

# **SOUTH WALES FIRE AND RESCUE AUTHORITY**



## **STATEMENT OF ACCOUNTS**

**2016/2017**

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## NARRATIVE REPORT

The purpose of this narrative is to explain the structure of the accounts, briefly describe the activity and structure of the South Wales Fire and Rescue Authority (the Authority) and consider the overall financial position of the Authority in the current economic context.

The Authority's Statement of Accounts is a publication required by law; the prime purpose of which is to give clear information about the financial position, the financial performance and accountability of resources for the South Wales Fire and Rescue Authority for the financial year 2016/17, information which may be useful for a wide range of stakeholders.

The Authority's accounts for 2016/2017 consist of the following;

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) and other, non-usable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund and the Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund before any discretionary transfers are undertaken.

Expenditure and Funding Analysis (EFA) - The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (Local Authority contributions, government grants, other income etc.) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Comprehensive Income and Expenditure Statement (CIES) – 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. Local Authorities raise taxation to cover expenditure in accordance with regulations which may be different from the accounting cost. Even though this Authority does not raise income related to tax, local authority accounting regulations stipulate these accounts are prepared accordingly.

Balance Sheet – the Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital

expenditure or repay debt). The second category of reserves includes reserves that hold unrealised gains and losses (e.g. 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 MIRS line, 'adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement - the Cash Flow Statement shows the change 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 grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

Fire Fighters Pension Fund Account – This shows the financial position of the Fire Fighters pension fund account, indicating whether the Authority owes, or is owed money by the Welsh Government in order to balance the account, together with details of its net assets. The Account consolidates the 1992, 2006, 2015 and the 2006 Modified Firefighter Pension Schemes.

#### Statement of Responsibilities for the Statement of Accounts

This sets out the respective responsibilities of the Authority and its officers for the preparation and approval of the Statement of Accounts.

#### Annual Governance Statement

This statement provides a continuous review of the effectiveness of the Authority's governance framework including the system of internal control and risk management systems, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses.

Notes to the accounting statements. - The notes present information about the basis of preparation of the financial statements and the specific accounting policies used. They disclose information not presented elsewhere in the financial statements that are relevant to an understanding of them.

## **South Wales Fire and Rescue Authority**

South Wales Fire and Rescue Authority (the Authority) is responsible for providing an efficient and effective fire and rescue service to the communities of South Wales. The Authority covers 10 unitary authority areas and is made up of 24 elected members drawn from those authorities representative to the number of registered electors.

The Authority incurs revenue spending on items, which are generally consumed within the year, and this is financed by contributions from the ten constituent local authorities in proportion to population. For 2016/17, the proportions were as follows:

	<b>Values £000</b>	<b>Proportion %</b>
Blaenau Gwent County Borough Council	3,171	5
Bridgend County Borough Council	6,541	9
Caerphilly County Borough Council	8,279	12
Cardiff County Council	16,776	24
Merthyr Tydfil County Borough Council	2,748	4
Monmouthshire County Council	4,209	6
Newport County Borough Council	6,892	10
Rhondda Cynon Taff County Borough Council	10,789	16
Torfaen County Borough Council	4,208	6
The Vale of Glamorgan Council	5,898	8
<b>Total</b> (note 36)	<b>69,511</b>	<b>100</b>

### **Financial Performance in 2016/17**

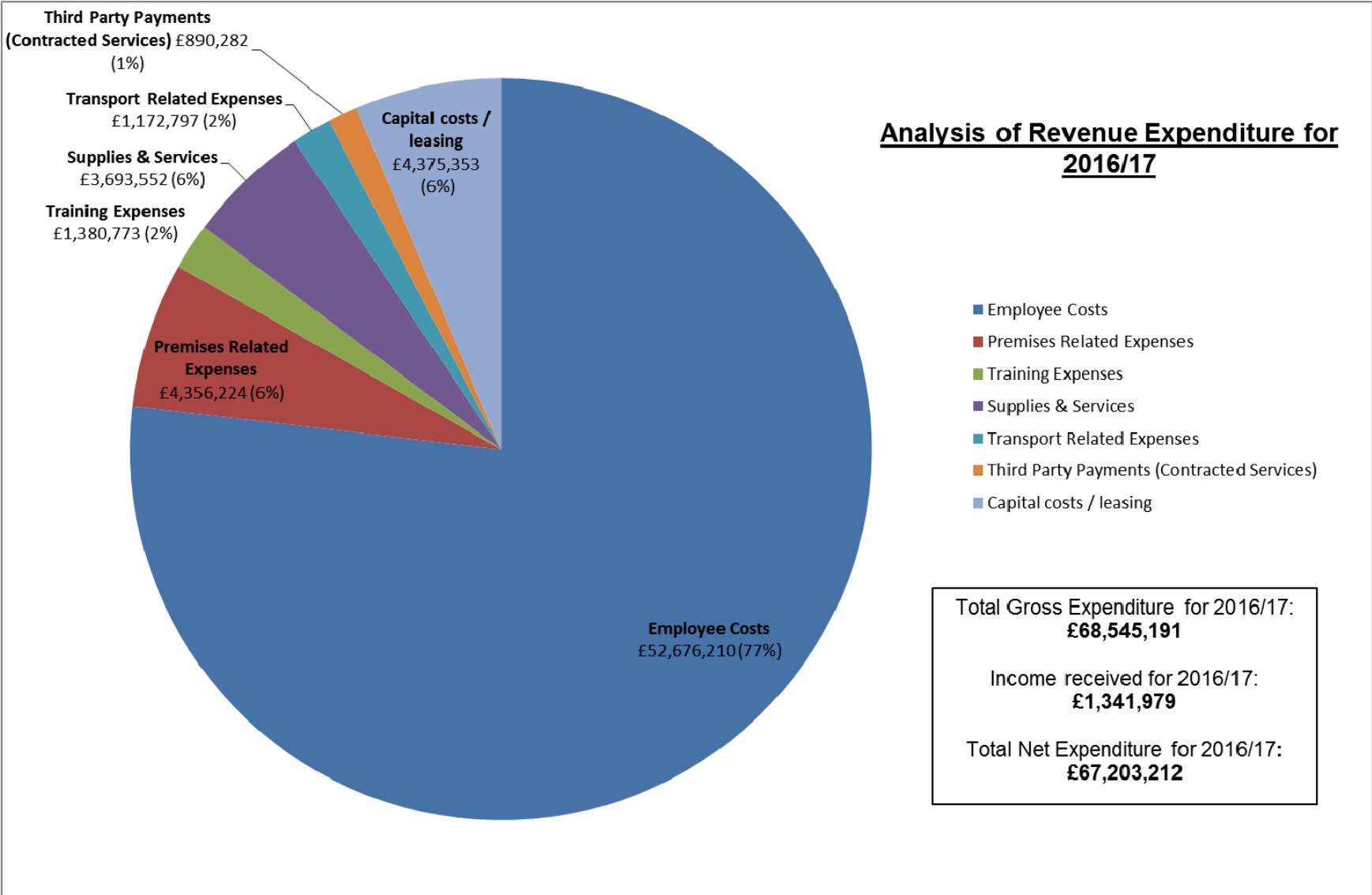
The total net revenue expenditure for the year was £67.2 million, compared with the net expenditure budget of £69.5 million. The under spend of £2.3 million was as a result of vacancies and staff turnover predominantly in the Retained duty system. Other areas of significant underspend were capital charges, linked to reduced activity on the capital programme, transport savings and for resilience planning through the creation of auxiliary reserve which will not be fully established until 2017.18. In addition several opportunities arose to maximise income and cost recovery. The surplus accrued was scrutinised by the Finance, Audit and Performance Management (FAPM) Committee and the Finance and Asset Management Working Group throughout the year.

<b>Budget Outturn</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Revenue</b>			
Expenditure (note 8)	70,633	68,545	(2,088)
Income (note 8)	(1,122)	(1,342)	(220)
Net Expenditure (note 8)	69,511	67,203	(2,308)
Unitary Authority (note 36)	69,511	69,511	0
(Surplus) /Deficit	0	(2,308)	(2,308)
<b>Capital (inc slippage)</b>			
Capital Spending (note 37)	6,624	2,473	(4,151)

