</b>	<b>-4</b>

## Notes to the Statement of Accounts

**Capital Adjustment Account** -The Capital Adjustment Account absorbs the timing differences arising from the different arrangements in accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of 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 enhancement.

The Account contains gains recognised in relation to donated assets that have yet to be consumed by the Authority and revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007 when the Reserve was created to hold such gains. The Movement in Reserves Statement provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

All figures are in £'000

	2016/17	2015/16
<b>Balance at 1 April</b>	<b>-59,168</b>	<b>-50,857</b>
<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>		
Charges for depreciation and impairment of non-current assets	4,585	4,245
Revaluation losses on property, plant and equipment	9	150
Revaluation losses on assets held for sale	818	-72
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	731	1,478
Adjusting amounts written out of the Revaluation Reserve	-726	-575
<i>Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing</i>		
Application of grants to capital financing from the Capital Grants Unapplied Account	-	-896
Statutory provision for the financing of capital investment charged against the General fund	-969	-969
Capital expenditure charged against the General Fund Balance	-5,627	-11,672
<b>Balance at 31 March</b>	<b>-60,347</b>	<b>-59,168</b>

## Notes to the Statement of Accounts

### 17. Officer's Remuneration

This table provides details of actual remuneration for 2016/17 (including employer pension contributions) for the Chief Executive and the other most senior officers employed by the Authority. Salary in this table includes; salary related pay, allowances and compensation payments as well as benefits in kind. Comparative information for 2015/16 is also shown below. Details of the Senior Officer structure and related salary is published on the Authority's website at <http://www.kent.fire-uk.org>

Post Holder Information	Salary	Allowances	Benefits in Kind	Total Remuneration exc Pension Contributions	Pension Contributions	Total Remuneration inc Pension Contributions
All figures are in £'000						
<b>2016/17</b>						
Chief Executive – A Millington	147.7	13.3	-	161.0	18.5	179.5
Director of Operations – S Bone-Knell	119.9	7.9	-	127.8	26.0	153.8
Director Finance and Corporate Services – C Kerr 30 hours	97.2	8.7	-	105.9	-	105.9
Assistant Director Response and Training	90.3	6.7	-	97.0	19.6	116.6
Assistant Director Operational Resilience and Development	90.3	8.1	-	98.4	19.6	118.0
Assistant Director Finance	90.3	8.1	-	98.4	11.3	109.7
Assistant Director Service Delivery retired March 2017	90.6	6.5	-	97.1	19.3	116.3
Assistant Director Service Delivery from November 2016	37.5	0.0	-	37.5	8.1	45.7
Assistant Director Human Resources	90.3	5.6	-	95.9	11.3	107.2
Assistant Director Policy and Performance	90.3	5.6	-	95.9	11.3	107.2
	<b>944.4</b>	<b>70.5</b>	<b>-</b>	<b>1,014.9</b>	<b>145.0</b>	<b>1,159.9</b>
<b>2015/16</b>						
Chief Executive – A Millington	146.2	13.5	-	159.7	18.2	177.9
Director of Operations – S Bone-Knell	118.8	8.1	-	126.9	25.7	152.6
Director Finance and Corporate Services – C Kerr 30 hours	96.2	8.6	-	104.8	-	104.8
Assistant Director Response and Training	89.3	6.9	-	96.2	19.4	115.6
Assistant Director Operational Resilience and Development	89.4	8.1	-	97.5	19.4	116.9
Assistant Director Finance	89.4	8.1	-	97.5	11.2	108.7
Assistant Director Service Delivery	89.4	6.8	0.6	96.8	19.4	116.2
Assistant Director Human Resources	89.4	5.6	-	95.0	11.2	106.2
Assistant Director Policy and Performance	89.4	5.6	-	95.0	11.2	106.2
	<b>897.5</b>	<b>71.3</b>	<b>0.6</b>	<b>969.4</b>	<b>135.7</b>	<b>1,105.1</b>

## Notes to the Statement of Accounts

### 17. Officers Remuneration continued

The table below shows the other employees, in addition to those senior officers detailed on the previous page, who are receiving more than £50,000 remuneration for the year (excluding employer pension contributions but including any benefits in kind) was as follows:

Remuneration Band	Number of Employees	
	2016/17	2015/16
£50,000 - £54,999	54	54
£55,000 - £59,999	23	19
£60,000 - £64,999	9	15
£65,000 - £69,999	6	4
£70,000 - £74,999	3	5
£75,000 - £79,999	3	2
£80,000 - £84,999	-	2
<b>Total</b>	<b>98</b>	<b>101</b>

### 18. Member's Allowances

The Authority paid the following amounts to Members of the Authority during the year. Details of allowances paid to Members are advertised in the local press and are published on the Authority's website at [www.kent.fire-uk.org](http://www.kent.fire-uk.org).

