GOVERNANCE COMMITTEE

Meeting of the GOVERNANCE COMMITTEE to be held in the Fire Authority Rooms at the Fire and Rescue Service Headquarters, Nissan Way, Barmston Mere, Sunderland on **MONDAY 26 SEPTEMBER 2016** at **10.30am**

A G E N D A

Item

1. **Apologies for Absence**

2. **Declarations of Interest**

3. **Minutes of the last Meeting of the Governance Committee held on 27 June 2016**

   (Copy attached).

4. **Internal Audit Progress Report**

   Report of the Head of Internal Audit (copy attached).

5. **Audited Statement of Accounts 2015-2016**

   (i) Letter of Representation 2015-16
   (ii) Audit Completion Report – Year Ended 31 March 2016
   (iii) Statement of Accounts 2015-16

   Report of the Finance Officer (copy attached).

6. **Annual Report and Statement of Assurance 2015/16**

Joint Report of the Chief Fire Officer, Clerk to the Authority, the Finance Officer and Personnel Advisor (copy attached).

7. **Treasury Management – Half Yearly Review of Performance 2016/2017**

Report of the Finance Officer (copy attached).

Tom Capeling
Chief Fire Officer and Chief Executive
Clerk to the Authority

16 September 2016

Minutes of the meeting of the GOVERNANCE COMMITTEE held in the Fire and Rescue Service Headquarters, Barmston Mere on MONDAY 27 JUNE 2016 at 10.30 am.

Present:

Mr G. N. Cook in the Chair.

Councillors Pickard, Turton and also Ms Goodwill and Mr Knowles.

In Attendance:

Gavin Barker (Mazars)

Apologies for Absence:

An apology for absence was submitted to the meeting on behalf of Councillor Burdis and also Mark Kirkham (Mazars).

Declarations of Interest

There were no declarations of interest.

Minutes

1. RESOLVED that the minutes of the meeting of the Governance Committee held on 14 March, 2016 be confirmed and signed as a correct record.

Internal Audit Annual Report 2015/2016

The Head of Internal Audit submitted a report to consider the performance of Internal Audit for 2015/2016, areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority. Tracy Davis (Assistant Head of Assurance) referred members to Appendix 1 of the report and advised that all of the KPI targets had been achieved.

Audits scheduled for 2015-16 were completed within the financial year, with the exception of the planned review of compliance with the Authority's revised Standing Orders (which were to be completed in 2016-17).

The findings of the 2015-16 audits had been taken together with the findings of the audits from the previous two years and these were detailed at Appendix 2 of the report. As a result of the audits carried out, a number of recommendations had been made to improve internal control (0 high, 0 significant, 19 medium and 7 low). The work undertaken did not identify any matters material to the overall internal control environment of the Authority.

Mr Knowles queried the medium and low risks, specifically the progress made to date. Tracy advised that 91% progress had been made, which was extremely positive.

In response to a question from Ms. Goodwill asking why the information governance arrangements were categorised as moderate, Tracy explained that a lot of work was still ongoing therefore this would be moved to the 'substantial' category in the near future.

The Assistant Head of Assurance advised the committee that sufficient work was completed within the year to enable an opinion on the Authority's internal control environment, with no significant or high risks being identified. It was therefore considered that overall throughout the Authority there continued to be a good internal control environment.

2. RESOLVED that the Internal Audit Annual Report be noted and endorsed.

Annual Governance Review 2015/2016

The Chief Fire Officer and Chief Executive (Clerk to the Authority), the Finance Officer and the Personnel Advisor to the Authority submitted a joint report to provide the findings of the 2015/16 Annual Governance Review and to seek approval of the Annual Governance Statement, prior to its incorporation into the Statement of Accounts.

ACFO Griffiths advised the committee that the review was undertaken by the Corporate Governance Steering Group and included the following:-

- Functional Self Assessments
- Area Manager Controls Assurance Statements
- Evaluation of Internal Control Arrangements
- Views of Elected Members

- Annual Review

Members were referred to section 4 of the report which detailed the findings of the Corporate Governance Steering Group.

With regards to functional self-assessments, future plans for improvement were identified many of which were already included in existing service plans and the Corporate Governance Action Plan (detailed at Appendix C of the report).

The group also considered the Annual Internal Audit report and it was considered that overall throughout the Authority there was substantial assurance regarding the internal control environment.

The Corporate Risk Register was a live document and regularly updated, monitored and managed by the Corporate Risk Management Group (CRMG).

A survey of the views of employees was undertaken in relation to a range of issues on a six monthly basis and members were advised that the levels of satisfaction were extremely high. An on-going 'After the Incident Survey' was also carried out, the latest results of which recorded a score of 98% overall user satisfaction with regards to the services provided.

ACFO Griffiths went on to say that a questionnaire was also issued to Members. Of those Members who responded, they were in agreement that the Authority clearly communicated its purpose and vision, and its intended outcomes for the community and service users and that the Authority conducted business in an open and transparent manner all/most of the time.

Taking all of the above into account, Members were advised that based on the evidence examined, the Authority had robust and effective governance and internal control arrangements in place. The views elicited during the review from Members and all senior managers across the Authority demonstrated that the principles of good governance were embedded, and independent assurance had been provided on all areas required, as well as some areas not specifically required. The review had not identified any weaknesses that would need to be highlighted in the Authority's Annual Governance Statement. A small number of actions had been identified to further develop governance and control arrangements, as detailed in the action plan attached at Appendix C of the report.

3. RESOLVED that:

(i) The revised Code of Corporate Governance be noted and endorsed;
(ii) The Annual Governance Statement be noted and endorsed;
(iii) The Corporate Governance Action Plan be noted and endorsed; and
(iv) Further reports be received as appropriate.

Statement of Accounts 2015/2016 (Subject to Audit)

The Finance Officer submitted a report to provide members with an unsigned draft copy of the Authority's Statement of Accounts 2015/2016 (Subject to Audit) – (Appendix A of the report), in line with the changes set out in the Accounts and Audit Regulations 2015.

In addition the report provided members with details of the new requirements of the Accounts and Audit Regulations 2015, which applied from the 2015/2016 financial year and also the Letters of Assurance required by the external auditor as part of the final accounts process.

The Finance Officer explained that from 2017/2018 onwards accounts must be certified no later than 31st May and Members were referred to the additional set of requirements that the RFO must observe (as detailed within the report). In addition, whilst the requirement for the accounts, once audited, to be approved by Members of the Committee remained, from 2017/2018 this must be completed by 31st July.

Members were then referred to Appendix A (Statement of Accounts) and Appendix B (tabled) which detailed the amendments to the Statement of Accounts.

The new Narrative Statement would be included within the Statement of Accounts which replaced the forward included within previous accounts, which provided a helpful summary of the main financial issues and helped put the accounts into context.

The Finance Officer advised that the actions from the 2014-2017 Integrated Risk Management Plan (IRMP) had progressed during 2015/2016 and that additional savings of £0.614m had also been achieved. The Medium Term Financial Strategy over the 4 year period up to the end of 2019/2020, using the government's funding projections, showed that the Authority was facing a budget gap of £2.830m despite taking into account anticipated future IRMP savings of £3.358m. Members were advised that two further actions from the organisational management review would deliver approximately £1.8m of savings.

The Revenue Budget Outturn for 2015/2016 was reported showing a net overall underspend of £0.589m, at £49.217m compared with the original budget of £49.806m.

As part of the accounts process there were a number of adjustments to be made in respect of the final Government funding received (related to business rates), resulting in an additional grant of £61,000. Members were advised that this was now reflected in the accounts and that these funds had been transferred to the General Fund. In addition, £590,000 had been previously allocated to earmarked reserves as part of the out-turn revenue position agreed by members.

A discussion ensued in relation to pensions, in particular the £600m deficit and the Finance Officer explained that there were two pension schemes. The Firefignters' Pension Scheme net cost was fully funded by Central Government, whereas the LGPS was being met by the deficiency payments made by the Authority in line with actuarial advice. The liabilities shown in the accounts thus did not recognise the corrective actions in place and in fact distorted the position as a result.

The committee acknowledged the significant challenges the Authority would face in the forthcoming years and congratulated the service on being well managed in order to mitigate risk.

Councillor Pickard raised the issue of the 4 year settlement and commented that if this was accepted, it could prevent further financial cuts. The Finance Officer advised that work was underway to assess the implications of accepting the 4 year settlement and that a decision was required by 14 October 2016.

4. RESOLVED that:

(i) The draft and unsigned Statement of Accounts 2015/2016 (Subject to Audit) and the required separate Statements and Notices that the Authority must provide in order to comply with the Accounts and Audit Regulations 2015, be noted;
(ii) The contents of the Letter of Assurance from those charged with governance (Appendix F) be approved; and
(iii) The Letter of Assurance from those charged with discharging management processes and responsibilities (Appendix G) be approved.

Treasury Management – Review of Performance 2015/2016

The Finance Officer submitted a report to report on the Treasury Management performance of the Authority for 2015/2016 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

Members were advised that the performance of the Treasury Management function continued to contribute significant financial savings that were used to provide funding to support future years' capital programmes and help support the Authority's revenue budget. The average rate of the lead authority's borrowing at 3.52% was one of the lowest in the country and was in the top quartile when benchmarked against other authorities.

The Authority had benefited from additional investment income during the year of over £13,500 in cash terms based on a higher rate of return in 2015/16 of 0.41% as compared to the benchmark rate of 0.36%.

The Finance Officer went on to say that the Authority had not exceeded any of its Prudential Indicators during 2015/2016. It was also noted that the Authorised Borrowing Limit for External Debt, which was a statutory limit was also not exceeded. This limit was set at £54.905m for 2015/16 and the highest level reached by the Authority was £36.813m, therefore well below the limit. The Operational Boundary for External Debt was set at £49.905m and again, this had not been exceeded.

With regards to the Borrowing Strategy, Members were advised that the view in February 2015 was that the Bank Base Rate would remain at 0.50% until September 2015 before steadily rising to 2.00% by March 2018 and that PWLB borrowing rates would increase during 2015/2016 across all periods. Overall the interest rate outlook remained uncertain in both the UK and US with economic data not supportive of the Bank of England raising rates this year. Further uncertainty over the outcome of the EU referendum would delay any rise, even if the data was better.

Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20%. This discount came into effect on 1st November 2012 and the Council had been successful in extending its certainty rate until 31st October 2016, which the Authority had benefited from.

A benchmark financing rate of 4.25% for long term borrowing was set for 2015/2016 and members were asked to note the volatility in the financial markets during this time with particular concerns around low levels of inflation, weak growth in China and the Eurozone and the continuing need to stimulate growth in the UK. PWLB Certainty borrowing rates had reflected this with 50 year maturity loans reaching a high of 3.58% in July 2015 and a low of 2.81% in February 2016.

5. RESOLVED that the Treasury Management Performance of the Authority for 2015/2016 be noted.

Audit Progress Report – June 2016

The Finance Officer submitted a report to enable the Committee to consider and comment upon the external auditors' regular Audit Progress Report covering the period up to June 2016.

Members were advised that the planning and early audit work in respect of both the 2014/15 accounts and Value for Money conclusion had been completed and that no issues, had resulted from this interim work carried out for the Authority.

Gavin advised the committee that the second North East Governance Forum Meeting was to be held on 16th June, 2016 (at Durham County Cricket Club) and would cover the areas of Cybercrime and resilience, risk register benchmarking and also a round-up of other topical issues.

6. RESOLVED that the contents of the report be noted.

(Signed) G. N. COOK
Chairman

Tyne and Wear Fire and Rescue Authority
Creating the Safest Community
www.twfire.gov.uk

TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No. 4**

GOVERNANCE COMMITTEE MEETING: 26 SEPTEMBER 2016

SUBJECT: INTERNAL AUDIT PROGRESS REPORT

REPORT OF THE HEAD OF INTERNAL AUDIT

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1. Introduction

1.1 This report sets out the performance of Internal Audit up to August 2016, areas of work undertaken, and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2. Description of Decision

2.1 The Governance Committee is asked to consider the report.

3. Key Performance Indicators

3.1 Performance against the agreed KPIs to date is shown in Appendix 1. All of the KPIs are on target.

4. Summary of Internal Audit Work

4.1 Six audits are included in the 2016/17 plan.

4.2 To date one audit has been completed to draft report stage. This is the audit of compliance with the revised Standing Orders. This audit resulted in the provision of substantial assurance regarding the arrangements in place.

4.3 An audit of the Authority's payroll arrangements is currently nearing completion whilst an audit of the Authority's capital programme is in the early stages.

4.4 The remaining planned audits are scheduled as follows:

- Risk Management arrangements – planned for quarter 3;
- Pensions – planned for quarter 3;

- Performance and Financial Management – planned for quarter 4.

4.5 In addition to the above, 8 days are allocated for financial transactions testing to ensure that appropriate controls continue to be in place in the Accounts Payable and Payroll systems. This work is currently being completed in relation to payroll.

4.6 The current overall opinion against each risk area, based on the last three years' audit work is shown in Appendix 2. As can be seen the position is very positive.

4.7 It is anticipated that the agreed plan will be delivered in full by the year end.

5. Conclusions

5.1 This report provides information regarding progress against the planned audit work for the year and performance targets.

5.2 It remains the opinion of Internal Audit that, overall throughout the Authority, there continues to be an adequate system of internal control with no significant issues being raised.

6. Recommendations

6.1 Members are asked to consider the report.

Background Papers
Internal Audit Operational Plan for 2016/2017
Governance Committee, 14th March 2016

Appendix 1

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2015/16			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified.	1) All key risk areas covered over a 3 year period	On target
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	On target -100%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 80%	On target – 100%
	4) Cost per £m Turnover	Lower than average within CIPFA Benchmarking Club	On target - £460 v £699 average
Quality			
Objectives	**KPI's**	**Targets**	**Progress**
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion	Achieved
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant. 90% for medium risk	High and significant – N/A Medium – on target at 96%
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	On target – current average score is 1.0
	2) Results of other Questionnaires	2) Results classed as 'Good'	None carried out
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	None in year to date

Appendix 2

Internal Audit Coverage

Key Risk Area	Planned Audits	Level of Assurance from audits undertaken 2016/17	Level of Assurance from Previous 3 years work
Corporate Governance	Review of Compliance with new Financial Regulations and Standing Orders	Substantial	Substantial
Service / Business Planning, IRMP	No audit work planned	n/a	Substantial
Financial Management	Review of Capital Programme. Audit of pensions arrangements Financial Transactions Testing on Payroll and Accounts Payable		Substantial
Risk Management	Audit of RMAD system and review of management of risks in corporate risk profile		Substantial
Procurement and Contract Management	No audit work planned	n/a	Substantial
Human Resource Management	No audit work planned	n/a	Substantial
Asset Management	Review of Capital Programme		Substantial
ICT	No audit work planned	n/a	Substantial
Fraud and Corruption	Financial Transactions Testing on Payroll and Accounts Payable		Substantial
Information Governance	No audit work planned	n/a	Moderate
Business Continuity and Contingency Planning	No audit work planned	n/a	Substantial
Performance Management	Review of process for gathering performance data and reporting on performance		Substantial
Payroll	Audit of payroll Transactions Testing		Substantial
Partnership Working	No audit work planned	n/a	Substantial
Project Management	No audit work planned	n/a	Substantial

TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No 5**

GOVERNANCE COMMITTEE MEETING: 26th SEPTEMBER 2016

SUBJECT: AUDITED STATEMENT OF ACCOUNTS 2015/2016

REPORT OF THE FINANCE OFFICER

1. BACKGROUND

1.1 Members will be aware that Mazars LLP are required to report on the final accounts and report certain matters to Members prior to an audit opinion being provided on the Authority's accounts.

1.2 Mazars LLP have audited the financial statements of the Authority under the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission, and International Standards on Auditing (ISA) issued by the Auditing Practices Board.

1.3 Once the Governance Committee has approved the Letter of Representation (**item i**), noted the contents of the External Auditors 'Audit Completion Report' (**item ii**), and approved the amended Statement of Accounts (**item iii**), Mazars LLP can then formally provide an opinion on the Statement of Accounts for the year ended 31^{st} March 2016.

2. PURPOSE OF THE REPORT

2.1 To present the Letter of Representation for 2015/2016 and to receive the Audit Completion Report from Mazars LLP concerning the financial statements for 2015/2016. This provides their opinion on both the Authority's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money).

2.2 To provide an audited Statement of Accounts for 2015/2016. This has been revised to take into account the auditor's findings, for approval by members of this Committee. A complete list of the amendments is set out in Appendix A to this report for information.

3 STATEMENT OF ACCOUNTS 2015/2016

3.1 A Letter of Representation has to be prepared by the Finance Officer which sets out the principles used in preparing the accounts and provides the external auditor with the necessary assurances required by the accounts and audit regulations (this is shown as **Item i** on the agenda).

3.2 In line with Auditing standards, Mazars LLP produces an Audit Completion Report (**Item ii**), in which the external auditor's opinion is given on whether the financial statements give a true and fair view of the financial position of the Authority as at 31st March 2016 and on its income and expenditure for the year then ended.

3.3 This communication from the auditors is in addition to the Annual Audit Letter, which will continue to be presented to the full Authority and to the Governance Committee annually.

3.4 The amended Statement of Accounts, noted previously by the Authority on 27th June 2016, does not contain any misstatements and Mazars LLP is to formally provide an unqualified opinion on the audited Statement of Accounts before the end of September 2016 in accordance with the revised regulations. The key messages from the audit are set in Section 4 of this report for information.

3.5 Following the audit, the amended Statement of Accounts is set out in **Item iii.** The amendments made are detailed at **Appendix A.**

4.0 KEY MESSAGES

4.1 The full communication is included in the Audit Completion Report. The report is very positive and in summary shows that:

- the external auditors propose to issue an unqualified audit opinion;
- most non-trifling misstatements have been adjusted by management and those not adjusted are set out with reasons accepted by the auditor in his Annual Audit Report;
- the external auditors have not identified any material weaknesses in the accounting and internal control systems;
- the external auditors have referred to a number of presentational issues they identified in relation to the qualitative aspects of the Authority's financial reporting and reference is also made in the Letter of Representation but these are not considered to be significant;
- the external auditors have not identified any matters required by international auditing standards that should be communicated to Members;
- the external auditors have not identified any other relevant matters relating to the audit that need to be brought to Members attention; and
- the external auditors have reported that the Authority is also to receive an unqualified Value for Money opinion, which confirms that the Authority has proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2016.

4.2 On the basis of the amendments agreed with the external auditors, Mazars LLP will formally provide an opinion on the amended Statement of Accounts on or before the 30th September statutory deadline, by which time the Authority is also required to publish its Audited Statement of Accounts for 2015/2016 on its web site, appropriately signed by the Chair of this Committee and re-signed by the Finance Officer in line with the new reporting requirements set out in the Accounts and Audit Regulations 2015.

5. RECOMMENDATIONS

5.1 Members are requested to:

a) Approve the Letter of Representation (Item i),

b) Note the contents of the External Auditors Audit Completion Report (Item ii),

c) Approve the amended Audited Statement of Accounts for the Financial Year ended 31st March 2016 (Item iii).

Mr M Kirkham
Engagement Lead (Director)
Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Item (i)

26th September 2016

Dear Mark,

Tyne & Wear Fire and Rescue Authority - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Tyne and Wear Fire and Rescue Authority for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to individuals within the Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

Fraud and error

I acknowledge my responsibility as Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I have disclosed to you the identity of the Authority’s related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure, have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is set out below.

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Lifecycle prepayment	**237**			
	Dr: Cost of Services expenditure	**92**			
	Cr: PFI Lease Liability				**329**
	To correct the treatment of lifecycle maintenance costs on the NEFRA PFI scheme.				
2	Dr: Cost of Services expenditure	**31**			
	Cr: PFI Lease Liability				**31**
	To correct an imbalance between the NEFRA PFI model and the PFI lease liability, after taking account of item (1) above.				

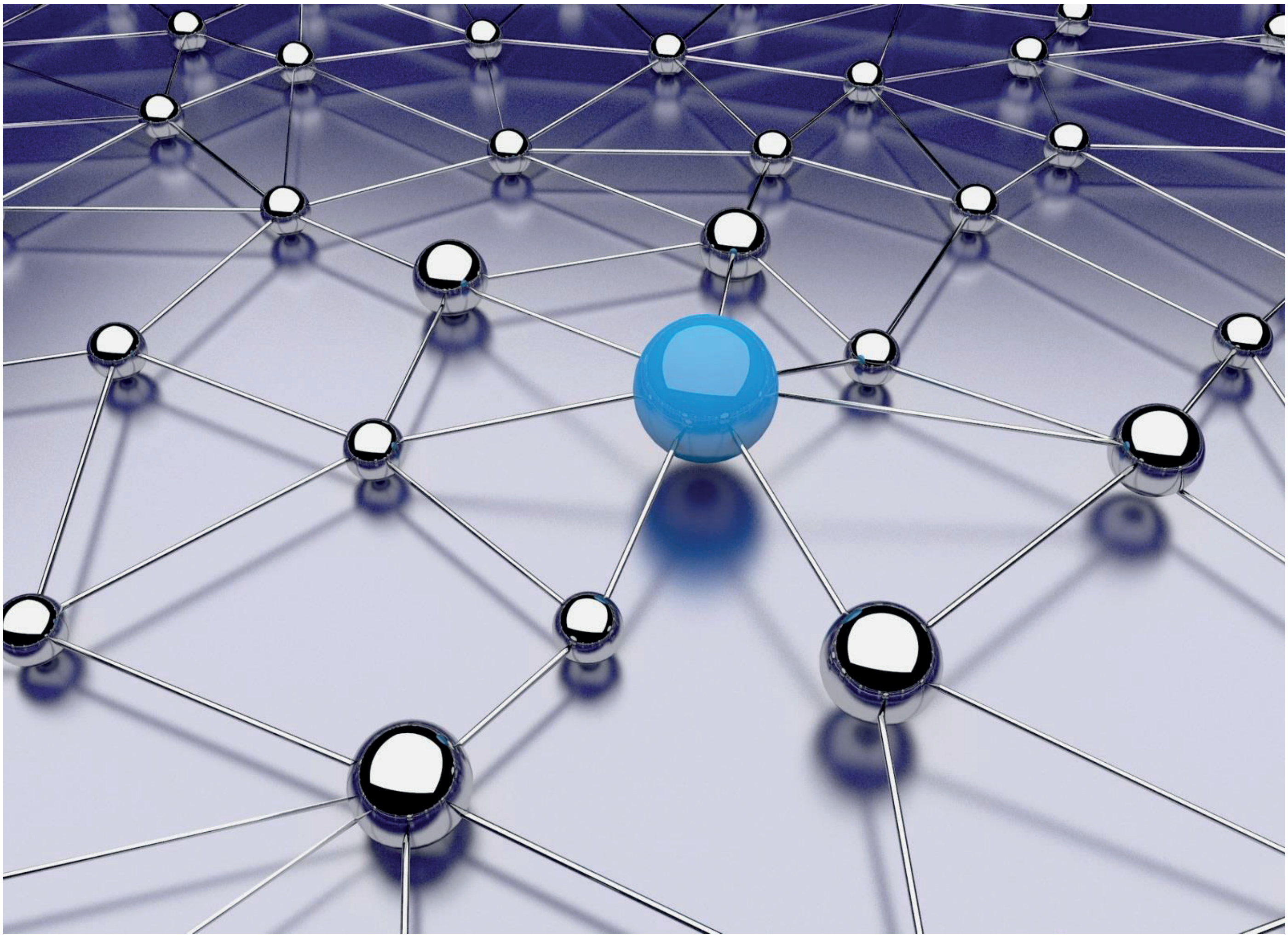
Yours faithfully

Barry Scarr
Finance Officer

Audit Completion Report

Tyne and Wear Fire and Rescue Authority – year ended 31 March 2016

September 2016



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MAZARS

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Governance Committee
Tyne and Wear Fire and Rescue Authority
Nissan Way
Sunderland
Tyne and Wear
SR5 3QY

16 September 2016

Dear Members

Audit Completion Report – Year ended 31 March 2016

We are delighted to present our Audit Completion Report for the year ended 31 March 2016. The purpose of this document is to summarise our audit findings and conclusions.

The scope of our work, including identified significant audit risks, was outlined in our Audit Strategy Memorandum which we presented to the Committee on 14 March 2016. We reviewed our Audit Strategy Memorandum upon receipt of your statement of accounts and concluded that the original significant audit risks were still appropriate. We then planned and completed our audit procedures accordingly.

We would like to take this opportunity to express our thanks to your officers for their assistance during the course of our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me 0191 383 6300 or mark.kirkham@mazars.co.uk.

Yours faithfully

Mark Kirkham
Partner

Mazars LLP

Contents

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and 'Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the year ended 31 March 2016 to the Audit and Governance Committee of Tyne & Wear Fire and Rescue Authority and forms the basis for discussion at the Governance Committee meeting on 26 September 2016.

Our communication with you is important to:

- share information to assist both the auditor and those charged with governance to fulfil our respective responsibilities;
- provide you with constructive observations arising from the audit process;
- ensure, as part of the two-way communication process, we gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Tyne & Wear Fire and Rescue Authority;
- receive feedback from yourselves as to the performance of the engagement team.

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) which means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement. Section 3 of this report includes our conclusions on the significant risks and areas of management judgement that we set out in our Audit Strategy Memorandum.

We also set out details of internal control recommendations in section 4 and a summary of misstatements discovered as part of the audit in section 5.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Status and audit opinion

We have substantially completed our audit of the financial statements for the year ended 31 March 2016.

At the time of preparing this report, we have not yet received and reviewed the following:

- Required assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pensions related entries in the financial statements.

We will provide an update to you in a follow up letter to this report should any issues arise in relation to these matters.

Subject to the satisfactory conclusion of the remaining audit work, we anticipate:

- issuing an unqualified opinion, without modification, on your statement of accounts; and
- concluding that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We also anticipate completing our work in respect of your Whole of Government Accounts submission in line with the group instructions issued by the National Audit Office by the deadline of 21 October 2016.

Our proposed audit report is set out in Appendix B.

02 Commentary on the financial statements

Good finances are the foundation of the Authority's ability to deliver essential services and to achieve value for money for taxpayers. The Statement of Accounts is the key medium by which the Authority communicates financial performance with external stakeholders. As such it provides valuable data on how resources have been employed and what assets and liabilities are outstanding, and is a useful indicator as to the financial health of the organisation.

Comprehensive Income and Expenditure Statement (CIES)

The CIES shows the cost of providing services for 2015/16 prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16. The statement shows a deficit for the year for the provision of services of £10.0m. As with other fire and rescue authorities the statement differs from the Authority's reported performance on its revenue budget for 2015/16 because of items of expenditure which are correctly charged to the CIES under accounting rules but are not charged to the General Fund under statute.

The Authority's performance against its revenue budget is set out in the Narrative Statement in the Statement of Accounts. The outturn position represented a net underspend on the revenue budget of £589k.

The CIES then accounts for other items, primarily a significant actuarial adjustment in the defined benefit liability for pensions, and the bottom line result on the CIES is a surplus of £98.8m.

Movements in Reserves Statement (MIRS)

The MIRS takes the surplus on the provision of services of £98.8m, and adjusts it for the entries in the CIES that were required under accounting rules, but which are not chargeable to the General Fund under statute.

Note 6 to the financial statements sets out the adjustments between the accounting basis and the funding basis.

The MIRS statement culminates in the closing balance on each of the Authority's reserves. Total Usable Reserves represent real resources available to the Authority. Between 31 March 2015 and 31 March 2016 these reduced from £34.2m to £32.8m. The General Fund balance, which is available to meet unforeseen circumstances, increased slightly from £3.88m to £3.94m.

Balance Sheet

The Balance Sheet shows the value of the Authority's assets and liabilities on a single date at the year end. It shows that the Authority has net liabilities or 'negative net worth' of £634.2m, which was a reduction of £98.8m or 13.5% in net liabilities compared to last year. This is almost entirely due to the pension liabilities calculated under accounting standards relating to firefighters and other staff, which at 31 March 2016 were £698.5m.

The Authority's net assets are matched by reserves which comprise both usable and unusable reserves. In addition to the General Fund balance, the Authority also has £3.3m in a capital receipts reserve. A further £25.6m is held in earmarked reserves. Note 7 to the financial statements sets out the Authority's earmarked reserves in more detail. Although these reserves are earmarked, they do provide the Authority with some flexibility in managing in the current challenging financial environment.

03 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Management override of controls
Description of the risk International Standards on Auditing (ISA) 240 – The auditor's responsibility to consider fraud in an audit of financial statements requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud. In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
How we addressed this risk We updated our understanding and evaluation of internal control processes and procedures as part of our audit planning, including completion of a fraud risk assessment. As part of this process we obtained information from the Governance Committee and management on processes for assessing the risk of fraud in the financial statements and arrangements in place to identify, respond to and report fraud. Our testing included: • consideration and review of accounting estimates impacting on amounts included in the financial statements; • consideration and review of any unusual or significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
Audit conclusion Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Pension entries (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we addressed this risk

We discussed with officers any significant changes to the pension estimates prior to the preparation of the financial statements.

In addition to our standard programme of work in this area, we also:

- evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary of the Local Government Pension Scheme (Aon Hewitt) and the firefighters' pension scheme (Government Actuaries Department); and
- considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which was commissioned by the National Audit Office.

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pension related entries in the financial statements.

Audit conclusion

As at the time of preparing this report, we have not yet received and reviewed the required assurance from the auditors of Tyne & Wear Pension Fund (Ernst & Young) over IAS 19 pension related entries in the financial statements.

Subject to a satisfactory response from Ernst & Young, our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.

Accounting policies and disclosures

We have reviewed Tyne & Wear Fire and Rescue Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting.

Significant matters discussed with management

During the course of the audit we did not encounter any significant matters that required discussion with management.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Electors' rights to inspect the accounts

The Accounts and Audit (England) Regulations 2015 ('the regulations'), introduced new requirements in respect of publishing the financial statements and the period within which local electors may raise questions on the financial statements or make an objection to an item of account. For 2015/16 the Authority set this period as 29 June 2016 to 9 August 2016. We received no questions or objections within this period.

04 Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (High)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	None
2 (Medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	ONE
3 (Low)	In our view, internal control should be strengthened in these additional areas when practicable.	None

Other deficiencies in internal control – (Level 2)

Approval of exit packages by the Authority

Description of deficiency

During our testing, we reviewed the approval of exit packages which related to the early retirements of employees on the grounds of efficiency. We found that when the Authority approved an exit package they considered the capital cost in terms of the strain on the pension fund, but they did not consider the level of any severance related payments.

On enquiry, we found that the powers to exercise discretion in relation to voluntary severance had been delegated to the Chief Fire Officer, whereas the strain on the fund requires Authority approval.

We reviewed the Voluntary Severance Scheme reported to the Authority on 3 February 2014, and whilst we could see that this appeared to be the intention of the policy, the wording lacks clarity and could be clearer about what is delegated to the Chief Fire Officer and what requires Authority approval. In addition, the Scheme of Delegation for the Chief Fire Officer does not include a specific delegation in this respect.

In our view, in the interests of openness and transparency, Members should be made aware of the full costs when they receive future requests to approve early retirements, including the reasons for any payments.

Potential effects

Voluntary early retirement and severance payments are by their nature sensitive decisions. Without clarity of responsibilities and full cost reporting, decisions might be subject to challenge.

Recommendation

The Voluntary Severance Scheme should be updated to clarify specifically what has been delegated to the Chief Fire Officer and what requires Authority approval.

The Scheme of Delegation for the Chief Fire Officer should be updated to include a specific approval for delegations agreed under the Voluntary Severance Scheme.

When the Authority considers early retirements in the future, which include an element where a decision has been taken under delegated powers by the Chief Fire Officer, the report should include full costs and where necessary, the justification / rationale for any additional payments, so that a decision can be taken in the knowledge of all relevant information.

Management response

We agree that in the interest of openness and transparency, Members should be made aware of the full costs when they receive future requests to approve early retirements, including the reasons for any payments. The Voluntary Severance Scheme will be updated through Authority to clarify specifically what has been delegated to the Chief Fire Officer which in turn will update the Scheme of Delegation.