### Revenue Sources of Funding

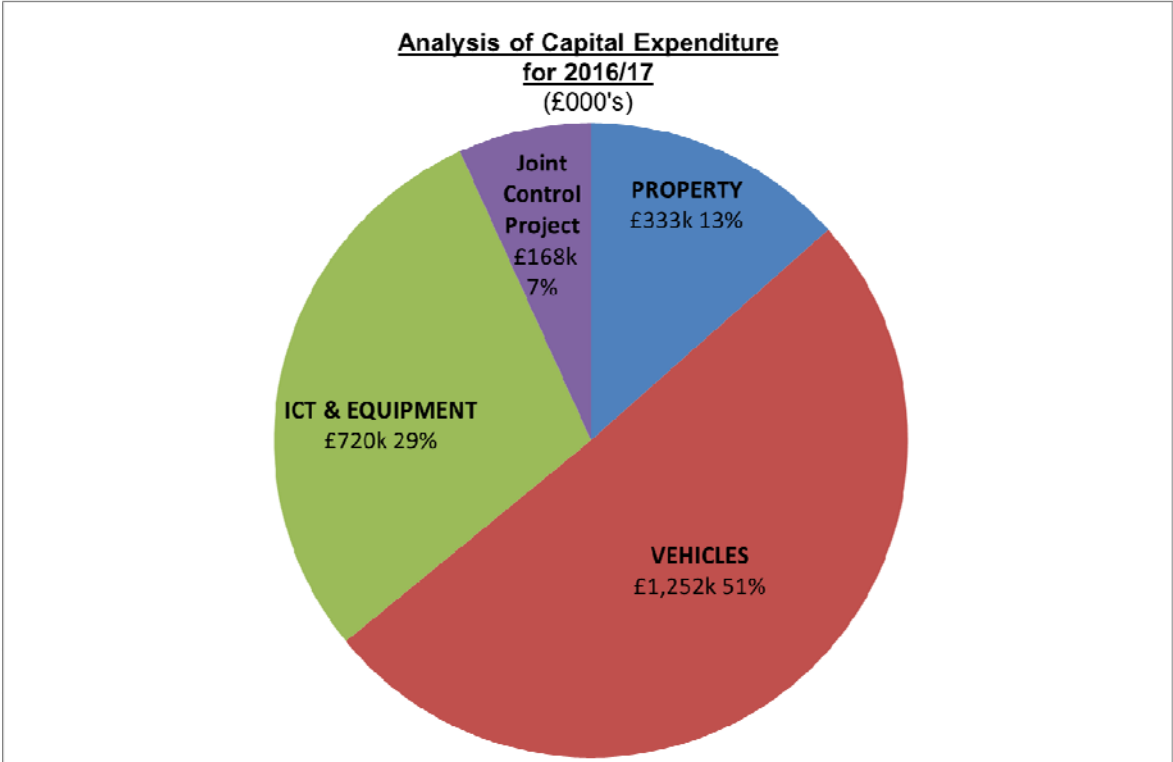
<b>2015/16</b>		<b>2016/17</b>
£000		£000
68,878	Unitary Authority Contributions (above & note 36)	69,511
2,558	Revenue Grants (note 35)	2,604
57	Interest Receivable (note 10)	68
1,239	PFI. Grant (note 41)	1,200
1,208	Fees and Charges/Reimbursements	1,072

**Expenditure by type 2016/17**





Capital expenditure in the year amounted to £2.5 Million



Board (PWLB), Welsh Government (WVG) in respect of Invest to Save funding for the collaborative Joint Public Service Centre Project and Salix Finance Ltd in respect of interest free funding to support the installation of sustainable LED Lighting. In accordance with its Treasury Management Strategy the Authority has continued to utilise cash balances to fund the capital programme therefore no PWLB loans were taken out in the year.

**Capital Financing Costs**

The charge made to the service revenue account to reflect the cost of fixed assets used in the provision of services was £4.4 million. This is a notional charge for depreciation and an adjustment is made to nullify the effect on the general fund balance. The actual cost to the service for financing capital is £1.5 million loan interest, £2.8 million minimum revenue provision and a £291k revenue contribution.

**Non Financial Performance in 2016/17**

In 2016/17 South Wales Fire and Rescue Service successfully delivered a balance of prevention, protection and emergency response services, with the improvement objectives for the year continuing to be aimed at reducing deliberate fire setting and improving and ensuring the future sustainability of the Service.

The Finance Audit and Performance Management Committee regularly received reports on service performance and indicators as well as scrutinising the progress report cards against each of the strategic objectives.

The following table highlights some of the activity in making South Wales Safer in the past twelve months.

	2015/16	2016/17
Fires attended per 10,000 population	6,578	5,798
Deliberate fires attended per 10,000 population	4,812	4,054
Secondary Fires (grass, refuse etc) attended	4,357	3,542
Road Traffic Collisions attended	1,322	1170
Home Fire Safety checks undertaken	21,275	19,916
Business Fire Safety Audits undertaken	1,507	1,015
Crimes and Consequences attendees	4,539	2561
Phoenix programme attendees	584	487

The Authority continues to work collaboratively with a number of partners in relation to asset co-location, procurement, and delivery of prevention and education services. Examples of partnership work included the refurbishment work at Abertillery Fire Station which will now be a joint location for Fire, Police and Ambulance and the continued work to establish the Joint Public Service Centre at South Wales Police Headquarters, which will relocate the control centres of South and Mid and West Fire and Rescue Services' into Bridgend later in 2017.

### **Future Financial Plans**

Looking longer term the current austerity measures are likely to continue into the foreseeable future, with further funding cuts anticipated. The 2017/18 revenue budget approved by the Fire and Rescue Authority in February gave an increase of 1% taking the annual budget to £70.206 million. This uplift meets the impacts of a 1% pay increase, the additional burden of the apprentice levy and also reflects the Fire and Rescue Authority's support of the need to continue preventative work undertaken by the Community Safety department following reduced grant funding from Welsh Government (WG).

The medium term financial strategy assumes further funding reductions making the challenge of producing a balanced budget increasingly more difficult when faced with inflationary pressures and the investment required to maintain operational effectiveness. Therefore, to meet the anticipated funding gap, ranging between £2 - 6 million by 2020/21, a programme of transformational projects delivering savings continues.

### **Pension liability**

In 2016/17, 32 whole-time and 6 RDS uniformed staff retired. The actuarially assessed liability as at 31 March 2017 was £850 million for Fire Fighters' pension scheme and £22 million for the Local Government pension scheme (LGPS). This is an increase in liability of £152 million and £7 million respectively since the previous year end.

Under International Accounting Standard (IAS) 19 (Employee Benefits) the Authority is required to provide details of assets and future liabilities for pensions payable to

employees, both past and present. This is outlined in greater detail in the disclosures to the accounts (note 42).

### **Provisions, Contingencies and Write offs**

The provision for the payment of Retained Duty Service personnel as a result of the part time workers' conditions settlement remains in place. The majority of these payments were made in the financial year.

### **Reserve Accounting**

At the end of the financial year, the Statement of Accounts shows financial reserves carried forward into 2017/18. This is consistent with the accounting treatment of previous years, with the maintenance and utilisation of reserves forming a cornerstone of corporate financial stability and operational service planning in the short and medium term.

### **Impact of the Current Economic Climate**

The financial implications of the economic downturn were clearly reflected in the updated Medium Term Financial Strategy. Throughout the year the service continued to place an emphasis on efficiencies, proactive budget management and improved procurement planning in an effort to reduce in year costs and impacts on future budgets.

The majority of savings generated in 2016/17 have been allocated to earmarked reserves to deliver operational improvement and efficiency in future years.

### **Additional Information**

Additional information about these accounts is available from the Head of Finance and Procurement. Interested members of the public also have a statutory right to inspect the accounts before the audit is completed. Availability of the accounts for inspection is advertised in the local press and on the website for South Wales Fire and Rescue Service ([www.southwales-fire.gov.uk](http://www.southwales-fire.gov.uk)).

### **Acknowledgements**

Finally, I wish to thank all Finance staff and their colleagues throughout the Authority, who have worked on the preparation of these statements. I also wish to thank the Chief Fire Officer and Corporate Directors for their assistance and co-operation throughout this process.

**Chris Barton**  
**Treasurer**

**Dated:**

**STATEMENT OF RESPONSIBILITIES**

**The Authority’s Responsibilities**

The Authority is required:

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

**The Treasurer’s Responsibilities**

The Treasurer is responsible for the preparation of the Authority’s Statement of Accounts, including the Pension Fund Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (“the Code”).

In preparing this statement of accounts, the Treasurer has:

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

The Treasurer has also:

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

**CERTIFICATE OF THE TREASURER & FIRE & RESCUE AUTHORITY CHAIR**

I certify that the accounts provide a true and fair view of the financial position of the Authority as at the 31 March 2017 and its income and expenditure for the year then ended.

**Signature:** \_\_\_\_\_ **Treasurer**

**Date:** \_\_\_\_\_

I confirm that these accounts were approved by the Fire Authority;

**Signature:** \_\_\_\_\_ **Fire & Rescue Authority Chair**

**Date:** \_\_\_\_\_

# **ANNUAL GOVERNANCE STATEMENT**

This Statement has been prepared in accordance with guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SLACE) - the “Delivering Good Governance Framework”. This Annual Governance Statement explains how the Authority has complied with the new framework and its seven core principles of good governance to ensure that resources are directed in accordance with agreed policy and agreed priorities.

## **1. Scope of Responsibility**

- 1.1 South Wales Fire & Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Authority also has a duty 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.
- 1.2 In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 This statement explains how the Authority has complied with the Code and also meets the requirements of the Accounts and Audit (Wales) Regulations 2014, in relation to the publication of a statement on internal control.

## **2. The Purpose of the Governance Framework**

- 2.1 The Governance Framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority’s policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively, and economically.

- 2.3 The Governance Framework has been in place at the Authority for the year ended 31 March 2017 and up to the date of the Authority's approval of the Statement of Accounts.

### **3. The Governance Framework**

- 3.1 The Governance Framework describes the key elements of the systems and processes that comprise the Authority's governance arrangements and are as follows:

- 3.1.1 The Authority is responsible for ensuring that the Fire & Rescue Service in South Wales is effective, efficient, and accountable to the public.

Membership is made up of Members of the 10 unitary authorities covered by the Fire & Rescue Service area as defined by the Fire Service (Combination Scheme) Order 1995.

The Authority is organised into committees and working groups which are appointed at the annual meeting. Each committee and working group has a comprehensive set of terms of reference which, together with details of their membership, can be found on the website.

- 3.1.2 The Executive Leadership Team (ELT), comprising the Chief Fire Officer, Corporate Directors and Treasurer, is responsible for strategic leadership, political interface and corporate challenge. The Senior Management Team (SMT) includes the same officers and Heads of Service, both uniformed and corporate, and provide organisational leadership, functional challenge and service delivery.

- 3.1.3 The Treasurer is responsible for the proper administration of the Authority's financial affairs as required by Section 112 of the Local Government Finance Act 1988, and the Authority's financial management arrangements are assessed against the governance requirements set out in the Chartered Institute of Public Finance and Accountancy Statement on the Role of the Chief Finance Officer in Public Organisations (2009).