All figures are in £'000	2016/17	2015/16
Allowances	89	90
Expenses	2	2
<b>Total</b>	<b>91</b>	<b>92</b>

### 19. External Audit Costs

The following external audit costs were incurred in the year.

All figures are in £'000	2016/17	2015/16
Fees payable to the external auditor:		
External audit services carried out by the appointed auditor for the year	36	36
Payments for other services	1	8
<b>Total</b>	<b>37</b>	<b>44</b>

# Notes to the Statement of Accounts

## 20. Grant Income

This table shows the grants and contributions credited to the Comprehensive Income and Expenditure Statement in the year.

All figures are in £'000	2016/17	2015/16
<b>Credited to Taxation and Non Specific Grant Income:</b>		
Small Business Rate Relief	413	435
Transparency Code set up Grant	8	8
New Threats Capital Grant	-	8
<b>Credited to Services:</b>		
From UK Government:		
New Dimension	1,015	1,015
FireLink	484	424
ESMCP	100	19
New Threats	33	20
Fire transformation Fund	-	50
Office of Rail Regulation - Channel Tunnel Safety Authority	174	151
European Grant	53	3
<b>Total</b>	<b>2,280</b>	<b>2,133</b>

## 21. 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.

**Central Government** - Central Government has effective control 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 detailed in Note 20.

**Senior Officers and Members** - The total remuneration paid to Senior Officers is shown in Note 17 and details of Member's allowances paid in 2016/17 are shown in Note 18.

Members and Senior Officers of the Authority have direct control over its financial and operating policies and are required to disclose details of any transactions that the Authority has with any individuals with whom they may have a close relationship or any company in which they may have an interest. Members and Senior Officers of the Authority are required to declare whether they or any of their close family has been involved in any such related party transactions. In 2016/17 there were no such transactions that required reporting in these statements.

**Kent County Council** - The Authority contracts with the County Council for the provision of various services and the amount paid for 2016/17 was £431k (£359k in 2015/16). The services purchased include; pension and treasury administration, insurance claims handling, IT network services, internal audit and legal advice.

**Pensions** - during the year amounts were paid to the Local Government Pension Scheme managed on behalf of the Authority by Kent County Council. Details of the amounts paid are shown in Note 24.

## Notes to the Statement of Accounts

### 22. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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.

All figures are in £'000	2016/17	2015/16
<b>Opening Capital Financing Requirement</b>	<b>7,643</b>	<b>8,612</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	5,627	12,568
<b>Sources of Finance:</b>		
Government Grants and Contributions	-	-896
Sums Set Aside from Revenue:		
Revenue Contributions towards Capital	-5,627	-11,672
Minimum Revenue Provision	-461	-480
Voluntary Revenue Provision	-508	-489
<b>Closing Capital Financing Requirement</b>	<b>6,674</b>	<b>7,643</b>
<i>Explanation of movements in year:</i>		
Decrease in underlying need to borrow	-969	-969
<b>Change in Capital Financing Requirement</b>	<b>-969</b>	<b>-969</b>

### 23. Termination Benefits

#### Exit Packages by Cost Band

Cost Band	2016/17		2015/16	
	£	No.	No.	£'000
0k - 20k		8	5	50
20k - 40k		3	4	131
40k - 60k		3	-	-
60k - 80k		1	-	-
80k - 100k		1	-	-
100k - 150k*		-	1	125
150k - 200k		-	1	166
<b>Total</b>		<b>16</b>	<b>11</b>	<b>472</b>

\*Comparative amended to reflect final payments in 2016/17 being £4k lower than accrued in 2015/16

All redundancies made were on a voluntary basis. The cost of exit packages includes pension strain costs. The total cost of exit packages (£495k) has been reflected as expenditure in 2016/17, however this charge includes £265k agreed in 2016/17 that will not be applied until 2017/18.

# Notes to the Statement of Accounts

## 24. Defined Benefit Pension Schemes

### Participation in Pension Schemes

**Policy:** The Authority accounts for its pension costs in accordance with the provisions of IAS 19 – Employee Benefits as reflected in the Code of Practice. As part of the terms and conditions of employment of its employees, the Authority offers retirement benefits. Although these are not actually payable until an employee retires, the Authority has a commitment to make the payments in the future. This commitment is accounted for in the year that the employee earns the right to receive a pension at some time in the future entitlement.

**LGPS** - Any pension strain costs arising from early retirements are met from the Authority's revenue budget.

**Firefighters** - Lump sum contributions to the firefighter pension fund in respect of ill health retirements, and any lump sum and on-going costs in respect of firefighter injury related pensions are also met from the revenue budget.

The Authority maintains a separate account for the Firefighters' Pension Fund and any shortfall or surplus is recovered from or repaid to the Government by way of grant. The grant is recognised in the Comprehensive Income and Expenditure Statement in the year that it is receivable and reversed back out through the Movement in Reserves Statement.