05 Summary of misstatements

In our Audit Strategy Memorandum we reported that we had set materiality at the planning stage at £852k with a clearly trivial threshold of £26k below which identified errors would not usually be reported. We do not purely use a formula for our calculation of materiality and we look at any errors identified on their merits and can choose to report errors and uncertainties below our thresholds if we deem this to be appropriate.

Our final calculated materiality level for the 2015/16 audit, based on the final statement of accounts, is £731k, with a trivial threshold of £22k.

We set out below the misstatements identified during the course of the audit, above the trivial level, for adjustment.

The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Lifecycle prepayment	**237**			
	Dr: Cost of Services expenditure	**92**			
	Cr: PFI Lease Liability				**329**
	To correct the treatment of lifecycle maintenance costs on the NEFRA PFI scheme.				
2	Dr: Cost of Services expenditure	**31**			
	Cr: PFI Lease Liability				**31**
	To correct an imbalance between the NEFRA PFI model and the PFI lease liability, after taking account of item (1) above.				

Adjusted misstatements 2015/16

		MIRS		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Transfers from earmarked reserves	**102**			
	Cr: Adjustments between accounting basis & funding basis		**102**		
	Dr: Unusable reserves			**102**	
	Cr: Earmarked reserves				**102**
	The leasing Minimum Revenue Provision of £102k was originally charged twice; the adjustment made has corrected this and increases the Authority's usable reserves for 2015/16 by £102k.				

Adjusted misstatements 2015/16 (continued)

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
2	Dr: Vehicles, Plant and Equipment			**538**	
	Cr: Assets Under Construction				**538**
	£538k of assets recorded as being under construction were operational; the adjustment records these assets as being part of the Authority's Vehicles, Plant and Equipment.				
3	Dr: Long term provisions			**406**	
	Cr: Short term provisions				**406**
	Officers identified a need to reclassify the provision for business rate appeals to short term provisions rather than long term provisions.				

Disclosure amendments

The following amendments were made to disclosures in the accounts:

- changes to the cash flow statement and related notes;
- minor amendments to disclosures in note 30 grant income;
- minor amendments in relation to capital commitments disclosed in note 11;
- clarifications in the pension disclosures in note 37; and
- a number of other minor errors, omissions, clarifications and typographical errors were corrected.

06 Value for money

We are required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources by considering one overall criterion which is made up of three sub-criteria.

The overall criterion set out by the NAO is:

'In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

In the Audit Strategy Memorandum we identified a significant risk relevant to the value for money conclusion. We detail below how we have addressed this risk and our conclusions.

We intend to issue an unqualified Value for Money (VFM) conclusion as set out in Appendix B.

Significant Value for Money risk

VFM risk – Responding to financial pressures
Description of the risk The Authority faces financial pressures from reduced funding and continues to identify plans to deliver future savings and improvements. Without robust budgetary control and delivery of its action plans, the Authority's financial resilience and service performance could deteriorate.
How we addressed this risk We reviewed budget monitoring and reporting, focusing on areas where action plans were in place to make savings and improvements, and to minimise any adverse impact on service delivery. We reviewed the plans that are being developed to deliver future savings and improvements.
Conclusion The Authority has delivered significant savings in recent years, aiming to do this whilst minimising the impact on service delivery. In 2015/16, savings were delivered and in addition there was an underspend against budget. Further savings are planned in 2016/17 although there is a small shortfall in available resources which is being funded from reserves. The Authority has recently identified further savings from a management and organisation review, but has also begun another round of planning to identify additional measures that will be needed to meet a medium term shortfall in resources of £2.8m.

Overall conclusion

Our overall conclusion is, that in all significant respects, Tyne & Wear Fire and Rescue Authority put in place proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall, the Authority has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending, and has a strong track record of delivering savings and keeping within budget. The 2015/16 revenue budget included savings proposals to address reduced funding and cost pressures.

The Authority achieved a better than expected revenue outturn in 2015/16, and sustained a significant capital programme.

Area	Budget	Outturn	Overspend / (Underspend)	General Fund Balance at year end
Net revenue expenditure	£49.805m	£49.216m	(£0.589m)	£3.94m (previous year £3.88m)
Capital expenditure	£5.3m	£6.2m	n/a	n/a

The underspend resulted from net reductions in planned expenditure and more significantly from greater than expected income, including grants, secondments, police collaboration rental arrangements and charges made to the newly established trading company.

The increase in capital expenditure reflects delivery of additional projects (mainly delivery of programme slippage from 2014/15) rather than an overspend.

The Authority has a range of earmarked reserves for specific plans and projects that will help the Authority to deliver its priorities. These reserves provide some flexibility if the Authority needs to invest to save, for example, but there is a recognition that reserves cannot routinely be used to sustain services and the underlying budget reductions identified will need to be delivered.

The Authority set its revenue budget for 2016/17 at £48.832m, including a 1.99% council tax increase. Within the budgeted amount there was an unidentified shortfall in resources of £0.289m, which was planned to be met from reserves. The Authority projected a shortfall of resources of £2.8m in the medium term from 2016/17 and 2019/20, and recognised the need to identify further steps to address this shortfall.

The Authority uses its Integrated Risk Management Plan (IRMP) process to deliver significant changes to the service. In February 2016, the Authority took stock against its IRMP for 2013 to 2017:

> *"We have used the IRMP process for more than 10 years to change the service, strengthen prevention, reduce costs and manage the risk in our communities.*
>
> *… Since 2010, balancing risk and resources has become increasingly challenging and our IRMP actions have been developed against a background of significant reductions in the resources available to the Authority, as a result of reductions in Government spending."*
>
> *Report to the Authority, Integrated Risk Management Plan Update, 15 February 2016*

The update report considered progress against IRMP actions that have been delivered, were in the process of delivery or were about to be reported:

- review of the operational response model – phases 1 and 2 now delivered;
- control review – now completed;
- feasibility of a trading company – these arrangements have now been established;
- management and organisation review – review nearing completion and subsequently reported to the Authority in June 2016 identifying significant savings arising from the proposals; and
- explore further joint working with other emergency services and key partners – measures taken so far have included some co-location of premises with police, collaboration that has supported the Authority's Safetyworks service, some joint arrangements with the North East Ambulance Service, such as participation in an Emergency First Responder trial.

We review Authority and Committee agenda papers and minutes on an ongoing basis. The Authority's priorities are evident from the reports that have been considered and the decisions that have been taken. The challenges for the future include:

- implementing existing IRMP actions, and in particular, the recent management and organisation review;
- maximising the benefits of working with other emergency services and partners; and
- identifying further IRMP actions in a context where there can be few 'easy wins' given the measures that have already been taken.

In the tables which follow we comment briefly on our assessment using the sub-criteria of the VFM conclusion.

Informed decision making

Proper arrangements	Comments on Tyne & Wear Fire and Rescue Authority
Acting in the public interest, through demonstrating and applying the principles and values of sound governance.	The Authority is governed by a Constitution including all of the normal features of an effective governance framework in local government. Generally, we find that decisions taken are supported by reports that outline appropriate options and relevant considerations. The Authority's system of internal control is subject to Internal Audit and, for 2015/16, the Authority's internal auditors have given an opinion of substantial assurance. A Governance Committee is in place to oversee the governance framework including approval of the Authority's financial statements. We attend all Governance Committee meetings, and have seen good examples of challenge and oversight. The Authority's Annual Governance Statement includes a balanced assessment of the effectiveness of the Authority's governance arrangements and identifies appropriate areas for further improvement.
Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.	The Authority and Committee reports we reviewed included consideration of financial and legal issues where relevant. We also found that the reports included options and relevant considerations. In our opinion audit, we have identified the scope for improvement in the information presented when Members consider and approve early retirements. Performance issues are included in reports where appropriate, and overall performance outcomes are monitored quarterly by the Policy and Performance Committee, including an Annual End of Year Performance Report every July.
Reliable and timely financial reporting that supports the delivery of strategic priorities.	Regular financial reporting takes place, with formal reporting quarterly to the Authority, including an Annual Outturn Report for both revenue and capital expenditure. There is evidence of financial reporting being used effectively to deliver strategic objectives, for example, through the Medium Term Financial Strategy and in allocating resources to priority areas and addressing issues such as those identified in the Integrated Risk Management Plan (IRMP).

Proper arrangements	Comments on Tyne & Wear Fire and Rescue Authority
Managing risks effectively and maintaining a sound system of internal control.	Risk management sits at the heart of the Authority's arrangements, through for example, the Integrated Risk Management Plan (IRMP), the Strategic Community Safety Plan (SCSP) and Community Risk Profile (CRP). These are concerned with identifying the fire and rescue risks in the area and how best to address them through the Authority's services. The Authority also has its own corporate risk register. This is updated bi-annually and is reported to the Policy and Performance Committee. The Authority's system of internal control is subject to Internal Audit and, for 2015/16, the Authority's internal auditors have given an opinion of substantial assurance.

Sustainable resource deployment

Proper arrangements	Comments on Tyne & Wear Fire and Rescue Authority
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	The Authority has made good progress in addressing the financial challenges from public sector austerity and has a proven track record of delivering planned budget reductions.
Managing and utilising assets effectively to support the delivery of strategic priorities.	The Authority has an Estate Management Plan. Estate management is essential for the Authority as the location of fire stations and appliances is critical to the delivery of a quality service. The Authority made use of the Private Finance Initiative (PFI) to make considerable improvements in its estate and streamline the number of stations. The Authority has looked at ways of extracting increased value from this relatively costly form of finance, but PFI was used as there were a lack of alternative options when the investment was made. More recently, the Authority has sought to replace other stations, for example, building a new fire station at Marley Park to replace Fulwell Station, and is now exploring options for the replacement of Hebburn Fire Station. There are good examples of the Authority seeking to make best use of its assets, for example, through co-location with Northumbria Police and the North East Ambulance Service.
Planning, organising and developing the workforce effectively to deliver strategic priorities.	The Authority has a Human Resource Plan, and has taken steps to downsize in the face of austerity, with an emphasis on managing turnover, and looking for opportunities from voluntary early retirement and voluntary redundancy. An example of recent plans include the management and organisational review, which seeks to streamline the future management structures. In addition, a Workforce Development Plan is in place, which considers the training and development needs of the service and also includes a Personal Development Planning process.

Working with partners and other third parties

Proper arrangements	Comments on Tyne & Wear Fire and Rescue Authority
Working with third parties effectively to deliver strategic priorities.	The Authority works with a range of partners and third parties. The Government's Policing and Crime Bill includes a statutory duty on all three emergency services to collaborate with each other to improve efficiency and effectiveness. It also seeks to enable Police and Crime Commissioners to take on fire and rescue responsibilities in their area where a local case is made. There are already good examples of the Authority working with the other emergency services, seeking to make best use of its assets, for example, through co-location with Northumbria Police and the North East Ambulance Service. The Authority has also participated in the Emergency Medical Response (EMR) regional pilot scheme at West Denton Fire Station, with fire and ambulance services co-responding to medical emergencies. The impact of the trial will need to be evaluated. The Authority also work with other partners, such as the local authorities in the area, in particular, the lead authority, Sunderland City Council.
Commissioning services effectively to support the delivery of strategic priorities.	Given the nature of fire and rescue services, the Authority provides services directly through its own trained firefighting workforce. As noted previously, some of the estate is provided under PFI contracts. In addition, some support services are commissioned from the lead local authority, Sunderland City Council.
Procuring supplies and services effectively to support the delivery of strategic priorities.	The Authority has procurement procedures in place and maintains a contracts register. The Authority seeks to achieve best value from the procurement process, driving savings where possible, but also aiming to deliver sustainable services. Procurement performance indicators are in place, including assessment of cashable financial savings identified through effective procurement. The Authority is also part of the national fire procurement group and an associate member of the North East Purchasing Organisation (NEPO).

Appendix A – Draft management representation letter

Tyne & Wear Fire and Rescue Authority

26 September 2016

Dear Mr Kirkham

Tyne & Wear Fire and Rescue Authority - audit for year ended 31 March 2016

This representation letter is provided in connection with your audit of the statement of accounts for Tyne & Wear Fire and Rescue Authority for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Authority's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Authority involving:
    - management and those charged with governance;
    - employees who have significant roles in internal control; and
    - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. A further impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is set out below.

Unadjusted misstatements 2015/16

		CIES		Balance Sheet	
		Dr £'000	Cr £'000	Dr £'000	Cr £'000
1	Dr: Lifecycle prepayment	**237**			
	Dr: Cost of Services expenditure	**92**			
	Cr: PFI Lease Liability				**329**
	To correct the treatment of lifecycle maintenance costs on the NEFRA PFI scheme.				
2	Dr: Cost of Services expenditure	**31**			
	Cr: PFI Lease Liability				**31**
	To correct an imbalance between the NEFRA PFI model and the PFI lease liability, after taking account of item (1) above.				

Yours faithfully

Barry Scarr
Finance Officer

Appendix B – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Opinion on the Authority financial statements

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

This report is made solely to the members of Tyne & Wear Fire and Rescue Authority in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Tyne & Wear Fire and Rescue Authority, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Finance Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Tyne & Wear Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Mark Kirkham

For and on behalf of Mazars LLP

The Rivergreen Centre
Aykley Heads
Durham DH1 5TS

26 September 2016

Item (iii)

Tyne and Wear
Fire and Rescue Authority

Statement of Accounts
2015/2016

Barry Scarr
Finance Officer
(Relevant Finance Officer)

Contents

Authority Membership 2015/2016

Chairman
Councillor T. Wright (Sunderland City Council)

Vice-Chairman
Councillor N. Forbes (Newcastle City Council)

Councillors
Sunderland City Council

Councillor M. Forbes to 13th June 2016
Councillor B. Price to 13th June 2016
Councillor L. Lauchlan to 13th June 2016
Councillor R. Oliver from 13th June 2016
Councillor P. Middleton from 13th June 2016
Councillor M. Turton from 13th June 2016

Newcastle City Council
Councillor R. Renton
Councillor H. Stephenson
Councillor D. Stockdale

Gateshead Council
Councillor G. Haley
Councillor P. Mole to 13th June 2016
Councillor K. Dodds from 13th June 2016
Councillor C. Ord to 8th June 2015
Councillor P. Maughan from 8th June 2015

North Tyneside Council
Councillor S. Mortimer to 25th June 2015
Councillor C. Burdis
Councillor J.L.L. Harrison
Councillor B. Pickard from 25th June 2015

South Tyneside Council
Councillor J. Bell
Councillor J. Perry

Independent Members	***Chief Officers***
Mr G.N. Cook	T. Capeling, Chief Fire Officer and also Clerk to the Authority (Chief Executive) from 16th November 2015
Miss G.M. Goodwill	D. Smith, Clerk to the Authority to 30th September 2015
Mr M. Knowles	S. Tognarelli, Finance Officer to 31st March 2016
M/s S. Joseph	B. Scarr, Finance Officer from 1st April 2016

Introduction

We are pleased to present the Statement of Accounts for the year 2015/2016 for Tyne and Wear Fire and Rescue Authority. A published and audited Statement of Accounts is at the heart of ensuring proper accountability for the use of local and national taxpayers' money. We recognise, however, that the Authority's accounts can only tell part of the story. The Authority needs to demonstrate that it is aiming to operate to the highest standard of conduct in accordance with the principles of Corporate Governance and continues to have a robust system of internal control in place.

With regard to Corporate Governance, the Authority considers, annually, a review of its Code of Corporate Governance. A report on the annual review will be received at a full meeting of the Authority in July 2016. The Code follows the framework recommended by CIPFA / SOLACE and the review specifically assesses the Authority's arrangements for compliance with the Code, which identifies the underlying principles of Corporate Governance – openness and inclusivity, integrity, and accountability. The review found that the Authority continues to have robust and comprehensive arrangements in place, but has identified a small number of areas for improvement and development which are not considered significant that will be acted upon during 2016/2017.

In line with guidance issued by CIPFA, the Authority operates a Governance Committee to take on the remit of an Audit Committee. The role of this Committee involves not only approving the Statement of Accounts, but also reviewing arrangements for areas such as risk management, treasury management, the wider internal control environment and also consideration of internal and external audit plans, progress reports and annual reports.

Elsewhere within the Statement of Accounts, an Annual Governance Statement has been included, which confirms that there are sound systems of Internal Control in place. We will also continue to ensure action is taken, where necessary, to maintain and develop the system of Internal Control for the Authority in the future.

Tom Capeling	Barry Scarr	Councillor Tom Wright
Chief Fire Officer and Chief Executive	Finance Officer	Chair of the Authority

Dated: 26th September 2016

Certification of the Statement of Accounts

Statement of Accounts 2015/2016 (Subject to Audit) Certification by the Responsible Finance Officer

As the Tyne and Wear Fire and Rescue Authority's Responsible Finance Officer, I hereby certify that in accordance with the Accounts and Audit Regulations 2011 Regulation 8 (1) the Statement of Accounts for 2015/2016 (subject to audit) presents a true and fair view of the financial position of Tyne and Wear Fire and Rescue Authority as at 31st March 2016 and its income and expenditure for the year then ended.

Mr B Scarr
Finance Officer

Dated: 28th June 2016

Audited Statement of Accounts 2015/2016 Certification on behalf of those charged with governance

As Chairman of the Governance Committee held on 26th September 2016, I hereby acknowledge receipt of the audited Statement of Accounts for 2015/2016 by this Committee, in accordance with the Accounts and Audit Regulations 2011 Regulation 8 (3) (a), and confirm that the Statement of Accounts was approved at the Governance Committee of 26th September 2016 in accordance with sub-paragraph 8 (3) (b) with regard to the aforementioned Regulations.

Mr G.N Cook
Chairman of the Governance Committee

Dated: 26th September 2016

Audited Statement of Accounts 2015/2016 Certification by the Responsible Finance Officer

As the Authority's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2015/2016 in accordance with Regulation 8 (1) of the Accounts and Audit Regulations 2011.

Mr B Scarr
Finance Officer

Dated: 26th September 2016

Narrative Statement – 2015/2016

Tyne and Wear Fire and Rescue Service

Tyne and Wear Fire and Rescue Service serves a resident population of 1.104 million spread amongst the five constituent councils of Gateshead, Newcastle, North Tyneside, South Tyneside and Sunderland in the North East of England. The population density of the area is comparable to that of other Metropolitan areas (Greater Manchester, Merseyside, South Yorkshire, West Midlands and West Yorkshire), and accounts for 43% of the North East's population in just 6% of the total land area. The area covered by the Service covers 538 square kilometres and borders with Counties of Durham to the south and Northumberland to the north.

In addition to Tyne and Wear's two major cities, Newcastle and Sunderland, the area boasts two large football stadiums, numerous museums and art galleries, three universities and a number of higher education colleges. The county has a range of well-developed transport links including the Metro light railway system, the UK's tenth busiest international airport, an international ferry terminal, two major ports, and Newcastle Central Railway Station which acts as a major staging point on the east coast mainline railway and cross country networks.

Traditional employment areas of shipbuilding, coal mining and heavy industries have declined significantly over the last 25 years, giving rise to a changing risk profile, and transitions in unemployment rates. Today, many of the traditional industries have been replaced by modern industrial developments and service based organisations, although manufacturing remains a sizeable sector (producing almost a quarter of the area's GDP). Some of the largest employers in the area include Nissan Motor Manufacturing (UK) Ltd, AA Insurance, The Sage Group and Komatsu.

Vision and Purpose

The Vision Statement of Tyne and Wear Fire and Rescue Service **'Creating the Safest Community'** is reflected by its Mission Statement **'To save life, reduce risk, provide humanitarian services and protect the environment'**.

To achieve this Vision, the Fire and Rescue services provided must:

- be **well managed** - employees are expected to manage the areas for which they are responsible within budget;
- aim for **excellence in service provision** taking account of stakeholders' views; and
- work **in effective partnership** with the communities we represent, and external organisations.

The Service also recognises that all employees need to have a clear understanding about the working practices and the core values required for long term success. Everyone within the Authority has a responsibility for ensuring these values are implemented and upheld.

The Authority publishes an Annual Report to highlight its successes over the previous twelve months, including its performance against national indicators and the opinions of external inspectors, as well as outlining details of the improvements introduced to meet the Authority's vision of "Creating the Safest Community".

The latest Annual Report includes a summary of the Statement of Accounts, designed to encourage more people to take an interest in the Authority's financial position in an easy to read format. Further details can be found on the Authority's website at www.twfire.gov.uk.

Performance

The Fire Authority is responsible for Tyne and Wear Fire and Rescue Service and is required by law to publish certain performance indicators annually in the local press. These show the statistical performance of the brigade but cannot provide any indication of the true quality or scope of the service delivered every day to the citizens of Tyne and Wear.

Narrative Statement - 2015/2016 (continued)

Summary of Performance

The Authority's key strategic priority is to prevent fires, deaths and injuries from fires and other emergencies. In order to achieve this goal, wide ranging community safety services, legislative fire safety services and operational response services are provided to the public of Tyne and Wear. The primary focus is to prevent fires and other emergencies from occurring, whilst also ensuring that if they do occur, every attempt is made to limit their impact.

The primary mechanism for achieving this is through the Authority's Strategic Community Safety Plan, which is focused on improving overall community safety through more effective and efficient use of resources to drive down incidents and respond to them more effectively.

In addition, the Authority continues to work with local schools, businesses, residents and community groups with the overall aim of reducing the risk of injuries and death from fire. The main thrust of community safety, however, is targeted home safety checks, which involve Community Firefighters and Prevention and Education staff visiting homes to deliver fire safety advice and practical support, such as installing smoke detectors. During 2015/2016, the Service carried out 29,536 home safety checks (30,504 in 2014/2015) and attended a total of 14,377 incidents (14,501 in 2014/2015).

Service Led Priorities

Service led priorities, as defined by the Government, are no longer required to be reported nationally but allow continuity of performance reporting. The table below sets out the performance over the last three years:

Performance Indicator	2013/2014	2014/2015	2015/2016
Number of fatalities from all fires	0	3	2
Number of injuries from accidental dwelling fires	58	47	40
Number of accidental fires in dwellings	570	575	554
Number of false alarms due to automatic fire detection from non-domestic properties	2,456	2,531	1,816
Number of primary fires	1,599	1,575	1,663
Number of deliberate fires	4,815	3,989	4,045

The Authority has a long track record of reducing fires and, in 2015/2016, reported positive performance on a number of key areas relating to operational and organisational performance. The service attended 554 accidental fires in the home, a 3.7% reduction from the previous year (575 in 2014/2015). At the same time there was a 15% reduction in injuries from the accidental dwelling fires, to 40 in 2015/2016 from 47 in 2014/2015. Although the numbers of primary and deliberate fires have risen in 2015/2016, the overall trend is that of reducing numbers over the last ten year period.

Performance Improvement

Through the delivery of goals, priorities, strategies and plans, the Service is able to ensure that front line services work towards the overall vision and mission. Frameworks and processes allow the services provided to be monitored and scrutinised to provide continuous improvement.

Performance Action Groups (PAG) address performance at a district and service level and continue to meet to monitor performance and identify areas for improvement by directing resources and establishing priorities with effective delivery of initiatives and projects.

Efficiency

The Authority produces a fully costed Integrated Risk Management Plan (IRMP) which reflects local needs and sets out plans to effectively tackle existing and potential risks to communities. The actions from the 2014-2017 Integrated Risk Management Plan (IRMP) reviews have been progressed during 2015/2016 and are detailed further on the next page. Additional efficiency savings of £0.614m have also been achieved over and above the IRMP actions developed during the year.

The second phase of the Response Review is almost complete, generating £1.151m of savings for the Authority in 2015/2016. Further phasing in of the Response Model Review will generate estimated savings of £2.678m over the next three years, with the total saving anticipated to be £4.795m once fully implemented in 2018/2019. In addition, a further £0.212m and £0.090m will be achieved from the final stages of bringing Control in House and the completed and fully implemented Catering Review. These have been built in to the budget for 2016/2017.

Once the Trading Company is fully established and operational, the Authority will receive the benefit of any surplus funds, the timing of which will be included in the Authority's Budgets as they are confirmed.

A further two IRMP 2014-2017 reviews, an organisational review covering all aspects of the Authority's structures and joint working with other emergency services and key partners, are being progressed and, once completed, will help to address the budget gap in resources that the Authority faces due to continuing reductions in government funding. However, depending on the savings realised, further IRMP actions may need to be developed by the Authority.

In addition, the Authority is also committed to regularly delivering further efficiency savings through:

- following best practice in relation to procurement of goods and services;
- working in collaboration with partners both locally and regionally where practical;
- carrying out regular base budget reviews; and
- continuing policy and service reviews.

Funding Context and Financial Planning

Financial Outlook for the Authority

In February 2016, the Government confirmed the local government finance settlement for 2016/2017 and projections for the following three years up to 2019/2020. The main details included the following:

The funding implications over the next four years are slightly better than forecast but the Authority's overall financial position remains very challenging. Although the Settlement appears to show that the more deprived areas, mainly the Metropolitan Fire Authorities, have lower overall percentage cuts to government funding, because of a fairer approach adopted by government from 2016/2017 onwards, when locally generated resources are also taken in to account, the more deprived areas still show greater reductions to their overall resources, known as the Core Spending Power, than other types of fire authority. The revised grant distribution methodology also does not address the inequalities experienced by the Authority from 2010/2011 to 2015/2016.

The safety net threshold set to limit the losses on Business Rates income collected in any one year has been retained. However, the limit has been further increased to £13.160m in 2016/2017 so it is very unlikely that this threshold will be reached and, as such, provides little protection to the Authority.

The Government has retained the threshold council tax limit to hold a referendum at 2% in 2016/2017 and has advised that there will be no further allocations of Council Tax Freeze Grant. It has also built in to the four year settlement assumed increases to both business rates and council tax. This is therefore seen as a major shift in government policy, with some of the cuts to local government being passed directly on to the council tax payer through anticipated annual council tax increases up to 2019/2020.

The key elements of the Authority's settlement for 2016/2017 are:

- Compared to the national position, a reduction in the Government's Core Spending Power for the Authority of £0.925m or 1.9% to £48.394m, compared to an adjusted 2015/2016 position of £49.319m;
- The bulk of the cut is in respect of a reduction in the Settlement Funding Assessment (SFA) of £1.674m or 5.67% (the element in the grant formula that recognises need and available resources);

Narrative Statement – 2015/2016 (continued)

- An additional grant to compensate for the gap between the capped business rates of 2% and the applicable (higher) actual RPI that was prevalent in the past two financial years (2014/15 and 2015/16). The Authority's SFA Adjustment grant allocation for 2016/2017 is still unknown; and
- The Authority did not receive any of the £300m additional transitional grant funding announced for 2016/2017 and 2017/2018.

The Government has provided indicative funding allocations up to 2019/2020 and has made a commitment to provide central funding allocations for each year of the Spending Review, should authorities choose to accept the offer and publish an efficiency plan. The Authority will consider the position and a detailed report will be presented to members in September, in order to notify Government of their decision by the deadline of 14th October 2016. In addition, the indicative figures take no account of the proposed Business Rates Review and the move to 100% Retained Business Rates in 2020, which could impact on the final allocations.

Against this context of significant and continuing grant reductions, the Authority has published a revised Medium Term Financial Strategy (MTFS), which covers the period 2016/2017 to 2019/2020 and can be found on the Authority's website (15th February 2016 Authority meeting). This aims to:

- provide an analysis of the financial position likely to face the Authority over the medium term and establish approaches to address the Strategic Priorities of the Authority as set out in the current Integrated Risk Management Plan which will achieve value for money in the use of those resources;
- set out the medium term financial position which the Authority is likely to face and to update the Budget Planning Framework for the preparation of future Revenue and Capital Budgets; and
- set out actions to be taken in the short to medium term to mitigate against the significant grant reductions already detailed and to prepare for the additional grant reductions expected in the next three year period to 2019/2020.

In summary the MTFS over the 4 year period up to the end of 2019/2020, using the government's funding projections, shows that the Authority is facing a budget gap of £2.830m despite taking into account anticipated future IRMP savings of £3.358m. However, this is viewed as the best case position as some of the government's estimates for growth in local resources, particularly those assumed for council tax, are considered overly optimistic and in excess of the Authority's estimates. If the Authority's estimate for Council Tax growth is used instead of the government's figures then the projected budget gap increases to £3.648m.

In light of this position and the anticipated prolonged funding reductions over the next four years, the Authority is assessing how its current actions set out in the Integrated Risk Management Plan (IRMP 2014-2017) can help to address the significant potential funding gap that the Authority is projecting. This is particularly important as the Authority has little scope to increase its local resources when the government has already built in an assumption that council tax will increase by CPI in terms of precept levels and has also assumed growth in business rates in its 4 year settlement.

In the meantime the Authority continues to implement a major review of its Fire Cover Response Model which, along with other measures established within the 2014-2017 IRMP, will help to address the continuing reductions in government funding. Depending on the savings realised, further IRMP actions will need to be considered and developed to address the estimated budget gap.

Financial Performance of the Fire Authority 2015/2016

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2015/2016 to be met from Government Grants and local taxpayers was approved by the Authority at £49.806million*. This meant that the precept, at the Band D level of Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts, was set at £74.62 for 2015/2016. This represented a 1.99% increase in Band D, below the Government's 2% referendum threshold level.

Narrative Statement – 2015/2016 (continued)

The following table summarises the financial position for the year:

	2015/2016 Original Estimate £000	2015/2016 Revised Estimate £000	2015/2016 Actual Outturn £000		2014/2015 Actual Outturn £000
Community Safety	**5,835**	**6,179**	**4,408**		5,604
Fire Fighting and Rescue Operations	**44,053**	**44,318**	**25,743**		27,828
Corporate and Democratic Core	**275**	**275**	**183**		242
Non Distributed Costs	**(67)**	**(67)**	**785**		452
Exceptional Items – Revaluation Losses	**0**	**0**	**0**		2,753
Net Cost of Services	**50,096**	**50,705**	**31,119**		36,879
(Gain) / Loss on Derecognition of Non Current Assets	**0**	**0**	**564**		0
Cleaning DSO (Surplus) / Deficit	**0**	**0**	**0**		(34)
Interest Payable	**0**	**0**	**2,601**		2,662
Contingencies	**1,248**	**1,042**	**0**		0
Interest on Balances	**(225)**	**(225)**	**(153)**		(160)
Pension Interest Cost and Expected Return on Pension Assets	**590**	**590**	**25,880**		32,250
Net Operating Expenditure	**51,709**	**52,112**	**60,011**		71,597
Capital Financing:					
Reversal of Capital Charges and Impairments	**(2,968)**	**(2,968)**	**(3,821)**		(3,837)
Minimum Revenue Provision	**1,238**	**1,238**	**1,481**		1,489
Revenue Contribution to Capital Outlay	**495**	**495**	**5,738**		3,601
Reversal of Loss on Disposal of Fixed Assets	**0**	**0**	**0**		0
	50,474	**50,877**	**63,409**		72,850
Contribution to/(from) IAS 19 Pension Reserve	**(561)**	**(561)**	**(12,020)**		(18,730)
Contribution to/(from) Collection Fund Account	**0**	**0**	**147**	*	34
Contribution to/(from) Accumulated Absences Account	**0**	**0**	**(95)**		79
Contribution to/(from) Earmarked Reserves	**(107)**	**(510)**	**(1,487)**		(2,395)
Net Budget	**49,806**	**49,806**	**49,954**		51,838
Resources:					
Revenue Support Grant and General Grants	**(14,945)**	**(14,945)**	**(14,945)**	*	(17,816)
Top Up Grant	**(9,980)**	**(9,980)**	**(9,980)**	*	(9,793)
Business Rates and Collection Fund	**(4,475)**	**(4,475)**	**(4,424)**	*	(4,208)
Precepts and Collection Fund	**(20,406)**	**(20,406)**	**(20,666)**	*	(20,032)
Total Resources	**49,806**	**49,806**	**50,015**		51,849
(Increase) / Reduction to Balances in year	**0**	**0**	**(61)**		(11)
General Fund Balance Brought Forward	**(3,882)**	**(3,882)**	**(3,882)**		(3,871)
General Fund Balance Carried Forward	**(3,882)**	**(3,882)**	**(3,943)**		(3,882)

* In the accounts, the Net Budget Requirement for 2015/2016 of £50.015m is made up of Total Resources of £49.806m as set out in the estimates in the above table, plus an amendment required under the Code in respect of the Collection Fund Account of £0.147m and additional section 31 grant received during the year of £0.085m, less repayment of Business Rates Reconciliation Grant of £0.024m.