- 3.1.4 Constitutional Documents – The Authority has a suite of constitutional documents that can be found on its website. These include General Standing Orders, Procedural Standing Orders, Contract Standing Orders, Scheme of Delegations and Financial Regulations. These documents are regularly reviewed by the Monitoring Officer and Treasurer, and any identified changes needed are reported to the Authority for their approval.

In order to provide a practical method of operational and financial management throughout the organisation, officers have been given certain powers by the Authority in the form of Officer Delegations. Under the Local Government Act 1972, a list of these powers must be maintained and this is done by the Monitoring Officer who regularly reviews their effectiveness, and reports and agrees any changes with the Fire & Rescue Service. These powers form an integral part of the Governance arrangements and were last reviewed in 2017.

3.1.5 The Medium Term Financial Strategy (MTFS) covers the period 2016-2021 and forms the cornerstone of the detailed budget construction annually. It provides a view on potential funding both nationally and locally. The Strategy considers:

- an assessment of potential un-hypothecated grant settlements and local taxation yields for constituent councils based on best, worst and anticipated figures.
- intelligence from outturn for last financial year and current year's revenue budget as the base.
- A view on relevant indices to be applied to the base.
- A snapshot of transformational projects currently identified within the period of the MTFS.
- A planned approach to reserves as a result of the MTFS projection.
- A view on potential funding gaps and planned approaches to these over the period in question.

3.1.6 Strategic Plan – The plan outlines the direction that the organisation is taking and how we intend to meet the challenges over the period in order to continue to deliver high quality services that meet the needs of our communities.

The organisation's performance against the Strategic Plan, Statutory and local indicators is reported regularly to the Authority and FAPM committee together with an overall report on these reported annually to the Authority and on our website through the document "How we did".

3.1.7 Strategic Planning Framework – Our vision is to make South Wales safer by reducing risk. We recognise that safer communities can only be achieved by challenging and improving the way we work through a safe and competent workforce and effectively managing our resources. We therefore set a strategic direction for the organisation through our Strategic Plan which normally covers a five year period and addresses the requirements of the Well-being of Future Generations Act together with the requirements of the Wales Fire and Rescue Services National Framework Document 2016 produced by the Welsh Government. Each directorate and department formulate their own plans in support of the strategic objectives which are reported on quarterly.

3.1.8 Risk Management Policy sets out the process we use to identify and control exposure to uncertainty, which may impact on the achievement of our objectives or activities. The service Senior Management Team identify, review and score the Corporate Risks assessing them in terms of likelihood and impact; identifies any actions in place and any further actions required to prevent the likelihood of risk occurring or to mitigate the impact should they occur. The Corporate Risk Register records these risks, and they are regularly monitored and reported to the Finance, Audit & Performance Management Committee.

3.1.9 There are established arrangements for effective Financial Controls through the Authority's accounting procedures, key financial systems and the Financial Regulations. These include established budget planning procedures and

regular reporting to Authority Members and comparing actual revenue and capital expenditure to annual budgets. The Authority's Treasury Management arrangements follow professional practice and are subject to annual review by Members.

- 3.1.10 The Service has signed up to the Wales Fire & Rescue Services' Procurement Strategy which makes the best of opportunities to deliver efficiencies and other improvements in the acquisition of goods, services and the awarding of contracts across the Fire & Rescue Services in Wales.
- 3.1.11 The Director of Corporate Services is designated the Monitoring Officer in accordance with the Local Government and Housing Act 1989, and ensures compliance with established policies, procedures, laws and regulations.
- 3.1.12 The Authority has in place counter fraud arrangements and whistleblowing arrangements which are regularly reviewed by officers
- 3.1.13 There are agreed procedures to meet the requirements of the Regulation of Investigatory Powers Act 2000 which have been agreed by the Office of Surveillance Commissioner and key staff have recently received training in the application of these regulations.
- 3.1.14 The Finance, Audit & Performance Management Committee considers the effectiveness of the Authority's risk management arrangements and the work of the Internal and External Auditors, and meets with the auditors privately following each committee meeting.
- 3.1.15 Internal Audit is outsourced to a private sector organisation TIAA Limited, who work to the Public Sector Internal Audit Standards which are applicable to all Internal Audit providers in Wales. The Annual Audit Plan is agreed by the Finance, Audit & Performance Management Committee which receives regular reports on the audits undertaken together with a comprehensive annual report.
- 3.1.16 The Auditor General for Wales is the Authority's statutory auditor, with the Audit provided by the Wales Audit Office. They provide challenge under the Public Audit (Wales) Measure 2004, The Local Government (Wales) Measure 2009, the Local Government Act 1999 and the Code of Audit Practice. They issue annual reports/statements on the performance of the Authority namely to:
  - examine and certify if the financial statements are true and fair.
  - assess if proper arrangements to secure economy, efficiency and effectiveness in the use of resources have been made.
  - audit and assess if the duties and requirements of the Measure have been met.
  - undertake studies to enable considered recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.



The Auditor General and Wales Audit Officer present their audit plan to Members annually and regularly report progress and outcomes to them. The Wales Audit Office also has private meetings with Members following Finance, Audit & Performance Management Committee meetings where they can discuss issues without officers being present. All reports are published on the Wales Audit Office website ([www.audit.wales](http://www.audit.wales)).

- 3.1.17 Members' salaries are paid in accordance with the Independent Remuneration Panel recommendations.
- 3.1.18 The Pay Policy Statement is approved and published in accordance with the Localism Act 2011.
- 3.1.19 All users of the Authority's ICT equipment use an online acceptance tool which individuals have to pass through before using internet facilities, agreeing to the organisation's ICT policies.
- 3.1.20 Related party transactions forms are completed in accordance with the Code of Practice on Local Authority Accounting in the UK which indicates if the organisation has been involved in any transactions with individuals or any relatives or close acquaintance.

#### **4. Review of Effectiveness**

- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the system of internal control. The review of effectiveness is informed by the work of the Executive Leadership Team within the Authority who have responsibility for the development and maintenance of the governance environment, the internal auditors' annual report, and also by comments made by the external auditors and peer assessors.
- 4.2 The regular and ongoing processes that have been applied to maintain, review and improve effectiveness of the Governance Framework include:
  - Regular review of policies – procedures by the officer responsible and by the Service Senior Management Team.
  - Regular review of the constitutional documents and ethical governance arrangements by the Monitoring Officer and Treasurer, which were last updated in February 2017
  - The Finance, Audit & Performance Management Committee regularly scrutinises the revenue and capital expenditure against the allocated budget together with regular scrutiny of the performance of the Service against the Strategic Plan.
  - Senior officers regularly review the organisational risks and regular report to Members. Through the finance audit and performance committee.

- The Authority received annual reports from each of its committees and working groups outlining the work that had been undertaken throughout the year, giving Members the opportunity to challenge and scrutinise any area that they feel fit.
- As the provider of internal audit services, TIAA Limited provides the Authority, through its Finance, Audit and Performance Management Committee, with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. The Head of Internal Audit has confirmed in her annual report that in her opinion the organisation has adequate and effective management, control and governance processes to manage the achievements of its objectives.

#### **Head of Internal Audit Opinion**

*"I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of South Wales Fire and Rescue Service's risk control and governance processes. In my opinion South Wales Fire and Rescue Service has adequate and effective management control and governance processes to manage the achievement of its objectives".*

- With regard to the audit of the Authority's 2015/16 Statement of Accounts the Auditor General in their report made a number of important recommendations to improve the Authority's processes. The recommendations were accepted and where necessary amendments made to the financial statements prior to audit sign off and publication. Amendments have been made to procedures and records to rectify those areas highlighted in 2015/16.
- The Wales Audit Office in its letter to the Chairman of the Authority confirmed that they had issued an unqualified audit opinion on the financial statements, confirming that they presented a true and fair view of the Authority's and the Pension Funds' financial position and transactions, and that the Authority has appropriate arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
- Positive actions have taken place during the year to address the challenges outlined in the 2015/16 Annual Governance Statement. The area which remain will continue to be monitored and managed as part of the action plan for 2017/18 below.

## **5. Significant Governance Issues and Challenges for 2017/18**

- 5.1 The Welsh Language (Wales) Measure 2011 replaced the Welsh Language Act 1993 and as part of the new legislation, in Wales the Welsh language has equal legal status with English and must not be treated less favourably. Public bodies no longer need to develop and implement Welsh Language schemes but instead now must comply with a set of national Welsh Language Standards.

The Welsh Language Commissioner has issued a Compliance Notice which sets out which Standards apply to the Authority, along with any exemptions and their implementation dates.

The Authority published a document noting how it intends to comply at a corporate level with the Standards and what its internal processes are for oversight and monitoring implementation.

5.2 The establishment of the Joint Control Centre with Mid and West Wales Fire & Rescue Service and South Wales Police has been ongoing for some time, and continues to provide challenges. Systems acceptance testing has taken place with the intention of going live at the beginning of October 2017.

5.3 The Service is part way through implementing a Business Management Information System. The aim of this project is to bring together performance indicators, risks, audits, project management and the cascade of strategic planning to operational activity.

The project sees the practical replacement of its existing performance indicator system, OWLE which is being withdrawn in April 2018. Longer term it will enable the Service to consider multiple sources of information in one platform to ensure both decision making and monitoring is fully transparent.

Initial priorities for the system are to build in all performance indicators and Directorate/Departmental action plans that have been developed from the 5 year strategic plan. The project will be implemented incrementally and reviewed regularly to ensure it supports the wider needs of the Service.