The Authority participates in four post employment schemes:

**The Kent County Council Superannuation Fund is operated under the regulatory framework for the Local Government Pension Scheme (LGPS)** - The governance of the scheme is the responsibility of the Superannuation Fund Committee of Kent County Council. Policy is determined in accordance with Pension Fund Regulations. The Investment Managers of the fund are appointed by the Committee.

The principal risks to the Authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policy note.

This is a funded scheme, meaning that both the Authority and the employee pay contributions into a fund, calculated at a level estimated to balance the pension liabilities against investment assets. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The contributions have been determined by the Fund's Actuary on a triennial basis and are set to meet 100% of the liabilities of the Pension Fund. The scheme assets and liabilities attributable to LGPS employees can be identified and are recognised in the Authority's accounts. The assets are measured at fair value and the liabilities at the present value of the future obligations. The increase in the liability arising from pensionable service earned during the year is recognised within the cost of services. The expected gain during the year from scheme assets is recognised within financing and investment income and expenditure. The interest cost during the year arising from the unwinding of the discount on the scheme liabilities is recognised within finance costs. Gains and losses from changes in assumptions during the year are recognised in the Pensions Reserve and reported as other income and expenditure in the Comprehensive Income and Expenditure Statement.

**Arrangements for the award of discretionary post retirement benefits upon early retirement for LGPS employees** – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, no investment assets have been built up to meet these pensions' liabilities, and cash has to be generated to meet actual pension's payments as they eventually fall due.

## Notes to the Statement of Accounts

Firefighters employed by the Authority may be members of the 1992, 2006 (2006 Modified Section) or 2015 Firefighter Pension Schemes all of which are administered by the Authority. All Fire Pension Schemes are defined benefit schemes however, the schemes are unfunded and DCLG uses a methodology consistent with the SCAPE approach (Superannuation Charge Adjusted for Past Experience) as the basis for calculating the employers' contribution rate paid by fire and rescue authorities. Unfunded means that there are no investment assets built up to meet the pension liabilities and cash has to be provided to meet the payments as they fall due. Each scheme has different contribution rates and different benefits.

In 2016/17 the Authority paid £4,484k to the Firefighter Pension Fund in respect of firefighters' retirement benefits, representing 17.4% of firefighter pensionable pay (employer contribution rates are 21.7% for members of the 1992 and modified schemes, 11.9% for members of the 2006 scheme and 14.3% for members of the 2015 scheme). In addition £436k was paid to the Fund in respect of backdated contributions relating to the Norman v Cheshire FRS legal case. A further £160k was paid to the Fund in respect of ill health charges.

**The 1992 Firefighters' Pension Scheme** – is governed by the Firefighters' Pension Scheme Order 1992 and related regulations. This scheme was closed to new entrants from April 2006.

**The 2006 New Firefighters' Pension Scheme** - is governed by the Firefighters' Pension Scheme (England) Order 2006. This scheme was closed to new entrants from April 2015. A new modified section was introduced within this scheme as a result of the Retained Firefighters Pension Settlement and offered to retained firefighters employed between 1<sup>st</sup> July 2000 and 5<sup>th</sup> April 2006. This scheme was closed to new entrants from April 2015.

**The 2015 Firefighters' Pension Scheme** – introduced on 1 April 2015 and is governed by the Firefighters' Pension Scheme (England) Regulations 2014.

The Authority is responsible for the costs of any additional benefits awarded including lump sum paid on retirement due to injury and related annual pension payments.

The Authority is exposed to some risks (positive or negative) in relation to the Firefighter Pension schemes. The Government Actuary determines the employer pension contribution rates and will base these on estimates of interest rates (based on market yields on high quality corporate bonds), inflationary impact on benefits paid and the longevity of scheme members.

### Transactions Relating to Post-employment Benefits

The Authority recognises the cost of retirement benefits in the cost of services as they are earned by employees, not when the benefits are paid as pensions. The charge to be made against Council Tax is based on the cash payable in the year, so the real cost of post employment benefits is reversed out of the General Fund in the Movement in Reserves Statement.

## Notes to the Statement of Accounts

### 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 plans is as follows:

All figures are in £'000	2016/17	2015/16
Present value of the defined benefit obligation:		
Local Government Pension Scheme	-84,335	-66,569
Fire Pension Schemes	-894,143	-718,433
Fair value of assets in the Local Government Pension Scheme	57,049	46,851
<b>Subtotal</b>	<b>-921,429</b>	<b>-738,151</b>
Other movements in the liability	-92	-90
<b>Net liability arising from defined benefit obligation</b>	<b>-921,521</b>	<b>-738,241</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy because:

- the deficit of 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.
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

Discretionary benefits arrangements have no assets to cover their liabilities.

### Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets.