Comprehensive and detailed budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the full Authority. These reports detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items, including Treasury Management and Prudential

Indicators. Again, this reflects strong and robust financial management in 2015/2016, continuing the Authority's strong track record in this regard.

The Revenue Budget Outturn for 2015/2016 was reported in June showing a net overall underspend of £0.589m, at £49.217m compared with an original budget of £49.806m. The reasons for this variation are detailed below:

- Employee costs – a total net overspend of £0.078m. Planned lower net staffing costs in preparation for the IRMP establishment changes and a continued increase in firefighter turnover through higher than expected pension take up, along with lower employer pension costs have almost absorbed the continuing industrial action costs and the interim overtime costs while the IRMP staffing reviews are being fully reviewed and implemented;
- Premises – an underspend of £0.026m. Savings have been made on utility service costs, but these have been partly reduced by increased business rates from the move from Fulwell to the new Marley Park station during the year;
- Transport – an underspend of £0.171m primarily from reduced fuel costs and lower annual vehicle insurance charges;
- Supplies and Services – an overspend of £0.113m primarily due to payment of the agreed loan to the Trading Company (Impeller Resilience and Assurance Ltd) being absorbed from the revenue budget rather than funded from earmarked reserves, as originally planned;
- Contingencies – an underspend of £0.052m as part of the contingency set aside when setting the budget has not been required during the year;
- Income – an overachievement of £0.410m largely due to receipt of Transformation Revenue Grant and an unexpected Section 31 revenue (Response) grant, an increase in receipts from backdated NNDR refunds and an increase in fees and charges income from secondments, new police collaboration rental arrangements, and income from trading activities;
- Interest received - £0.071m under budget due to reductions in cash flow levels and a drop in interest rates for short term monies;
- Reserves and Provisions Appropriations - £0.278m increase predominantly due to the use of the Organisational Change Reserve to fund one-off transitional costs incurred during the year, and year end accounting entries required for the IFRS employee benefits; and
- Other minor miscellaneous overspendings of (£0.086m) across a number of budget headings;

At the meeting of the Fire Authority in June, Members agreed to appropriate £0.355m of the underspend to the Organisational Change Reserve to fund the cost of the agreed Leadership Development Programme, and £0.235m to the Capital Development Reserve to support the proposed Hebburn Fire Station development included in the Capital Programme for 2017/2018.

As part of the accounts process there were a number of adjustments to be made in respect of the final Government funding received, resulting in additional grant of £0.061m. This position is now reflected in the accounts and these funds have been transferred to the General Fund. The table on page 10 shows the General Fund Balance of the Authority as at 31st March 2016 increased to £3.943m from £3.882m as a result.

During the audit of the accounts there was a change made to the Minimum Revenue Provision charge for 2015/2016. This resulted in an additional transfer of £0.102m being made to the Capital Development Reserve to assist in the financing of future development plans set out in the Capital Programme.

Accounting for Pensions

International Accounting Standard 19 (IAS19)

The Authority's accounts continue to be compliant with International Accounting Standard 19 which is a complex accounting standard. It is based on a simple principle, however, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the Pension Fund Administrator to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (through reduced contributions) from a surplus in the Pension Fund.

The last full actuarial valuation of the Pension Fund was carried out as at 31st March 2013 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2016. The Authority, as such, continues to comply fully with this Standard and the

Accounting Policy 1.13 in the Statement of Accounts on pages 40 to 42 and the Notes to Core Financial Statements provide details of the necessary disclosures required.

The net overall impact of IAS19 accounting entries is neutral in the accounts and, in reality, as the Authority is making the necessary pension deficiency payments to address any assessed shortfall in the pension fund by the Actuary over time, the Balance Sheet net worth is in effect being distorted by future years' deficits which are being fully addressed by the Authority.

The financial health of the Authority is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit reflected in the Balance Sheet on Page 30 of the Statement of Accounts, as assessed by the Actuary as at 31st March 2016, is being addressed by the Authority in line with government regulations whereby a period of 21 years to correct the deficit position has been agreed. The Authority can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

Arrangements for Funding and Accounting for Firefighter Pensions

From 1st April 2006, revised arrangements came into effect for funding firefighter pensions, with Fire and Rescue Authorities administering and paying firefighters' pensions through a local firefighters' pension fund. Together, employee and employer contributions meet the accruing pension liabilities of currently serving firefighters, meaning that Fire and Rescue Authorities meet all of the costs of employing a firefighter, including the cost of future pension liabilities, at the time of employing them.

Ill-health costs are paid by the Authority from its pension fund. Employer payments towards the future cost of ill-health retirements come from a combination of a flat rate employer contribution applicable to all authorities and from an individual charge payable by the relevant Authority where an ill-health retirement occurs. The Authority has invested in health awareness and intervention measures through its Occupational Health Unit and it is pleasing to report that there have been only two firefighter ill health retirements since 2009/2010 to date.

Employee and employer contributions are paid into the pension fund each year, with the fund being topped up by annual Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus is recouped by the Government. The pension fund is ring-fenced to ensure accounting clarity. As such, a Pensions Fund Account and Net Assets Statement are reported as separate supplementary financial statements within the Authority's Statement of Accounts.

Balance Sheet Position

The Balance Sheet shows the value at the balance sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by reserves held by the Authority. The following table summarises the balance sheet position:

Narrative Statement – 2015/2016 (continued)

	Balance at 31st March 2015 £'000	Balance at 31st March 2016 £'000
Non-current assets	65,671	**67,430**
Net current assets	29,611	**33,487**
Long term liabilities and provisions	(828,336)	**(735,134)**
Net Assets	(733,054)	**(634,217)**
Represented by:		
Usable reserves	34,240	**32,814**
Unusable reserves	(767,294)	**(667,031)**
	(733,054)	**(634,217)**

Assets are items of worth measurable in terms of money (value). Non-current assets are fixed assets that yield benefit to the Authority and the services it provides for a period of more than one year. Current assets are those that may change in value on a day-to-day basis (e.g. Inventories).

Liabilities are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date and are included in 'net current assets' above.

Provisions are sums set aside to meet liabilities or losses which it is anticipated will be incurred but the amount and / or the timing of such costs are uncertain.

Reserves are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred. Not all reserves can be used to fund services and these are reported in two groups, 'usable' and 'unusable' reserves. Usable reserves, such as the General Fund and earmarked reserves, are those where members will be involved in deciding on the levels maintained and their use. Unusable reserves, such as the Revaluation Reserve and the Capital Adjustment Account, are technical accounting requirements and are therefore not cash reserves, which is why they are classified as unusable to reflect this fact.

The Authority is a going concern due to the fact that, whilst recognising that the Authority has a negative net worth of £634.217m on its Balance Sheet, most of the 'deficit' relates to the pensions deficiency of £698.540m which must be disclosed as part of the international financial reporting standard IAS19 (Accounting for Pensions) requirements.

The fact all pension costs would never be incurred in one year (as implied by IAS19), and coupled with the fact that the Authority is addressing this potential deficiency over a 21 year period in accordance with pension requirements by making additional annual pension deficiency payments, means the Balance Sheet Net Worth is effectively being distorted by this reporting standard.

If this element is removed then the Authority has a 'real' net worth of £64.323m. The Authority also has assets worth £67.430m and cash backed reserves of £32.814m which support the view that the Authority's Balance Sheet and finances are in fact healthier than implied by the published accounts.

Capital Expenditure and Income and Major Acquisitions, Capital Works and Disposals

Capital Expenditure

The Authority approved a capital programme for 2015/2016 of £5.302m, which was subsequently revised to £6.921m during the year. Actual expenditure for the year was £6.147m, financed from a combination of revenue contributions of £0.197m, grant funding of £3.856m and earmarked reserves of £2.094m.

The main reasons for the variation in spending of £0.774m have arisen due to the following:

- Expenditure on a number of projects planned for 2015/2016 of £0.983m slipped into 2016/2017:

- Business case agreed to replace the HR/MIS software commenced in January 2016 to be completed by July 2017;
- Delayed delivery of the new asset management system;
- Delayed delivery of the vehicle charging points;
- Delays with the contractor on the PV cells project at Tynemouth Station;
- Late addition to the programme to reconfigure the car park at West Denton so this will continue in to 2016/2017;
- Negotiation with the contractor on the final payment for works at Marley Park;
- Awaiting decisions to be made on modifications to the final Targeted Response Vehicle;
- Continuation of work on the cold cutting extinguishing system;
- Deferred final payment of the new Command and Control system until the contract is agreed;
- Delayed replacement of the BA compressors due to information gathering;
- Continuation of works on the Police Integration Project; and
- Replacement of the foam and firefighting equipment not required until 2016/2017;

- A small saving of £0.003m to the Vehicle Replacement Programme as lease buyouts have been funded from the revenue leasing budget;
- Net underspends on a number of schemes completed during the year of £0.085m; and
- Additional capital of £0.297m was funded from the Community Safety Reserve.

Acquisitions and Capital Works

The Authority is involved in a number of major capital works projects. The main schemes are listed below, for information, together with the amounts of expenditure incurred during 2015/2016, the total estimated gross cost of each scheme, and the status of the project at the end of the financial year.

Scheme / Project	Expenditure During 2015/2016 £'000	Total Estimated Scheme Costs £'000	Completed / In Progress as at 31st March 2016
Command and Control Project	490	1,793	In Progress
Estates Development Strategy	2,279	6,512	In Progress

Disposals

There have been no disposals during 2015/2016.

Authority's Current Borrowing and Capital Borrowing Provision

The Capital Programme report, incorporating the Prudential Indicators and the Treasury Management Strategy, was submitted to the Authority meeting on 15th February 2015, which detailed the 2015/2016 borrowing limits for the Authority. All borrowing is undertaken by the Lead Authority (Sunderland City Council) on the Authority's behalf.

The specific borrowing limits set each year relates to two of the Prudential Indicators required under the Prudential Code, which was introduced from 1st April 2004.

- Authorised Limit for External Debt for 2015/2016 of £54.905 million;
- Operational Boundary for External Debt for 2015/2016 of £49.905 million.

The Lead Authority administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP). The above two statutorily required Prudential Indicators are monitored on a daily basis and neither limit has been exceeded during 2015/2016. The highest level of external debt incurred by the Authority during 2015/2016 was £36.813m on 1st April 2015. This includes £23.321m in relation to the Authority's long term liabilities (consisting of its PFI Schemes commitments and finance leases) which forms part of both borrowing limits in order to comply with IFRS accounting requirements.

Narrative Statement - 2015/2016 (continued)

Private Finance Initiative (PFI)

The Authority entered into a contract on 28th March 2003 to provide facilities at six new Community Fire Stations, a Service Headquarters and a new Technical Services Centre. These PFI facilities are located on more effective sites, designed and located to meet the Authority's strategic objectives. Improved community outcomes are being delivered through better engagement with communities through these facilities and the scheme has enabled a major redesign of service delivery. The contract expires on 2nd May 2029 when all of the facilities will become the assets of the Authority.

In June 2009 the Authority also entered into a separate and collaborative PFI contract with Northumberland FRA and Durham and Darlington FRA to provide a new Community Fire Station at Tynemouth. The North East Fire and Rescue Authority (NEFRA) contract expires in May 2035.

The Authority's costs of both schemes are included within its financial statements.

Estates Development Plan

The Authority is delivering the current estates development plan in conjunction with the Lead Authority and its partners. This includes:

- the continued alteration of premises to ensure that facilities continue to comply with the issues of equality, diversity, dignity and health and safety;
- modifications to buildings in order to minimise carbon emissions; the requirement to comply with organisational targets to reduce Carbon footprint, and to conserve more energy;
- continued modifications to the estate with a proactive preventative maintenance programme to ensure that buildings are of a suitable, modern and acceptable standard in order to best deliver services; and
- work continues on certain buildings to secure joint working arrangements agreed with the Police and Crime Commissioner for Northumbria as part of greater collaboration with other 'blue light' services.

The Authority has a Development Reserve to assist in implementing the estates development plan over the medium to long term, and specific earmarked reserves have been established to address issues arising from the Carbon Management Plan, equality and diversity measures and greater collaboration joint working arrangements.

Financial Statements

The Statement of Accounts shows the Authority's final accounts for 2015/2016. They have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016' and are based on International Financial Reporting Standards (IFRS), known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2011, and the Local Government and Housing Act 1989.

Certain financial statements are required to be prepared under the Code of Practice as follows:

1. **Statement of Responsibilities**
   This discloses the respective responsibilities of the Authority and the Finance Officer.

2. **Movement in Reserves Statement (MiRS)**
   This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other non-usable reserves.

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

Narrative Statement – 2015/2016 (continued)

4. **Balance Sheet**
The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by reserves held by the Authority.

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

6. **Notes (including a summary of significant accounting policies and other explanatory information)**

The Notes to the financial statements have three significant roles. They:
- Present information about the basis of preparation of the financial statements and the specific accounting policies used;
- Disclose information that is required by the Code that is not presented elsewhere in the financial statements; and
- Disclose information that is not presented elsewhere in the financial statements but is relevant to an understanding of them.

7. **Supplementary Statements**
Firefighters' Pensions – Fund Account, Net Assets Statement and Notes
These statements summarise the transactions and the net assets relating to the Firefighters' Pension Fund, which are required to be reported separately within the Statement of Accounts for the Authority.

Barry Scarr
Finance Officer

Dated: 26th September 2016

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 (the Finance Officer) is the Director of Finance of the Lead Authority (Sunderland City Council);

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- approve the Statement of Accounts.

The Finance Officer's Responsibilities

The Finance Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016 (‘the Code’), is required to show a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2016.

Authorised for Issue Date

The unaudited accounts were certified on 28th June 2016 and the audited accounts were authorised for issue on 26th September 2016.

I certify that, in preparing this Statement of Accounts, I have:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent; and

- complied with the Code, except where disclosed.

I have also:

- kept proper accounting records which were up to date; and

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Barry Scarr
Finance Officer

Dated: 26th September 2016

Independent Auditor's report to the Members of Tyne and Wear Fire and Rescue Authority

Opinion on the Authority financial statements

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

This report is made solely to the members of Tyne & Wear Fire and Rescue Authority in accordance with Part 5 of the Local Audit and Accountability Act 2014, and paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the Tyne & Wear Fire and Rescue Authority, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Finance Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

In our opinion, the information given in the Narrative Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 24, schedule 7 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24, schedule 7 of the Local Audit and Accountability Act 2014; or

Independent Auditor's report to the Members of Tyne and Wear Fire and Rescue Authority (continued)

- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.
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Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

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

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office, requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources
We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the National Audit Office and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office, we are satisfied that, in all significant respects, Tyne & Wear Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate
We certify that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Mark Kirkham
For and on behalf of Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham DH1 5TS

26 September 2016

Annual Governance Statement

SCOPE OF RESPONSIBILITY

Tyne and Wear Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Authority has had a Code of Corporate Governance in place since 2003, revised during 2014/15. The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. The revised Code is available on the Authority's website (www.twfire.gov.uk) or can be obtained from the Fire and Rescue Service Headquarters.

This Statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement of internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework primarily includes systems and processes and culture and values by which the Authority directs and controls its activities and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Authority for the year ending 31 March 2016, during the approval of the Annual Report and Statement of Assurance and Statement of Accounts.

THE GOVERNANCE FRAMEWORK

There is a clear vision of the Authority's purpose and intended outcomes for service users that is clearly communicated, both within the organisation and to external stakeholders:

- The Strategic Community Safety Plan draws together a shared vision, principles for action and priorities (strategic objectives). For each strategic objective, key targets have been identified. The Plan sets out explicitly the key actions and performance targets for the future, and these are clearly linked with departmental / district service plans and resources. The Plan outlines the Authority's roles and responsibilities, the context in which it operates, what the strategic priorities and improvement objectives are, how the Authority will realise its vision, what its performance improvement and monitoring arrangements are, performance indicators and a financial overview. The financial overview section provides background commentary to the issues the Authority has considered in setting the budget and in preparing the Medium Term Financial Strategy.

- The Strategic Community Safety Plan incorporates our Integrated Risk Management Plan (IRMP) actions which recognises the risks within the Authority boundaries that are identified in the Community Risk Profile and need to be addressed, and ensures that the available resources are targeted at these risks.

- Communication of objectives to staff and stakeholders takes place through the following means:

    - Distribution of the Strategic Community Safety Plan on the Authority's website and intranet;
    - Consultation with staff, public and stakeholders on IRMP proposals;
    - The issue of an Annual Report and Statement of Assurance setting out the Authority's priorities, how the Authority spent money on achieving these during the last financial year, and how successful the Authority has been;
    - Through the Authority's Investors in People processes;
    - Listening events and management/staff briefings; and
    - Posters throughout the Authority's premises.

Arrangements are in place to review the Authority's vision and its implications for the Authority's governance arrangements:

- The Strategic Community Safety Plan, the Integrated Risk Management Plan and all priorities are regularly reviewed to provide a long-term focus for the Authority.

- Through reviews by external bodies the Authority constantly seeks ways of securing continuous improvement. The Authority has professional and objective relationships with these external bodies.

- There are comprehensive annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources:

- There are clear and effective performance management arrangements including personal development plans for all staff, which address financial responsibilities and include equality objectives.

- There is regular reporting of performance against key targets and priorities to the Authority's Strategic Management Team, the Governance Committee and the Policy and Performance Committee.

- Services are delivered by suitably qualified/trained/experienced staff and all posts have detailed job profiles/descriptions and person specifications.

- External auditors deliver a conclusion annually on whether the Authority has, in all significant respects, proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

The roles and responsibilities of all officers and staff are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

- Standing Orders and Financial Regulations are in place and these set out how the Authority operates and how decisions are made, including a clear Delegation Scheme.

- The Standing Orders and Delegation Scheme indicates responsibilities for functions and sets out how decisions are made.

- The Standing Orders contain the Terms of Reference of the full Authority and other committees, setting out executive and scrutiny functions within these.

Codes of Conduct defining the standards of behaviour for Members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

- The following are in place:
  - Members' Codes of Conduct;
  - Employees' Code of Conduct;
  - Registers of Interests, Gifts and Hospitality; and
  - Monitoring Officer Protocols.

Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

- The Director of Corporate Services at Sunderland City Council is the designated Finance Officer in accordance with Section 151 of the Local Government Act 1972 and Section 73 of the Local Government Act 1985 ensuring lawfulness and financial prudence of decision-making, and is responsible for the proper administration of the Authority's financial affairs.

- The Deputy Clerk is the Authority's Monitoring Officer who has maintained an up-to-date version of the Standing Orders and has endeavoured to ensure lawfulness and fairness of decision making.

- The Authority has in place up to date financial procedure rules and procurement rules which are subject to regular review.

- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

  - Whistle blowing Policy;
  - Anti-Fraud and Corruption Policy;
  - Codes of Conduct;
  - Health and Safety Policy;
  - Compliments, Comments and Complaints Policy;
  - Corporate Risk Management Strategy;
  - Procurement Codes of Practice;
  - Partnerships procedure;
  - Treasury Management Strategy based upon CIPFA's Treasury Management Codes; and
  - Functional budget management schemes.

- There are robust and well embedded risk management processes in place, including:

  - Risk Management Strategy and Policy Statement;
  - Corporate Risk Profile;
  - Integrated Risk Management Plan;
  - Nominated Risk Manager;
  - Corporate Risk Management Group;
  - Partnerships Risk Register;
  - Member Risk Champion;
  - Risk Management and Assurance Database;
  - Information Asset Register; and
  - Information Asset Management Policy.

Annual Governance Statement (continued)

- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts.

- The Authority has achieved accreditation to ISO22301 for Business Continuity, and Business Continuity Plans are in place which are subject to ongoing review, development and testing.

- There are clearly defined capital expenditure guidelines and capital appraisal procedures in place.

- Appropriate project management disciplines are utilised.

- The Authority participates in the National Fraud Initiative and subsequent investigations.

The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*, are undertaken by members.

The Authority has a Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the Authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;

- be satisfied that the Authority's assurance statements, including the Statement of Internal Control, properly reflect the risk environment and any actions required to improve it;

- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;

- receive and consider the external audit plan;

- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;

- receive and consider the annual report of internal audit;

- consider the reports of external audit and inspection agencies, including the Annual Audit and Inspection Letter;

- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and

- make recommendations or comments to the Authority as appropriate.

Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members:

- The Deputy Clerk is the Authority's designated Monitoring Officer and a protocol is in place with all Principal Officers, to safeguard the legality of all Authority activities.

- The Authority maintains an Internal Audit Service, provided by Sunderland City Council.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

- The Authority is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Authority, a Member, or any member of the public, has serious concerns regarding the conduct of any aspect of the Authority's business, they can do so through a variety of avenues, promptly and in a straight forward way.

- The framework is in place to ensure the aims of this policy are met are set out in the 'Whistle Blowing Policy Arrangements' procedure for Authority staff. Members of the public currently raise issues through the Compliments, Comments and Complaints procedure and there is also a whistle blowing policy and procedure for members of the public.

- Monitoring records held by the Deputy Clerk on behalf of Members, and the Chief Fire Officer on behalf of staff and members of the public reveal that the whistle blowing arrangements are being used, and that the Authority is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

Arrangements exist for identifying the development needs of members and Principal officers in relation to their strategic roles:

- The Authority has a Members Learning and Development Programme in place which sets out a clear commitment to Members to provide a range of learning and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Authority strategic objectives. In addition Members have access to their nominating authority learning and development policies, plans and procedures.

- The Elected Member Learning and Development Programme aims:

    - To provide comprehensive Member development;
    - To ensure that all newly elected Members are properly inducted into the Authority;
    - To ensure that all emerging needs for both individuals and across the board are identified and addressed; and
    - To ensure that resources available for Member development are effectively used.

- The Authority has a Human Resource Strategy to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices and is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual performance review focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Authority.

Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:

- The Authority has a Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Authority and with partner agencies, impacts on service delivery, and is delivered to a high standard.

- The strategy is complemented by the Community Engagement Strategy which outlines the Authority's approach to engaging with the community, in particular minority and vulnerable sectors of society.

Annual Governance Statement (continued)

Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the Authority's overall governance arrangements:

- The Authority has published a Partnerships Procedure which includes a template for Partnership Agreements and a Partnership Toolkit. This has been revised in 2015. The procedure is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.

- A Register of Partnerships is maintained. The deliverables of all prospective and existing partnership is closely measured using a standard framework.

- A review of all partnerships is presented to the Strategic Management Team on an annual basis.

- An Information Sharing Protocol is also in the final stages of development which will underpin Information Sharing Agreements with partners.

REVIEW OF EFFECTIVENESS

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

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The role of the Authority:

  - Elected Members have participated in the annual review of the Authority's Corporate Governance arrangements; and

  - The Chair of the Authority, the Chief Fire Officer and the Finance Officer have overseen the review and signed the Annual Governance Statement.

- The role of the Strategic Management Team:

  - The findings of the Annual Governance Review have been reported to the Strategic Management Team for their consideration and approval of the Annual Governance Statement.

- The role of the Governance Committee:

  - The findings of the Annual Governance Review have been reported to the Governance Committee. Under their Terms of Reference the Governance Committee has satisfied itself that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

  - There is a system of scrutiny delivered through the HR Committee, Governance Committee and the Policy and Performance Committee including scrutiny of:

    - the effectiveness of corporate governance arrangements;

    - the Authority's treasury management policy and strategy, including the annual borrowing and investment strategy;

- organisational performance; and
- potential for future changes in service provision based on relevant performance information, risk analysis and changes in economic, social and environmental conditions or statutory requirements.

All Area Managers have participated in the annual governance review relating to their areas of responsibility by providing Controls Assurance Statements relating to their area of responsibility, following consideration of their department heads' detailed self-assessments / questionnaires.

Internal audit planning processes include consultation with the Principal Officers, reviews of the Strategic Community Safety Plan, Integrated Risk Management Plan and the Corporate Risk Profile. Audit work is risk based and includes risks in relation to the achievement of Service objectives, and Internal Audit Services carry out regular systematic auditing of key financial and non-financial systems.

External audit is now undertaken by Mazars, a private company appointed by the Audit Commission for this purpose. The Annual Audit Letter gives independent assurance of financial control and Value for Money (including financial resilience and the overall efficiency and effectiveness of the Authority).

In the latest Annual Audit Letter covering 2014/15, Mazars issued an unqualified conclusion on both financial arrangements and Value for Money, and identified no significant weaknesses in the Authority's arrangements for internal control. Their report included comments that:

- The Authority has maintained its strong record in the delivery of its action plans and its budgets;
- The Authority maintains healthy financial reserves to help it manage the future cuts that are likely to be required;
- Performance is good overall and the Authority is still driving improvement despite spending cuts;
- The Authority continues to deliver savings arising from Integrated Risk Management Plan (IRMP) action plans and has recently set out the timescale for the remaining actions necessary for the implementation of the Review of the Operational Response IRMP Plan;
- Overall, the Authority has responded well to the financial pressures it has faced, at a time of unprecedented reductions in public sector spending; and
- During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. We are particularly grateful to officers for their patience in dealing with the late adjustments arising from the revised pension commutation factors.

It is considered that the Annual Audit and Inspection Letter give reassurance that the Authority's overall governance and control arrangements are satisfactory.

Findings of external bodies/audits are collated, acted upon and monitored by the Strategic Management Team.

Annual Governance Statement (continued)

ASSURANCE STATEMENTS

The Strategic Management Team, the Authority and the Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an action plan has been agreed for the continuous improvement of the Authority's Corporate Governance and Internal Control Arrangements.

We propose over the coming year to take steps to implement the action plan to further enhance the Authority's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

Cllr Tom Wright	Tom Capeling	Barry Scarr
Chair of the Authority	Chief Fire Officer and Chief Executive	Finance Officer

Dated: 26th September 2016

Core Financial Statements

Movement in Reserves Statement

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

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	**Total Usable Reserves** £'000	**Unusable Reserves** £'000	**Total Authority Reserves** £'000
Balance at 31 March 2014	**(3,871)**	**(29,468)**	**(3,285)**	**(36,624)**	**720,921**	**684,297**
Movement in reserves during 2014/2015						
(Surplus) or Deficit on provision of services	19,748	0	0	19,748	0	19,748
Other Comprehensive Income and Expenditure	0	0	0	0	29,010	29,010
Total Comprehensive Income and Expenditure	19,748	0	0	19,748	29,010	48,758
Adjustments between accounting basis & funding basis under regulations	(17,364)	0	0	(17,364)	17,364	0
Net (Increase) / Decrease before transfers to Earmarked Reserves	2,384	0	0	2,384	46,374	48,758
Transfers to / (from) Earmarked Reserves	(2,395)	2,395	0	0	0	0
(Increase) / Decrease in 2014/2015	(11)	2,395	0	2,384	46,374	48,758
Balance at 01 April 2015	**(3,882)**	**(27,073)**	**(3,285)**	**(34,240)**	**767,294**	**733,054**
Movement in reserves during 2015/2016						
(Surplus) or Deficit on provision of services	**9,996**	**0**	**0**	**9,996**	**0**	**9,996**
Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**(108,833)**	**(108,833)**
Total Comprehensive Income and Expenditure	**9,996**	**0**	**0**	**9,996**	**(108,833)**	**(98,837)**
Adjustments between accounting basis & funding basis under regulations	**(8,570)**	**0**	**0**	**(8,570)**	**8,570**	**0**
Net (Increase) / Decrease before transfers to Earmarked Reserves	**1,426**	**0**	**0**	**1,426**	**(100,263)**	**(98,837)**
Transfers to / (from) Earmarked Reserves	**(1,487)**	**1,487**	**0**	**0**	**0**	**0**
(Increase) / Decrease in 2015/2016	**(61)**	**1,487**	**0**	**1,426**	**(100,263)**	**(98,837)**
Balance at 31 March 2016	**(3,943)**	**(25,586)**	**(3,285)**	**(32,814)**	**667,031**	**634,217**

Comprehensive Income and Expenditure Statement

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

2014/2015 Gross Expenditure £'000	2014/2015 Gross Income £'000	2014/2015 Net Expenditure £'000		Notes	2015/2016 Gross Expenditure £'000	2015/2016 Gross Income £'000	2015/2016 Net Expenditure £'000
6,549	945	5,604	Community Safety		**5,111**	**703**	**4,408**
32,604	4,776	27,828	Fire Fighting and Rescue Operations		**30,484**	**4,741**	**25,743**
242	0	242	Corporate and Democratic core		**183**	**0**	**183**
452	0	452	Non Distributed Costs		**785**	**0**	**785**
2,753	0	2,753	Exceptional Items – Revaluations	11	**0**	**0**	**0**
42,600	5,721	36,879	**Cost of Services**		**36,563**	**5,444**	**31,119**
0	34	(34)	Other Operating Expenditure	8	**564**	**0**	**564**
34,912	160	34,752	Financing and Investment Income and Expenditure	9	**28,481**	**153**	**28,328**
0	51,849	(51,849)	Taxation and Non-Specific Grant Income	10	**0**	**50,015**	**(50,015)**
77,512	57,764	19,748	**(Surplus) or Deficit on Provision of Services**		**65,608**	**55,612**	**9,996**
		(3,470)	(Surplus) or Deficit on the Revaluation of Fixed Assets	22			**45**
		32,480	Re-measurements of the Defined Benefit Liability	37			**(108,878)**
		29,010	**Other Comprehensive Income and Expenditure**				**(108,833)**
		48,758	**Total Comprehensive Income and Expenditure**				**(98,837)**

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by reserves held by the Authority. Reserves are prepared in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves holds unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2015 £'000		Notes	**31 March 2016 £'000**
65,654	Property, Plant and Equipment	11	**67,425**
11	Intangible Assets	14	**0**
0	Investment Properties	13	**0**
6	Long Term Debtors	15	**5**
65,671	**Long Term Assets**		**67,430**
292	Inventories	16	**352**
13,147	Short Term Debtors	15,17	**9,936**
38,179	Cash and Cash Equivalents	18	**33,055**
51,618	**Current Assets**		**43,343**
(574)	Short Term Borrowing	15	**(551)**
(9,448)	Short Term Creditors	15,19	**(5,529)**
(4,125)	Other Short Term Liabilities	15	**(712)**
(2,209)	Short Term Provisions	20	**(406)**
(5,651)	Grant Receipts in Advance	15,30	**(2,658)**
(22,007)	**Current Liabilities**		**(9,856)**
(207)	Long Term Provisions	20	**(2,059)**
(13,770)	Long Term Borrowing	15	**(13,219)**
(617)	Donated Assets Account	30	**(504)**
0	Long Term Creditors		**0**
(813,742)	Other Long Term Liabilities	15,37	**(719,352)**
(828,336)	**Long Term Liabilities**		**(735,134)**
(733,054)	**Net Assets / (Liabilities)**		**(634,217)**
34,240	Usable Reserves	7	**32,814**
(767,294)	Unusable Reserves	22	**(667,031)**
(733,054)	**Total Reserves (Negative Net Worth)**		**(634,217)**

Cash Flow Statement

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

2014/2015 Restated £'000		Notes	**2015/2016 £'000**
19,748	Net (surplus) or deficit on the provision of services		**9,996**
(25,514)	Adjust net (surplus) or deficit on the provision of services for non cash movement		**(12,129)**
1,194	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		**3,744**
(4,572)	Net cash flows from operating activities		**1,611**
2,407	Investing activities	24	**1,994**
1,511	Financing Activities	25	**1,519**
(654)	**Net (increase) or decrease in cash and cash equivalents**		**5,124**
(37,525)	Cash and cash equivalents at the beginning of the reporting period	18	**(38,179)**
(38,179)	**Cash and cash equivalents at the end of the reporting period**		**(33,055)**

Notes to the Core Financial Statements - Index

Supplementary Statements

Notes to the Firefighters' Pension Fund Account

Notes to the Core Financial Statements

Note 1 – Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2015/2016 financial year and its position at the year-end of 31st March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016 and the CIPFA Service Reporting Code of Practice 2015/2016 (SeRCOP), both based on International Financial Reporting Standards (IFRS). CIPFA guidance notes for practitioners have also been referred to and applied where appropriate, particularly in relation to the accounting treatment adopted for Government top up grant in the Firefighters' Pension Fund.