5.4 The aim of the Well-being of Future Generations Act 2015 is to improve the social, economic, environmental and cultural well-being of Wales. As one of the statutory partners on the Public Service Boards, we took these requirements into account early in our planning cycle. Each Public Service Board will be required to produce a local Well-being Plan, and will be required to evidence through annual review how the goals are being achieved. We will therefore need to ensure that we are able to deliver against the needs and expectations of each Public Service Board's objectives without impacting on the day-to-day service delivery of the organisation.

5.5 The Auditor General identified a number of areas for improvement throughout the year. At national level they identified that we did not evaluate the success and outcomes of our fire safety interventions; and again at national level, that we should establish arrangements with the Welsh Ambulance NHS Trust and relevant health boards to identify the extent of unreported injuries resulting from fires to enable identification of potential vulnerable people or higher risk premises.

5.6 Public Sector Funding continues to be a challenge. The impact of spending reductions in the public sector is a key issue for the Authority and the position that local authorities face is always taken into account when the Authority sets

its annual budget, and the implications are always considered when determining the Medium Term Financial Strategy.

- 5.7 Following the Local Government Elections sixteen new members were appointed to the Authority for the municipal year. A comprehensive Members' induction process took place in July, not only inform Members of the work and statutory duties of the Authority and Service but also to inform them of the challenges likely to occur in the future.
- 5.8 Potential changes to pension and tax legislation continue to provide a challenge to the organisation and the capacity to deal with the complex issues with existing resources continues to be of concern with various options being explored.
- 5.9 In February 2017 the Welsh Government published for consultation a White Paper "Reforming Local Government: Resilient and Renewed". Whilst its main focus was on Councils, reference was made to Fire & Rescue Authorities:  
*"The Fire and Rescue Services in Wales have a track record of delivery. They have reduced fires and fire casualties by over 50% since responsibility was devolved in 2004. They also have a long history of regional working, having operated on that basis since 1996. In that sense they already represent an example of the broad approach which this White Paper proposes for other Local Authority services.*

*However, the Authority's governance and funding arrangements do not generate sufficient accountability, for instance, Council leaders and cabinet members are not generally members. There is also no separation between executive and scrutiny functions, and budgets set without any formal external challenge or control.*

*To correct this. And to ensure that fire and rescue services are properly integrated with other regionalised services, it is proposed that Fire and Rescue Authorities will change their governance arrangements so that their membership will resemble that of Joint Governance Committees, and budgets would be set on a pooled basis by agreement. This would not change the role, number or boundaries of Fire and Rescue Authorities, or their existence as separate organisations empowered to employ staff, spend money and exercise functions on their own account.*

*As part of the new Bill it is proposed that the 2009 Local Government Measure will no longer apply to Fire and Rescue Authorities from the same date as Local Authorities. They will not be subject to the new improvement and performance regime set out for Local Authorities. A full consultation will be undertaken in due course as to the new governance, funding and performance management arrangements for Fire and Rescue Authorities."*

Given the above we expect a consultation document to be published later this year which will explore the issues and which is likely to bring considerable changes in the way that Fire & Rescue Authorities are run.

## Governance Action Plan 2017/18

<b>Issue</b>	<b>Action</b>	<b>Outcome</b>	<b>Lead Officer</b>	<b>Completion Date</b>
Member Development and support	To provide members induction following elections and identify future training needs	Effective leadership throughout the Authority	Deputy Chief Officer	October 2017
Review of organisation structure to deliver Corporate objectives	Implement a new structure to support agreed strategic priorities	Strategic projects delivered	Executive Leadership Team	October 2017
Business Management Information System	Implementation of a new system to collate performance, risk, audit and project data	Improved performance management and decision making using multiple data sources	Head of Service Performance and Communications	March 2018
New public facing website	Public access pages on website to be improved taking advantage of new technologies	Improvements to content and accessibility for all users of our website	Head of Service Performance and Communications	December 2017
Identify savings/projects for Medium Term Financial Strategy	Review revenue budget to identify savings and monitor impact of projects on future savings	Improved financial resilience to mitigate future funding reductions	Senior Management Team	October 2017

6. We propose to take steps to address all of the above matters to further enhance our governance arrangements during the coming year as outlined in the plan above. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: .....

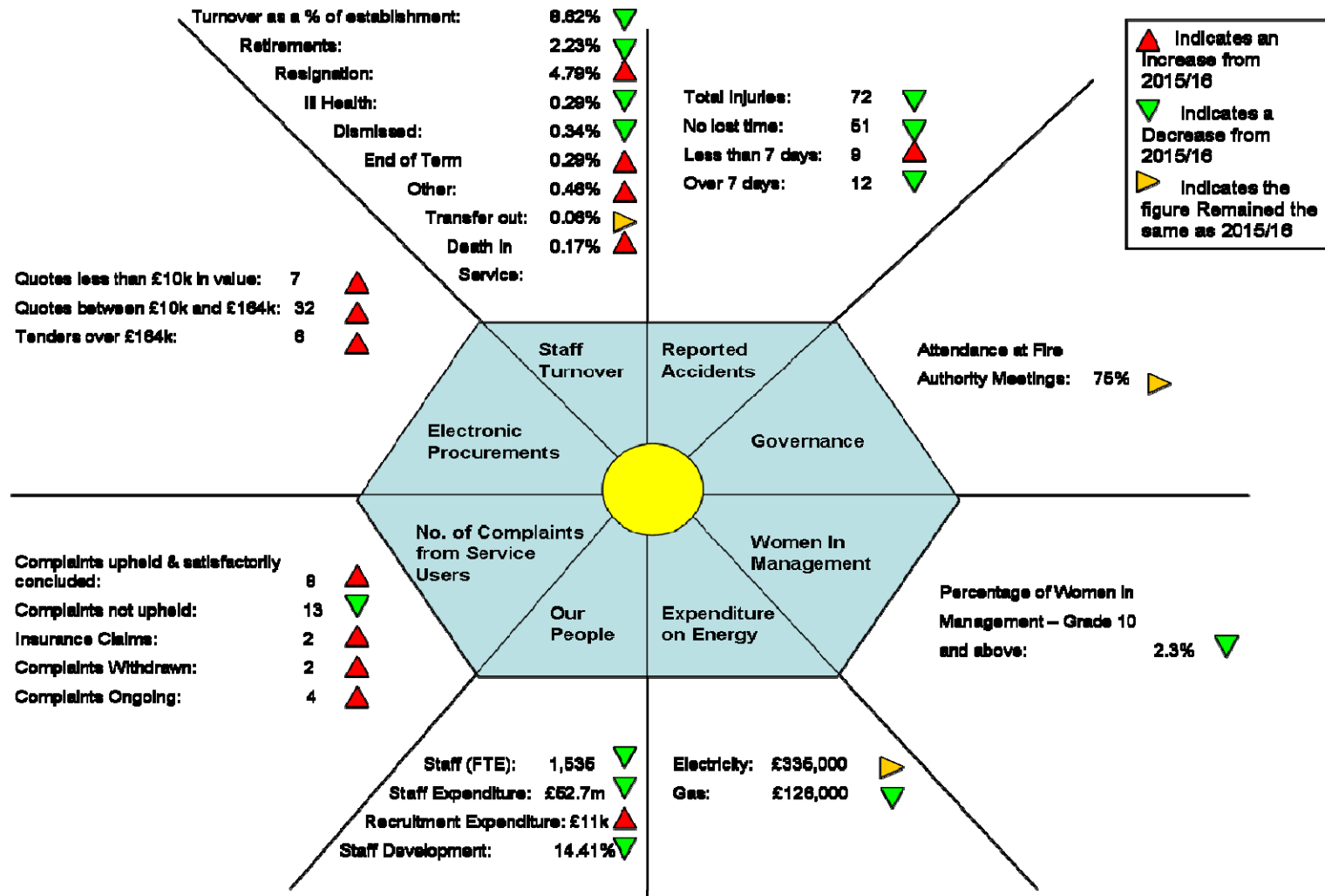
**Fire & Rescue Authority Chair**

Signed: .....

**Chief Fire Officer**

Date: .....

# SUSTAINABILITY REPORTING



*The above statistics relate to the final position as opposed to the incremental difference year on year*

## **AUDITORS REPORT**

### **Auditor General for Wales' report to the Members of South Wales Fire and Rescue Authority**

I have audited the accounting statements and related notes of:

- South Wales Fire and Rescue Authority; and
- Fire Fighters' Pension Fund

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

South Wales Fire and Rescue Authority's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

The Fire Fighters' Pension Fund's accounting statements comprise the Fund Account and the Net Asset Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 12, the responsible financial officer is responsible for the preparation of the statement of accounts, including the Fire Fighters' Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to South Wales Fire and Rescue Authority and the Fire Fighters' Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword and Annual Governance Statement to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.