All figures are in £'000	2016/17	2015/16
Opening fair value of scheme assets	46,851	45,801
Interest income	1,794	1,567
<i>Remeasurement gain/(loss):</i>		
The return on plan assets, excluding the amount in the net interest expense	8,071	-1,066
Other	-363	-
Administration expenses	-30	-32
Contributions from employer	1,721	1,178
Contributions from employees into the scheme	568	560
Benefits paid	-1,563	-1,157
<b>Closing fair value of scheme assets</b>	<b>57,049</b>	<b>46,851</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £9,865k (2015/16 £501k).

## Notes to the Statement of Accounts

### Reconciliation of Present Value of the Scheme Liabilities (Defined Pension Obligation)

All figures are in £'000	Local Government Pension Scheme		Firefighter Pension Schemes		Injury and Ill Health		Total	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
<b>Balance at 1 April</b>	<b>-66,659</b>	<b>-68,213</b>	<b>-688,687</b>	<b>-712,303</b>	<b>-29,746</b>	<b>-57,356</b>	<b>-785,092</b>	<b>-837,872</b>
Current service cost	-2,104	-2,350	-9,285	-12,126	-481	-1,133	-11,870	-15,609
Interest cost	-2,525	-2,314	-25,137	-23,296	-1,075	-1,870	-28,737	-27,480
Contributions from scheme participants	-568	-560	-3,453	-4,181	-	-	-4,021	-4,741
<i>Remeasurement (gains) and losses - actuarial gains/losses arising from:</i>								
changes in financial assumptions	-16,917	5,842	-176,205	40,829	-5,526	1,243	-198,648	47,914
change in demographic assumptions	332	-	22,926	-20,537	-	2,930	23,258	-17,607
Past service cost	-447	-219	-1,158	-3,662	-	-	-1,605	-3,881
Experience loss/(gain) on defined benefit obligation	2,898	-2	-428	23,969	-	25,056	2,470	49,023
Benefits paid	1,555	1,149	22,725	22,620	1,387	1,384	25,667	25,153
Unfunded pension payments	8	8	-	-	-	-	8	8
<b>Balance at 31 March</b>	<b>-84,427</b>	<b>-66,659</b>	<b>-858,702</b>	<b>-688,687</b>	<b>-35,441</b>	<b>-29,746</b>	<b>-978,570</b>	<b>-785,092</b>

## Notes to the Statement of Accounts

### Local Government Pension Scheme assets comprised:

	31 March 2017		31 March 2016	
	£'000	%	£'000	%
Equity Investments	40,260	70	31,244	67
Gilts	426	1	415	1
Other Bonds	5,558	10	5,144	11
Property	7,109	12	6,806	14
Cash	1,458	3	1,206	3
Target Return Portfolio	2,238	4	2,036	4
<b>Total</b>	<b>57,049</b>	<b>100</b>	<b>46,851</b>	<b>100</b>

The table below details percentages of the total Fund held at 31 March 2017 in each class of asset (split by those that have a quoted market price in an active market and those that do not).

		31 March 2017	
		Quoted	Unquoted
Fixed Interest Government Securities	Overseas	0.7	
Corporate Bonds	UK	4.6	
	Overseas	5.1	
Equities	UK	29.0	
	Overseas	39.1	
Property	All		12.5
Others	Target return portfolio	3.9	
	Private equity		1.5
	Infrastructure		1.1
	Cash/temporary investments		2.1
Net Current Assets	Debtors		0.7
	Creditors		-0.3
<b>Total</b>		<b>82.4</b>	<b>17.6</b>

## Notes to the Statement of Accounts

The assets above at 31 March 2017 can be further analysed by industrial sector and geographical region:

All figures are in £'000

Industrial Sector		Geographical Region	
<b>Equity instruments:</b>		<b>Equity instruments:</b>	
Consumer	5,786	UK	16,688
Manufacturing	3,590	Global	12,290
Energy and utilities	1,592	North America	5,346
Financial institutions	4,782	Europe	4,424
Health and care	2,350	Asia Pacific	3,369
Information technology	3,063	Emerging Markets	381
Other pooled funds/private equity	21,335		
	<u>42,498</u>		<u>42,498</u>
<b>Other Bonds:</b>		<b>Other Bonds:</b>	
Financial institutions	58	UK	2,653
Other	5,926	North America	2,212
		Europe	327
		Asia Pacific	107
		Other Overseas inc Emerging Markets	685
	<u>5,984</u>		<u>5,984</u>
<b>Property:</b>		<b>Property:</b>	
Retail	2,528	UK	7,081
Offices	1,173	Europe	28
Industrial	1,072		
Other	2,336		
	<u>7,109</u>		<u>7,109</u>

## Notes to the Statement of Accounts

### Significant Actuarial Assumptions

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 Local Government Pension Scheme (LGPS) and Firefighter Pension Schemes liabilities have both been assessed by Barnet Waddingham, an independent firm of Actuaries. The principal assumptions used by the Actuary have been:

	Pension Scheme			
	Local Government		Firefighter's	
	2016/17	2015/16	2016/17	2015/16
<i>Mortality assumptions:</i>				
Longevity at 65 for current male pensioners:	23.0	22.9	22.8	22.7
Longevity at 65 for current female pensioners	25.0	25.3	24.9	24.8
Longevity at 65 for future male pensioners	25.1	25.2	24.9	24.8
Longevity at 65 for future female pensioners	27.4	27.7	27.2	27.1
<i>Other assumptions:</i>				
Rate of consumer price index inflation	2.7%	2.5%	2.7%	2.4%
Rate of retail price index inflation	3.6%	3.4%	3.6%	3.3%
Rate of increase in salaries	4.2%	4.3%	5.0%	4.7%
Rate of increase in pensions	2.7%	2.5%	2.7%	2.4%
Rate for discounting scheme liabilities	2.8%	3.8%	2.8%	3.7%
Take-up of option to pay 50% of contributions for 50% of benefits	0.0%	0.0%	N/A	N/A
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%	50.0%	0.0%

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

### Impact on the Defined Benefit Obligation in the Schemes

Change in assumption:	Local Government Pension Scheme		Firefighter Pension Schemes		Injury and Ill Health	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
All figures are in £'000						
<i>Increase or decrease:</i>						
Life expectancy by 1 year	3,044	-2,936	33,637	-32,331	1,621	-1,550
Rate of increase in salaries by 0.1%	337	-335	1,245	-1,242	-	-
Rate of increase in pensions by 0.1%	1,470	-1,437	15,586	-15,275	492	-486
Rate for discounting scheme liabilities by 0.1%	-1,768	1,807	-16,485	16,832	-485	492

## Notes to the Statement of Accounts

### Impact on the Authority's Cash Flows

Employer contributions for the LGPS scheme are now set to cover 100% of current service costs. The last triennial valuation was carried out as at 31 March 2016, to determine contribution rates for the period from April 2017 to March 2020. To avoid the possibility of the scheme moving into deficit the valuation identified the need to either increase contribution rates over the next three years or to make a one off lump sum payment of £449k instead. The Authority opted to make this payment in 2016/17. The LGPS scheme became a career average revalued earnings (CARE) scheme from April 2014.

Unless firefighters had protection under existing scheme membership, all firefighter's transferred to the 2015 Firefighter CARE Pension Scheme on 1<sup>st</sup> April 2015. The Authority expects to make the following contributions to pension schemes in the year to 31 March 2018; LGPS £1,204k, 1992 Firefighter Pension Scheme £2,033k, 2006 Firefighter Pension Scheme £64k, 2015 Firefighter Pension Scheme £2,383k and Modified 2006 Firefighter Pension Section £30k. The estimated weighted average duration of the defined benefit obligation for scheme members is 20 years for the Firefighter Schemes and 22 years for LGPS (20 and 21 years respectively in 2015/16).

# Notes to the Statement of Accounts

## 25. Contingent Liabilities and Assets

### Policy:

**A contingent liability** - is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority. They may also arise in circumstances where a provision would otherwise be made but the possibility of a payment is remote or the amount cannot be measured sufficiently reliably.

**A contingent asset** - arises from a past event which gives the Authority a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority. A contingent asset is disclosed where an inflow of economic benefit is possible.

Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts. The Authority is required to disclose if there are possible obligations which may require payment or a transfer of economic benefit at some time in the future.

**Employment Appeal Tribunal Treatment of Overtime** - In November 2014 this tribunal considered a number of cases regarding the treatment of overtime and its impact on holiday pay entitlement. The tribunal concluded that those employees who worked contractual overtime would be entitled to an element of holiday pay, however the tribunal stated that the extent to which backdated claims could be made should be limited and the introduction of The Deduction from Wages (Limitation) Regulations 2014 confirmed that when making a claim for backdated deductions from wages for holiday pay, a two year cap will be placed on all claims that are brought on or after 1st July 2015. This means that the period that the claim can cover will be limited to a maximum of 2 years. Current indications are that the cost of implementing this new arrangement for contractual overtime will not be financially material.

**Mast Income** - The Authority receives income from the rental of communication masts to telephone companies. However the renegotiation of these charges has been ongoing for some time. It is expected that agreements will be drawn up in the coming months and once these are signed it is expected that the Authority will receive some backdated income. In 2016/17 income from communication mast rental was £41k.

**Fire and Rescue Indemnity Company (FRIC)**- The Authority is one of the nine fire authorities that together set up this hybrid discretionary mutual protection company to provide financial indemnity protection from November 2015. All nine Services have been working together to reduce risk and share best practice. Protection is in place to limit each member's exposure to financial loss. Contributions are paid to the company and the surplus from the first year's operations is being held by the company in reserves. The reserve will enable peaks and troughs of claims expenditure to be managed and if the current level of performance is maintained, these funds could also be used for a number of other purposes including funding for improved risk management; to increase the level of claims costs borne by FRIC (thereby reducing external insurance costs); or reducing the contributions of member FRAs. Realistically however, it is likely to be some years before sufficient funds are accumulated to permit any significant reductions.