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

1.2 Financial Instruments

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

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

Financial Assets
Financial assets are classified into two types:

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is

1.2 Financial Instruments (continued)

measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

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

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

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

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

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

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

Other Investments
Investments in companies and in marketable securities are shown in the balance sheet at cost. Provision for losses in value is made where appropriate in accordance with the Code of Practice on Local Authority Accounting. No such provisions have been considered necessary at this time.

1.3 Intangible Assets

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

1.3 Intangible Assets (continued)

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The charges are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.4 Property, Plant and Equipment

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

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

Measurement
Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- Surplus assets - the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;

1.4 Property, Plant and Equipment (continued)

- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Head of Land and Property. Assets are valued in accordance with the principles of the RICS (Royal Institution of Chartered Surveyors) Appraisals and Valuation Standards. The valuations are supervised by N. Wood, ARICS, of the Authority. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

De Minimis Levels
The Authority also operates a de-minimis level, under which expenditure on fixed assets is charged to revenue as it is incurred. The de-minimis level has been established at a value of £20,000 for the recording of capital assets in respect of properties. The de-minimis level for equipment remains at a value of £10,000. All vehicles are recorded as fixed assets irrespective of cost.

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

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

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

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

1.4 Property, Plant and Equipment (continued)

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

Depreciation on all Property, Plant and Equipment assets has been calculated on a straight line basis by taking the net asset value divided by the future life expectancy and is charged in the year following acquisition.

The life expectancy for each asset category falls within the following ranges:

Asset Category	Years
Buildings	12 - 57
Vehicles, plant and furniture	5 - 15

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. A de-minimis level for considering componentisation has been set at £1m.

A standard list of components is used by the Authority:

- Building structure;
- Mechanical and electrical

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

Disposals & Non-current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

1.4 Property, Plant and Equipment (continued)

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.5 Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, central support services and trading accounts are charged with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible fixed assets attributable to the service.

The Authority is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

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

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

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

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. A full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.

1.7 Inventories

Inventories are included in the Balance Sheet at the lower of the cost and net realisable value. The cost of inventories at the year-end are valued at weighted average cost price.

1.8 Cost of Support Services

External support services are provided to the Authority by Sunderland City Council, based upon a scheme approved by the Home Office. Support service costs from Sunderland City Council are charged on an estimated time or actual time spent basis, with the exception of the Financial Resources and Personnel Departments, which are charged on the basis of a Service Level Agreement. External support service costs are allocated to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP).

Internal support services are also charged to those services that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used, and the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation;
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

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

1.9 Provisions

Provisions are made where an event has taken place that gives the Authority an obligation that will probably require settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the probable obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Note 20 on page 60 provides information on the provisions set up by the Authority.

1.10 Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure is to be financed from a reserve, it is charged to the revenue account in that year to score against the Provision of Services, in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back to the General Fund Balance statement in Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Detail on the movement on earmarked reserves during 2015/2016 is provided in note 7 on page 52.

In addition, certain accounts and reserves are maintained to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits. These do not represent usable resources for the Authority, however, as they are accounting requirements, not physical cash reserves. Note 22 on page 60 provides further detail on these reserves.

1.11 Internal Interest

Interest is credited to the General Fund from the Lead Authority's Capital Advances and Borrowing Pool based on cash flow and fund balances. The amounts are calculated using 7-day money market rates in accordance with guidance contained within the Code of Practice on Local Authority Accounting.

1.12 Delegated Budgets

The delegated budget scheme allows the carry forward of any under-spending to the following financial year. For 2015/2016, an appropriation has been made into the Budget Carry Forward Reserve for this purpose, as detailed in note 7 on page 52.

1.13 Employee Benefits (including Pensions)

Benefits Payable during Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners, and any such amounts payable unpaid at the year-end.

Post Employment Benefits
The pension costs that are charged to the Authority's accounts can be divided into two types of pension arrangements. These have different accounting treatments, set out below for information:

Firefighters' Pension Scheme
The firefighters' pension scheme is an unfunded, final salary defined benefit scheme, the rules of which are set out in The Firemen's Pension Scheme Order 1992, The Firefighters' Pension Scheme (England) Order 2006 and The Firefighters' Compensation Scheme (England) Order 2006, and subsequent amendments.

Employer and employee contributions are paid into the pension fund, together with a contribution from the Authority for the cost of ill health early retirements. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments, with any surplus being recouped by Government.

The pension fund is ring-fenced to ensure accounting clarity. As such, a Pensions Fund Account and

1.13 Employee Benefits (including Pensions) (continued)

Net Assets Statement are reported as supplementary financial statements within the Authority's Statement of Accounts.

Local Government Pension Scheme
All non-uniformed staff of the Authority have the right to join the Local Government Pension Scheme (LGPS), which South Tyneside Metropolitan Council administers on behalf of all of the Tyne and Wear local authorities and other admitted bodies. The scheme is a funded, defined benefit plan, the rules of which are set out in The Local Government Pension Scheme Regulations 2013 and The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

Benefits earned up to 31 March 2014 are linked to final salary and benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. The funded nature of the LGPS requires participating employers and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. The last actuarial valuation was at 31 March 2013 with a new valuation to be carried out at 31 March 2016.

The assets allocated to the Employer are notional and are assumed to be invested in line with the investments of the Fund.

IAS19 requires the Authority to disclose certain information concerning assets, liabilities, income and expenditure related to the LGPS for its employees. The liabilities of the pension scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit credit method.

The liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted Securities – current bid price;
- Unquoted Securities – professional estimate;
- Unitised Securities – current bid price;
- Property – market value.

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

- Service cost comprising:
  - Current Service Costs – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked;
  - Past Service Costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - Net Interest on the Net Defined benefit Liability (Asset), i.e. net interest expense for the authority – the change during the year in the net defined benefit liability (asset) that arises from the passage of time – debited to the Financing and Investment Income and Expenditure Income line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking in to account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

1.13 Employee Benefits (including Pensions) (continued)

- Re-measurements comprising:
  - Return on Plan Assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure;
  - Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited or credited to the Pension Reserve.

- Contributions paid to the Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and any amount payable to the fund but un-paid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

1.14 Government Grants and Contributions

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

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

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

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

An analysis of Government Grants and Contributions is provided in Note 30 on page 68.

1.15 Long Term Borrowing

The Lead Authority administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP) and, as such, the Authority does not undertake borrowing in its own name. The amount of borrowing undertaken by the Lead Authority on the Authority's behalf has been recognised within the Long Term Borrowing liabilities within the Statement of Accounts for 2015/2016.

1.16 External Interest

All interest payable on external borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

1.17 Other Investments

Investments in companies and in marketable securities are shown in the Authority's Balance Sheet at cost. Investments are all made via the Lead Authority's Consolidated Advances and Borrowing Pool.

1.18 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. The relevant note and information relating to the Authority's PFI scheme is detailed in Note 34 on page 71.

Recognising assets and liabilities
Property used in a PFI and similar contract shall be recognised as an asset or assets of the Fire Authority. A related liability shall also be recognised at the same time. The asset shall be recognised in accordance with the Code of Practice on Local Authority Accounting; this will be when the asset is made available for use unless the Fire Authority bears an element of the construction risk, which will not be the case where standard PFI contract terms are used. Where the Authority bears the construction risk, it shall recognise an asset under construction prior to the asset being made available for use where it is probable that the expected future benefits attributable to the asset will flow to the Authority. In accordance with the Code of Practice on Local Authority Accounting, separate assets shall be recognised in respect of land and buildings where appropriate. The related liability shall initially be measured at the value of the related asset, and subsequently shall be calculated using the same actuarial method used for finance leases under the Code of Practice on Local Authority Accounting.

Prepayments
PFI and similar contracts may be structured to require payments to be made (either as part of a unitary payment or a lump sum contribution) before the related property is recognised as an asset on the Balance Sheet. Such payments shall be recognised as prepayments. At the point that the infrastructure is recognised as an asset, the related liability shall also be recognised. The prepayments shall be applied to reduce the outstanding liability.

Depreciation, impairment and revaluation
Once recognised on the Balance Sheet, property under a PFI and similar contract is depreciated, impaired and re-valued in the same way as for any other fixed asset.

MRP (England and Wales)
Assets acquired under a PFI and similar contract that are recognised on the Authority's Balance Sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. The amounts of MRP to be charged to the General Fund for the year shall be in accordance with the appropriate regulations and statutory guidance. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

1.18 Private Finance Initiative (PFI) and Similar Contracts

Capital financing requirement
When PFI contracts or similar arrangements are recognised on the Balance Sheet, the Capital Financing Requirement is adjusted to reflect this and the authorised limits and operational boundaries set accordingly.

1.19 Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) The Authority as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset.

Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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

b) The Authority as Lessor

Finance Leases
Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the

1.19 Leases (continued)

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

Lease rentals receivable are apportioned between:

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

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

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

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

1.20 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.

1.21 Interests in Companies and Other Entities

If the Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities this will require group accounts to be prepared. Where there is an interest which is not material any such interests in companies and other entities are then recorded as financial assets at cost, less any provision for losses.

1.22 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

1.22 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors (continued)

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

The followings estimations have been made:

Pensions Liabilities
Pensions liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll-forward method. The Pension Fund liabilities have been assessed by Aon Hewitt Limited (LGPS) and by the Government Actuary's Department (firefighters' pensions), both independent actuaries, who also estimate the Pension position as at 31st March 2016 based on the latest full valuation of the scheme as at 31st March 2013 and their assessments of future movements in the return on pension assets and future pension liabilities (see Note 37 on page 73).

Apportionment of costs for Community Safety
As required by CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP), the Authority must present its expenditure and income at the mandatory reporting levels, including Community Safety and Fire Fighting and Rescue Operations. The majority of transactions are classified directly as relating to either of these categories. However, the Authority also makes a transfer for the cost of Community Safety related activities undertaken by Fire Fighting staff. This transfer is based on actual activity figures recorded by the Authority through the year.

The approach to quantifying the transfer uses actual activity figures for home fire risk assessments and fire inspections to estimate the time taken to undertake these community safety activities. This is then applied to an average rate of pay to estimate the total cost to be transferred from Firefighting to Community Safety in the Authority's Comprehensive Income and Expenditure Account.

Utilities
Utilities costs contained within the Cost of Services Expenditure Analysis are calculated using estimation. The final period charge for the financial year is estimated based upon the previous year's consumption for the same period multiplied by the latest price information. An adjustment is made for any significant variances when the actual utilities bills are received.

Creditor Provisions
In a small number of cases, estimation is used to calculate payments outstanding to creditors where the Authority has yet to be billed for services delivered prior to the year-end. The impact of any such estimation is not material to the Authority's Accounts.

1.23 Events after the Balance Sheet Date

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

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

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

1.24 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

1.25 Cash and Cash Equivalents

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

The Authority's cash and cash equivalents is held within the Lead Authority's bank accounts and investments.

1.26 Contingent Liabilities

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

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

1.27 Contingent Assets

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

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

1.28 Revenue Expenditure Funded from Capital under Statute

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

1.29 Foreign Currency Translation

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

1.30 Heritage Assets

The Authority has no heritage assets it needs to report upon.

1.31 Officer Remuneration

Remuneration refers to all amounts paid to or receivable by an employee of the Authority and includes sums by way of expenses allowances, and the estimated money value of any other benefits received by an employee otherwise than in cash.

The Authority discloses the number of employees whose annual remuneration is over £50,000, broken down in to bandings of £5,000. In addition, remuneration is disclosed by category for senior employees defined as:

- All those whose salary is £150,000 or more;

- All those whose salary is £50,000 or more who meet at least one of the following criteria:
  - statutory chief officers (per section 2(6) of the Local Government and Housing Act 1989 as amended) of the Authority, or
  - non-statutory chief officers (per section 2(7) of the 1989 Act as amended).

Note 2 – Accounting standards that have been issued but have not yet been adopted

The Code for 2016/2017 has introduced several changes in accounting policies which are required from 1st April 2016. None of these changes are expected to have a material impact on the Authority's Financial Statements. However, in the 2016/2017 Financial Statements, the comparator 2015/2016 amounts presented in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must be restated to reflect the new formats and reporting requirements.

Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

These amendments clarify that entities are able to exercise their judgement when presenting their Financial Statements.

The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

The changes introduced make substantial changes to local authority financial reporting and will:

- require local authorities to report on the same basis that they are organised, by breaking the formal link between the Service Reporting Code of Practice (SeRCOP) and the Comprehensive Income and Expenditure Statement (CIES); and
- introduce a new Expenditure and Funding Analysis which provides a direct reconciliation between the way that local authorities budget (and are funded) and the CIES, in a format that is accessible to users of the accounts. This Expenditure and Funding Analysis is supported by a streamlined Movement in Reserves Statement.

Annual Improvements to IFRSs 2012 – 2014 Cycle

The IASB's Annual Improvement Project provides a streamlined process for enhancing the quality of standards by clarifying guidance and wording and making minor corrections. The issues considered during the 2012-2014 cycle were:

- IFRS 5: Changes in methods of disposal;
- IFRS 7: Servicing Contracts;
- IFRS 7: Applicability of the amendments to IFRS 7 to condensed interim financial statements;
- IAS 19: regional market issue;
- IAS 34: Disclosure of information "elsewhere in the interim financial report".

Note 2 – Accounting standards that have been issued but have not yet been adopted (continued)

Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

These amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions where the contributions are not linked to length of service.

Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

The amendments provide additional guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation)

These amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset, generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Revenue is also generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset, although this presumption can be rebutted in certain limited circumstances.

Note 3 – Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet 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.

- Retirement benefit obligations – the Authority recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 37.

- Provisions – provisions are measured at the Finance Officers' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.

- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See Note 11 on page 55 for further details.

- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their

Note 3 – Critical Judgements in applying Accounting Policies (continued)

estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See Note 11 on page 55 for further details.

Note 4 – Assumptions made about the Future and Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2016, for which there is a significant estimate uncertainty in the forthcoming financial year, are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over their useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	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 buildings would increase by £139,000 for every year that useful lives had to be reduced.
Provisions	The Authority has made an insurance provision of £166,647 and a pension provision of £1,892,924.	An increase over the forthcoming year of 10% in either the total number of insurance claims or the estimated average settlement would each have the effect of adding £16,665 to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effect on the net pension liability from 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 Local Government pension liability of £1.2m and a decrease in the Firefighters' pension liability of £68m. However, in practice the assumptions interact in complex ways and changes may be interrelated.

Note 5 – Events After the Balance Sheet Date

Adjusting Post Balance Sheet Events

No events have taken place since the accounts were closed on 31st March 2016 which are judged to be adjusting post balance sheet events.

Non Adjusting Post Balance Sheet Events

No events have taken place since the accounts were closed on 31st March 2016 which are judged to be non-adjusting post balance sheet events.

Note 6 – Adjustments between Accounting Basis and Funding Basis under Regulations

This note reconciles the adjustments that are made by the Authority to the Comprehensive Income and Expenditure Statement in the financial year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Notes	2015/2016 General Fund Balance £000	2015/2016 Movement In Unusable Reserves £000	2014/2015 Movement In Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for Depreciation and Impairment of non current assets	11 & 14	**(3,933)**	**3,933**	3,949
Capital Grants and Contributions	32	**3,744**	**(3,744)**	(1,194)
Movement in the Donated Assets Account	30	**112**	**(112)**	(112)
Amounts of non current assets written off on disposal/sale as part of gain/loss on disposal	11	**0**	**0**	0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	32	**1,481**	**(1,481)**	(1,489)
Capital expenditure charged against General Fund balances	32	**1,994**	**(1,994)**	(2,407)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	22 & 37	**(37,980)**	**37,980**	44,390
Employer's pensions contributions and direct payments to pensioners payable in the year	22 & 37	**25,960**	**(25,960)**	(25,660)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different to council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	22	**147**	**(147)**	(34)
Adjustments involving the Accumulating Compensated Absences Adjustment Account:				
Amount of 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	22	**(95)**	**95**	(79)
		(8,570)	**8,570**	17,364

Note 7 – Movements in Earmarked Reserves

The following table reports the movement on the Authority's Earmarked Reserves during the year.

	Balance at 1st April 2014 £000	Transfers out 2014/2015 £000	Transfers in 2014/2015 £000	Balance at 31st March 2015 £000	Transfers out 2015/2016 £000	Transfers in 2015/2016 £000	Balance at 31st March 2016 £000
General Fund Balance	3,871	0	11	3,882	**0**	**61**	**3,943**
Capital Reserves							
Usable Capital Receipts	3,285	0	0	3,285	**0**	**0**	**3,285**
Total Capital Reserves	3,285	0	0	3,285	**0**	**0**	**3,285**
Revenue Reserves							
PFI Smoothing Reserve	6,325	0	455	6,780	**0**	**383**	**7,163**
Insurance Reserve	1,117	0	17	1,134	**(281)**	**244**	**1,097**
Early Retirement Reserve	31	(4)	0	27	**(4)**	**0**	**23**
Development Reserve	9,193	(1,886)	0	7,307	**(1,774)**	**337**	**5,870**
Contingency Planning Reserve	1,976	(464)	0	1,512	**0**	**0**	**1,512**
Budget Carry Forward Reserve	769	(222)	71	618	**(316)**	**0**	**302**
New Dimensions Reserve	680	0	84	764	**0**	**0**	**764**
Community Safety Reserve	250	(9)	300	541	**(297)**	**0**	**244**
Civil Emergency Reserve	200	0	0	200	**0**	**0**	**200**
Carbon Management Plan Reserve	475	(330)	0	145	**(23)**	**0**	**122**
Organisational Change Review Reserve	7,642	(476)	0	7,166	**(49)**	**355**	**7,472**
Medium Term Planning Reserve	700	0	0	700	**0**	**0**	**700**
Command and Control Reserve	110	(61)	130	179	**(62)**	**0**	**117**
Total Revenue Reserves	29,468	(3,452)	1,057	27,073	**(2,806)**	**1,319**	**25,586**
Total Reserves	36,624	(3,452)	1,068	34,240	**(2,806)**	**1,380**	**32,814**

Note 7 - Movements in Earmarked Reserves (continued)

The table, above, shows the movement on the Authority's earmarked reserves for the year ended 31st March 2016. Detail on the purpose of each reserve is provided below:

- **PFI Smoothing Reserve -** Government Grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure. This has the effect of smoothing the impact of PFI schemes on the Authority's revenue budget over the lifetime of the scheme.

- **Insurance Reserve -** this reserve is held to protect the Authority from:
  - any unexpected volatility;
  - potential future changes in legislation that could be retrospective;
  - any unknown exposures that may arise in the future; and
  - the Municipal Mutual Insurance Scheme of Arrangement reserve that was established in 1993/1994 to cover a possible shortfall in the eventual settlement of claims against MMI.

  The reserve also includes accumulated insurance premium discounts received, arising from the Authority's positive approach to risk management. These sums are retained to offset the cost of further risk management initiatives in future years.

- **Early Retirement Reserve -** this reserve was established in order to cover future compensatory added years payments, associated with an early retirement during 2002/2003. This has ensured that the costs are covered in the year of retirement and will not lead to on-going revenue implications. The reserve will be reduced each year as payments are made to the Tyne and Wear Pension Fund.

- **Development Reserve -** this reserve was created to fund medium term and long term capital and revenue developments.

- **Contingency Planning Reserve -** this reserve was established following a review of the potential liabilities arising from a major industrial dispute. Having considered the principles, criteria and framework upon which the Authority's Business Continuity Strategy should be based, the reserve is intended to ensure that the communities of Tyne and Wear are protected in the event of a major industrial dispute.

- **Budget Carry Forward Reserve -** this reserve is used to fund the slippage of specific items of revenue expenditure.

- **New Dimensions Reserve -** this reserve is used to provide for any adverse effect of planned changes in funding from specific to general grant and to provide resources to meet future specific costs in relation to delivering an appropriate response.

- **Community Safety Reserve -** this reserve was established to deliver community safety initiatives in future years. This follows the success of similar schemes carried out during previous years.

- **Civil Emergency Reserve -** this reserve was established to enable the Authority to respond to a major catastrophic event, either within Tyne and Wear, or another region, where there would likely be additional cost pressures placed upon the Authority (over and above the reimbursement level that might be expected from other Fire Authorities or through the Bellwin scheme). This reserve enables the Authority to deliver the necessary level of support without impacting on its revenue budget.

- **Carbon Management Plan Reserve** - this reserve was established as the Authority is currently working in partnership with the Carbon Trust and other Fire and Rescue Authorities in the region to develop a Carbon Reduction Plan. The implementation of this plan will necessitate some investment in order to make future savings both in carbon emissions and energy bills.

Note 7 - Movements in Earmarked Reserves (continued)

- **Organisational Change Reserve -** this reserve was created to cover the expected costs following a review of the organisational changes required for the Authority to operate more effectively.

- **Medium Term Planning Reserve -** this reserve was established to plan for the impact of government reductions in funding, due to localisation of the business rates retention system and the impact on precepting authorities of localisation of the council tax benefit scheme.

- **Command and Control Reserve –** this reserve was established for the Command and Control Grant received from DCLG, to be used during the year to finance replacement of the Command and Control System.

Note 8 – Other Operating Expenditure

2014/2015 £'000		**2015/2016 £'000**
0	(Gain)/Loss on Derecognition of Non Current Assets	**564**
(34)	Cleaning DSO Surplus for the year	**0**
(34)	**Total**	**564**

Note 9 – Financing and Investment Income and Expenditure

2014/2015 £'000		**2015/2016 £'000**
2,662	Interest Payable	**2,601**
32,250	Net Interest on the Net Defined Benefit Liability (Asset)	**25,880**
(160)	Interest and Investment Income	**(153)**
34,752	**Total**	**28,328**

Note 10 – Taxation and Non specific Grant Income

2014/2015 £'000		**2015/2016 £'000**
(20,032)	Council Tax Income	**(20,666)**
(14,001)	Non Domestic Rate Income	**(14,404)**
(17,816)	Non Ringfenced Government Grants	**(14,945)**
(51,849)	**Total**	**(50,015)**

Note 11 – Property, Plant and Equipment

Movement on Balances 2015/2016

	Land & Buildings £'000	Vehicles, Plant Furniture & Equipment £'000	Assets Under Construction £'000	TOTAL £'000	PFI Assets included in Property Plant and Equipment £'000
Cost or Valuation					
At 1 April 2015	58,253	18,264	2,334	78,851	29,778
Additions	3,047	2,692	0	7,784	98
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(79)	0	0	(79)	0
Revaluation increases/(decreases) recognised in the Provision of Services	(728)	0	0	(728)	0
Derecognition recognised in the Revaluation Reserve	(96)	0	0	(96)	0
Derecognition recognised in the Provision of Services	(665)	0	0	(665)	0
Other Movements in Cost or Valuation	2,045	0	(2,045)	(2,045)	0
At 31 March 2016	61,777	20,956	289	83,022	29,876
Accumulated Depreciation and Impairment					
At 1 April 2015	2,085	11,112	0	13,197	706
Depreciation Charge	1,373	1,257	0	2,630	683
Depreciation written out to Revaluation Reserve	(130)	0	0	(130)	0
Depreciation recognised in the Provision of Services	0	0	0	0	0
Derecognition recognised in the Provision of Services	(101)	0	0	(101)	0
At 31 March 2016	3,227	12,369	0	15,596	1,389
Net Book Value at 31st March 2015	56,168	7,152	2,334	65,654	29,072
Net Book Value at 31st March 2016	58,550	8,587	289	67,425	28,487

Note 11 – Property, Plant and Equipment (continued)

Movement on Balances 2014/2015

	Land & Buildings £'000	Vehicles, Plant Furniture & Equipment £'000	Assets Under Construction £'000	TOTAL £'000	PFI Assets included in Property Plant and Equipment (Restated) £'000
Cost or Valuation					
At 1 April 2014	56,962	18,044	156	75,162	29,462
Additions	1,203	220	2,178	3,601	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	1,396	0	0	1,396	1,396
Revaluation increases/(decreases) recognised in the Provision of Services	(1,308)	0	0	(1,308)	(1,080)
Derecognition - Disposals	0	0	0	0	0
At 31 March 2015	58,253	18,264	2,334	78,851	29,778
Accumulated Depreciation and Impairment					
At 1 April 2014	3,088	9,566	0	12,654	2,531
Depreciation Charge	1,519	1,546	0	3,065	697
Depreciation written out to Revaluation Reserve	(2,074)	0	0	(2,074)	(2,074)
Depreciation recognised in the Provision of Services	(448)	0	0	(448)	(448)
At 31 March 2015	2,085	11,112	0	13,197	706
Net Book Value at 31st March 2014	53,875	8,478	156	62,509	26,931
Net Book Value at 31st March 2015	56,168	7,152	2,334	65,654	29,072

Depreciation

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

- Buildings - 12 – 57 years
- Vehicles, Plant and Equipment - 5 – 15 years
- Land – not depreciated

Note 11 – Property, Plant and Equipment (continued)

Capital Commitments

At 31 March 2016, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/2017, budgeted to cost £2.322m (as at 31 March 2015 £6.190m). A summary of the commitments are:

- Estates Development Strategy Works (£0.178m)
- ICT Software and Hardware (£0.127m)
- Estates (£0.342m)
- Operational Equipment (£0.367m)
- Carbon Management Plan (£0.065m)
- Control/Mobilising System (£0.190m)
- Community Safety (£0.151m)
- Police Integration Project (£0.153m)
- Transport (£0.083m)
- Vehicle Replacement Programme (£0.666m)

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by the Lead Authority and valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Total £'000
Carried at historical cost	0	18,264	18,264
Valued at fair value as at:			
31 March 2016	3,524		3,524
31 March 2015	991	0	991
31 March 2014	27,545	0	27,545
31 March 2013	0	0	0
31 March 2012	29,717	0	29,717
31 March 2011	0	0	0
Total Cost or Valuation	**61,777**	**18,264**	**80,041**

Note 12 – Heritage Assets

The Authority has no Heritage Assets as at 31st March 2016 to report.

Note 13 – Investment Properties

The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

Note 14 – Intangible Assets

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

Note 14 – Intangible Assets (continued)

All software is given a finite useful life, based on assumptions of the period that the software is expected to be of use to the Authority. The useful life for all software is deemed to be 5 years. The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £11,319 was charged to revenue in 2015/2016.

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

	2015/2016 Total £'000	2014/2015 Total £'000
Balance at start of year:	**11**	35
Additions during the year	**0**	0
Amortisation for the period	**(11)**	(24)
Net carrying amount at the year end	**0**	11
Comprising of		
Gross carrying amounts	**236**	235
Accumulated amortisation	**(236)**	(224)
Net carrying amount at the year end	**0**	11

Note 15 – Financial Instruments

Categories of Financial Instruments

	Long Term		Current	
	31 March 2016 £'000	31 March 2015 £'000	**31 March 2016 £'000**	31 March 2015 £'000
Debtors				
Financial assets carried at contract amount**	**5**	6	**7,478**	7,528
Total Debtors	**5**	6	**7,478**	7,528
Borrowings				
Financial liabilities at amortised costs *	**(13,219)**	(13,770)	**(551)**	(574)
Total Borrowings	**(13,219)**	(13,770)	**(551)**	(574)
Other Long Term Liabilities				
PFI and finance lease liabilities	**(20,812)**	(21,742)	**(712)**	(727)
Total Other Long Term Liabilities	**(20,812)**	(21,742)	**(712)**	(727)
Creditors				
Financial liabilities carried at contract amount**	**0**	0	**(6,372)**	(9,892)
Total Creditors	**0**	0	**(6,372)**	(9,892)

*The analysis of maturity of borrowing and disclosures on credit risk, market risk and liquidity risk are not required to be included in the accounts. All borrowing and investments for the Authority is carried out by the lead authority, Sunderland City Council who bears all risks. These issues are considered in more detail in the Authority's Treasury Management Strategy.

** The figures exclude Collection Fund debtors and creditors in accordance with the Code.

Note 16 – Inventories

	Consumable Stores		Maintenance Materials		Total	
	2015/2016	2014/2015	**2015/2016**	2014/2015	**2015/2016**	2014/2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance Outstanding at start of year	**238**	240	**54**	55	**292**	295
Purchases	**417**	603	**50**	86	**467**	689
Recognised as an expense in the year	**(358)**	(608)	**(57)**	(86)	**(415)**	(694)
Written off balances	**0**	3	**8**	(1)	**8**	2
Balance outstanding at the year-end	**297**	238	**55**	54	**352**	292

Note 17 – Short-Term Debtors

2014/2015 £'000		**2015/2016 £'000**
7,165	Central government bodies	**3,753**
275	Other local authorities	**240**
2	NHS bodies	**2**
7	Public corporations and trading funds	**5**
5,698	Other entities and individuals	**5,936**
13,147	**Total**	**9,936**

Note 18 – Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

2014/2015 £'000		**2015/2016 £'000**
1	Cash held by the Authority	**1**
10,664	Bank Current Accounts	**5,540**
27,514	Short Term Investments held with Lead Authority	**27,514**
38,179	**Total**	**33,055**

Note 19 – Short-Term Creditors

2014/2015 £'000		**2015/2016 £'000**
(811)	Central government bodies	**(883)**
(2,407)	Other local authorities	**(2,324)**
(6)	NHS bodies	**0**
(161)	Public corporations and trading funds	**6**
(6,063)	Other entities and individuals	**(2,328)**
(9,448)	**Total**	**(5,529)**

Note 20 – Provisions

	Insurance Provision £'000	Business Rates Appeal Provision £'000	Other Provision £'000	Total £'000
Balance at 1 April 2014	(247)	0	0	(247)
Additional provisions made in 2014/2015	(140)	(316)	(1,893)	(2,349)
Amounts used in 2014/2015	180	0	0	180
Balance at 31 March 2015	(207)	(316)	(1,893)	(2,416)
Additional provisions made in 2015/2016	**(120)**	**(164)**	**0**	**(284)**
Amounts used in 2015/2016	**162**	**74**	**0**	**236**
Balance at 31 March 2016	**(165)**	**(406)**	**(1,893)**	**(2,464)**

The nature of the individual provisions held at 31st March 2016 is detailed below:

	2014/2015 Total £'000	Short Term £'000	Long Term £'000	**2015/2016 Total £'000**
Insurance provision	(207)	0	(165)	**(165)**
Business rates appeal provision	(316)	(406)	0	**(406)**
Pension top-up grant provision	(1,893)	0	(1,893)	**(1,893)**
	(2,416)	(406)	(2,058)	**(2,464)**

Note 21 – Usable Reserves

Movements in the Authority's usable reserves are detailed in Note 7 – Movements in Earmarked Reserves on pages 52 to 54.