### **Opinion on the accounting statements of South Wales Fire and Rescue Authority**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of South Wales Fire and Rescue Authority as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

### **Opinion on the accounting statements of Fire Fighters' Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Fire Fighters' Pension Fund during the year ended 31 March 2017 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17

### **Opinion on other matters**

In my opinion, the information contained in the Explanatory Foreword and Annual Governance Statement is consistent with the accounting statements and related notes.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of South Wales Fire and Rescue Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of  
Huw Vaughan Thomas  
Auditor General for Wales  
Date:

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## EXPENDITURE & FUNDING ANALYSIS (EFA)

2015/16			2016/17			
Net Expenditure Chargeable to General Fund £000	Adjustments between the funding & Accounting Basis £000	Net Expenditure in the CIES £000		Net Expenditure Chargeable to General Fund £000	Adjustments between the funding & Accounting Basis £000	Net Expenditure in the CIES £000
67,216	-6,596	60,620	Fire Fighting Services	67,182	-9,279	57,903
<b>67,216</b>	<b>-6,596</b>	<b>60,620</b>	Net Cost of Services	<b>67,182</b>	<b>-9,279</b>	<b>57,903</b>
-68,878	27,125	-41,753	Other Income and Expenditure	-69,511	25,810	-43,701
<b>-1,662</b>	<b>20,529</b>	<b>18,867</b>	Surplus / (Deficit) (Note 7 and Note 8)	<b>-2,329</b>	<b>16,531</b>	<b>14,202</b>
-3,000			Opening General Fund Balance	-3,000		
-1,662			+/- Surplus / Deficit on General Fund	-2,329		
<b>1,662</b>			Transfers to Earmarked Reserves	<b>2,329</b>		
<b>-3,000</b>			<b>Closing General Fund Balance at 31 March</b>	<b>-3,000</b>		

## MOVEMENT IN RESERVES STATEMENT (MiRS)

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Total usable Reserves £000	Restated Unusable Reserves £000	Restated Total Authority Reserves £000
<b>Balance at 31 March 2015 carried forward</b>	-3,000	-11,526	-313	-14,839	766,927	752,088
<b>Total Comprehensive Income and Expenditure</b>	18,867	0	0	18,867	-112,086	-93,219
Adjustments between accounting basis and funding basis under regulations (note 6)	-20,691	0	-214	-20,905	20,905	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	-1,824	0	-214	-2,038	-91,181	-93,219
Transfers to/(from) Earmarked Reserves	1,824	-1,824	0	0	0	0
<b>(Increase)/Decrease in 2015/16</b>	0	-1,824	-214	-2,038	-91,181	-93,219
<b>Balance as at 31 March 2016 carried forward</b>	-3,000	-13,350	-527	-16,877	675,746	658,869

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Total usable Reserves £000	Restated Unusable Reserves £000	Restated Total Authority Reserves £000
<b>Restated Balance as at 31 March 2016 carried forward</b>	-3,000	-13,350	-527	-16,877	675,746	658,869
<b>Total Comprehensive Income and Expenditure</b>	14,202	0	0	14,202	143,570	157,772
Adjustments between accounting basis and funding basis under regulations	-16,632	168	-224	-16,688	16,688	0
<b>Net (Increase)/Decrease before Transfers to Earmarked Reserves</b>	-2,430	168	-224	-2,486	160,258	157,772
Transfers to/(from) Earmarked Reserves	2,430	-2,430	0	0	0	0
<b>(Increase)/Decrease in 2016/17</b>	0	-2,262	-224	-2,486	160,258	157,772
<b>Balance as at 31 March 2017 carried forward</b>	-3,000	-15,612	-751	-19,363	836,004	816,641

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT (CIES)

2015/16			2016/17			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
64,386	-3,766	60,620	Non distributed costs	61,652	-3,749	57,903
64,386	-3,766	60,620	<b>Cost of Services</b>	61,652	-3,749	57,903
0	0	0	Other operating income & expenditure (note 9)	-22	0	-22
28,421	-57	28,364	Financing and investment income and expenditure (note 10)	27,100	-68	27,032
0	-70,117	-70,117	Taxation and non-specific grant income (note 11)	0	-70,711	-70,711
		<b>18,867</b>	<b>Deficit on Provision of Services</b>			<b>14,202</b>
188	0	188	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets (note 12)	0	0	0
180	0	180	Impairment losses on non current assets charged to revaluation reserve (note 24)	150	0	150
45	0	45	(Surplus)/deficit on revaluation of Held for Sale Assets	0	0	0
-112,500	0	-112,500	Re-measurement of the net defined benefit (asset) / liability (note 26 & 42)	142,570	0	142,570
-112,087	0	-112,087	<b>Other Comprehensive (Income) and Expenditure (MIRS)</b>	143,570	0	143,570
		<b>-93,220</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>157,772</b>

## BALANCE SHEET

31 March 2016 £000	31 March 2017 £000	Notes
82,699	Property, Plant and Equipment	80,478 12
582	Intangible assets	603 12
<b>83,281</b>	<b>Long Term Assets</b>	<b>81,081</b>
145	Assets Held for Sale	0 13
616	Inventories	558 17
19,973	Short Term Debtors	6,674 18
1,752	Cash and Cash Equivalents	10,488 19
0	Short Term Investment	4,000 16
<b>22,486</b>	<b>Current Assets</b>	<b>21,720</b>
-90	Short Term Liability – Finance Lease	-90 40
-257	Short Term Liability – PFI	-293 41
-3,134	Short Term Borrowing	-3,634 14
-6,208	Short Term Creditors	-4,768 20
-40	Provisions	-38 21
<b>-9,729</b>	<b>Current Liabilities</b>	<b>-8,823</b>
-90	Deferred Liability – Finance Leases	0 40
-36,224	Long Term Borrowing	-33,809 14
-5,073	Other Long Term Liabilities – PFI	-4,780 41
-713,520	Liability related to defined benefit pension schemes	-872,030 42
<b>-754,907</b>	<b>Long Term Liabilities</b>	<b>-910,619</b>
<b>-658,869</b>	<b>Net Assets</b>	<b>-816,641</b>
-16,877	Usable Reserves	-19,364 22
675,746	Unusable Reserves	836,005 23
<b>658,869</b>	<b>Total Reserves</b>	<b>816,641</b>

## CASH FLOW STATEMENT

2015/16		2016/17
£000		£000
18,867	<b>Net deficit on the provision of services</b> (CIES & note 28)	14,202
-11,740	Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 28)	-30,866
-1,884	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 28)	-1880
<hr/>		
5,243	Net cash (inflow)/outflow from Operating Activities	-18,544
2,493	Investing Activities (note 29)	9,633
3,418	Financing Activities (note 29)	4,175
<hr/>		
11,154	Net (increase) or decrease in cash and cash equivalents	-4,736
12,906	Cash and cash equivalents at the beginning of the reporting period	1,752
<hr/>		
1,752	<b>Cash and cash equivalents at the end of the reporting period (note 19)</b>	6,488
<hr/>		

**Note**

A detailed breakdown of the above is provided in note 28

## **ACCOUNTING POLICIES**

### **GENERAL**

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position for the year ended 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (Wales) Regulations 2014, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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.

### **INCOME AND EXPENDITURE**

#### **Revenue**

In the revenue accounts, income and expenditure are accounted for, net of recoverable VAT, in the year in which they arise, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due are accounted for as income at the date the Authority provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and consumption they are carried as inventories on the Balance Sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on 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.
- Where income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **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 from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.



## **CHARGES TO REVENUE FOR NON CURRENT ASSETS**

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The Authority is not required to raise contributions to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by contributions made from General Fund Balances i.e. minimum revenue provision (MRP) and capital expenditure to revenue account (CERA) by way of an adjusting transaction with the Capital Adjustment Account in the MiRS.

## **EMPLOYEE BENEFITS**

### **Benefits payable during employment**

Salaries and employment-related payments are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the period ('accumulated absences') is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following period.

### **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/retirement. These costs are charged on an accruals basis to their respective service areas in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

## **POST EMPLOYMENT BENEFITS**

### **Pensions**

The Authority participates in two different pension schemes, which meet the needs of different groups of employee. The schemes are as follows:

## **1. Fire Fighter Pension Schemes (FPS)**

The Fire Fighters pension schemes are unfunded defined benefit schemes, meaning that there are no investment assets built up to meet the pensions liabilities and cash has to be generated to meet the actual pension payments as they fall due. Employee and employer contributions are based on a percentage of pensionable pay set nationally by the Welsh Government and this is subject to triennial revaluation by Government Actuary's Department (GAD).

The pension fund is treated as a separate income and expenditure statement in the Statement of Accounts and is ring fenced to ensure accounting clarity, please see notes 26, 42 and the 'Fire fighters Pension Fund Account' for more detail. It is through the pension fund that the Authority discharges its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the scheme.

The estimated long term liability to the Authority to meet these costs is disclosed by a note to the accounts as required by IAS 19.

## **2. Corporate and Control Room Staff**

This is a funded scheme with pensions paid from the underlying investment funds managed by Rhondda Cynon Taff County Borough Council pension fund (the 'fund') which is part of the Local Government Pension Scheme (LGPS). Actuaries determine the employer's contribution rate. Further costs, which arise in respect of certain pensions paid to retired employees, are paid on an unfunded basis. Please see note 42 for more detail.

## **EVENTS AFTER THE REPORTING PERIOD**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified.

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting).

## **UK EXIT FROM THE EUROPEAN UNION**

The United Kingdom Government invoked article 50 of the Lisbon Treaty on March 29 2017 to begin the process of leaving the European Union. Negotiations over the exit began in June 2017 and are expected to take two years.

There are no immediate changes to reporting requirements, and SWFRS will continue to monitor the short and longer term impacts of market volatility, funding streams and the effect on the fair value of financial assets and liabilities. The risks associated with these will also be considered at a strategic level.

## **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 (note 5). Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the period.

## **FINANCIAL INSTRUMENTS**

A Financial Instrument is defined as 'any contract that gives rise to a financial asset of one entity and a financial liability of another'. Financial liabilities (loans) and financial assets (investments) are initially measured at fair value and carried at their amortised cost. The annual interest paid and received in the Income and Expenditure account is based on the carrying amount of the loan or investment multiplied by the effective rate of interest for the instrument. For all of the loans and investments the Authority has, the amounts presented in the Balance Sheet are the principal outstanding plus any accrued interest for the year.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Authority determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Investments are made in accordance with the annual treasury strategy and are reported in the Balance Sheet at a non-tradable, market value (in sterling), supported by an additional note providing itemised detail.

## **FOREIGN CURRENCY TRANSLATION**

The transactions of the Authority are generally undertaken in sterling and where this is not the case may be disclosed as an exceptional item. 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.