# Notes to the Statement of Accounts

## 26. 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.
- Re-financing risk – the possibility that the Authority might be requiring to renew a financial instrument at disadvantageous interest rates or terms.

### Overall Procedures for Managing Risk

The Authority's overall risk management procedures focus on the considerable risk and uncertainty in the global financial markets and banking systems. They are therefore structured to ensure suitable controls are in place to minimise these risks. The Authority manages risk by:

- Adherence to the CIPFA Treasury Management Code of Practice.
- Adopting a Treasury Policy Statement and Treasury Management clauses within its financial regulations.
- Approving annually in advance, prudential and treasury indicators which set limits for the Authority's overall borrowing; the maximum and minimum exposures to fixed and variable interest rates; the maximum and minimum exposures to the maturity structure of its debt and the maximum exposure to investments maturing beyond one year.
- Approving an Investment Strategy for the forthcoming year setting out the criteria for investment and the selection of counterparties.

The annual Investment and Treasury Management Strategy was approved by the Authority in February 2016, and is implemented by the Finance team. The key limits approved were:

- The authorised limit for external borrowings and long term liabilities was set at £12m.
- The operational boundary, or expected level of debt and other long term liabilities during the year was set at £9.5m.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 20% respectively.
- No investments would be made for a period in excess of twelve months.

# Notes to the Statement of Accounts

## Market Risk

### Interest Rate Risk

The Authority is exposed to risks arising from movements in interest rates. The Treasury Management and Investment Strategy aims to mitigate these risks by setting an upper limit of 20% on external debt that can be subject to variable interest rates.

As at 31 March 2017 all borrowing was at fixed interest rates and is carried at amortised cost therefore movements in interest rates do not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. Long term borrowing decisions are based on interest rates prevailing at the time and there is a risk that the rate on a loan may be higher than the market rate available in the future.

Investments are also subject to interest rate risk. The Authority's current policy of holding short term fixed rate deposits and variable rate deposits increases its exposure to interest rate movements. However, this is balanced against the Authority's actions to mitigate credit risk. In year movements in rates will impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

Interest earned on deposits and investments in 2016/17 was £152k which equates to an average rate of 0.37%. For every 0.1% change in interest the Comprehensive Income and Expenditure Statement would have been credited or debited with a further £40k.

### Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority would call upon the deposits in its call accounts as a first priority. There is no significant risk on which it will be unable to raise finance or meet its commitments under financial instruments. Instead, the risk is that the Authority will need to borrow at a time of unfavourable interest rates. The Authority ensures that the debt is managed to ensure that there is an even maturity profile through a combination of careful planning of new loans taken out and making early repayments (should it be considered economic to do so). The maturity analysis of financial liabilities is as follows:

All figures are in £'000	31 March 2017
Less than one year	305
Between one and two years	305
Between two and five years	1,424
More than five years	1,001
<b>Total</b>	<b>3,035</b>

### Credit Risk

Credit risk arises from deposits with banks and financial institutions and from income due to the Authority for services provided. This risk is minimised through the annual Investment and Treasury Management Strategy which reflected a level of uncertainty in the year ahead. The Strategy specified the counterparties, the maximum amounts that could be invested with each and the maximum duration of 12 months. Deposits are spread amongst counterparties to further minimise risk as it is unlikely that all counterparties would default at the same time.

No breaches of the Authority's counterparty criteria occurred during the reporting period and the Authority has no evidence to suggest that there will be any losses from non performance by any of its counterparties.

## Notes to the Statement of Accounts

The Authority's maximum exposure to credit risk in relation to its deposits in banks 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. At the 31 March 2017 the Authority had £9.7m deposited with the Debt Management Office and £8.4m in Treasury Bills both secure government backed assets. There was also £6.8m deposited in instant access accounts, £5.5m in notice accounts and £8.0m in fixed term deposits (the cash position differs from the cashbook figure as shown on the Balance Sheet due to unrepresented cheques etc.). It is considered unlikely that these entities would be unable to meet these commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2017 that any were likely to crystallise.

Apart from the contract to supply services to Eurotunnel, the Authority does not receive a significant amount of income for goods and services provided. The amounts outstanding from debtors at the end of the year can be analysed by age as follows:

All figures are in £'000	31 March 2017
Less than three months	211
Three to six months	-
Six months to one year	5
More than one year	11
<b>Total</b>	<b>227</b>

## Firefighters' Pension Fund Account

### 28. Firefighters' Pension Fund Account

The Authority contracts with Kent County Council for the administration of the Firefighters' Pension Fund. A separate account is maintained for the Firefighters' Pension Fund, there are no investment assets and the fund is balanced to nil each year by the receipt of a top up grant from central government.