Note 22 – Unusable Reserves

2014/2015 £'000		**2015/2016 £'000**
6,453	Revaluation Reserve	**6,404**
21,673	Capital Adjustment Account	**25,075**
(795,398)	Pensions Reserve	**(698,540)**
90	Collection Fund Adjustment Account	**237**
(112)	Accumulated Absence Account	**(207)**
(767,294)	**Total Unusable Reserve**	**(667,031)**

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 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2014/2015 £'000		Movement during the year	2015/2016 £'000
3,032	Balance at 1 April		**6,453**
3,470	Upward Revaluations of Assets	**339**	
0	Downward Revaluation of Assets and Impairment Losses not charged to the Surplus/Deficit on the Provision of Services	**(384)**	
6,502	Surplus/Deficit on Revaluation of Non Current Assets not posted to the Surplus/Deficit on the Provision of Services	**(45)**	**6,408**
(49)	Difference between Fair Value Depreciation and Historical Cost Depreciation		**(4)**
6,453	**Balance at 31 March**		**6,404**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or 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 also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 6 on page 51 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2014/2015 £'000		2015/2016 £'000
20,372	**Balance at 1 April**	**21,673**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(3,877)	Charges for depreciation and impairment of non-current assets	**(3,918)**
(24)	Amortisation of intangible assets	**(11)**
16,471		**17,744**
	Capital financing applied in the year;	
1,194	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**3,744**
1,489	Statutory provision for the financing of capital investment charged against the General Fund balance	**1,481**
2,407	Capital expenditure charged against the General Fund balance	**1,994**
112	Movement in the Donated Asset Account credited to the Income and Expenditure Statement	**112**
21,673	**Balance at 31 March**	**25,075**

Note 22 – Unusable Reserves (continued)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2014/2015 £'000		**2015/2016** **£'000**
(744,188)	**Balance at 1 April**	**(795,398)**
(32,480)	Re-measurement of the net defined benefit liability / (asset)	**108,878**
(44,390)	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	**(37,980)**
25,660	Employers pensions contributions and direct payments to pensioners payable in the year	**25,960**
(795,398)	**Balance at 31 March**	**(698,540)**

Collection Fund Adjustment Account

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

2014/2015 £'000		**2015/2016** **£'000**
56	**Balance at 1 April**	**90**
34	Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from the council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	**147**
90	**Balance at 31 March**	**237**

Note 22 – Unusable Reserves (continued)

Accumulated Absences Account

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 e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2014/2015 £'000		2015/2016 £'000
(191)	**Balance at 1 April**	**(112)**
191	Settlement or cancellation of accrual made at the end of the preceding year	**112**
(112)	Amounts accrued at the end of the current year	**(207)**
(112)	**Balance at 31 March**	**(207)**

Note 23 – Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

2014/2015 £'000		2015/2016 £'000
(160)	Interest received	**(153)**
2,662	Interest paid	**2,601**
2,502	**Net Cash Flows from Operating Activities**	**2,448**

Note 24 – Cash Flow Statement – Investing Activities

2014/2015 £'000 Restated		2015/2016 £'000
2,407	Purchase of property, plant and equipment, investment property and intangible assets	**1,994**
2,407	**Net Cash Flows from Investing Activities**	**1,994**

Note 25 – Cash Flow Statement – Financing Activities

2014/2015 £'000 Restated		2015/2016 £'000
598	Repayments of short and long term borrowing	**574**
913	Other payments and financing activities	**945**
1,511	**Net Cash Flows from Financing Activities**	**1,519**

Note 26 – Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements, in particular;

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

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

Departmental Income and Expenditure 2015/2016

	Community Safety £'000	Fire Fighting and Rescue Operations £'000	Corporate and Democratic core £'000	Non Distributed Costs £'000	Total £'000
Fees and Charges	116	196	0	0	312
Government Grants	403	4,015	0	0	4,418
Other Grants, reimbursements and contributions	184	530	0	0	714
Total Income	703	4,741	0	0	5,444
Employee expenses	2,514	16,226	5	785	19,530
Other Service expenses	632	4,595	146	0	5,373
Support services	1,965	9,663	32	0	11,660
Total Expenditure	5,111	30,484	183	785	36,563
Net Expenditure	4,408	25,743	183	785	31,119

Note 26 – Amounts Reported for Resource Allocation Decisions (continued)

Departmental Income and Expenditure 2014/2015

	Community Safety £'000	Fire Fighting and Rescue Operations £'000	Corporate and Democratic core £'000	Non Distributed Costs £'000	Exceptional Items £'000	Total £'000
Fees and Charges	165	121	0	0	0	286
Government Grants	537	3,983	0	0	0	4,520
Other Grants, reimbursements and contributions	243	672	0	0	0	915
Total Income	945	4,776	0	0	0	5,721
Employee expenses	3,327	16,965	5	452	0	20,749
Other Service expenses	725	4,162	196	0	2,753	7,836
Support services	2,497	11,477	41	0	0	14,015
Total Expenditure	6,549	32,604	242	452	2,753	42,600
Net Expenditure	5,604	27,828	242	452	2,753	36,879

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis or portfolio income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

Note 26 – Amounts Reported for Resource Allocation Decisions (continued)

2015/2016

	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	**1,026**	**12,915**	**13,941**	**166**	**14,107**
Interest and investment income	**0**	**0**	**0**	**153**	**153**
Taxation and non specific grant income	**0**	**0**	**0**	**50,015**	**50,015**
Government grants and contributions	**4,418**	**0**	**4,418**	**0**	**4,418**
Total Income	**5,444**	**12,915**	**18,359**	**50,334**	**68,693**
Employee expenses	**19,530**	**8,069**	**27,599**	**26,028**	**53,627**
Other service expenses	**2,004**	**4,846**	**6,850**	**18**	**6,868**
Support service recharges	**11,660**	**0**	**11,660**	**0**	**11,660**
Depreciation, amortisation and impairment	**3,369**	**0**	**3,369**	**0**	**3,369**
Interest Payments	**0**	**0**	**0**	**2,601**	**2,601**
(Gain)/loss on Derecognition of Non Current Assets	**0**	**0**	**0**	**564**	**564**
Total Expenditure	**36,563**	**12,915**	**49,478**	**29,211**	**78,689**
Surplus or Deficit on the Provision of Services	**31,119**	**0**	**31,119**	**(21,123)**	**9,996**

2014/2015

	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	1,201	12,942	14,143	213	14,356
Interest and investment income	0	0	0	160	160
Taxation and non specific grant income	0	0	0	51,849	51,849
Government grants and contributions	4,520	0	4,520	0	4,520
Total Income	5,721	12,942	18,663	52,222	70,885
Employee expenses	20,749	7,915	28,664	32,412	61,076
Other service expenses	7,836	5,027	12,863	17	12,880
Support service recharges	14,015	0	14,015	0	14,015
Depreciation, amortisation and impairment	0	0	0	0	0
Interest Payments	0	0	0	2,662	2,662
(Gain)/loss on Disposal of Fixed Assets	0	0	0	0	0
Total Expenditure	42,600	12,942	55,542	35,091	90,633
Surplus or Deficit on the Provision of Services	36,879	0	36,879	(17,131)	19,748

Note 27 – Members' Allowances

The amount paid to Authority members during the year was:

	2015/2016 £'000	2014/2015 £'000
Total Members' Allowances Paid	**70**	66

Note 28 – Officers' Remuneration

The number of employees (excluding 'Senior' officers) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000:

Remuneration Band	**2015/2016 Number of Employees**	2014/2015 Number of Employees
£50,000-£54,999	**10**	13
£55,000-£59,999	**10**	7
£60,000-£64,999	**4**	2
£65,000-£69,999	**0**	1
£70,000-£74,999	**3**	2
	27	25

The tables below disclose the specific remuneration information in relation to 'Senior' officers. The senior officers are those who are involved in influencing and making strategic decisions and developing policies for the organisation. For Tyne and Wear Fire and Rescue Authority, this is the Chief Fire Officer and the Assistant Chief Fire Officers.

Post Holder Information	Salary (Including Fees and Allowances)	Benefits in Kind	Compensation for loss of Office	Total Remuneration excluding Pension Contributions 2015/2016	Employer's Pension Contributions	Strain on Fund	Total Remuneration including Pension Contributions 2015/2016
2015/2016	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Chief Fire Officer and Chief Executive	143,957	0	0	**143,957**	31,261	0	**175,218**
Assistant Chief Fire Officer – Community Safety	116,118	0	0	**116,118**	15,341	0	**131,459**
Assistant Chief Fire Officer – Strategy and Performance (up to 29.02.16)	84,237	4,239	82,965	**171,441**	12,888	192,869	**377,198**
Assistant Chief Fire Officer – HR Learning and Development	116,118	0	0	**116,118**	23,797	0	**139,915**
Assistant Chief Fire Officer – Strategy and Performance (from 01.03.16)	6,894	0	0	**6,894**	682	0	**7,576**

Note 28 – Officers' Remuneration (continued)

Post Holder Information	Salary (Including Fees and Allowances)	Benefits in Kind	Compensation for loss of Office	Total Remuneration excluding Pension Contributions 2014/2015	Employer's Pension Contributions	Strain on Fund	Total Remuneration including Pension Contributions 2014/2015
2014/2015	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Chief Fire Officer	136,611	0	0	**136,611**	29,098	0	**165,709**
Assistant Chief Fire Officer – Community Safety	109,935	0	0	**109,935**	23,416	0	**133,351**
Assistant Chief Fire Officer – Strategy and Performance	91,910	4,440	0	**96,350**	14,145	0	**110,495**
Assistant Chief Fire Officer – HR Learning and Development	109,289	0	0	**109,289**	23,279	0	**132,568**

Note 29 – External Audit Costs

Tyne and Wear Fire Authority has incurred the following costs in relation to the audit of the Statement of Accounts and for non-audit services provided by the Authority's external auditors.

	2015/2016 £'000	2014/2015 £'000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	**31**	41
	31	41

Note 30 – Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/2016:

	2015/2016 £'000	2014/2015 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	**14,945**	17,816
National Non Domestic Rates	**4,417**	4,269
Top Up Grant	**9,980**	9,793
Transparency Grant	**7**	5
Council Tax Income	**20,666**	19,729
Council Tax Freeze Grant	**0**	242
	50,015	51,854
Credited to Services		
PFI Grant	**3,358**	3,358
New Dimensions	**893**	996
Firelink	**167**	166
	4,418	4,520

Note 30 – Grant Income (continued)

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2015/2016 £'000	2014/2015 £'000
Capital Grants Receipts in Advance		
Fire Capital Grant	**2,497**	5,651
Transformation Grant	**153**	0
Response Grant	**8**	0
	2,658	5,651
Donated Assets Account		
New Dimensions Equipment	**504**	617
	504	617

Note 31 – Related Parties

The 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016' requires the disclosure of any material transactions with related parties to ensure that stakeholders are aware when these transactions take place and the amount and implications of such transactions.

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 set out in the Note 30 on page 68.

Authority Members: Disclosures in respect of members' interests are required to be reported. After consultation with Members there are no disclosures to report.

Chief Officers: Disclosures in respect of Chief Officers' interests are also required to be reported. After consultation with Chief Officers there are no disclosures to report.

Other Relevant Information: Details of the Authority's transactions with Sunderland City Council for provision of support services are shown in the appropriate sections of the Income and Expenditure Account as disclosed in Accounting Policy 1.8 on page 39. The cost of Support services received by the Authority total £538,525 (£563,263 in 2014/2015).

Trading Arrangements:

TWFRS Ltd
The Authority has set up a trading company TWFRS Ltd which commenced operating on 1st April 2015. This is a 100% fully owned company of the authority operating on a local authority trading company basis.

Impeller Foundation and Impeller Assurance and Resilience Ltd
Commencing from 1st April 2015, the Authority also set up a separate independent Charitable Company known as the Impeller Foundation. The Charity also established a subsidiary Trading Company, Impeller Assurance and Resilience Ltd, to carry out the main activities of the Foundation. The Charity remains independent from the Fire Authority and its operations, although the Foundation may make donations to the Fire Authority to help further the Fire Authority's objectives which are the same as the aims of the Foundation.

The Fire Authority's Trading Company, TWFRS Ltd, is currently trading commercially and has an agreement with Impeller Assurance and Resilience Ltd to carry out certain trading activities, charged at market rates. The Fire Authority provided cash flow funding via a formal loan agreement of £170,000 during the year to ensure its business operations outlined in its detailed business plan could be established.

Note 32 – Capital Expenditure and Capital Financing

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

	2015/2016 £'000	2014/2015 £'000
Opening Capital Financing Requirement	**13,695**	15,184
Capital Investment:		
Property, Plant and Equipment	**5,738**	3,601
Intangible Assets	**0**	0
Sources of Finance		
Government grants and other contributions	**(3,744)**	(1,194)
Sums set aside from		
Direct Revenue Contributions	**(1,994)**	(2,407)
MRP	**(1,481)**	(1,489)
Closing Capital Financing Requirement	**12,214**	13,695
Explanation of movements in year:		
Assets acquired under PFI contracts	**0**	0
Minimum Revenue Provision	**(1,481)**	(1,489)
Increase / (Decrease) in Capital Financial Requirement	**(1,481)**	(1,489)

Note 33 – Leases

Authority as Lessee

Finance Leases

The Authority has acquired a number of buildings and vehicles under finance leases.

	2015/2016 £'000	2014/2015 £'000
Other Land and Buildings	**330**	316
Vehicle, Plant, Furniture and Equipment	**117**	216
	447	532

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

Note 33 – Leases (continued)

	2015/2016 **£'000**	2014/2015 £'000
Finance Lease Liabilities (NPV of future lease payments):		
Current	**112**	112
Non - Current	**771**	883
Finance costs payable in future years	**8**	16
Minimum lease payments	**891**	1,011

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

	Minimum Lease Payments		**Finance Lease Liabilities**	
	2015/2016	2014/2015	**2015/2016**	2014/2015
	£'000	£'000	**£'000**	£'000
Not later than one year	**120**	120	**112**	112
Later than one year and not later than five years	**60**	169	**60**	161
Later than five years	**711**	722	**711**	722
	891	1,011	**883**	995

Operating Leases

The Authority has acquired a number of vehicles by entering into operating leases.

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

	2015/2016 **£'000**	2014/2015 £'000
Not later than one year	**4**	4
Later than one year and not later than five years	**4**	8
Later than five years	**0**	0
Minimum lease payments	**8**	12

Note 34 – Private Finance Initiatives and Similar Contracts

In March 2003, the Authority entered into a PFI contract to provide six new Fire Stations, a Service Headquarters and a new Technical Services Centre. The contract expires in May 2029.

In June 2009, the Authority entered into a collaborative PFI contract with Northumberland FRA and Durham and Darlington FRA to provide a new Community Fire Station at Tynemouth. The North East Fire and Rescue Authority (NEFRA) contract expires in May 2035.

The Authority makes agreed fixed payments to the contractors each year. Indexation is applied annually and payments can be reduced should the contractor fail to meet availability and performance standards. The estimated contract payments remaining at 31st March 2016 for both the PFI and NEFRA contracts (excluding any estimation of inflation and availability/performance deductions), are shown in the table below.

Note 34 – Private Finance Initiatives and Similar Contracts (continued)

	2016/2017	2017/2018 – 2020/2021	2021/2022 - 2025/2026	2026/2027 - 2030/2031	2031/2032 - 2035/2036	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Finance Lease Creditor Repayment	769	4,015	7,426	7,428	1,529	**21,167**
Finance Lease Creditor Interest	1,972	7,103	6,338	2,254	381	**18,048**
Lifecycle Maintenance Costs	59	251	351	397	402	**1,460**
Contingent Rentals	89	552	823	957	40	**2,461**
Operating Costs	2,180	9,004	12,811	8,773	1,494	**34,262**
PFI Grant	(3,358)	(13,432)	(16,790)	(13,986)	(2,770)	**(50,336)**
Total Net Expenditure	**1,711**	**7,493**	**10,959**	**5,823**	**1,076**	**27,062**

Note 35 – Impairment Losses

During 2015/2016, the Authority had no impairment loss (nil in 2014/2015).

Note 36 – Exit Packages

During the year there were fifteen exit packages agreed with a total liability of £556,584 to the Authority. Of these, there were six exit payments of £155,083 and eleven early retirement payments, incurring a total strain on the pension fund of £401,501 (£185,393 in 2014/2015).

The costs are recognised in the Cost of Services of the Comprehensive Income and Expenditure Statement as a non-distributed cost to reflect the increase in liability.

The exit packages in bandings are shown in the table below:

Exit Package Cost Band	Number of Agreed Departures	Cost of Exit Packages in each Band		
		Employee Costs	Pension Costs	Total Cost
£'000		£'000	£'000	£'000
0-20	9	18	35	**53**
20-40	2	24	22	**46**
40-60	1	0	54	**54**
60-80	2	30	98	**128**
250-300	1	83	193	**276**

Note 37 – Defined Benefit Pension Schemes

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

The Authority participates in two post employment schemes:

- The firefighters' pension scheme for uniformed employees is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities. The cost of pension payments is met from employer and employee contributions, with the balance being funded by the government through a top-up grant. The employers' contributions to the firefighters' pension fund account were 21.7% in respect of the 1992 Scheme, 11.9% in respect of the 2006 Scheme and 14.3% in respect of the 2016 Scheme.
- The Local Government Pension Scheme for non-uniformed employees, administered by South Tyneside Council is a funded defined benefit salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Post-employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement, including Past Service Costs which are treated as Non Distributed Costs, and are removed from the General Fund Balance via the Movement in Reserves Statement during the year:

Note 37 – Defined Benefit Pension Schemes (continued)

	Local Government Pension Scheme		Firefighters' Pension Scheme		Total	
	2015/2016 £'000	2014/2015 £'000	**2015/2016 £'000**	2014/2015 £'000	**2015/2016 £'000**	2014/2015 £'000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service Cost comprising:						
Current Service Cost	**1,390**	1,300	**10,370**	10,650	**11,760**	11,950
Past Service Costs	**340**	190	**0**	0	**340**	190
Financing and Investment Income and Expenditure:						
Net Interest Expense	**650**	700	**25,230**	31,550	**25,880**	32,250
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**2,380**	2,190	**35,600**	42,200	**37,980**	44,390
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement						
Re-measurement of the Net Defined Benefit Liability comprising:						
Local Government Scheme						
Return on Plan Assets	**680**	(2,890)	**0**	0	**680**	(2,890)
Actuarial Gains and Losses arising on changes in Demographic Assumptions	**0**	0	**0**	0	**0**	0
Actuarial Gains and Losses arising on changes in Financial Assumptions	**(3,860)**	6,140	**0**	0	**(3,860)**	6,140
Other	**(450)**	(250)	**0**	0	**(450)**	(250)
Firefighters' Scheme						
Experience Gains and Losses arising on Pension Liabilities	**0**	0	**(35,480)**	(23,340)	**(35,480)**	(23,340)
Changes in Assumptions underlying the Present Value of the Pension Liabilities	**0**	0	**(66,370)**	52,820	**(66,370)**	52,820
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**(1,250)**	5,190	**(66,250)**	71,680	**(67,500)**	76,870

Movement in Reserves Statement						
Reversal of Net Charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	**660**	570	**11,360**	18,160	**12,020**	18,730
Actual amount charged against General Fund Balance for pensions in the year:						
Employers Contributions Payable to the Scheme	**1,720**	1,620	**0**	0	**1,720**	1,620
Retirement Payments Payable to Pensioners			**24,240**	24,040	**24,240**	24,040

Pensions 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:

	Local Government Pension Scheme		Firefighters' Pension Scheme		Total	
	2015/2016	2014/2015	**2015/2016**	2014/2015	**2015/2016**	2014/2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Present value of the defined benefit obligation	**(59,710)**	(61,900)	**(680,940)**	(774,828)	**(740,650)**	(836,728)
Fair value of plan assets	**42,110**	41,330	**0**	0	**42,110**	41,330
Sub-total	**(17,600)**	(20,570)	**(680,940)**	(774,828)	**(698,540)**	(795,398)
Other movements in the liability (asset)	**0**	0	**0**	0	**0**	0
Net liability arising from defined benefit obligation	**(17,600)**	(20,570)	**(680,940)**	(774,828)	**(698,540)**	(795,398)

Reconciliation of the Movements in the Fair Value of Local Government Scheme (Plan) Assets

	Local Government Pension Scheme	
	2015/2016	2014/2015
	£'000	£'000
Opening fair value of scheme assets	**41,330**	36,070
Interest income	**1,370**	1,570
Re-measurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	**(680)**	2,890
Contributions from employer	**1,720**	1,620
Contributions from employee in to the scheme	**370**	390
Benefits paid	**(2,000)**	(1,210)
Closing balance at 31 March	**42,110**	41,330

The firefighters' pension scheme has no assets to cover its liabilities.

Note 37 – Defined Benefit Pension Schemes (continued)

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme		Firefighters' Pension Scheme		Total	
	2015/2016	2014/2015	**2015/2016**	2014/2015	**2015/2016**	2014/2015
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Opening Balance at 1 April	**61,900**	53,070	**774,828**	727,188	**836,728**	780,258
Current Service Cost	**1,390**	1,300	**10,370**	10,650	**11,760**	11,950
Interest Cost	**2,020**	2,270	**25,230**	31,550	**27,250**	33,820
Contributions by scheme participants	**370**	390	**2,800**	3,040	**3,170**	3,430
Re-measurement (gains) and losses:						
Local Government Scheme						
Actuarial gains/losses arising from changes in demographic assumptions	**0**	0	**0**	0	**0**	0
Actuarial gains/losses arising from changes in financial assumptions	**(3,860)**	6,140	**0**	0	**(3,860)**	6,140
Other	**(450)**	(250)	**0**	0	**(450)**	(250)
Firefighters' Scheme						
Experience gains and losses arising on pension liabilities	**0**	0	**(35,480)**	(23,340)	**(35,480)**	(23,340)
Changes in assumptions underlying the present value of the pension liabilities	**0**	0	**(66,370)**	52,820	**(65,370)**	52,820
Past service cost	**340**	190	**0**	0	**340**	190
Benefits paid	**(2,000)**	(1,210)	**(27,040)**	(27,080)	**(29,040)**	(28,290)
Liabilities extinguished on settlements	**0**	0	**(3,398)**	0	**(3,398)**	0
Closing balance at 31 March	**59,710**	61,900	**680,940**	774,828	**740,650**	836,728

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The net liability of £698.470m has a substantial impact on the negative net worth of £634.147m recorded on the balance sheet of the Authority. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31st March 2017 is £1.38m.

Note 37 – Defined Benefit Pension Schemes (continued)

Local Government Pension Scheme Assets

The firefighters' pension scheme has no assets to cover its liabilities. The approximate split of assets for the local government pension scheme is shown below.

	Asset split at 31 March 2016			Asset split at 31 March 2015
	Quoted %	Unquoted %	Total %	 %
Equities	57.5	8.6	**66.1**	66.4
Government Bonds	3.7	0.0	**3.7**	3.7
Corporate Bonds	11.6	0.0	**11.6**	11.7
Property	0.0	10.4	**10.4**	9.5
Cash	2.6	0.0	**2.6**	2.4
Other Assets	3.1	2.5	**5.6**	6.3
Total	78.5	21.5	**100.0**	100.0

Basis for Estimating Assets and liabilities

The liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The local government pension scheme has been assessed by Aon Hewitt Limited, an independent firm of actuaries and the firefighters' pension scheme liabilities have been assessed by the Government Actuary's Department. Both estimates for the Authority fund are based on the latest full valuation of the scheme as at 1 April 2013.

The principal assumptions used by the actuary are:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2015/2016	2014/2015	**2015/2016**	2014/2015
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	**23.2 years**	23.1 years	**22.3 years**	22.5 years
Women	**24.8 years**	24.7 years	**22.3 years**	22.5 years
Longevity at 65 for future pensioners (aged 45):				
Men	**25.3 years**	25.1 years	**24.6 years**	24.8 years
Women	**27.1 years**	27 years	**24.6 years**	24.8 years
RPI	**2.90%**	3.00%	**3.35%**	3.35%
CPI	**1.80%**	1.90%	**2.20%**	2.20%
Rate of increase in salaries	**3.30%**	3.40%	**4.20%**	4.20%
Rate of increase in pensions	**1.80%**	1.90%	**2.20%**	2.20%
Rate for discounting scheme liabilities	**3.50%**	3.30%	**3.55%**	3.30%
Commutation – Pre 2008	**75.00%**	75.00%	**N/A**	N/A
Commutation – Pre 1st April 2010	**N/A**	N/A	**N/A**	N/A
Commutation – Post 31st March 2010	**N/A**	N/A	**N/A**	N/A

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 to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely

Note 37 – Defined Benefit Pension Schemes (continued)

to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation			
	Local Government Pension Scheme		Firefighters' Pension Scheme	
	Increase in Assumption £'000	Decrease in Assumption £'000	Increase in Assumption £'000	Decrease in Assumption £'000
Longevity (increase or decrease in 1 year)	+1,540	-1,550		
Rate of increase in salaries (increase or decrease by 0.1%)	+410	-410		
Rate of increase in pensions (increase or decrease by 0.1%)	+810	-800		
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	-1,200	+1,230		
Longevity (increase or decrease in 1 year)			+17,000	-17,000
Rate of increase in salaries (increase or decrease by 0.50%)			+4,600	-4,600
Rate of increase in pensions (increase or decrease by 0.50%)			+56,700	-56,700
Rate for discounting scheme liabilities (increase or decrease by 0.50%)			-68,000	+68,000

The weighted average duration of the defined benefit obligation for scheme members in the local government scheme is 20.6 years and the firefighter scheme is 19 years.

Note 38 – Contingent Liabilities

The Authority has a Contingent Liability in respect of overclaimed Pensions Top up grant from 2006/2007 to 2010/2011 because of a change in the way in which the Government funded fire-fighter ill health / injury retirement costs. The amount involved for this period is estimated to be almost £8.7m. The Government is reviewing the position in order to consider what level of grant recovery, if any, is to be sought from those Authorities affected and also to determine on which legal basis grant recovery would be made, as a number of options have been discussed which will impact on the final amount payable. The Authority position is that it is resisting any repayment and will consider, with others affected, a possible legal challenge depending upon the Government's decisions.

In early March 2016 HM Treasury announced that public sector pension schemes are to be required to apply full indexation to Guaranteed Minimum Pensions (GMPs) in respect of those scheme members who reach State Pension Age (SPA) on or after 6 April 2016 and before 6 December 2018. The actuaries have not made any allowance for this change as part of their standard accounting process for accounting periods ending in 2016. As such, this has been treated as a contingent liability. The actuaries will allow for this as part of the actuarial valuation of the Fund as at 31 March 2016 which will then be allowed for in accounting figures as at 31 March 2017 onwards.

Note 39 – Prior Period Adjustment

There are no prior period adjustments.

Supplementary Statements

Firefighters' Pension Fund Account

The financial statements summarise the transactions and the net assets relating to the Firefighters' Pension Fund. The amounts that must be debited and credited to the Pension Fund Account are specified by regulation.

	2015/2016 £'000		2014/2015 £'000	
Contributions Receivable				
From employers				
- normal	**(3,752)**		(4,325)	
- early retirement	**0**		(44)	
From members	**(2,788)**	**(6,540)**	(3,042)	(7,411)
Transfers In				
Individual transfers in from other schemes		**0**		0
Benefits Payable				
Pensions	**19,599**		18,589	
Commutations and lump sum retirement benefits	**8,846**		5,992	
Lump sum death benefits	**0**	**28,445**	0	24,581
Payments to and on account of leavers				
Individual transfers out to other schemes		**0**		571
Net amount payable/(receivable) before top up grant (receivable)/amount payable to sponsoring department		**21,905**		17,741
Top-up grant (receivable)/amount payable to sponsoring department		**(21,905)**		(17,741)
Net amount payable/(receivable) for the year		**0**		0

Supplementary Statements (continued)

Firefighters' Pension Net Assets Statement

	2015/2016	2014/2015	2013/2014
	£'000	£'000	£'000
Net Current Assets and Current Liabilities			
Pension top-up grant receivable from / (due to) sponsoring department	**3,296**	6,817	6,145
Pre-paid pension benefits	**1,652**	1,652	1,691
Outstanding commutation payments	**(14)**	(3,398)	(3,398)
Cash Overdrawn due to the General Fund	**(4,934)**	(5,071)	(4,438)
	0	**0**	0

Notes to the Firefighters' Pensions Statements

1. Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain. CIPFA guidance notes for practitioners have also been referred to and applied where appropriate.

The financial statements summarise the transactions of the scheme and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2. Accounting Policies

The principal accounting policies are as follows:

Contributions

Contributions represent the total amounts receivable from the Authority and the pensionable employees. The employer's contributions are made at rates determined by the Government Actuaries Department, at a nationally applied rate of 21.7% for the 1992 Firefighters' Pension Scheme, 11.9% for the 2006 Firefighters' Pension Scheme and 14.3% for the 2015 Firefighters' Pension Scheme. The employee's contributions are dependant on salaries and range from 11.0% to 17.0% for the 1992 Scheme, 8.5% to 12.5% for the 2006 Scheme and 10.0% to 14.5% for the 2015 Scheme.

In addition to these contribution payments, the Authority is also required to make payments into the Pension Fund in respect of ill-health retirements, when they are granted.

No provision is made in the accounts for employees' and employer's contributions relating to sums due on pay awards not yet settled.

Benefits and refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer values

Transfer values are those sums paid to, or received from, other pension schemes, and the firefighters' pension scheme outside England, for individuals, and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

3. Fund's Operations

New financial arrangements came into effect from 1st April 2006. The new financial arrangements had no impact on the terms and conditions of the firefighter pension schemes.

The firefighters' schemes are statutory, unfunded pension schemes, with the benefits being defined and guaranteed in law. Each scheme is contracted out of the State Second Pension (S2P) and must provide benefits at least as good as most members would have received had they been members of S2P. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

Prior to 1st April 2006, the Authority administered and paid firefighters' pensions on a 'pay-as you-go' basis, which meant that employees' contributions were paid into the Authority's operating account from which pension awards were made. Following the change in financial arrangements on 1st April 2006, the Authority has continued to administer and pay firefighters' pensions, but this is now from a new separate local firefighters' pension fund.

Employee contributions and new employer's contributions are paid into the Pension Fund from which pension payments are made. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments, with any surplus in the fund being recouped by Government. The fund is, therefore, balanced to nil each year by receipt of pension top-up grant or by paying the surplus back to Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The fund has no investment assets.

Glossary of Terms

Accrual
A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising;
- selecting measurement bases for; and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
- the actuarial assumptions have changed.

Agency Services
Services that are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the Authority carrying out the work for the cost of the work carried out.

Assets
Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Inventories). Fixed assets are tangible assets that yield benefit to the Authority and the services it provides for a period of more than one year.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

Balances
The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

Capital Charge
The charge to the services for the use of fixed assets.

Capital Expenditure
Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Charges
The annual charge to the Comprehensive Income and Expenditure Statement in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital Financing Requirement
The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the Authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing

requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital Grants
Grants received towards capital expenditure on a particular service or project.

Capital Receipts
Money received from the sale of land or other capital assets. For non-housing authorities capital receipts are held by the Authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Property, Plant and Equipment (PPE)
The classes of PPE included in the accounting statements are:

Operational assets:
- Land and Buildings
- Vehicles, Plant and Furniture
- Surplus Assets

Non-operational assets
Investment Property
Heritage Assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Code of Practice on Local Authority Accounting in the UK
'The Code' specifies the principles and practices of accounting to give a 'true and fair' view of the financial position and transactions of the Authority.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next, is the same.

Constructive Obligation
An obligation that derives from an Authority's actions where:
- By an established pattern of past practice, published policies or a sufficiently specific current statement, the Authority has indicated to other parties that it will accept certain responsibilities; and
- As a result, the Authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

Contingent Liability
A contingent liability is either:
(a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
(b) As a result, the Authority has created a valid expectation on the part of those other parties that it will discharge those responsible.

Contingencies
Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

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

Council Tax
The form of local taxation operated from April 1993, based on properties.

Credit Ceiling
Is a measure of the difference between the Authority's total liabilities in respect of capital expenditure financed by credit and the provision that has been made to meet those liabilities.

Creditors
Amounts owed by the Authority for goods and services provided where payment has not been made at the date of the balance sheet.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtors
Sums of money due to the Authority but not received at the date of the balance sheet.

Deferred Charges
Items of capital expenditure, which do not result in or remain matched, by tangible fixed assets. Deferred charges are charged to revenue in the year in which the expenditure is incurred or are written down annually over an appropriate period where the expenditure provides a continuing benefit to the Authority.

Defined Benefit Scheme
A pension, or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions, fixed as an amount or as a percentage of pay, and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the cost or revalued amount of the benefits of the PPE that have been consumed during the period.

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

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- The activities related to the operation have ceased permanently;

- The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations; and
- The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

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

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- Methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period;
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole, rather than individual balances.

Exceptional Items
Material items that derive from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure
Amounts paid by the Authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the Authority).

Fees and Charges
Income arising from the provision of services.

General Fund
This accounts for the services of the Authority. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

Going Concern
The concept that the Authority will remain in operational existence for the foreseeable future, in particular that

the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Impairment
A reduction in the value of PPE below its carrying amount on the balance sheet.

Income
Amounts due to the Authority for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the Authority).

Intangible Fixed Assets
These are non financial PPE, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

Interest Cost (Pension)
For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS)
Standards issues by the International Accounting Standards Board (IASB) which present the Authority's accounts in a consistent and comparable format with other Fire and Rescue Services internationally.

Inventories
The amount of unused or unconsumed inventory held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Inventory comprises the following categories:

- Goods or other assets purchased for resale;
- Consumable goods;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long term contract balances; and
- Finished goods.