## **GOVERNMENT GRANTS AND CONTRIBUTIONS**

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as income at the date the Authority satisfies the conditions of the entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has either been incurred or there exists reasonable expectation. Revenue grants are matched in service revenue accounts with service expenditure to which they relate. Grants to cover general expenditure are credited to the foot of the income and expenditure account after Net Operating Expenditure.

## **INVENTORIES AND LONG TERM CONTRACTS**

Inventories are included in the balance sheet at the lower of cost or NRV. The cost of inventories is assigned using the Average Cost Method (AVCO).

## **LEASES**

### **Finance leases**

Where substantially all risks and rewards of ownership of a leased asset are borne by the Authority, the asset is recorded as Property, Plant and Equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease. The implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability. The asset and liability are recognised at the inception of the lease, and are de-recognised when the liability is discharged, cancelled or expires. The annual rental is split between the repayment of the liability and a finance cost. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability and is charged to 'Financing and Investment Income and Expenditure' costs in the CIES.

### **Operating Leases**

Where assets are available for use under leasing arrangements, the rentals payable are charged to the cost of service on a straight-line basis irrespective of the payment arrangements. Since the Authority does not own these assets, the cost does not appear in the Balance Sheet.

## **PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES**

### **Recognition**

Expenditure on the acquisition, creation or enhancement of property, plant, equipment and intangibles is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits

or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### **Measurement**

Assets are initially measured at cost, comprising:

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

- Assets under construction - depreciated historical cost.
- Surplus assets – fair value.
- All other assets - current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets have short useful lives and/or low values, depreciated historical cost basis is used as a proxy for current value. Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

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.

### **Subsequent expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the asset's carrying value. Where subsequent expenditure is simply restoring the asset to the specification assumed by its economic useful life then the expenditure is charged to operating expenses.

### **Held for Sale**

A non-current asset is Held for Sale if its carrying value will be recovered principally through sale rather than continuing use, if it is available for immediate sale and sale is highly probable within one year.

Property, plant and equipment reclassified as 'Held for Sale', ceases to be depreciated upon the reclassification.

### **Component Accounting**

A component of property, plant and equipment is an item that has a cost that is significant in relation to the total cost of the asset. Components should be depreciated individually over their useful lives. However, on transition to the Code, component accounting has only been applied when a component is replaced or part enhanced, and the old component has been derecognised.

### **Revaluation and impairment**

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairment previously recognised in operating expenses, in which case they are recognised in operating income.

Decreases in asset values and impairments are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'.

### **Depreciation**

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

- Buildings – straight line allocation over the remaining life of the property as estimated by the valuer. The remaining life of the buildings range from 15 – 70 years
- Vehicles, plant and equipment – straight line allocation over the remaining useful life as estimated by a suitably qualified officer (if bought before 31 December in the year of account). Vehicles, plant and equipment are depreciated over 3 – 25 years
- Land – depreciation is not applied to land
- Software is depreciated on a straight line basis over periods of up to 5 years.
- No residual value is accounted for

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**

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

Amounts received for disposal of assets are categorised as capital receipts and credited to the Capital Receipts Reserve to be used only for new capital investment or set aside to reduce the Authority's underlying need to borrow. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against contributions, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **Private Finance Initiative (PFI)**

The Authority has entered into a long term contractual agreement under PFI for the provision of the training centre at Cardiff Gate. Under the scheme the Welsh Government provides some revenue support to the project in the form of an annual grant (PFI credits), and SWFRS funds the balance by making contributions from the annual revenue budget.

In order to spread contributions evenly over the life of the contract an equalisation reserve is operated whereby surplus credits and contributions are invested and used to reduce contributions in later years. The reserve will be reviewed annually and contributions amended with the intention that the balance on the reserve at the end of the contract will be nil.

## **Provisions**

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

Provisions are charged to the appropriate revenue account when the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged 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 be required, the provision is reversed and credited back to the relevant revenue account.

## **Contingent Liabilities**

IAS 37 defines contingent liabilities as either:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control,
- or a present obligation that arises from past events but is not recognised because
  - a) it is not probable that a transfer of economic benefits will be required to settle the obligation, or
  - b) the amount of the obligation cannot be measured with sufficient reliability.

Where a contingent liability exists it would not be recognised within the accounts as an item of expenditure, but would be disclosed in a note to the balance sheet which would describe the nature of the contingent liability and where practicable an estimate of its financial effect and an indication of the uncertainties related to the amount of any outflow.

## **Reserves**

The Authority maintains reserves to meet future expenditure. These are disclosed within the balance sheet and their purposes are explained in the notes to the balance sheet.

## **Value Added Tax (VAT)**

The Authority is reimbursed for VAT incurred and the revenue accounts have therefore been prepared exclusive of this tax.

## **ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED**

There are no relevant accounting standards issued in the year which have not been adopted in the accounts.



## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements 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 the need to reduce levels of service provision.

### Note 2 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION

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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant, Equipment & Intangibles  (note 12)	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate 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.
Pension Liabilities  (note 42)	Assumptions have been made in the accounts as to the value of future pension costs and income, i.e. liabilities and assets. This is to provide an understanding as to the potential liabilities faced by the Authority.	Changes to pension assumptions will affect the value of assets and liabilities and will impact on the main financial statements, i.e. MIRS, CIES, Balance Sheet and Cash Flow.

**Note 3 - MATERIAL ITEMS OF INCOME & EXPENSE**

These transactions are unusually large in value and are contained within the financial statements and notes to the accounts.

**Note 4 - EVENTS AFTER BALANCE SHEET DATE**

There have been no known material events after the balance sheet date.

**Note 5 - PRIOR YEAR ADJUSTMENTS**

No prior year adjustments were made in the statement of accounts.

**Note 6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATION**

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

### Adjustments between accounting basis and funding basis under regulations

2015/16					2016/17			
General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Movements in Unusable Reserves £000		General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Movements in Unusable Reserves £000
				<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
				<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
-4,646			4,646	Charges for depreciation and impairment of non-current assets	-3,616			3,616
				Revaluation losses on Property Plant and Equipment				
66			-66	Capital grants and contributions applied	70			-70
				Fair value adjustment on assets held for sale				
36			-36	Adjustment to deferred liability on finance leases				
-600			600	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	22		-224	202
-5,144			5,144		-3,524	0	-224	3,748
				<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
2,685			-2,685	<b>Statutory provision for the financing of Capital Investment</b>	2,816			-2,816
239			-239	Capital expenditure charged against the General Fund	291	168		-459
				<b>Adjustments primarily involving the capital receipts reserve:</b>				
		-2,695	2,695	Transfer of cash sale proceeds credited as part of the gain/loss on disposal				
		2,481	-2,481	Contribution from the Capital Receipts Reserve to finance new capital expenditure				
2,924		-214	-2,710		3,107	168	0	-3,275
				<b>Adjustment primarily involving the Deferred Capital Receipts Reserve:</b>				
600			-600	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
				<b>Adjustments primarily involving the Pensions Reserve:</b>				
-47,973			47,973	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-37,980			37,980
29,123			-29,123	Employer's pension contributions and direct payments to pensioners payable in the year	22,040			-22,040
-18,250			18,250		-15,940	0	0	15,940
				<b>Adjustment primarily involving the Accumulated Absences Account:</b>				
-220			220	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements (note 27)	-275			275
-20,690		-214	20,904	<b>Total Adjustments:</b>	-16,632	168	-224	16,688

## Note 7 - TO THE EXPENDITURE AND FUNDING ANALYSIS

				2016/17
Adjustments from General Fund to arrive at the CIES Amounts	Adj's for Capital Purposes £000	Net change for the Pensions Adj's £000	Other Differences £000	Total £000
Fire Fighting Services	787	-9,190	-944	-9,347
<b>Net Cost of Services</b>	<b>787</b>	<b>-9,190</b>	<b>-944</b>	<b>-9,347</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>-22</b>	<b>25,130</b>	<b>770</b>	<b>25,878</b>
<b>Difference between General Fund Surplus / Deficit and CIES Surplus / Deficit on the Provision of Services</b>	<b>765</b>	<b>15,940</b>	<b>-174</b>	<b>16,531</b>
				2015/16
Adjustments from General Fund to arrive at the CIES Amounts	Adj's for Capital Purposes £000	Net change for the Pensions Adj's £000	Other Differences £000	Total £000
Fire Fighting Services	2,039	-7,630	-1,006	-6,597
<b>Net Cost of Services</b>	<b>2,039</b>	<b>-7,630</b>	<b>-1,006</b>	<b>-6,597</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>0</b>	<b>26,480</b>	<b>645</b>	<b>27,125</b>
<b>Difference between General Fund Surplus / Deficit and CIES Surplus / Deficit on the Provision of Services</b>	<b>2,039</b>	<b>18,850</b>	<b>-361</b>	<b>20,528</b>

## Note 8 - EXPENDITURE AND INCOME ANALYSED BY NATURE

The Authority's Income & Expenditure (I&E) is analysed as follows:

	<b>2015/16</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>
<b>Expenditure</b>		
Salaries, NI & Superann	51,506	51,317
Pensions (ill health)	994	964
Travel & Subsistence	428	395
<b>Total Employee Costs</b>	<b>52,928</b>	<b>52,676</b>
Premises Related Expenses	4,813	4,356
Training Expenses	1,364	1,381
Supplies & Services	3,381	3,694
Transport Related Expenses	1,268	1,173
Contracted Services	910	869
Capital Costs / leases	4,159	4,375
Gross Expenditure	68,823	68,524
Income	-1,606	-1,342
<b>- Surplus / Deficit for the year</b>	<b>67,217</b>	<b>67,182</b>