All figures are in £'000	Pension Fund	Norman v Cheshire	18-20 Holiday	2016/17 Total	Pension Fund	Milne v GAD	2015/16 Total
<b>Contributions receivable:</b>							
Fire Authority:							
Contributions in relation to pensionable pay	-4,484	-436	-	<b>-4,920</b>	-4,823	-	<b>-4,823</b>
Early retirements (ill health)	-160	-	-	<b>-160</b>	-250	-	<b>-250</b>
Firefighters' contributions	-3,455	-241	-	<b>-3,696</b>	-3,612	-	<b>-3,612</b>
Modified scheme backdated employee contributions	-83	-	-	<b>-83</b>	-368	-	<b>-368</b>
Interest received (backdated modified contributions)	-7	-	-	<b>-7</b>	-113	-	<b>-113</b>
	-8,189	-677	-	<b>-8,866</b>	-9,166	-	<b>-9,166</b>
<b>Benefits payable:</b>							
Pensions	16,571	-	-	<b>16,571</b>	15,704	21	<b>15,725</b>
Modified scheme backdated pensions	28	-	-	<b>28</b>	386	-	<b>386</b>
Commutation and lump sum retirement benefits	5,681	-	-	<b>5,681</b>	4,653	1,618	<b>6,271</b>
18-20 holiday employee contributions refunded	-	-	420	<b>420</b>	-	-	-
Interest paid	2	-	8	<b>10</b>	29	385	<b>414</b>
Lump sum death benefits	17	-	-	<b>17</b>	-	-	-
	22,299	-	428	<b>22,727</b>	20,772	2,024	<b>22,796</b>
<b>Payments to and on account of leavers:</b>							
Transfers out to other authorities	-	-	-	-	31	-	<b>31</b>
	22,299	-	428	<b>22,727</b>	20,803	2,024	<b>22,827</b>
<b>Net amount payable for the year</b>	<b>14,110</b>	<b>-677</b>	<b>428</b>	<b>13,861</b>	<b>11,638</b>	<b>2,024</b>	<b>13,662</b>
Milne v GAD grant received	-	-	-	-	-	-2,030	-2,030
18-20 Holiday grant received	-	-	-442	-442	-	-	-
Top- up grant payable by the government	-9,277	-	-	-9,277	-9,468	-	-9,468
	<b>4,833</b>	<b>-677</b>	<b>-14</b>	<b>4,142</b>	<b>2,170</b>	<b>-6</b>	<b>2,164</b>

## Firefighters' Pension Fund Account

**Pensions Holiday** - In September 2016 the Government issued regulations which introduced a pension contribution holiday for members of the 1992 Firefighters' Pension Scheme who accrue the maximum 30 years' pensionable service prior to age 50. This may impact those firefighters who had joined the service and the 1992 Scheme between the ages of 18 and 20. The regulations come into force 30 September 2016 with retrospective effect to 1 December 2006 and any active member of the Scheme at 1 December 2006 who had reached the age of 50 by 29 September 2016 and had paid contributions after reaching 30 years service was entitled to a refund with interest. From 30 September 2016 active members of the 1992 scheme who are under the age of 50 and have accrued 30 years' service will immediately receive a contributions holiday until they reach the age of 50. The Government has provided grant to meet the cost of the refunds and interest paid in 2017/18.

**Milne v GAD case** - Following the Pension Ombudsman's decision in the case of Milne v Government Actuary Department (GAD) additional lump sums and interest payments were paid in 2015/16. This was due to the fact that GAD were found to have been at fault by not reviewing and maintaining the commutation factors used in pension calculations during the period between 1999 and 2006. The Ombudsman ordered a payment to be made to the individual's affected by the error to reflect the recalculated commutation lump sum including interest on the back-dated payment. Included within income in the table below is the additional grant paid to the Authority to reimburse the cost of these additional payments.

**Modified Scheme** - The Firefighters' Pension Scheme (England) (Amendment) Order 2014 gave retained firefighters employed between 1 July 2000 and 6 April 2006 the option of backdated membership to the modified section of the New Firefighters' Pension Scheme (2006). For those who have taken up the option, figures for backdated employee contributions and pension payments made in 2015/16 and 2016/17 are shown separately. The impact on employer contributions will be taken into account by the Government when setting employer contribution rates at a future actuarial review.

The accounting statement does not take into account liabilities to pay on-going pensions and other benefits beyond 31 March 2016. Details of the Authority's long-term pension obligations are shown in note 24 to the Statement of Accounts.

### Firefighters' Pension Fund Net Assets Statement

The statement below identifies the Firefighters' Pension Fund assets and liabilities that are included in the Authority's Balance Sheet.

All figures are in £'000	2016/17	2015/16
<b>Current Assets</b>		
Contributions due from Fire Authority	210	10
Top up receivable from the government	4,142	2,164
<b>Current Liabilities</b>		
Unpaid pension benefits	-638	-350
Amount payable to central government	-198	-177
Other current liabilities <sup>1</sup>	-3,516	-1,647
<b>Total</b>	<b>0</b>	<b>0</b>

<sup>1</sup> This reflects the extent to which the Pension Fund Account assets and liabilities impact on the Authority's cash position.