Investments (Pension Fund)
The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Investments (Non Pension Fund)
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

Leasing
The method of financing the provision of various capital assets to discharge the Authority's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

Operating Leases – this is a type of lease, usually computer equipment, office equipment or vehicle where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

Liquid Resources
Current asset investments that are readily disposable by the Authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Loans Outstanding
The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

Long Term Contracts
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

Minimum Revenue Provision
Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

National Non-Domestic Rate (NNDR)
With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. From 1st April 2013, only 50% of the proceeds are pooled and re-distributed by Central Government. The remainder are retained locally, placing risk on the billing authority to collect the business rates income due.

Net Book Value
The amount at which PPE are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost
The cost of replacing or recreating PPE in its existing condition and in its existing use, i.e. the cost of its replacement, or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The Authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

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

Non-Operational Assets
PPE held by a local authority but not directly occupied, used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets include; investment properties and assets that are surplus to requirements, pending their sale. It should be noted that the incidence of rental income does not necessarily mean that the asset is an investment property; it would be

deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the authority and rental income is negotiated at arms length.

Operational Assets
PPE held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the authority.

Past Service Costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept
The amount levied by the Tyne and Wear Fire and Rescue Authority which is collected by the Tyne and Wear District Councils on their behalf.

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

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- The benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowing where appropriate for future increases; and
- The accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs are uncertain.

Private Finance Initiatives (PFI)
PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The Authority pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Prudential Framework
One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The

regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Authority before the start of the relevant financial year as part of their budget setting process.

Public Works Loan Board (PWLB)
A Central Government agency, which lends money to Local authorities at lower interest rates than those generally available from the private sector. Local Authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Parties
Two or more parties are related parties when at any time during the financial period:
- One party has direct or indirect control of the other party; or
- The parties are subject to common control from the same source; or
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursing at all times its own separate interests; or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

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. Examples of related party transactions include:

- The purchase, sale, lease, rental or hire of assets between related parties;
- The provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- The provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- The provision of services to a related party, including the provision of pension fund administration services; and
- Transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

Reserves
These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Residual Value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- An employer’s decision to terminate an employee’s employment before the normal retirement date, or;
- An employee’s decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Balances
These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

Revenue Contributions
The method of financing capital expenditure directly from revenue. The Authority may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure
Expenditure incurred on the day to day running of the Authority, the costs principally include employee expenses, capital financing charges and general running costs.

Revenue Support Grant (RSG)
A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the Authority's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Service Reporting Code of Practice (SeRCOP)
The CIPFA Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). SeRCOP applies to all Local Authorities from the 1 April 2013 for the preparation of budgets, performance indicators and Statement of Accounts. The aim of SeRCOP is to establish proper practice with regard to consistent financial reporting for services.

Settlement
An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- The purchase of an irrecoverable annuity contract sufficient to cover vested benefits; and
- The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants
Government grants to Local Authorities in aid of particular services, e.g. community fire safety.

Total Cost
The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

Trading Account
The term is used to cover activities previously known as Direct Labour Organisations (DLOs), established under the Local Government, Planning and Land Act 1980, and Direct Service Organisations (DSOs) established under the Local Government Act 1988.

Unapportionable Central Overheads
These are overheads for which no user benefits and should not be apportioned to services.

Unsupported Borrowing
Under the Prudential Framework, the facility to undertake what is known as ‘unsupported borrowing’ is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- The prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent; and
- The effect on the revenue budget of any additional costs incurred.

Useful Life
The period over which the Authority will derive benefits from the use of PPE.

Vested Rights
In relation to a defined benefit scheme, these are:

- For active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- For deferred pensioners, their preserved benefits;
- For pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.

Appendix A

STATEMENT OF ACCOUNTS 2015/2016 – ADJUSTMENTS

The following adjustments arising from the external audit have been reflected in the 2015/2016 Statement of Accounts, included with this Agenda:-

Balance Sheet
- Balance sheet as at 31st March 2014 removed as no longer required.
- The business rates appeal provision re-categorised to short term provisions from long term provisions.

Cashflow Statement
- 2014/2015 and 2015/2016 Cashflow Statement revised in line with the Code Guidance.
- Notes 24 and 25 amended to reflect changes made to the Cashflow Statement.

Accounting Policies
- Note 1.3 Intangible Assets (page 35) updated to include details of measurement and amortisation.
- Note 1.4 Property, Plant and Equipment (page 35) updated to include measurement of surplus assets.

Assumptions made about the Future and Major Sources of Estimation Uncertainty
- Note 4 (page 50) amended to include more information on the effect on the net pension liability if changes are made to assumptions.

Property, Plant and Equipment
- Note 11 (page 55) amended to move £538k from Assets under Construction to Vehicles, Plant and Equipment in respect of equipment that was operational in 2015/2016.
- Note 11 (page 57) capital commitments amended to only include projects that have a signed contract.

Grant Income
- Note 30 (page 69) National Non Domestic Rates income amended to tie in with Note 10.

Leases
- Note 33 (page 71) changed to correct the carrying value of finance leases.

Pensions
- Note 37 (page 73) amended to provide more clarification.

Minimum Revenue Provision

- The minimum revenue provision has been reduced by £102k from £1,583k to £1,481k. This resulted in a change to the outturn from an underspend of £61k to an underspend of £163k. The additional £102k has been appropriated to the Development Reserve and has been reflected throughout the accounts in the Movement in Reserves Statement and the Balance Sheet and notes 6, 7, 22 and 32.

TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No 6**

MEETING: GOVERNANCE COMMITTEE 26th SEPTEMBER 2016

SUBJECT: STATEMENT OF ASSURANCE AND ANNUAL REPORT 2015/16

JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY, THE FINANCE OFFICER AND PERSONNEL ADVISOR

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1 INTRODUCTION

1.1 The purpose of this paper is to present the draft Statement of Assurance and Annual Report 2015/16 (Appendix A) to members for approval.

2 BACKGROUND

2.1 The purpose of the Statement of Assurance and Annual Report is to inform the Authority's stakeholders how Tyne and Wear Fire and Rescue Authority did during 2015/16, how much was spent and what it was spent on. This document also meets a new requirement placed on us by Government as part of the Fire and Rescue National Framework 2012, to prepare an annual Statement of Assurance:

'Fire and rescue authorities must provide annual assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in the Framework. To provide assurance, fire and rescue authorities must publish an annual statement of assurance'.

2.2 One of the principal aims of the statement of assurance is to provide an accessible way in which communities, Government, local authorities and our partners may make a valid assessment of the Authority's performance.

3 STATEMENT OF ASSURANCE

3.1 The guidance states that "the Statement of Assurance will be used as a source of information on which to base the Secretary of State's biennial report under section 25 of the Fire and Rescue Act 2004".

3.2 The contents of the document should include as a minimum;

- the statement of accounts
- an annual governance statement
- details of how the Authority meets the requirements of the National Framework
- details of consultation on strategic plans including the IRMP
- assurance regarding operational competence

- consideration to the principles of transparency (set out in the Code of Recommended Practice for Local Authorities on Data Transparency)

3.3 Where relevant information is already set out in a clear, accessible and user friendly way within existing documents, it is acceptable to include extracts or links to these documents within the Statement of Assurance. This is the approach the Authority have taken in Tyne and Wear.

4 HOW TWFRA PERFORMED

4.1 The Authority sets targets to allow performance management, enabling us to achieve our vision of 'creating the safest community'. By monitoring performance, the Authority is able to see how it is progressing towards achieving the organisation's strategic goals. The Statement of Assurance and Annual Report notes that performance is monitored quarterly by the Strategic Management Team and the Policy and Performance Committee. The Service Delivery Performance Action Group also keeps performance under constant review.

4.2 The Statement of Assurance and Annual Report contains a summary of our performance in 2015/16. A total of 14,375 incidents were attended in 2015/16 with an average response time of 5 minutes 14 seconds. There were no accidental fire deaths during this period. There was also 15% reduction in injuries from accidental dwelling fires and a 28.2% reduction in false alarm calls from non-domestic premises.

4.3 Under the Government's Spending Review the Authority continues to face significant reductions in the grant received from the Government. This creates a huge challenge in continuing to tackle community risk with fewer resources. Although this will be difficult, the committed workforce will continue to focus upon positive outcomes for the communities that TWFRA serve.

5 LEGISLATIVE IMPLICATIONS

5.1 The first Statement of Assurance was required to be produced and published in the financial year 2013/14. The Authority complied with this and this report is the fourth Statement of Assurance and Annual Report.

6 FINANCIAL IMPLICATIONS

6.1 The Statement of Assurance and Annual Report contains a retrospective picture of expenditure in 2015/16. This report has no direct financial implications.

7 STRATEGIC PLAN LINK

7.1 The Statement of Assurance and Annual Report directly relates to goal four; 'to deliver a modern, effective service, ensuring value for money with staff who reflect the communities we serve'. It provides information to help provide public assurance that the organisation is financially viable and continuing to produce results which help deliver the safest community.

8 **EQUALITY AND FAIRNESS IMPLICATIONS**

8.1 The report provides information that is accessible to all.

9 **HEALTH AND SAFETY IMPLICATIONS**

9.1 There are no Health and Safety implications associated with this report.

10 **CONCLUSION**

10.1 This report has been prepared to provide assurance on our finances, governance and operations throughout 2015/16.

11 **RECOMMENDATIONS**

Members are requested to:

a) Review the content of this report
b) Approve the draft document subject to format and design and the insertion of the approved statement of accounts.

BACKGROUND PAPERS

The under mentioned Background Papers refer to the subject matter of the above report:

- Guidance on statements of assurance for fire and rescue authorities in England – DCLG May 2013
- CFOA Circular 2013-10: Annual Statement of Assurance

APPENDIX A

Statement of Assurance and Annual Report 2015/16

September 2016

Tyne and Wear Fire and Rescue Service
Creating the Safest Community

www.twfire.gov.uk

INTRODUCTION

Welcome to Tyne and Wear Fire and Rescue Service's Statement of Assurance and Annual Report for 2015/16. As always, we have produced this report to let you know how we did during 2015/16, how much we spent and what we spent it on. This document also meets the requirement placed on us by Government as part of the Fire and Rescue National Framework 2012, to prepare an annual Statement of Assurance:

> ***'Fire and rescue authorities must provide annual assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in the Framework. To provide assurance, fire and rescue authorities must publish an annual statement of assurance'.***

One of the principal aims of the Statement of Assurance and Annual Report is to provide an accessible way in which communities, Government, local authorities and our partners may make a valid assessment of our performance.

We set targets to enable us to monitor our performance enabling us to achieve our vision of 'creating the safest community'. By monitoring our performance, we are able to see how we are progressing towards achieving our strategic goals.

During 2015/16 we attended a total of 14,375 incidents with an average response time of 5 minutes 14 seconds. There were no accidental fire deaths during this period and we also achieved a 15% reduction in injuries from accidental dwelling fires and a 28.2% reduction in false alarm calls from non-domestic premises. More details about our performance are set out in the report.

Under the Government's Spending Review, we continue to face significant reductions in the grant we receive from the Government. This creates a huge challenge in continuing to tackle community risk with fewer resources. Although this will be difficult, our committed workforce will continue to focus upon positive outcomes for the communities we serve.

This report has been prepared to provide you with assurance on our finances, governance and operations throughout 2015/16 and as always we would welcome your comments. Instructions on how to contact us are in Section 13.

<Include photos and signatures of:>

Councillor Tom Wright	**Tom Capeling**
Chairman	Chief Fire Officer

OUR VISION AND PURPOSE

Our vision for the community will be achieved by providing the people of Tyne and Wear with the services they need, to the highest possible standard. Our vision statement is:

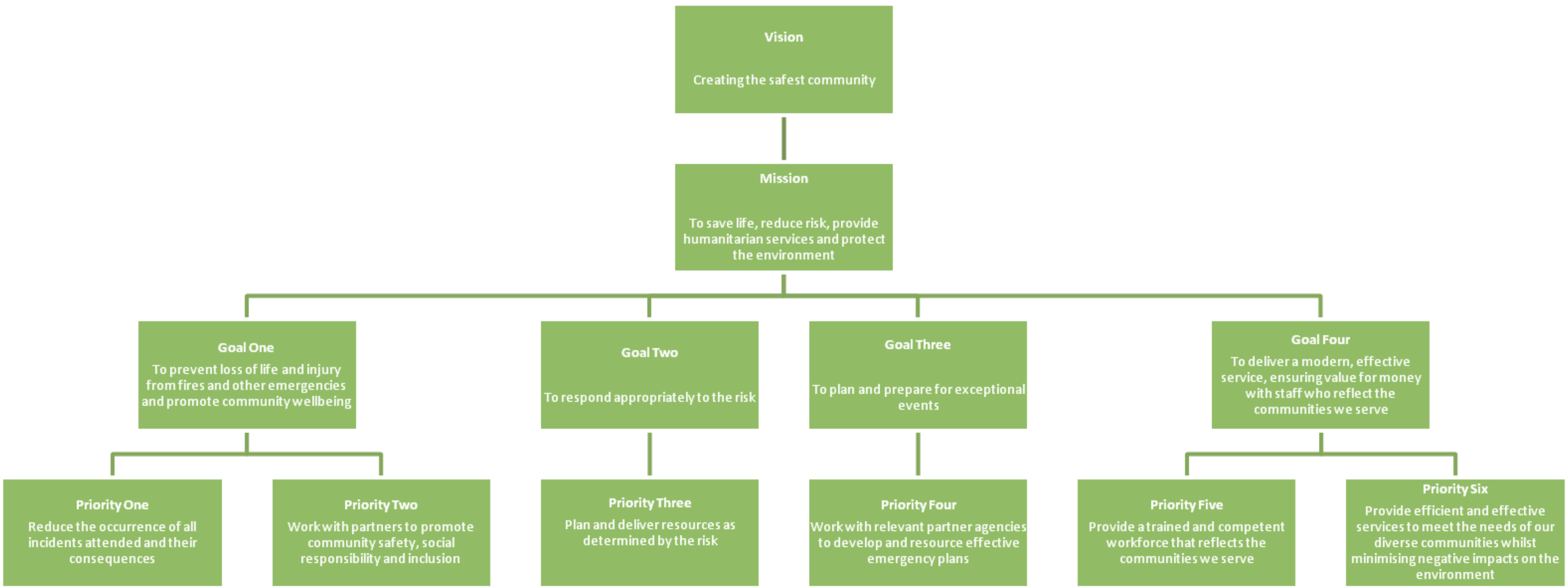
"Creating the safest community"

To enable us to achieve this vision, we have a mission:

"To save life, reduce risk, provide humanitarian services and protect the environment"

We have four goals which support the achievement of our vision and mission and these are underpinned by six priorities which are aligned to the needs of our communities.

The following diagram demonstrates the link from our vision to our goals and priorities.


Vision
Creating the safest community
Mission
To save life, reduce risk, provide humanitarian services and protect the environment
Goal One
To prevent loss of life and injury from fires and other emergencies and promote community wellbeing
Goal Two
To respond appropriately to the risk
Goal Three
To plan and prepare for exceptional events
Goal Four
To deliver a modern, effective service, ensuring value for money with staff who reflect the communities we serve
Priority One
Reduce the occurrence of all incidents attended and their consequences
Priority Two
Work with partners to promote community safety, social responsibility and inclusion
Priority Three
Plan and deliver resources as determined by the risk
Priority Four
Work with relevant partner agencies to develop and resource effective emergency plans
Priority Five
Provide a trained and competent workforce that reflects the communities we serve
Priority Six
Provide efficient and effective services to meet the needs of our diverse communities whilst minimising negative impacts on the environment

To achieve our vision, we must ensure that the services we provide:

- are **well managed** - employees are expected to manage the areas for which they are responsible within budget
- aim for **excellence in service provision** taking account of stakeholders' views
- work **in effective partnership** with the communities we represent, and external organisations.

We also recognise that all employees need to have a clear understanding about our working practices, and the core values required for long term success.

Everyone within the Authority has a responsibility for ensuring these values are implemented and upheld:

Core Values

We value service to the community by:
- working with all groups to reduce risk
- treating everyone fairly and with respect
- being answerable to those we serve
- striving for excellence

We value improvement at all levels of the Service by:
- accepting responsibility for our performance
- being open minded
- considering criticism thoughtfully
- learning from our experience
- consulting others

We value all our employees by practising and promoting:
- fairness and respect
- recognition of merit
- honesty, integrity and mutual trust
- personal development
- co-operative and inclusive working

We value diversity in the Service and community by:
- treating everyone fairly and with respect
- providing varying solutions for different needs and expectations
- promoting equal opportunities in employment within the Service
- challenging prejudice and discrimination

We are committed to ensuring equality and diversity for our employees and the communities of Tyne and Wear, and strive to ensure equality and diversity is embedded across the organisation by continuously promoting its principles.

We work hard to eliminate inequalities, discrimination, harassment and victimisation, and promote equality of opportunity and positive working relations both within our workforce and in our local communities. We want to ensure that the service we provide is accessible to everyone and that we have a workforce that reflects the diversity of Tyne and Wear's communities.

We have recently been reaccredited with an 'Excellent' award for the Fire and Rescue Services Equality Framework. This demonstrates that the work we undertake shows our commitment to employing a diverse community and promoting the Service as an employer of choice.

OUR SERVICES TO THE COMMUNITY

Last year we carried out over 30,000 home safety checks (HSC) in Tyne and Wear and over the same period we responded to over 14,000 emergency calls. Our focus sees prevention and protection being as important as response and this has helped us to drive down fires over a number of years, keeping the community safer.

Our approach to delivering services is strongly risk based. We work hard to understand community risk and this informs our day to day work (such as targeting HSCs at those most vulnerable), or when we make changes to the Service through the Integrated Risk Management Plan (IRMP) (see section 6).

Prevention

We believe the most effective way to save lives, reduce injuries and other losses through fire and other emergencies is to reduce the number of incidents that occur. This is done by focusing on risk reduction for vulnerable people and by raising awareness of risk with the wider community.

Accidental fires in the home are the main cause of fire deaths and we do all we can to reduce these fatalities. Our Community Safety teams work to educate people about what they can do to protect themselves from fire. We do this by:

- Delivering Home Safety Checks - where firefighters or our partners visit people in their homes to give advice on fire safety and fitting smoke alarms
- Working with a range of partners both formally and informally to ensure the safety and protection of our community. This enables us to reach and protect people we know are most at risk from fires. We continue to work with partners to promote and support the use of domestic sprinklers
- Educating people at a young age about the dangers of fire, how they can protect themselves and the consequences of making hoax calls
- Reducing fires started deliberately. We have specialist staff to tackle fire setting behaviour by young people and work with partners to reduce fire related crime.

Our Service has a number of mechanisms to ensure that the individual needs of the most vulnerable are acknowledged and met. This is achieved through our 'Vulnerable Persons Strategy' and 'Home Safety Check Targeting Policy' where we directly engage with our community with a tailored approach for individuals.

Examples exist where our Firefighters have undertaken a Home Safety Check and referred individuals into our specialist Prevention and Education (P&E) teams for further education and where applicable, the provision of additional fire safety equipment. Where necessary, additional intervention services, arranged via partner organisations such as domiciliary care, Telecare services and housing alterations, are considered. Automatic Water Suppression Systems (portable misting system or domestic sprinklers) have also been installed to help reduce risk and protect those most vulnerable.

Protection

Our Fire Safety team is dedicated to the statutory provision of fire safety in all premises other than single private dwellings.

The team enforces the provisions of the Regulatory Reform (Fire Safety) Order 2005, a piece of legislation which applies to virtually any premises other than a domestic one. This legislation is commonly known as the Fire Safety Order and places the duty on the Responsible Person ensuring a safe property for persons.

The Fire Safety team help us meet the Authority's statutory duty by carrying out a risk based inspection programme of all premises covered by the Fire Safety Order throughout the five local authority areas in Tyne and Wear. This ensures that premises presenting the highest risk and lowest compliance are audited and inspected more frequently than those considered to be of a lower risk and higher compliance.

Advice on fire safety in the workplace is also provided. Employers are responsible for ensuring staff know what to do, to prevent a fire in the workplace and how to escape if a fire does occur.

The Fire Safety team have continued to work with the main hospital sites in Tyne and Wear to reduce the number of unwanted fire signals generated from these premises. The number of signals has been historically high however with continued partnership working we are now seeing a downward trend. This has led to positive outcomes with fewer Service attendances and less disruption to hospital sites.

The department is continuing to work with Hospital Trust Fire Safety Advisors to reduce these numbers further.

Responding to emergencies

Despite all the work our Fire Safety and Prevention and Education teams undertake, we acknowledge that emergencies will still occur, and responding to them is core to our activities.

We do not just deal with fires. Our skilled firefighters are provided with the training and equipment to deal with a huge range of incidents and rescues. This enables them to deal with fires and road traffic collisions on a daily basis. Other incidents we attend include rescues, dealing with the consequences of flooding, making buildings safe and dealing with chemical and other hazardous materials.

In July 2016, during the hours of darkness a young adult male was reported to be precariously positioned, high up on an electricity pylon. He was injured with electrical burns and was not secured to the pylon.

As part of the Service's response, a rope rescue team from South Shields Community Fire Station attended. Working with Northumbria Police negotiators they established that the electrical supply was isolated and made safe to enable the rope rescue team gain rapid access to the casualty. Within 25 minutes the team had reached the casualty, administered first aid and brought him to safety and into the hands of NEAS for medical care.

The speed of the rescue and skill of the firefighters ensured the casualty survived and that the disruption of the electrical supply to thousands of local homes and businesses was kept to a minimum.

Our new Targeted Response Vehicles (TRV) were introduced in May 2015, with a further two added to the fleet in September 2015. These new-style appliances are Mercedes Sprinter vans which are fitted with a Rosenbauer UHPS XL Pump, 600 litre water tank and specialist firefighting equipment. They are used to target smaller, low risk incidents such as rubbish fires, across the area.

In June 2015, the Service changed the way it responds to automatic fire alarms (AFA). We now only attend alarm calls to non-residential properties between 08:00 hours and 18:00 hours when a backup call is received confirming a fire or a physical sign of fire (such as a smell of burning). Some premises are exempt from this new policy, for example; hospitals, residential premises and education premises. In the period one year from the implementation of the new AFA policy there has been a 31% decrease in the number of AFAs from non-domestic premises.

Whether fighting fires, performing rescues, carrying out humanitarian services or protecting the environment, our firefighters are supported by highly trained and skilled control room staff who coordinate the response to all incidents, as well as providing expert advice and guidance to the public in emergency situations.

These services are delivered by our operational response staff who are based at 17 strategically located community fire stations throughout the Tyne and Wear area. 14 of these stations are staffed by whole-time duty system (full time) crews, one station by retained duty system (part time) crews and two by Day Crewing Close Call (DCCC) system (a flexible shift system which is effective in areas of lower incidents and risk).

Our new Marley Park Community Fire Station opened in August 2015 replacing the out of date station in Fulwell. Its new location will enable us to better manage risk within the Sunderland community.

More information regarding the Service structure and our people is available on our website: www.twfire.gov.uk.

Following extensive research, cold cutting technology (Cobra) has been introduced at ten of our stations to enable firefighters to tackle a fire safely without the risk of entering a burning building. The cutting extinguishing concept of Cobra begins with crews using thermal imaging cameras to scan a building to identify the location of a fire.

Once the fire is identified, a high pressure hose reel water jet system containing iron filings pierces through the wall of the building. This rapidly cools the temperature of the room allowing firefighters to gain access safely.

Mutual aid

Tyne and Wear Fire and Rescue Authority has mutual aid arrangements in place with our neighbouring fire and rescue authorities in Northumberland and Durham and Darlington. This means we offer each other support in specific circumstances including very large incidents.

National Resilience

The National Resilience programme is an essential part of Government arrangements to protect the national infrastructure in the event of catastrophic incidents. It has provided us with Mass Decontamination Modules, a High Volume Pumping Unit, Urban Search and Rescue (USAR) and a Detection Identification and Monitoring (DIM) capability, all of which enhance our ability to respond to major emergencies such as terrorist attacks, industrial and domestic accidents and natural disasters.

Collaboration with Partners

Partners help us deliver our services and achieve our vision of 'creating the safest community'. An example of this is our collaboration with Gateshead Metropolitan Borough Council (GMBC) where Care Call staff have been trained to carry out HSCs on our behalf. In 2015/16 Care Call delivered a total of 4,235 HSCs ensuring the vulnerable people in Gateshead are safer in their homes. We have similar arrangements with other housing companies across Tyne and Wear.

In January 2016 the Service commenced a six month regional trial where we co-respond to medical emergency incidents with the North East Ambulance Service (NEAS). Firefighters from West Denton Community Fire Station provide first aid to patients who have suffered life threatening events, such as cardiac arrest, heart attacks and strokes. Whilst crews remain focused on dealing with fire and rescue incidents, they are also deployed to certain medical emergencies if they are able to respond in time to keep a patient alive until the Ambulance Service staff can take over. Following its success, the trial has been extended until February 2017.

Operational Assurance

Every organisation aims to improve the way it operates, whether that means increasing its efficiency, managing risk more effectively or improving upon delivery of its service.

In addition to this, the Health & Safety Guidance Document, HSG 65 'Successful Health & Safety Management' states that organisations should have suitable monitoring systems in place to provide information to individuals, line managers and system owners in order to feedback and influence decision making processes.

Our Operational Assurance process underpins the application of the Safe Person Concept and contributes towards 'creating the safest community' and the safety of firefighters. This includes regular performance and review of all aspects of operational performance throughout the FRS. The review process seeks to validate the information gathered on operational performance at incidents and training events, verifying and measuring the level of compliance with Standard Operating Procedures and Incident Management Systems.

Staff from across the Service participate in this process which also includes learning from incidents which occurred in other fire and rescue services, including learning from notices issued by the Health and Safety Executive or Coroner.

LAST YEAR'S PERFORMANCE

This section highlights what we set out to deliver in our Strategic Community Safety Plan and District Plans and how well we performed against these key objectives and targets.

Our performance is divided into two sections in order to provide a comprehensive overview based on national and local priorities:

SERVICE LED PRIORITIES:

These reflect the Service led performance indicators as defined by the Government. Although these are no longer reported nationally, they are used as a priority by fire and rescue services and allow continuity of performance reporting.

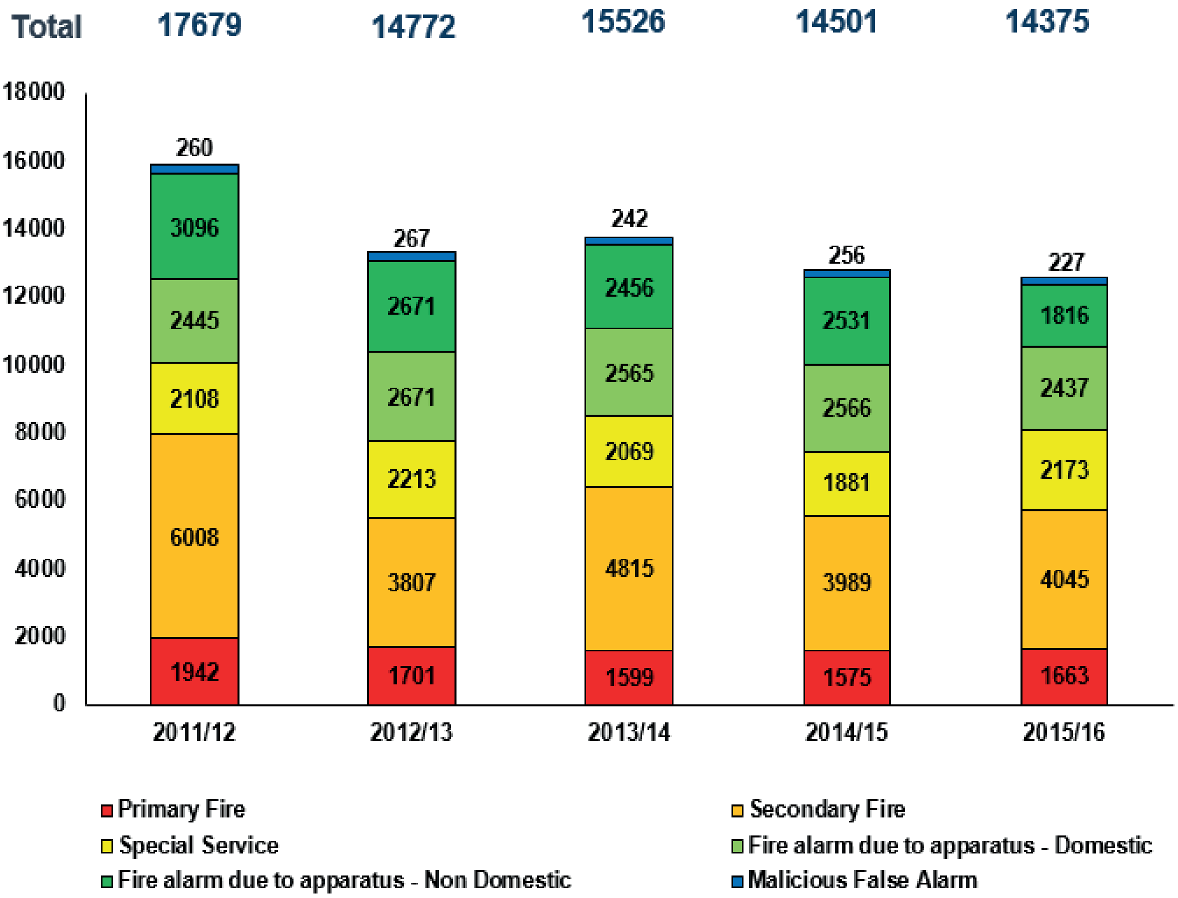
A primary fire is a fire that involves buildings, vehicles and / or injuries. All other types of fire are classified as secondary fires.

- Number of fatalities from all fires **(LI 2)**
- Number of injuries from accidental dwelling fires, excluding precautionary checks **(LI 3)**
- Number of accidental fires in dwellings **(LI 8)**
- Number of deliberate secondary fires **(LI 16)**
- Number of false alarms due to automatic fire detection from non-domestic properties **(LI 22)**.
- Number of false alarms due to automatic fire detection from domestic properties **(LI 23)**
- Number of primary fires **(LI 29)**
- Number of deliberate fires **(LI 33).**

Overall we have continued to reduce the total number of incidents we attend. During 2015/16 we saw a decrease in false alarms compared with 2014/15 which has led to an overall decrease in the number of incidents attended.

Over the next few pages we give some details of how the incidents we have attended are categorised.