### Reconciliation of I&E to the Provision of Services in the CIES

#### Amounts in the CIES not reported In the I&E

Accumulated absences	220	275
IAS 19 adjustments	18,850	15,940
PFI operating costs	1,154	1,205
Financing adj re: PFI /Leases	417	504
Depreciation (Inc impairments)	4,646	3,616
Capital grant	-66	-70
Non-current asset disposal	0	-22
Contributions from constituent authorities	-68,878	-69,511
Grants	-1,239	-1,200

#### Amounts included in I&E not in the CIES

CERA	-239	-291
MRP	-2,303	-2,469
Operating lease charges	-71	-90
Contribution to PFI	-841	-867

<b>Surplus / Deficit on the Provision of Services</b>	<b>18,867</b>	<b>14,202</b>
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#### Note 9 - OTHER OPERATING EXPENDITURE AND INCOME

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
0	Net (Gain)/Loss on disposal of non-current assets	-22
<b>0</b>	<b>Total</b>	<b>-22</b>

#### Note 10 - FINANCING AND INVESTMENT INCOME AND EXPENDITURE

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
1,941	Interest payable and similar charges	1,970
26,480	Pensions interest cost and expected return on pensions assets	25,130
-57	Interest receivable and similar income	-68
<b>28,364</b>	<b>Total</b>	<b>27,032</b>

#### Note 11 - TAXATION AND NON SPECIFIC GRANT INCOMES

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
68,878	Local Authority Contributions (note 36)	69,511
1,239	Government Grants – PFI (note 41)	1,200
<b>70,117</b>	<b>Total</b>	<b>70,711</b>

## Note 12 - PLANT, PROPERTY, EQUIPMENT (PPE) & INTANGIBLE ASSETS

The movement in fixed asset valuation is shown below:

### Fixed Assets 2016/17

	Land & Buildings	Vehicles & Equipment	Training Centre / PFI	PPE Total	Intangible Assets Total
<u>Cost/Valuation</u>	£000	£000	£000	£000	£000
Gross book value at 31 March 2016	65,021	31,639	5,750	102,410	0
Additions	394	1,850	0	2,244	61
Impairment	-150	0	0	-150	0
Assets under construction	0	0	0	0	168
Reclassification of Equipment to Intangibles	0	-1,183	0	-1,183	1,183
Disposal of Assets	0	-1,718	0	-1,718	0
Impairment	-220	0	0	-220	0
Gross book value at 31 March 2017	65,045	30,588	5,750	101,383	1,412
<b><u>Depreciation and Impairments</u></b>					
Accumulated depreciation at 31 March 2016	2,019	16,763	347	19,129	0
Annual depreciation	1,979	1,900	159	4,038	208
Reclassification of Equipment to Intangibles	0	-601	0	-601	601
Disposal of Assets	0	-1,661	0	-1,661	0
Accumulated depreciation as at 31 March 2017	3,998	16,401	506	20,905	809
Net book value at 31 March 2016	63,002	14,876	5,403	83,281	0
Net book value at 31 March 2017	61,047	14,187	5,244	80,478	603

Note: all properties with exception of PFI are freehold.

Software was previously disclosed under Equipment, but in 2016/17 has been disclosed separately as intangible assets. The comparative figures for 2015/16 have been adjusted accordingly.

'Assets under construction' relates to a new command and control system which will be operated between SWFRS, Mid & West Wales Fire and Rescue Service (MWWFRS) and South Wales Police (which also hosts the system). It is expected that the system will be operational during 2017/18, with each partner committed to using the system for at least 8 years. SWFRS and MWWFRS will share the costs of the project 50:50.

**Fixed Assets 2015/16**

	<b>Land &amp; Buildings</b>	<b>Vehicles &amp; Equipment</b>	<b>Training Centre / PFI</b>	<b>Total</b>
<b><u>Cost/Valuation</u></b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Gross book value at 31 March 2015	63,864	35,439	5,750	105,053
Additions	1,845	3,308	0	5,153
Fair Value Adjustment Asset Held For Sale	-45	0	0	-45
Impairment	-180	0	0	-180
*Reclassification of NCA's to AHFS (note 13)	-145	0	0	-145
Disposal of Assets	-130	-7,108	0	-7,238
Non enhancing expenditure	-188	0	0	-188
Gross book value at 31 March 2016	65,021	31,639	5,750	102,410
<b><u>Depreciation and Impairments</u></b>				
Accumulated depreciation at 31 March 2015	36	21,549	0	21,585
Annual depreciation	1,983	2,316	347	4,646
Less Depreciation on Assets Sold	0	-7,102	0	-7,102
Accumulated depreciation as at 31 March 2016	2,019	16,763	347	19,129
Net book value at 31 March 2015	63,828	13,890	5,750	83,468
Net book value at 31 March 2016	63,002	14,876	5,403	83,281

\* NCA – Non Current Assets



### Note 13 - HELD FOR SALE ASSETS

Land and Buildings 2015/16 £000	Cost/Valuation	Land and Buildings 2016/17 £000
3,160	Net book value of AHFS at 31 March (note 12)	145
-3,160	Disposal of AHFS	-145
190	Gross book value in PPE at 31 March	0
-45	Fair value adjustment (impairment note 12)	0
<u>145</u>	Net book value at 31 March of AHFS	<u>0</u>

### Note 14 - FINANCIAL INSTRUMENTS

#### 1. Financial Instruments Balances

The borrowings and investments disclosed in the balance sheet are made up of the following categories of financial instruments

	Long-Term		Current	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
<b>Borrowing</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Financial liabilities (principal amount)	36,224	33,809	2,909	3,416
+ Accrued Interest (note accrued interest will be short term)	0	0	225	218
<b>Total borrowings</b>	<b>36,224</b>	<b>33,809</b>	<b>3,134</b>	<b>3,634</b>
<b>PFI and finance lease liabilities</b>	<b>5,163</b>	<b>4780</b>	<b>347</b>	<b>383</b>
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	<b>6,208</b>	<b>4,768</b>

<b>Investments</b>				
<b>Loans and receivables (principal amount)</b>	0	0	0	4,000
+ Accrued interest	0	0	0	10
<b>Cash and Cash Equivalents</b>	0	0	0	4,000
<b>Total investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,010</b>
<b>Total debtors</b>	<b>0</b>	<b>0</b>	<b>19,973</b>	<b>6,675</b>

**Note 1** – Under accounting requirements the carrying value of the financial instrument is shown in the balance sheet which includes the principal amount borrowed or invested. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year.

## 2. Financial instruments Gains/Losses

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

<b>Financial Instruments Gains and Losses</b>				
	2015/16		2016/17	
	Financial Liabilities Measured at amortised cost £000s	Financial Assets Loans and receivables £000s	Financial Liabilities measured at amortised cost £000s	Financial Assets Loans and receivables £000s
Interest expense	1,978	0	1,970	0
Total expense in Surplus or Deficit on the Provision of Services	<b>1,978</b>	<b>0</b>	<b>1,970</b>	<b>0</b>
Interest income	0	57	0	68
Total income in Surplus or Deficit on the Provision of Services	<b>0</b>	<b>57</b>	<b>0</b>	<b>68</b>
Net gain/(loss) for the year	<b>1,978</b>	<b>57</b>	<b>1,970</b>	<b>68</b>

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

Period/Term	Approved Minimum limits	Approved Maximum limits	Actual 31 March 16 £000's	Actual 31 March 17 £000's
Less than 1 year	0%	25%	2,909	3,416
Between 1 and 2 years	0%	30%	2,916	3,916
Between 2 and 5 years	0%	50%	9,247	6,747
Between 5 and 10 years	0%	70%	6,508	7,408
More than 10years	0%	95%	17,553	15,738
<b>Total</b>			<b>39,133</b>	<b>37,225</b>

The debt portfolio comprises of both Equal Installment of Principal (EIP) and Maturity loans and the average debt rate equates to 4.196%. Loans outstanding at the balance sheet date comprise £34.14 million with PWLB and £3 million with WG as invest to save borrowing becoming payable over a 3 year period commencing 2017/18. Invest to save funding is interest free financing for projects that will provide sustainable budget savings. Salix Funding of £83k became payable over a 6 year period commencing 2016/17. Salix Finance Ltd is an independent, not for profit company partly funded by Welsh Government. It delivers 100% interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions.

#### **Note 15 - FAIR VALUE OF ASSETS & LIABILITIES CARRIED AT AMORTISED COST**

Financial liabilities and assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- ✓ For loans payable from the PWLB, the fair value can be included under debt redemption procedures;
- ✓ For loans receivable (of which there are none), the prevailing benchmark market rates would be used to provide the fair value;
- ✓ No early repayment or impairment is recognised;
- ✓ Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- ✓ The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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 Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Fair values pertaining to loans are as follows:

£000s	31 March 2016		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
PWLB debt	36,050	41,645	34,148	40,668
Non-PWLB debt	3,083	3,083	3,076	3,076
<b>Total debt</b>	<b>39,133</b>	<b>44,728</b>	<b>37,224</b>	<b>43,744</b>

The fair value is greater than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available in the market at the balance sheet date.

#### **Note 16 - SHORT TERM INVESTMENTS**

In accordance with the treasury management strategy, £4 million of short term investments has been undertaken during the year and is repayable 3 July 2017.

## Note 17 - INVENTORIES

An analysis of year end stock balances and movements during the year is shown below.

	Consumables		Equipment		Petrol & Diesel		Vehicle Maintenance spares		PPE & Uniforms		Home Fire Safety		Total	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
<b>Balance outstanding at start of year</b>	25	26	51	45	68	67	59	63	353	385	42	30	598	616
Purchases	98	30	65	73	326	355	56	68	356	251	363	556	1,264	1,333
Recognised as an expense in the year	-102	-44	-76	-74	-327	-348	-50	-72	-504	-411	-381	-504	-1,440	-1,453
*Written-off balances	5	0	5	3	0	0	-2	0	180	100	6	-41	194	62
<b>Balance outstanding at year-end</b>	26	12	45	47	67	74	63	59	385	325	30	41	616	558

\* Includes returned stock, obsolete write off and price/quantity variances.