# **Glossary of Terms**

## **Budget**

A statement defining the Authority's plans over a specified period of time, expressed in financial terms.

## **Billing Authority**

The KMFRA is a precepting Authority with Medway and Kent District and Borough Council's acting as agents on behalf of the Authority to collect Council Tax and Business Rates (Non-Domestic). These Authorities are collectively referred to as billing authorities.

## **Capital Expenditure**

This is expenditure relating to the provision and improvement of property, plant and equipment assets such as land, buildings and vehicles that have a useful life in excess of one year.

## **Capital Receipts**

The proceeds arising from the sale of fixed assets that can be used to finance capital expenditure or repay borrowing.

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

CIPFA is the accounting body that provides accounting guidance to the public sector. The guidance is defined as 'proper practices' and has statutory backing.

## **Code of Practice on Local Authority Accounting (Code)**

This is the annual guidance issued by CIPFA that specifies the principles and accounting practices required to give a 'true and fair' view of the financial position, financial performance and cash flow of local authority accounts.

## **Collection Fund**

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, showing the transactions of the billing authority in relation to Council Tax and Non-Domestic Rates and illustrates the way in which these have been distributed to Preceptors and the General Fund.

## **Component Valuation**

The Authority has adopted a component valuation approach to valuing property assets. This means that for valuation purposes a building is broken down into its main constituent elements (roof, bay doors, boiler etc.) and each element is separately valued and its remaining life estimated.

## **Current Value**

This valuation method recognises the value of an asset for its service potential in its current use.

## **Depreciation**

Depreciation is the charge made for fixed assets which represents the extent to which the asset has been consumed over the course of the year.

# **Glossary of Terms**

## **Employee Expenditure**

This includes the salaries and wages of employees together with national insurance, employer pension contributions and all other pay-related allowances. Training expenses and recruitment costs are also included.

## **Fair Value**

This is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

## **General Fund Balance**

The General Fund Balance is the description given in the Code to those reserves held by an Authority that are not earmarked for specific purposes and is more commonly described as the General Reserve.

## **Government Grants**

Funding that is received from Government that is paid for from its own tax income. Grants may be general or provided for specific purposes.

## **Impairment Charge**

Where there is a fall in the value of a fixed asset due to a change in economic circumstances or because an event has occurred which has had serious impact on the value. The extent to which an asset can be used (e.g. a fire) may be impacted and therefore the fall in value is regarded as an impairment and a charge is made to the Comprehensive Income and Expenditure Statement. Like depreciation charges, the impairment charge is only notional and it does not impact on the amount to be met from council tax.

## **Infrastructure Plan**

The Authority's medium term expenditure plan drawing together all revenue and capital expenditure to invest in and maintain the Authority's property, vehicle, IS/IT and operational equipment assets.

## **Intangible Assets**

Intangible assets are assets that do not have physical substance but are identifiable and are controlled through custody or legal rights. Expenditure on software or software licences are examples of intangible assets.

## **International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS)**

These are globally accepted accounting standards which set out the correct accounting treatment for an organisation's financial transactions.

## **Minimum Revenue Provision (MRP)**

This is the amount that the Authority is required to charge to the revenue account each year for the repayment of debt.

# Glossary of Terms

## Non Domestic Rates

Commonly referred to as business rates this income is collected by the billing authorities and a proportion is paid over to the Authority.

## Net Cost of Services

This comprises of all expenditure minus all income, other than the precept, capital grant and transfers to or from reserves.

## Non Distributed Costs

The CIPFA Service Reporting Code of Practice (SeRCOP) requires non distributed costs to be shown separately on the face of the Comprehensive Income and Expenditure Statement. Non distributed costs include past service pension costs.

## Past Service Pension Costs

This represents the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a pension scheme plan amendment or a curtailment (a significant reduction by the Authority in the number of employees covered by the plan).

## Precept

A Precept is the levying of a rate by one authority which is collected by another. The Kent and Medway Towns Fire Authority precepts upon the Kent District and Medway Council collection funds for its share of council tax income.

## Public Works Loans Board

A Government controlled agency that provides a source of borrowing for public authorities.

## Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

## Revenue Expenditure

Expenditure to meet the continuing cost of services including employee expenses, premises and vehicle running expenses purchase of materials and capital financing charges.

## Revenue Expenditure Funded From Capital Under Statute

This is expenditure that would ordinarily be regarded as revenue expenditure because it does not give rise to a tangible asset or provide any on-going benefit to the Authority. As the Government has allowed capital resources to be used to finance this expenditure it is charged to the revenue account but any capital grant provided will be treated as revenue grant and credited to the revenue account.

## Voluntary Revenue Provision

Any additional amounts charged to revenue for the repayment of debt that is in excess of the minimum revenue provision required by statute.

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