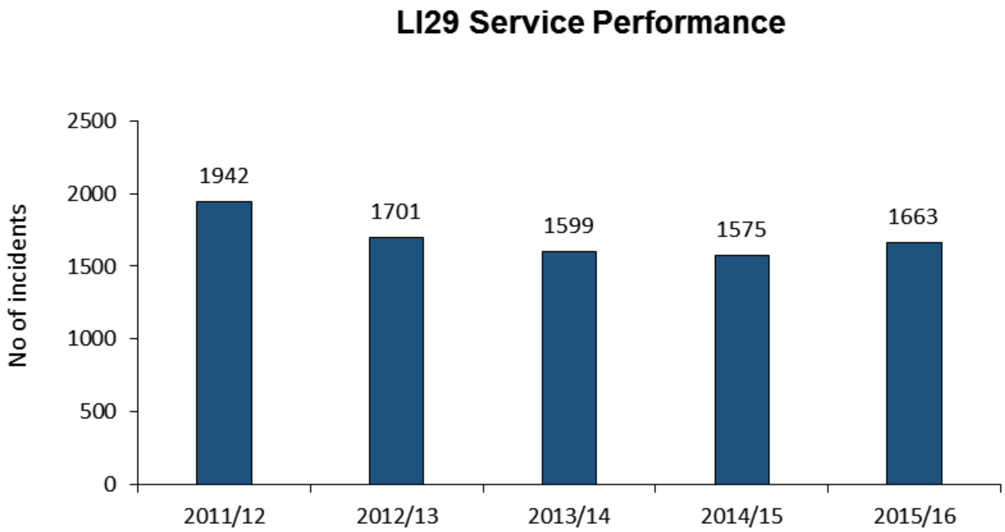
All incidents attended 2011/12 – 2015/16



*Total includes chimney fires

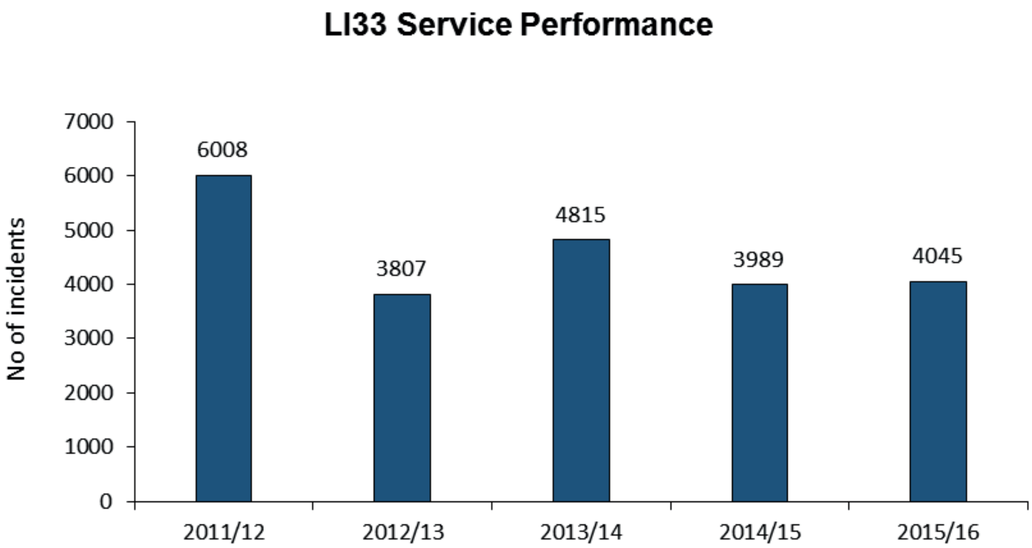
Primary fires attended (LI29)

When compared to 2014/15 we have seen a 5.6% increase in primary fires. Whilst the number of incidents caused by cooking has reduced by 83 incidents, the main cause for primary fires is ‘heat source and combustibles brought together deliberately’, accounting for 653 of these incidents.



All deliberate fires (LI33) and deliberate secondary fires (LI16)

During 2015/16 we attended 4,045 deliberate fires, this is an increase of 56 (1.4%) in comparison to last year, however demonstrates a 33% reduction in deliberate fires over the past five years.



We continue to work with local authorities to implement a number of initiatives in order to reduce the number of these incidents by removing potential sources of ignition. Further work includes collaboration with partners and multi-agency forums, primarily with the Police and local authorities. It also includes intelligence sharing and providing information on properties at risk, securing voids and uplifting abandoned vehicles. There is also engagement with the local community, secondary schools and Youth Offending Services to tackle issues regarding anti-social behaviour and deliberate fire setting.

Fatalities from all fires (LI 2)

Sadly there were two fatalities from all fires during 2015/16. Despite this we continue to have the lowest number of fatalities from all fires compared to the other metropolitan fire and rescue services.

We recorded zero deaths from accidental dwelling fires during 2015/16. This is the second time within five years that there have been no deaths from accidential dwelling fires.

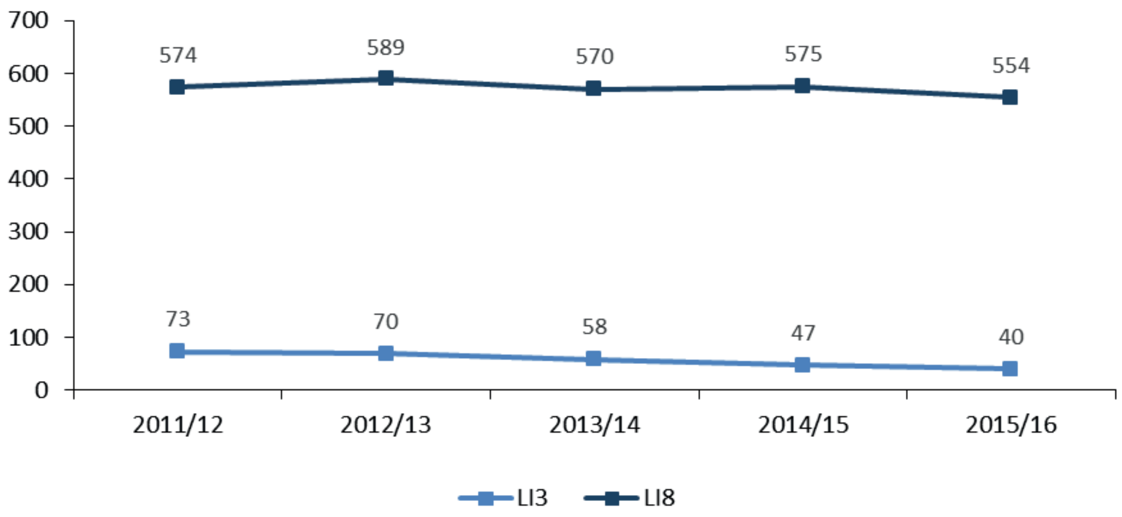
While we celebrate the achievement of this we will continue to take active steps to ensure we reduce the risk of deaths from accidental dwelling fires by continuing to refine our targeting of prevention and education work. We strive to improve the use of our data to understand current risk and by using community advocates, volunteers and operational staff to improve intelligence and provide a better understanding of our communities in addition to improving our targeting through working with partners.

Accidental Dwelling Fires (LI8) and injuries from accidental dwelling fires, excluding precautionary checks (LI3)

Although we aim to reduce all incident types, the reduction in the number of accidental fires in the home is a priority for us, reflecting the delivery of HSCs which aim to reduce incidents and related injuries.

In 2015/16 we attended 554 accidental dwelling fires, which is a decrease of 3.7% from the previous year. At the same time we recorded 40 injuries from accidental dwelling fires (excluding first aid and precautionary checks), this is a reduction of 15% in comparison to the previous year. Of the 40 injuries 8 were classed as serious. This is the lowest number of injuries from accidental dwelling fires (excluding precautionary checks) we have historically recorded.

Accidental dwelling fires and related injuries 2011/12 - 2015/16



Sources of Ignition

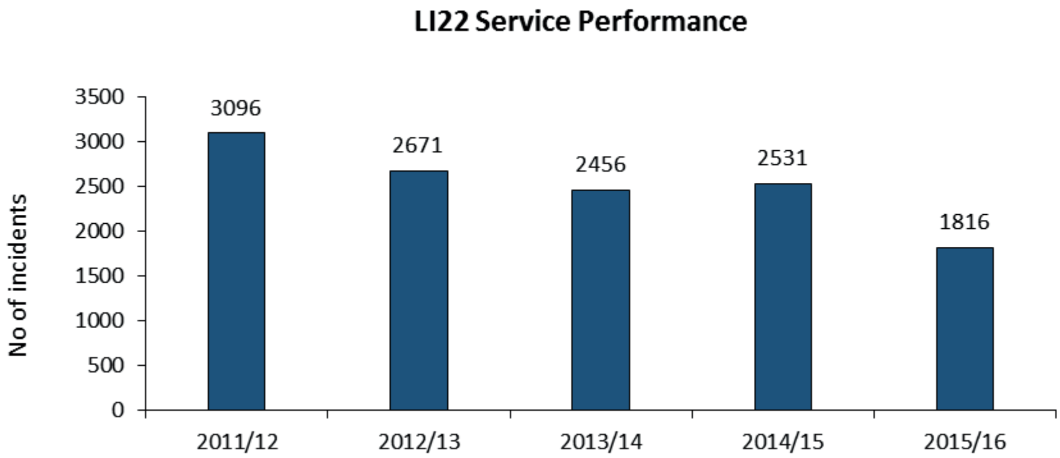
The following table highlights the key sources of ignition that contribute to the number of attendances to accidental house fires.

Source of Ignition	Total
Cooking appliance - Cooker incl. oven	214
Electricity supply - Wiring, cabling, plugs	71
Smoking related - Smoking materials	47
Spread from secondary fire - Spread from secondary fire	28
Not known	20
Cooking appliance – Grill / Toaster	16
Cooking appliance - Microwave oven	15
Matches and candles - Candles	12
Heating equipment – Heating / Fire	11
Other domestic style appliance - Tumble dryer	11
Other source of ignition	109

The main source of ignition continues to be from a cooker, with accidental kitchen fires accounting for 57% of all accidental dwelling fires in 2015/16.

The table above also highlights that a large proportion of such incidents are caused by electricity (including, wiring, cables and plugs) and careless use of smoking materials. These areas of concern are all addressed during a HSC. 29,536 HSCs were undertaken by TWFRS staff in 2015/16 and more were carried out by our local social housing partners and care at home providers who have been trained to carry out these checks on our behalf.

Number of false alarms due to automatic fire detection from non-domestic properties (LI 22).



During 2015/16 we attended 1,816 false alarms due to automatic fire detection from non-domestic properties. This reflects our despatch to an address as a result of a call being activated by automatic fire detection equipment or fixed firefighting equipment. A non-domestic premise can be classified as a non-residential property, for example a public building, hospital, school or factory.

In June 2015 we implemented a change to the way in which we respond to these incidents which enables us to respond according to the risk, using our resources effectively to ensure that the most vulnerable in our communities continue to get the fastest response to a real emergency. Our performance for 2015/16 showed a 28.2% decrease when compared to the previous year and contributes to a 41.3% reduction over the last five years.

Education are the main premises type for these incidents accounting for 20% of the total. We have seen a reduction of 16% in the number of these incidents in Hospital and Medical Care premises types. Our Fire Safety teams continue to work with occupiers of non-domestic properties to drive down the occurrence of false alarms.

The following table highlights the top ten non-domestic property types we have attended due to automatic false alarms.

False alarms to non-domestic property	2015/16
Education	361
Hospitals and medical care	339
Retail	196
Residential Home	155
Offices and call centres	142
Entertainment and culture	111
Student Hall of Residence	84
Food and Drink	74
Industrial Manufacturing	69
Hotel / Motel	56

Number of false alarms due to automatic fire detection from domestic properties (LI 23).

During 2015/16 we attended 2,437 false alarms due to automatic fire detection from domestic properties, a decrease of 5% when compared to the previous year. Of these incidents 44% were caused by cooking / burnt toast, this has been the main cause for the last five years.

Responding to false alarms does not offer value for money and diverts resources that could otherwise be used at incidents or delivering community safety activities. Our Fire Safety teams continue to work with partners and property owners with a view to further reducing occurrences of these incidents.

One of the main factors for reducing our attendance at false alarms has been the successful introduction of call challenge procedures. This procedure sees partners filtering monitored fire alarm actuations in their properties during agreed times. This work has resulted in a significant reduction in the number of appliances responding to automatic false alarm. In addition to our call challenge procedures, in June 2015 we changed the way we responded to some fire alarms; TWFRS no longer automatically respond to investigate AFA calls to non-residential premises between 0800 – 1800hrs. Further information is available via our website www.twfire.gov.uk.

FURTHER PERFORMANCE HIGHLIGHTS IN 2015/16

Over the last year TWFRS has also achieved significant reductions in other areas thus complementing our priority indicators.

Our performance for 2015/16 is further supported by the key outcomes highlighted below:

- 23% (50) **fewer injuries from all fires**
- 11.3% (29) fewer **malicious false alarms attended**

OTHER INCIDENTS

We deal with a range of other incidents beyond fire, and have made significant changes over recent years in order to adapt to local and national risks. The table below highlights the range of special service incidents that we have attended over the last five years.

Special Service Type	2011/12	2012/13	2013/14	2014/15	2015/16
RTC	370	387	332	331	358
No action (not false alarm)	351	310	285	303	293
Flooding	116	319	200	132	227
Making Safe (not RTC)	114	87	89	75	195
Effecting entry / exit	142	192	177	179	162
Lift Release	197	194	202	138	153
Suicide / attempts	109	65	100	117	110
Other rescue / release of persons	179	99	96	70	110
Assist other agencies	85	72	97	81	88
Removal of objects from people	81	74	79	87	87
Animal assistance incidents	124	95	111	97	77
Spills and Leaks (not RTC)	70	58	50	37	69
Medical Incident - First responder	41	51	52	64	59
Hazardous Materials incident	22	36	35	45	45
Removal of people from objects	0	35	26	28	35
Evacuation (no fire)	19	57	43	33	30
Rescue or evacuation from water	19	37	29	16	25
Other Transport incident	19	12	18	18	23
Advice Only	27	20	26	15	17
Stand By	22	13	22	13	9
Water provision	1	0	0	2	1
Total	**2108**	**2213**	**2069**	**1881**	**2173**

When compared to last year, attendance at special service incidents has increased by 15.5%. Factors outside of our control can determine our attendance at special service incidents, as is the case at ‘making safe (not RTC)’ where we have seen an increase of 120 incidents when compared to last year due to the high winds in November / December 2015.

In addition to the special service incidents above, we also attended 206 Emergency Medical Response incidents as part of a trial which involves co-responding to medical emergencies along with North East Ambulance Service.

Further details on our performance can be found in Appendix A at the end of this report. This shows our progress against the targets set out in our Strategic Community Safety Plan.

PERFORMANCE IMPROVEMENT

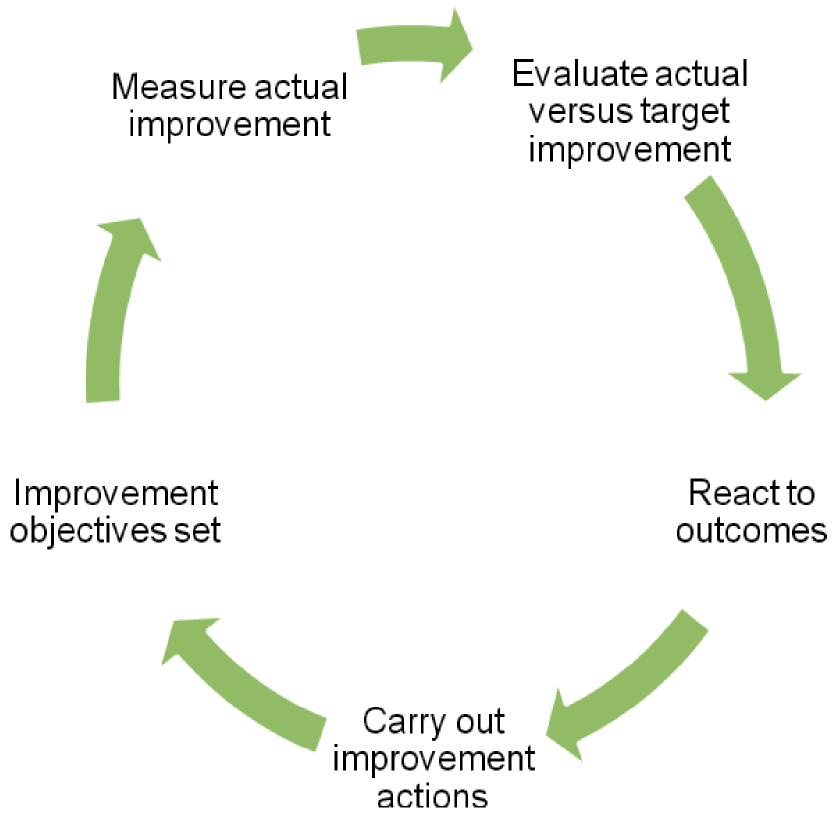
Through the delivery of our goals, priorities, strategies and plans we are able to ensure that our front line services work towards our overall vision and mission. However, it is through our frameworks and processes that we ensure the services we provide are monitored and scrutinised to provide continuous improvement.

Performance Action Groups (PAG), which address performance at a district and Service level continue to meet to monitor performance and identify areas for improvement by directing resources and establishing priorities with effective delivery of initiatives and projects.

Performance is scrutinised quarterly by the Strategic Management Team and the Authority's Policy and Performance Committee.

The framework highlighted below demonstrates how we monitor, evaluate and deliver improvement to our communities.

Performance Improvement Framework



The stages of the Performance Improvement Framework are detailed below:

- **Improvement objectives and targets are set**
  On an annual basis we review our current objectives and look for evidence of improvements against these objectives. As a result of this process we establish priorities for monitoring throughout the year.

- **Measure actual improvement**
  We have developed our own Performance Management System in order to measure the improvement and progress of performance throughout the year. The Performance Management System enables us to measure and monitor specific improvements in each of our five districts and 17 stations. Through the use of real time data, we are able to measure our performance more effectively.

- **Evaluate actual versus target improvement**
  The Performance Management System supports us in monitoring performance on a daily basis and reporting it on a quarterly basis. The performance improvement process allows for the reports and actions to be scrutinised and evaluated to ensure targets and outcomes are being delivered in order to achieve continuous improvement. Our district and station managers increase the effectiveness of performance management in our Service Delivery function.

- **React to outcomes**
  Improved communications enable us to pass on our actions and outcomes more effectively. A structured monitoring and review process allows us to share our messages and actions more clearly and efficiently. This process is enhanced through team briefings, management meetings and performance action groups.

- **Carry out improvement actions**
  Our structure enables the effective management of improvement actions; driving accountability for our improvement actions to the various management levels within the Authority. Improvement actions include preventative work for example, carrying out HSCs.

The performance improvement process enables us to ensure that the framework is implemented successfully. Despite success in our performance over recent years we recognise that we cannot be complacent and we are committed to further improvement through innovative working and exploring further collaboration.

Improvement opportunities also arise as a result of audits, internal reviews, consultation activities and external accreditations. The learning and improvement actions from such activities are included on an organisation wide Improvement Plan which is regularly monitored and reported.

INTEGRATED RISK MANAGEMENT PLAN

Our Strategic Community Safety Plan and Integrated Risk Management Plan are now combined. Producing a single document is clearer and more efficient, and ensures that our plans are clearly linked to an understanding of risk.

The Integrated Risk Management Planning (IRMP) process is the vehicle we use to make significant changes to the shape of the Service, ensuring that services are planned, designed and delivered in a way that balances available resources and community risk. This is a national process required of us under the Fire and Rescue National Framework.

IRMP proposals are developed on a four year rolling programme to enable medium term planning and consultation with staff, partners and communities. In October 2012 the following IRMP actions were agreed, covering the period 2013-17:

- Review of operational response model
- Review of staffing profiles
- Review of diversionary activities
- Review of catering
- Review of cleaning
- Feasibility of a Trading Company
- Introduction of second Day Crewing Close Call station (Rainton Bridge - from previous IRMP)

A significant amount of work has been undertaken on IRMP actions. All are complete with the exception of the review of operational response model which will continue to be implemented into 2018 as detailed below:

Review of operational response model

Following this review in 2014, the Fire Authority agreed changes to the operational response in Tyne and Wear and these are being implemented over a three year period. Phases one and two are now complete and included the following actions:

- Crewing appliances at one pump stations with four staff
- Removal four main fire appliances across the Service (a reduction from 30 to 24)
- Introduction of two Targeted Response Vehicles (TRVs) to respond to lower risk incidents 24/7
- Introduction of two additional TRVs to be dual staffed at night to respond to lower risk incidents
- Removed two fire appliances for up to 12 hours at night
- Introduction of a new automatic fire alarms (AFA) policy and procedure
- Investment in new fire-fighting technologies to enhance performance and Firefighter safety (Cobra cold cutting system).

Phase three involves the removal of a further two appliances from the fleet which is scheduled for autumn 2016. One Aerial Ladder Platform will also be removed during phase three.

Throughout the implementation of the operational response review, staffing numbers have been reduced accordingly through natural wastage.

Monitoring and review is taking place throughout the life of the plan with reports prepared and presented to Authority.

Two additional IRMP actions were agreed in November 2014, to be carried out over 2014-17:

- Carry out an Organisational and Management Review
- Explore further joint working with other emergency services and key partners.

New IRMP actions covering 2017-20 are currently being developed through consultation with stakeholders.

Current Reviews:

Organisation & Management Review

In November 2014, the Authority agreed that a wide ranging Organisational and Management Review should be carried out covering all levels of staff and incorporating a review of management. A new organisation structure has been proposed and staff are currently being consulted. A phased implementation is due to commence in 2017.

The review will also review our co-terminosity (boundary and service delivery) arrangements which are currently based on the five local authority areas within Tyne and Wear.

Explore further joint working with other emergencies services and key partners

Since the addition of this action in 2014, we have undertaken further consultation with partners and staff regarding opportunities for further collaboration with partners. As a result, the following actions have been progressed:

A police integration project that involves officers from Northumbria Police being co-located at our stations has been completed. Premises have been adapted and officers have moved into five of our community fire stations at Farringdon, Hebburn, Chopwell, Birtley and Sunderland Central.

Working with Northumbria Police and the Police and Crime Commissioner, a successful Innovation Fund Bid secured £342,000 in March 2015 for SafetyWorks! to continue its innovative work. The fund has been used to develop the centre to create an even more interactive experience. Improvements include new audio visual equipment to advance delivery and evaluation and renovation of facilities improving the commerciality and fundability of the centre going forward. The fund also secured two dedicated police staff to work from the centre for a period of two years. More information can be found at www.safetyworks.org.uk/

In addition, the Service is undertaking a regional trial where we co-respond to certain types of medical emergency incidents with the North East Ambulance Service (NEAS). More information regarding this collaboration is included on page 12.

IRMP Consultation

The IRMP actions are subject to relevant consultation (dependent upon scope of actions) with a range of stakeholders which could include; members of the public, local strategic partners, ward councillors, MPs, local businesses, partner organisations and representative bodies.

OUR PLANS

In order to effectively deliver our services, we have developed a number of high level plans and strategies that direct and support the work of our individual functions.

The highest level plan is the Strategic Community Safety Plan 2015–18. This Plan is combined with our Integrated Risk Management Plan and features our Community Risk Profile. It sets out the planned inputs, outputs and outcomes in relation to each of the key areas of Service. In doing this, it defines our contribution towards driving down risk to the public of Tyne and Wear. In essence it sets out our:

- Medium term priorities
- Methods to drive down risk and deliver services effectively
- Actions for the year ahead, and
- Performance targets and indicators.

Our other key documents include:

- Medium Term Financial Strategy (MTFS)
- Value for Money Framework
- Capital Strategy and Asset Management Plan
- Improvement Plan
- HR Strategy
- Learning & Development Delivery Strategy
- Corporate Procurement Strategy
- Equality Strategy

Further details of all of these documents can be found on our website: www.twfire.gov.uk.

Our operational activities are governed by a range of standard operating procedures which are followed by all staff.

Consulting on our Plans

We recognise the need to seek the views, opinions and involvement of others in the delivery of our services. Where appropriate, this includes employees, Authority Members, members of the public, other stakeholders and community groups.

A formal Consultation Policy sets out how we will engage with our stakeholders and consult on the issues which affect them. This will provide us with information at the beginning of the decision-making process, enabling this information to influence our plans and strategies.

WHAT OTHERS SAY

The Authority's External Auditors, Mazars, give an annual opinion on our financial statements and whether we have in place proper arrangements for securing economy, efficiency and effectiveness in use of resources (the Value for Money conclusion). The annual audit letter for 2014/15 was received in October 2015, and indicates that:

- The overall quality of the final statement of accounts is good
- The Authority has maintained its strong record in the delivery of its action plans and its budgets
- The Authority maintains healthy financial reserves to help it manage the future cuts that are likely to be required
- Performance is good overall and the Authority is still driving improvement despite spending cuts
- The Authority continues to deliver savings arising from Integrated Risk Management Plan (IRMP) action plans.

Specific aspects of our Service are also subject to regular review by Internal Audit provided by Sunderland City Council. The results of these audits are reported to the Governance Committee and available on our website.

We undertake an on-going 'After the Incident Survey' which seeks the views of those who have used our services. The latest results of this survey recorded overall satisfaction scores of 100% for both, the services we provide at domestic and non-domestic incidents.

Our Other Achievements

We have been successful in achieving several awards and accreditations in the last year. These include:

- Investors in People Gold Standard maintained
- Equality Framework 'excellent status' maintained
- ROSPA Presidents accreditation, which is a celebration of ten consecutive gold awards
- Accreditation to International Standard ISO22301 for Business Continuity
- National Resilience Assurance Team Self-Assessment (Year 1)
- Marauding Terrorist Firearms Attack National Assurance Assessment
- Department of Work and Pensions 'Two Ticks' disability symbol
- Better Regulation Delivery Office (BRDO) Primary Authority Officer Award.

HOW WE MEET THE REQUIREMENTS OF THE NATIONAL FRAMEWORK

We believe that this Statement of Assurance and Annual Report, along with other documents referred to and signposted within it, demonstrates how TWFRA meets the requirements of the Fire and Rescue National Framework. These are summarised below.

Requirement	How this is met
Produce an IRMP that identifies and assesses all foreseeable risk The Plan must demonstrate how prevention, protection and response will be used to mitigate the impact of risk	• Strategic Community Safety Plan and IRMP • Community Risk Profile • Policies and procedures to implement the Plan, including targeting • Specific IRMP reviews including evidence base • Detailed risk data used in decision making e.g. Workload Modelling, MOSAIC • Community Engagement Strategy • Monitoring of performance by Performance Action Group and Policy and Performance Committee to ensure risk is being mitigated • Improved mapping based on various data sources to provide a comprehensive picture of local risks and increase efficiency • Ongoing Community Safety Education Programme • HSC Re-inspection Programme • Relocation of Station Mike (Marley Park) • Lighter Nights campaign • Improved MDT risk information and maps • Revised Learning & Development Policy
Work with communities to identify and protect them from risk	• Delivery of HSCs • Sharing of NHS (Exeter) Data • Ongoing partnership working

	• Use of shared data via multi agency groups • Improved Workload Modeller • Historical accidental dwelling fire data cross referenced with Mosaic to target most vulnerable for HSCs • Partners for life • Recruitment of volunteers • Recruitment of Community Safety Advocates • 100+ partners referring vulnerable people to TWFRS • Introduction of Employee Advisory Groups • Attendance at local community events e.g. Mela and Pride • Introduction and development of Social Media • Formation of Risk Group • Development of RMAD
IRMP should set out the management strategy and risk based programme for enforcing the Regulatory Reform order	• Introduction of Risk Based Inspection Programme (RBIP) • Development of Post Fire Audit guidance • Ongoing agreement of Primary Authority Scheme (PAS) with Sainsbury's
Make provision to respond to incidents and reflect this in IRMPs	• Improved incident performance • Introduction of DCCC staffing • Introduction of Emergency Call Management Policy • Launch of new mobilising system • Negotiated common command arrangements • Undertake compatible training exercises e.g. Exercise Endeavour • Introduction of TRVs • Cross border response arrangements • Introduction of Cobra cold cutting • Collaboration with NEAS (EMR)

	• Contingency re Industrial Action • Review of Operational Response • Introduction of swap a shift • Zero fire deaths in 2012/13 • Introduction of digital fire ground radios • AFA Policy change • Development of Resilient Tyne and Wear Plan
(Accountability) IRMP must be accessible, available, reflect consultation, cover a three year time span and be reviewed and revised as often as necessary; reflect up to date risk analysis and evaluation of community outcomes	• Community Risk Profile • IRMP Consultation Programme • Sustainable change and increased efficiency
Have effective business continuity arrangements	• ISO22301 accreditation • External and Internal Audit accreditations • Relevant BCP
Collaborate with other FRAs, other emergency services and Local Resilience Forum (LRF) to deliver interoperability	• Mutual aid agreements • Local Resilience Forum (structures, roles, plans, procedures and exercising records etc.) • Common systems for Command and Control with Northumberland FRA • Further collaboration with Northumbria Police (co-location, SafetyWorks partnership, strategic agreement) • Multi agency exercises • Deployment of special assets e.g. USAR and HVP • Mass decontamination resource • DIM re CBRN and MTFA

	• Relaunch of SafetyWorks! • Shared resources including fire dog; Spencer • Assisted other FRS re flooding incidents (Morpeth 2012, Somerset 2013,North Yorkshire 2015 and Carlisle 2015) • SLA with DDFRS re IOSH Training • Developed USAR training to be shared with partners • Joint exercises working group • JESIP
Engage with the Fire and Rescue Service Strategic Resilience Board (SRB) to support discussions and decision making on national resilience	• Policies and procedures relating to local and national risks • Engagement in Chief Fire Officers Association (CFOA) groups relating to resilience • Ongoing development of USAR
Risk assessments must include analysis of any gaps between existing capability and that needed for national resilience, and these must be highlighted to the SRB	• NRAT multi capability assurance inspection • Multi agency community risk register (LRF)
(Assurance) Work collectively and with SRB to provide assurance that risks are assessed, gaps identified and that resilience capabilities are fit for purpose, and any new capabilities are procured, maintained and managed in the most cost effective manner	• As above plus independent assessment via National Resilience Advisory Team (NRAT) audits • External audit of financial systems and value for money

Work in partnership with their communities and a wide range of partners locally and nationally	• Strategic Community Safety Plan and IRMP • Policies and procedures to implement Plan, including targeting • Delivery coterminous with council boundaries • Engagement in statutory and non-statutory partnerships (Partnerships Register, reports and structures of partnership bodies) • HSC, signposting and data sharing • Collaboration on diversionary activities
(Scrutiny) FRAs must hold the Chief Fire Officer to account and have arrangements in place to ensure their decisions are open to scrutiny	• Corporate Governance Framework • Standing Order • Annual review of governance • Authority minutes
FRAs must make their communities aware of how they can access data and information on performance	• Statement of Assurance and Annual Report (since 2013) • Quarterly performance reports (benchmarked with Mets) • Compliance with the data transparency code as exemplified on website • Policies and procedures relating to data • Policies and procedures relating to information governance • Data & Information Strategy • Publication of Privacy notice • Compliance with all recommendations of the Transparency agenda e.g. publication of senior salaries, procurement and expenditures • ICO publication scheme • Publication of peer review action plans • Publication of pay policy statements • IRMP Consultation

	• Marley Park Consultation • Publication of FOI FAQs
Addendum	
Requirement	**How this is met**
Have a process of fitness assessment and development to ensure that operational personnel are enabled to maintain the standards of personal fitness required in order to perform their role safely;	• Work between OHU and LD to determine a strategy for all Operational personnel which includes: • All Operational staff provided with the time to undertake physical training on a daily basis when at work. • Chester step test – 6 monthly. • OHU Monitoring - 3 yearly and 1 yearly health surveillance. • Gymnasium on all fire stations and at HQ with time built into station work routine for fitness training. • HAVS assessments. • Special assessments. • Monthly health promotion topics and health education for operational staff. • Operational vaccination programme. • Welfare officer support. • Access to Welfare officer. • Stress awareness programmes. • Promoting Positive Mental health programme. • Mind, Blue Light Time to Change
Ensure that no individual will automatically	• OHU Monitoring and associated fitness plan

face dismissal if they fall below the standards required and cannot be deployed operationally;	• Access to physiotherapy service • Accelerated access to health scheme. • Welfare officer support. • Access to OHU Physician. • Independent qualified medical practitioner. • Welfare officer support. • Access to Welfare officer. • Stress awareness programmes. • Promoting Positive Mental health programme. • Mind, Blue Light Time to Change
Ensure that all operational personnel will be provided with support to maintain their levels of fitness for the duration of their career;	• As above • Further work ongoing to include fire fit and Gym improvement group.
Consider where operational personnel have fallen below the fitness standards required whether an individual is able to continue on full operational duties or should be stood down, taking into account the advice provided by the authority's occupational health provider. In making this decision, the safety and well-being of the individual will be the key issue;	• As above • Ongoing health surveillance • Advice from the Occupational Health Physician • Redeployment if appropriate • Policy and procedure. • Annual figures regarding this data. • Independent qualified medical practitioner. • Welfare officer support.

	• Access to Welfare officer. • Stress awareness programmes. • Promoting Positive Mental health programme. • Mind, Blue Light Time to Change
Commit to providing a minimum of 6 months of development and support to enable individuals who have fallen below the required fitness standards to regain the necessary levels of fitness;	• As above • The provision of a fitness support with bespoke training programmes. • Referral to physiotherapy or other specialist OH advisor when required. • A physical fitness plan appropriate for the individual concerned.
Refer an individual to occupational health where underlying medical reasons are identified that restrict/prevent someone from achieving the necessary fitness and that individual must receive the necessary support to facilitate a return to operational duties;	• As above • Referral to an Occupational Health Advisor/Physician for effective case management. • Written policy for guidelines around this. • Risk assessments to determine reasonable adjustments. • Welfare officer support. • Access to Welfare officer. • Stress awareness programmes. • Promoting Positive Mental health programme. • Mind, Blue Light Time to Change
Fully explore opportunities to enable the individual to remain in employment including through reasonable adjustment and redeployment in role where it appears the medical condition does not allow a return to operational duties.	• As above • Recommendations can be made by OHU to assist in this process with regards to capability and reasonable adjustments. • Redeployment process.

	• Welfare officer support. • Access to Welfare officer. • Stress awareness programmes. • Promoting Positive Mental health programme. • Mind, Blue Light Time to Change
Prepare an annual statement of assurance covering financial, governance and operational matters showing due regard for IRMP and Fire and Rescue National Framework	• Statement of Assurance and Annual Report • Documents signposted from it including Statement of Accounts, Annual Governance Statement and reports of internal and external auditors • Publication of financial information • Financial Resilience

GOVERNANCE ARRANGEMENTS

Tyne and Wear Fire and Rescue Authority is the local government organisation created under the Local Government Act 1985 to oversee the activities of Tyne and Wear Fire and Rescue Service (TWFRS).

It has statutory responsibilities laid down in legislation including the Fire and Rescue Services Act 2004, Civil Contingencies Act 2004, Regulatory Reform (Fire Safety) Order 2005, Local Government Act 1999, Localism Act 2011 and the Fire and Rescue National Framework for England 2012, to provide an effective, economic and efficient fire and rescue service.

The Authority comprises 16 elected members, nominated by the five constituent councils of Tyne and Wear.

Insert 'family tree' of Fire Authority

To enable us to carry out our duties effectively, we have a number of committees:

- Human Resources Committee
- Policy and Performance Committee
- Governance Committee
- Appointments Committee
- Disciplinary Appeals Committee
- Personnel Appeals Sub-Committee
- Emergency Sub-Committee

The roles and responsibilities of all Members and Officers are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

- Standing Orders and Financial Regulations are in place and these set out how the Authority operates and how decisions are made, including a clear Delegation Scheme.

- The Standing Orders and Delegation Scheme indicates responsibilities for functions and sets out how decisions are made.

- A system of scrutiny is in place whereby the Governance Committee provides independent scrutiny of the Authority's financial and non-financial position to the extent that it affects the Authority's exposure to risk and weakens the control environment; and the Policy and Performance Committee scrutinises performance information in respect of the Authority's duty to secure best value and to consider policy initiatives in respect of emerging issues.

For further information regarding Tyne and Wear Fire and Rescue Authority, please visit our website: www.twfire.gov.uk.

Governance Framework

We have a Corporate Governance Framework in place which aims to ensure we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

We are responsible for ensuring that we conduct our business in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used appropriately.

We have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way we function, with particular regard to a combination of economy, efficiency and effectiveness.

As part of this liability, we are responsible for putting in place proper arrangements for the governance of our affairs, facilitating the effective exercise of our functions, including arrangements for the management of risk.

The Corporate Governance Framework primarily includes systems and processes which we use to direct and control our activities and engagement with the community. It also enables us to monitor the achievement of our strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

We adopted a Local Code of Corporate Governance in 2003 which was revised and updated in 2010 and is reviewed annually. The Code ensures that we comply with recommended practice and maintain high standards of conduct.

Any breaches of the Code are reported to the Authority's Monitoring Officer who will determine whether the complaint should be investigated and if so by whom.

The framework is based upon the following six core principles:

- Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area

- Members and officers working together to achieve a common purpose with clearly defined functions and roles

- Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

- Developing the capacity and capability of members and officers to be effective

- Engaging with local people and other stakeholders to ensure robust public accountability.

Our Corporate Governance arrangements were subject of an efficiency review during 2013/14 which resulted in improvements to the Framework and streamlined the management processes to ensure these are fit for purpose and appropriate for the changing needs of our organisation.

Review of Effectiveness

We are responsible for conducting, at least annually, a review of the effectiveness of the Corporate Governance Framework including the system of internal control. The review of effectiveness is informed by feedback from Members and the work of all senior managers who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

Our Annual Governance Statement 2015/16 based on the annual review of effectiveness, was agreed by the Fire Authority on 27th June 2016. The papers include:

- Annual Governance Review report
- Local Code of Corporate Governance
- Annual Governance Statement 2015/16
- Action plan

These documents can be found on our website www.twfire.gov.uk.

Local Audit and Accountability Act 2014

Tyne and Wear Fire and Rescue Authority adhere to the Department for Communities and Local Government's 'Code of Recommended Practice on Local Authority Publicity'.

The code became effective in March 2011 and provides guidance on the content, style, distribution and cost of local authority publicity.

In 2014 compliance with the code became statutory as part of the Local Audit and Accountability Act 2014. Tyne and Wear Fire and Rescue Authority's communications strategies and policies abide by the code.

Fair Processing Notice / Privacy Notice

Tyne and Wear Fire and Rescue Service works hard to keep people safe at home, on the roads and in the community, thereby 'creating the safest community'. In order to do this work we will often need the name and address of our service users.

To ensure people get the right services we may ask for further information such as age and health requirements. This helps us to understand what peoples' needs are and who else may be able to help.

We work closely with other agencies, and may offer assistance from other agencies such as councils, health services, adult and children's services and may, for the purpose of making vulnerable people safer, share personal information with other agencies.

Other agencies share information about people with Tyne and Wear Fire and Rescue Service, where both parties have identified that the people concerned are at a higher risk from fire and other emergencies, in particular fires in the home.

For example; NHS England, the Royal College of General Practitioners and fire and rescue services (FRS) in England work together to share information (where relevant, proportionate and necessary) to allow fire service personnel to undertake home safety assessments for those people who would most benefit from a visit.

The majority of fire deaths in the UK occur amongst the elderly population. Older people are most vulnerable to fire and a number of other risks. A home visit from the FRS is proven to make them safer and can reduce risk significantly.

In one area of the UK where this work has been piloted since 2007, there have been very significant reductions in fire deaths and injuries which has developed into a current trend well below the national average. Therefore, we know this work can save many lives.

The FRS and NHS will continue to work together in the future to ensure the visits undertaken by the FRS are effective in helping to make people safe and well.

MANAGEMENT OF CORPORATE RISK

TWFRS policy on risk management is to ensure the successful delivery of our corporate goals through the effective management of threats by identifying, prioritising, controlling and monitoring threats to ensure they are eliminated or reduced to an acceptable level.

The key objectives that underpin our risk management policy are to:

- Develop, implement and review our risk management framework and process
- Promote effective risk management at all levels of the organisation
- Encourage an appropriate risk culture and develop resources for risk management within TWFRS e.g. training and education
- Co-ordinate other departments that are involved in specific aspects of risk management and manage responses where risks impact on more than one area, e.g. security, business continuity, health and safety
- Report, escalate and communicate risk management issues to key stakeholders
- Provide assurance regarding risk management within TWFRS
- Take advantage of opportunities
- Anticipate changing social, environmental and legislative requirements.

The Corporate Risk Management Group (CRMG) is essential to the effectiveness of the risk management process. The group is chaired by the Chair of the Fire Authority and comprises of senior managers from each of the Authority's functions. The group develop strategy to manage those issues raised in the Corporate Risk Profile and develop, implement, monitor and review action plans to minimise corporate strategic risks.

At the time of publication of the Statement of Assurance and Annual Report, the top five corporate risks were:

- Failure to effectively and safely deploy and manage operational staff and resources at incidents leading to staff and public being exposed to unnecessary risks

- Risk that spending and / or policy decisions of one of our partners has a negative impact on our collaborative work and therefore a detrimental impact on the communities that we serve

- Risk that further budget cuts will mean that we have to make decisions that will detrimentally affect the delivery of front line services

- Industrial unrest nationally and / or locally with regard to conditions of service (including ongoing organisational change management programmes) results in industrial action and impacts on service delivery

- Disruption to the operation of key ICT systems / applications resulting in downtime.

BUSINESS CONTINUITY MANAGEMENT AND RESILIENCE

Following certification in February 2015, the Service continues to conform with the International Standard; ISO22301:2012 for Business Continuity. The Risk Team work alongside all functions and department heads to embed Business Continuity across the Service. This ensures we have the necessary resilience to deal with periods of disruption to our normal operations.

Moving forward the team continue to seek improvements in this area by planning exercises and testing various elements of the Business Continuity Management System.

We are actively engaged with the Northumbria Local Resilience Forum (NLRF) and work collaboratively with our partners on various areas of business continuity planning, e.g. National Fuel Shortages, Pandemic Influenza, Severe Weather etc.

Local resilience planning is also supported by the Government's National Resilience Programme via the National Resilience Assurance Team (NRAT). This has enabled us to take an active role in national resilience exercise planning, be well informed and to be able to share and collaborate on National Resilience issues.

FINANCIAL INFORMATION ***The information for 2015/16 will be inserted prior to publication once the final accounts have been formally approved by the Authority.***

IMPACT OF FINANCIAL INFORMATION

Financial Planning

Our Medium Term Financial Strategy (MTFS) provides an analysis of the financial position likely to face the Authority over the next three years. It establishes approaches which direct resources to address the strategic priorities of the Authority (as set out in the Strategic Community Safety Plan), achieve value for money in the use of those resources, and assist the budget planning framework for the preparation of the Revenue Budget and Capital Programme.

Efficiency

We produce an IRMP which reflects local needs and sets out plans to effectively tackle existing and potential risks to communities. The IRMP has been brought in line with the MTFS to cover the comprehensive spending review period. This process enables required reductions in expenditure to be delivered in a way which takes full account of community risk.

We are committed to delivering further efficiency savings through:

- Further development of the IRMP
- Following best practice in relation to procurement of goods and services
- Working in collaboration with partners both locally and regionally, and
- Generating efficiency savings arising from policy and service reviews.

PROTECTING THE ENVIRONMENT

TWFRS continue to make significant progress in reducing carbon emissions in support of the Governments climate change objective.

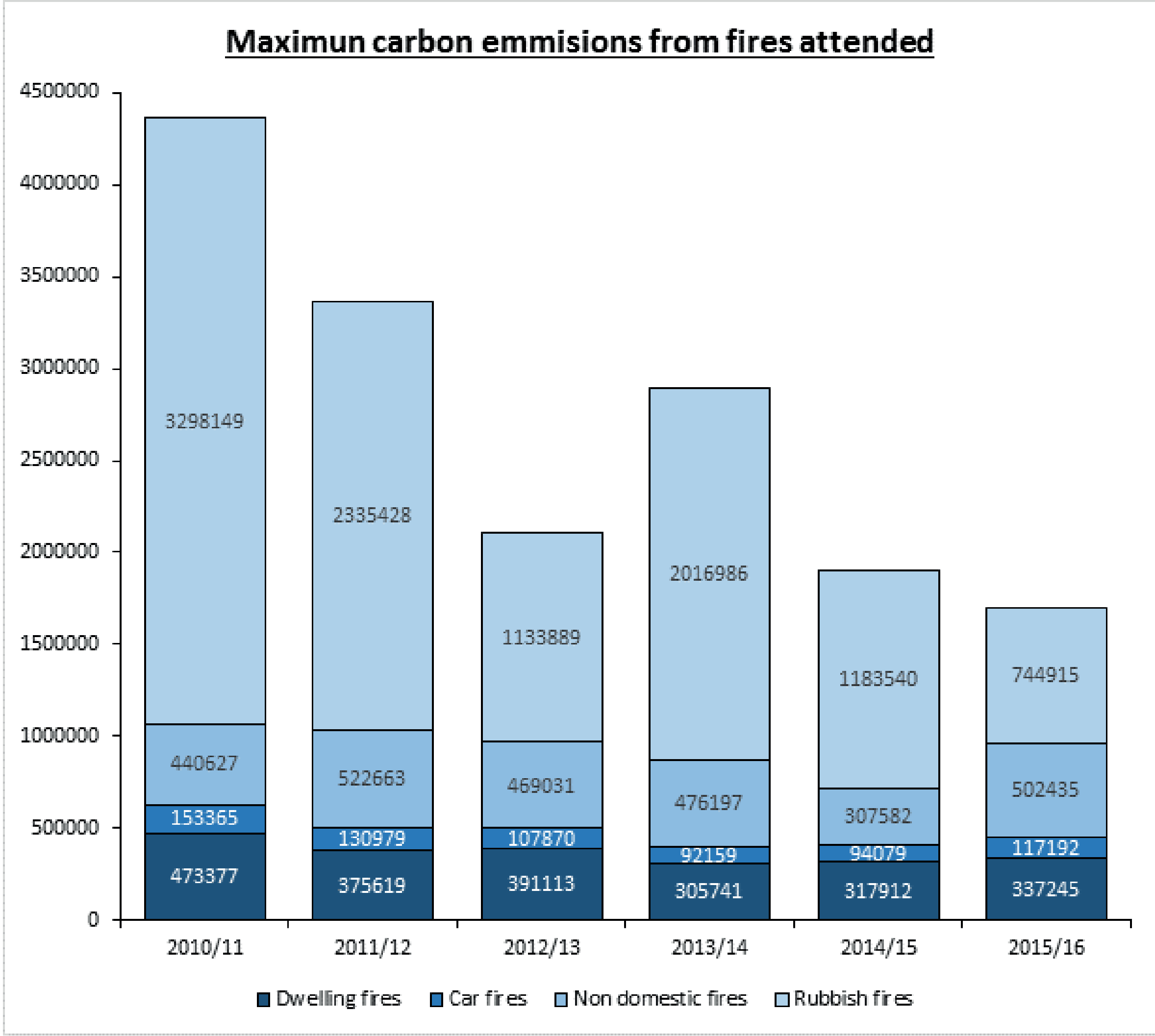
We are in the final stages of installing internal LED lighting; this will ensure that all lighting requirements (internal and external) to our non PFI facilities will benefit from LED illumination. This change will yield annual utility costs savings coupled with the benefit of lower maintenance costs. The recently completed redevelopment of SafetyWorks! involved the extensive use of innovative LED lighting solutions, meaning every fitting utilised at SafetyWorks! is LED.

Two of our community fire stations (Gosforth and Marley Park) benefit from ‘in house’ electricity generation. The photovoltaic (PV) panels not only generate free to use electricity, they also generate an income for TWFRS in the form of feed in tarrifs (FiTs).

We are investing in ‘rapid charge’ electric vehicle charging points; these will be located at Service Headquarters (SHQ) and the Technical Service Centre (TSC). Works to TSC are nearing completion and it is envisaged that SHQ’s charging facilities will be installed in conjunction with the proposed highways works that are due to commence later in 2016.

West Denton Community Fire Station has recently been subject to extensive roof coating works, the specification employed for this scheme resulted in the installation of flat insulation panels, and this action has helped ensure that the new roof covering now fully complies with the current building regulations in terms of thermal insulation efficiency.

The following graph shows the carbon emissions in tonnes for fire incidents we have attended between 2010/11 and 2015/16.



Please note the emissions are **maximum** emissions based on the **maximum possible** area covered by the fire.

In 2015/16 there was an increase of 63% in the carbon emitted from non-domestic fires (excluding derelict property), a 6% increase in the carbon emitted from dwelling fires (excluding derelict property) and a 25% increase in carbon emitted from car fires (excluding derelict vehicles). Carbon emitted from rubbish fires has decreased by 37%.

However, the total carbon emissions from all fires have reduced by 11% compared to the previous year.

YOUR VIEWS COUNT

Your views are very important to us and having had the opportunity to read our Statement of Assurance and Annual Report, we would welcome any comments that you may have. This would assist in our consultation process and evaluation of the document.

You can find our questionnaire by following this link:
http://www.twfire.gov.uk/about/annual-report

All questionnaires requesting feedback will be acknowledged within ten days of receipt.

COMPLAINTS AND COMPLIMENTS

We aim to provide the highest standards of fire, rescue and community safety services. As a recipient of a public service, there may be times when you wish to comment on the fire and rescue service. We encourage complaints and compliments from all members of the community as we value your opinion and it can help us to continually improve our service.

Complaints Procedure

For our part, if you do make a complaint we will ensure that:

- Your complaint is treated confidentially
- You receive an acknowledgement within 7 working days, including the name of the Investigating Officer
- Your complaint is investigated in accordance with the Fire and Rescue Service's standard procedures.

We will also:

- Endeavour to send you a full reply including the results of the investigation within 28 working days
- Ensure that you are informed of the progress, if the above deadline cannot be met.

Making a Complaint or Compliment

If you wish to make a complaint or would like to tell us about an area of our work that you have been happy with then please do contact us, details are as follows:
Telephone: +44 (0)191 444 1500.

Complete an online form via our website www.twfire.gov.uk

In writing, address your letter to: The Chief Fire Officer and send to the address detailed on the following page.

Strategic Planning and Corporate Communications Team
Tyne and Wear Fire and Rescue Service
Service Headquarters
Nissan Way
Barmston Mere
Sunderland
SR5 3QY

Telephone	0191 4441529
Fax	0191 4441512
e-mail	comments@twfire.gov.uk
Internet	http://www.twfire.gov.uk/

Alternative Formats

We understand that people have different needs. This plan is available in alternative formats upon request. For further details contact 0191 444 1500.

Appendix A – A performance summary of all Local Indicators for 2015/16

Performance Summary of all Local Indicators for 2015/16

Incident Data taken 08/04/2016 from the Performance Management System		2011/12	2012/13	2013/14	2014/15	2015/16	2015/16 Forecast	2015/16 Target
Deaths and Injuries								
LI2	Number of deaths from ALL fires	3	1	5	3	2	2	0
LI1	Number of deaths from accidental fires in dwellings	2	0	4	1	0	0	0
LI5	Number of injuries from ALL fires	241	227	219	220	170	174	207
LI3	Number of injuries from accidental fires in dwellings excluding precautionary checks	73	70	58	47	40	38	51
Fire Attendance								
LI24	Total number of fire calls attended	7863	5315	6436	5600	5743	5733	4958
LI25	Number of primary fires excluding road vehicles (part 1 of LI29)	1322	1178	1130	1123	1134	1132	1029
LI26	Number of primary fires involving road vehicle (part 2 of LI29)	620	523	469	452	529	455	361
LI29	Number of primary fires attended	1942	1701	1599	1575	1663	1587	1390

Performance Summary of all Local Indicators for 2015/16

Incident Data taken 08/04/2016 from the Performance Management System		2011/12	2012/13	2013/14	2014/15	2015/16	2015/16 Forecast	2015/16 Target
Accidental Fires								
LI8	Number of accidental fires in dwellings	574	589	570	575	554	555	534
LI9	Number of accidental kitchen fires (part 1 of LI8)	355	360	361	398	313	325	361
LI10	Number of accidental non kitchen fires (part 2 of LI8)	219	229	209	177	241	231	173
Deliberate Fires								
LI33	Number of deliberate primary fires and secondary fires	6008	3807	4815	3989	4045	3998	3495
LI16	Number of deliberate secondary fires	5171	3159	4213	3444	3380	3402	3050
LI18	Number of refuse fires started deliberately	3795	2515	2825	2466	2392	2276	2217
False Alarms								
LI21	Number of malicious false alarm calls attended	260	267	242	256	227	215	243
LI22	Number of false alarm calls due to automatic fire alarms from non-domestic premises	3096	2671	2456	2531	1816	1890	1769
LI23	Number of false alarms due to automatic fire detection from domestic premises	2445	2671	2565	2566	2437	2404	2503

Performance Summary of all Local Indicators for 2015/16

Incident Data taken 08/04/2016 from the Performance Management System		2011/12	2012/13	2013/14	2014/15	2015/16	2015/16 Forecast	2015/16 Target
Other								
LI35	Number of fires in a non domestic property	301	241	245	241	244	231	214
LI37	Number of HSCs delivered *	n/a	n/a	n/a	36658	34688	n/a	n/a

* Data pre 2014/15 not available

TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No 7**

GOVERNANCE COMMITTEE MEETING: 26th SEPTEMBER 2016

SUBJECT: TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2016/2017

REPORT OF THE FINANCE OFFICER

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance to date for the second quarter of 2016/2017.

2. Description of Decision

2.1 The Committee is requested to note the positive progress in implementing the Treasury Management Strategy in 2016/2017.

2.2 The Committee is also requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

3. Introduction

3.1 Sunderland City Council performs the treasury management function on behalf of the Authority.

3.2 This report sets out the Treasury Management performance to date for the financial year 2016/2017, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority. This information is based on the data for Sunderland City Council, which incorporates the investment and borrowing figures for the Authority.

4. Review of Treasury Management Performance for 2016/2017

4.1 The Authority's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates fluctuated throughout 2015/2016 and continue to be volatile. Forecasts are that the impact of the Brexit vote and low levels of world economic growth will mean that PWLB rates will remain low into the medium term. As PWLB rates were at historically low levels, in line with discussions with the Authorities economic adviser, Sunderland Council decided to take advantage of these low rates and borrow £20m to help maintain the Authority's long-term borrowing interest rate at its comparatively low levels and benefit the revenue budget over the longer term.

4.2 One option to make savings is through debt re-scheduling, however no rescheduling has been undertaken in 2016/2017 as rates have not been considered sufficiently favourable. It should be noted the Authority's interest rate on borrowing is very low, currently 3.34%, and as such the Authority continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Temporary planned use of Internal Funds helps to make this an even lower cost in reality. Performance continues to see the Authority's rate of borrowing in the lowest quartile as compared to other authorities.

4.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all of its TM Prudential Indicators.

4.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Authority.

4.5 The Authority has benefited from additional investment income in the first half of the year of almost £12,400 in cash terms based on a higher rate of return in 2016/2017 of 0.41% compared to the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.32%. Performance remains above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority.

4.6 Following the Brexit vote the credit agencies Fitch and Standard & Poor downgraded the United Kingdom credit rating from AA+ to AA and from AAA to AA. The reduced rating reflects the uncertainties arising from the vote to leave the EU. Whilst the lower rating is not desirable it is felt that the strength of the UK Government is such that the Authority can rely on continued UK Government support to the banking system. This position will be subject to close monitoring.

4.7 More detailed Treasury Management information is included in Appendix A for information.

4.8 The regular updating of the Authority's authorised lending list is required to take into account all recent financial institution mergers and changes in institutions' and Sovereign credit ratings. The Lending List Criteria and Approved Lending List as shown in Appendices B and C have been updated to reflect this.

4.9 In accordance with Treasury Management best practice, a risk analysis of the Treasury Management functions has been carried out and included in Appendix D for information which sets out how the Council manages the risks associated with the Treasury Management function on behalf of the Authority.

5. Recommendation

5.1 The Committee is requested to note the Treasury Management (TM) performance during the year to the second quarter of 2016/2017.

5.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2016/17

A1 Borrowing Strategy and Performance – 2016/17

A1.1 The Borrowing Strategy for 2016/2017 was approved by the Authority on 21st March 2016.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2016, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until the fourth quarter of 2016 before gradually rising to 1.75% by December 2018. PWLB borrowing rates were also expected to increase during 2016/2017 across all periods.

Following the Referendum on 23rd June 2016 and the vote to leave the EU, the Bank of England (BoE) cut the Bank Rate for the first time since March 2009 to an all-time low of 0.25%. It also expanded its Quantitative Easing programme by £60bn to £435bn and unveiled two new schemes; one to buy £10bn of high grade corporate bonds and the "Term Funding Scheme" potentially worth up to £100bn offering access to cheap long term funding for those banks that increase their lending activity despite the cut in the base rate. Financial analysts speculate that a further cut to near zero is likely. The timing of any rate increase will depend on the strength and pace at which the UK economy recovers post-Brexit with tentative forecasts from the Authority's economic advisors, Capita Asset Services, of the second quarter of 2018 for a return to 0.25% and not reaching the pre-Referendum level of 0.50% until the second quarter of 2019.

Events following the outcome of the EU referendum has seen significant changes to the leadership of the government. The Office for Budget Responsibility (OBR) is currently assessing the potential impact of Brexit on the national economy. It is at this stage unclear what actions the government will take, although the New Chancellor has indicated a willingness to scale back the timing and pace of deficit elimination plans to do whatever is needed to promote growth. Clarity of the position and how the current Deficit Reduction Plan will be affected is expected to be announced in the Autumn Statement around the end of November.

The uncertainty caused by the Brexit vote and indications of reduced levels of investment, along with other factors such as reduced growth forecasts in Asia has led the BoE to review its growth and inflation forecasts for the UK. The August 2016 Inflation Report left growth forecasts unchanged at 2% for 2016 as the economy expanded faster in the first half of 2016 than had been expected in May. However the forecast for 2017 has been revised down significantly to 0.8% from a previous estimate of 2.3% and the forecast for growth in 2018 has been cut to 1.8%.

The BoE revised up its inflation forecasts sharply, in light of the devaluation of sterling because of Brexit. The BoE predicts CPI inflation will increase from its June 2016 level of 0.5% to 2.0% in 2017 and 2.4% in 2018 and 2019. This exceeds the 2.0% target level for inflation. To allay fears that this could spark a tightening of monetary policy the report noted that the costs of bringing inflation back to the 2.0% target in the immediate future would exceed the benefit.

The BoE said it expected the economy to suffer weak growth throughout 2016 and the rest of next year. The minutes stated that the outlook for growth in the short to medium term has weakened markedly, and most Monetary Policy Committee members expect further action later in the year if the economy performed as poorly as forecast. The economic picture is currently very volatile but most forecasters do not anticipate a base rate increase until 2019.

Forecasts for PWLB interest rate levels have fallen across all durations with benchmark rates of 1.00%, 1.50%, 2.30% and 2.10% for 5, 10, 25 and 50 year durations. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2016. The volatility is highly correlated to geo-political and sovereign debt crisis developments and the likelihood that increases in the US interest rate will occur more quickly and more strongly than the UK Bank Rate.

The following table shows the average PWLB rates for Quarters 1 and 2 to date.

2016/2017	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Aug) %**
7 days notice	0.36	0.25
1 year	1.11*	0.90*
5 year	1.59*	1.09*
10 year	2.25*	1.60*
25 year	3.05*	2.36*
50 year	2.83*	2.11*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

A1.2 The strategy for 2016/2017 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 4.00% for long-term borrowing was set for 2016/2017 in light of the views prevalent at the time the Treasury Management policy was set in March 2016. Recent volatility in the financial markets has seen considerable movement of funds into gilts with a resulting fall in both gilt yields and PWLB rates which the Authority has taken advantage of. The overall longer term expectation is for gilt yields and PWLB rates to rise, albeit gently. In line with discussions with the Authority's economic adviser, Sunderland City Council took advantage of the low borrowing rate troughs that have occurred at each stage during the year, which will benefit the Authority's revenue budget over the longer term. Sunderland City Council has taken out £20 million of new borrowing during the financial year as these rates were considered opportune at each point in time. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
47½ years	15/06/2016	17/06/2016	17/06/2063	2.55	10.0
46½ years	01/07/2016	05/07/2016	05/01/2063	2.15	10.0

Since taking out this new borrowing rates have fluctuated, falling to a low of 1.85% for 46½ year duration before recovering to higher rates than the post Brexit borrowing was taken out. The position remains volatile at the moment and the Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future requirements.

A1.3 The Borrowing Strategy for 2016/2017 made provision for debt rescheduling but due to the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the Authority's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Rates have not been sufficiently favourable for rescheduling in 2016/2017 so far and the Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to the Authority in line with the current Treasury Management reporting procedures.

Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2016.

A1.4 Sunderland City Council's treasury portfolio at 31st August 2016 is set out below :

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	197.8		
	Market	39.6		
	Other	0.2	237.6	3.68
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			**265.2**	**3.34**

A2 Treasury Management Prudential Indicators – 2016/2017

A2.1 All external borrowing and investments undertaken in 2016/2017 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2016/2017 as follows:

	£m
Borrowing	35.360
Other Long-Term Liabilities	20.723
Total	**56.083**

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	30.360
Other Long-Term Liabilities	20.723
Total	**51.083**

The maximum external debt in respect of 2016/2017 (to 31st August 2016) was £35.294 million and is well within the limits set by both of these indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators set by Sunderland City Council have been complied with:

Prudential Indicators		**2016/2017 (to 31/08/16)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	255,000	92,565
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	48,000	-9,830
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	11.32%
	12 months and within 24 months	60%	1.65%
	24 months and within 5 years	80%	5.77%
	5 years plus	100%	82.68%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	0

A3 Investment Strategy – 2016/2017

A3.1 The Investment Strategy for 2016/2017 was approved by the Authority on 21st March 2016. The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

(A) The **security** of capital;
(B) The **liquidity** of its investments and then;
(C) The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 31st August 2016, funds managed by Sunderland City Council's in-house team on behalf of the Authority amounted to £27.514 million and all investments complied with the approved Annual Investment Strategy. The following table shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Authority uses to assess its performance.

	2016/2017 Return %	**2016/2017 Benchmark %**
Return on investments (to 31st August 2016)	0.41	0.32

A3.3 Investments placed in 2016/2017 have been made in accordance with the approved Investment Strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Authority's advantage.

A3.5 Investment rates available in the market have continued at historically low levels and are likely to reduce further following the reduction to the Bank of England Base Rate.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions for shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. Lloyds and RBS) which have the UK Government AA rating applied to them, or in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. The Approved Lending List is shown in Appendix C and has been updated with notified changes to credit ratings.

Lending List Criteria **Appendix B**

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Appendix B (continued)

Country Limit
It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £100m which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	350
Non-UK	100

Sector Limit
The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List **Appendix C**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	**AA**	-	Aa1	-	AA	-	350	2 years
Lloyds Banking Group (see Note 1)							**Group Limit 80**	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
Ulster Bank Ltd	BBB+	F2	A3	P-2	BBB	A-2	80	2 years
Santander Group							**Group Limit 65**	
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank *	BBB+	F2	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	**Aa3**	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	Aa3	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A2	P-1	-	-	50	364 days
Newcastle BS **	-	-	-	-	-	-	0	
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa3	P-3	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Skipton BS **	A-	F1	Baa2	P-2	-	-	0	
West Bromwich BS **	-	-	B1	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa3	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AA+		Aa1		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
OP Corporate Bank	-	-	Aa3	P-1	AA-	A-1+	75	2 years
Germany	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Netherlands	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA rating applied to them thus giving them a credit limit of £80m.

* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

Appendix D

Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

Risk	Controls
1. Strategic Risk The Authority's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Authority's budget and could ultimately lead to a reduction in resources for front line services.	This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Authority in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Finance Officers' view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the treasury advisor (currently Capita Asset Services). The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Authority may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.
2. Interest Rate Risk The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Authority's finances and budget for the year.	The Authority manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy. The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Finance Officers' own view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy. A pro-active approach is taken by the Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to

Risk	Controls
	help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.
3. Exchange Rate Risk As a result of the nature of the Authority's business, the Authority may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.	All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk. This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Authority's bankers on the day of the transaction.
4. Inflation Risk There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.	Economic data such as pay, commodities, housing and other prices are monitored by the treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Authority's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance. Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.
5. Counterparty Risk The Economic Downturn and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.	The prime objective of the treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited. The Authority also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Authority's Treasury Management Policy and Strategy Statement. The Finance Officer has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial

Risk	Controls
	markets should the need arise and these changes are reported to the relevant Committee at the next available opportunity. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep the approved lending list up to date and fully informed, using the latest available information.
6. **Capital Financing and Refinancing Risk** There is a risk that opportunities for rescheduling of the Authority's debt portfolio are constrained.	The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB). PWLB funding could come under pressure in future years because of Government targets to reduce the level of public debt which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. However, the Government has not indicated that this is an option that they are currently considering.
7. **Statutory and Regulatory Risk** There is a risk that regulations covering Treasury Management will change and the Authority fails to respond to those changes.	The Authority ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the latest CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Revised Code of Practice and this is reported to and agreed by the Authority.
8. **Treasury Management Arrangements Risk** There is a risk that the Authority does not carry out its Treasury Management function effectively	This is unlikely to happen because the Treasury Management function is required to ensure the Authority can comply with all legislative and regulatory requirements. As such the Authority has

Risk	Controls
and thereby the Authority could suffer financial loss as a result.	access to a well established Treasury Management team that operates under the Finance Officer and is staffed appropriately with a good mix of both well experienced and qualified staff. Professional advice is regularly accessed to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.