### Note 18 - DEBTORS

31 March 2016		31 March 2017
£000		£000
17,828	Central Government Bodies	4,304
15	Other Local Authorities	972
7	NHS Bodies	5
348	Public Corporations and Trading Funds	0
1,775	Other Entities and Individuals	1,393
<b>19,973</b>	<b>Total</b>	<b>6,674</b>

### Note 19 - CASH & CASH EQUIVALENTS

31 March 2016		31 March 2017
£000		£000
22	Cash held by the Authority	1
1,730	Bank current accounts	6,488
0	Fixed term deposits	4,000
<b>1,752</b>	<b>Total</b>	<b>10,488</b>

### Note 20 - CREDITORS

31 March 2016		31 March 2017
£000		£000
1,179	Central government bodies	1,214
383	Other local authorities	339
0	NHS Bodies	80
126	Public Corporations and Trading Funds	99
4,078	Other Entities and Individuals	2,319
442	Accumulated Absences (note 27)	717
<b>6,208</b>	<b>Total</b>	<b>4,768</b>

### Note 21 - PROVISIONS

31 March 2016		31 March 2017
£000		£000
40	Provisions	38
<b>40</b>	<b>Total</b>	<b>38</b>

The provision is in respect of a legal ruling relating to the part time worker regulations.

**Note 22 - USABLE RESERVES**

<b>Balance at 1 April 2015 £000</b>	<b>Transfers Out 2015/16 £000</b>	<b>Transfers In 2015/16 £000</b>	<b>Balance at 31 March 2016 £000</b>		<b>Transfers Out 2016/17 £000</b>	<b>Transfers In 2016/17 £000</b>	<b>Balance at 31 March 2017 £000</b>
<b>407</b>	0	0	<b>407</b>	Day Crewing Reserve	-407	0	<b>0</b>
<b>7,487</b>	0	1,669	<b>9,156</b>	Change Management Reserve	-2,260	0	<b>6,896</b>
<b>3,535</b>	0	162	<b>3,697</b>	PFI Equalisation Reserve	0	101	<b>3,798</b>
<b>83</b>	-84	91	<b>90</b>	Managed Under Spend Reserve	0	328	<b>418</b>
<b>14</b>	-14	0	<b>0</b>	Fuel Management Reserve	0	0	<b>0</b>
<b>0</b>	0	0	<b>0</b>	Compartment Fire Behaviour Training (CFBT) Reserve	0	4,500	<b>4,500</b>
<b>313</b>	-2,481	2,695	<b>527</b>	Capital Receipts	-600	825	<b>752</b>
<b>11,839</b>	<b>-2,579</b>	<b>4,617</b>	<b>13,877</b>	<i>Total (excluding General Fund)</i>	<b>-3,267</b>	<b>5,754</b>	<b>16,364</b>
<b>3,000</b>	<b>0</b>	<b>0</b>	<b>3,000</b>	General Fund	<b>0</b>	<b>0</b>	<b>3,000</b>
<b>14,839</b>	<b>-2,579</b>	<b>4,617</b>	<b>14,877</b>	<b>Total Usable Reserves</b>	<b>-3,267</b>	<b>5,754</b>	<b>19,364</b>

Movement in earmarked reserves have occurred during the year, as follows;

- Spend of £34k from the managed under spend reserve has been made during the year with additional ring fenced funds equating to £362k being requested from service managers as at 31<sup>st</sup> March 2017.
- The revenue under spend has been transferred to the CFBT reserve to support capital investment in a state of the art Compartment Fire Behaviour Training (CFBT) facility located at Cardiff Gate.
- A change management reserve is in place to ensure the continuation of efficiency projects. Movements in the year relate to the purchase of the command and control system to be used as part of the collaborative Joint Public Service Centre (Fire Control).
- The PFI equalisation reserve is also maintained and exists to ensure the necessary funds are available to accommodate future ‘unitary charge’ payments from the PFI provider and Authority contributions payable over the period of the contract.
- Capital receipts are available for financing capital expenditure but which have not been applied at the balance sheet date. Capital receipts of £824k were received during the year.

**General Fund**

In addition to the earmarked reserves above, the General Fund Balance is sustained at a minimum level deemed adequate to provide a level of operational resilience in respect of major incidence/ catastrophes.

**Note 23 - UNUSABLE RESERVES**

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
-600	Deferred Capital Receipts Reserve	0
-14,943	Revaluation Reserve (note 24)	-13,937
-22,673	Capital Adjustment Account (note 25)	-22,805
713,520	Pensions Reserve (note 26)	872,030
442	Accumulated Absence Reserve (note 27)	717
<b>675,746</b>	<b>Total Unusable Reserves</b>	<b>836,005</b>

**Note 24 - 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:

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



The reserve contains only revaluation gains accumulated since 1 April 2010, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2015/16		2016/17
£000		£000
-16,649	<b>Balance at 1 April</b>	-14,943
226	Impairment adjustment	150
732	Difference between fair value depreciation and historical cost depreciation (netted off total depreciation impacting CAA - Note 25)	850
748	Accumulated gains on disposal of assets	5
<hr/> -14,943	<b>Balance at 31 March</b>	<hr/> -13,938

### Note 25 - 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 and 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 to finance the cost of acquisition, construction and enhancement.

The account contains accumulated gains recognised on donated assets that have yet to be consumed by the Authority.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2010, the date that the Revaluation Reserve was created to hold such gains.

<b>Capital Adjustment Account</b>		
2015/16		2016/17
£000		£000
-23,815	<b>Balance as at 1 April</b>	-22,673
-2,685	MRP (note 37)	-2,816
3,914	Depreciation (net of Revaluation note 24)	3,396
188	Non enhancing expenditure (note 12)	220
-239	Capital expenditure financed from revenue resources (CERA) (note 37)	-291
-66	Capital Grants (note 37)	-70
0	Assets funded from General Fund (note 37)	-168
2,511	Net non-current asset disposal	197
-2,481	Assets funded from capital receipts	-600
<hr/> -22,673	<b>Balance as at 31 March</b>	<hr/> -22,805

## Note 26 - PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the 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. 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 any benefits earned to be financed as the Authority makes employer contributions to pension funds or, eventually pays 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.

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
<b>807,170</b>	<b>Balance at 1 April</b>	<b>713,520</b>
-112,500	Remeasurements of the net defined benefit liability (asset)	142,570
47,973	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	37,980
-29,123	Employer's pensions contributions and direct payments to pensioners payable in the year	-22,040
<b>713,520</b>	<b>Balance at 31 March</b>	<b>872,030</b>

## Note 27 - 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 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
<b>(221)</b>	<b>Balance at 1 April</b>	<b>(442)</b>
221	Settlement or cancellation of accrual made at the end of the preceding year	442
442	Amounts accrued at the end of the current year (note 20)	717
(221)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements. (note 6)	(275)
<b>(442)</b>	<b>Balance at 31 March</b>	<b>(717)</b>

## Note 28 - CASH FLOW STATEMENT – OPERATING ACTIVITIES

2015/16 £000		2016/17 £000
<b>18,867</b>	<b>Net Deficit on the Provision of Services</b>	<b>14,202</b>
	<b>Adjustments to Net Deficit for Non Cash Movements;</b>	
18	Increases/(Decrease) in stock	-59
11,562	Increase/(Decrease) in debtors	-12,700
396	Decrease in creditors	1,702
-4,646	Depreciation charge	-3,616
0	Impairment charge	0
0	Loss on asset disposal	0
-18,850	IAS 19 adjustments	-15,940
-220	Other non cash-items charged to the net deficit on the provision of services	-275
<b>-11,740</b>	<b>Less Total</b>	<b>-30,866</b>
	<b>Adjustments for items included in the net deficit on the Provision of Services that are Investing and Financing Activities;</b>	
-1,941	Interest Payable	-1,970
57	Interest Receivable	68
0	Capital Grants	22
<b>-1,884</b>	<b>Less Total</b>	<b>-1,880</b>
<b>5,243</b>	<b>Net Cash Flow from Operating Activity</b>	<b>-18,544</b>

### Note 29 - CASH FLOW – INVESTING AND FINANCING ACTIVITIES

2015/16		2016/17
£000		£000
5,188	Purchase of property, plant and equipment, investment property and intangible assets	2,457
0	Purchase of short and long term investments	8,000
-2,695	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-824
0	Proceeds from short-term and long-term investments	0
<b>2,493</b>	<b>Net cash (in)/outflow from investing activities</b>	<b>9,633</b>
-793	Cash receipts of short and long-term borrowing	0
-57	Other receipts from financing activities	-58
382	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	347
1,902	Repayments of short and long-term borrowing	1,909
1,984	Other payments for financing activities	1,977
<b>3,418</b>	<b>Net cash (in)/outflow from financing activities</b>	<b>4,175</b>

### Note 30 - MEMBERS' ALLOWANCES

During 2016/2017, under the Local Authorities (allowances for Members of Fire Authorities) (Wales) Regulations 2004, the following annual rates were payable;

2015/16		2016/17
£000		£000
10	Chair	10
5	Deputy Chair/ Committee Chair	5
2	Member	2
<b>59</b>	<b>Total of members' allowances</b>	<b>59</b>
<b>5</b>	<b>Total of members' expenses</b>	<b>4</b>

The Fire Authority comprises 24 councillors from the 10 Local Authorities that combined to form it. All members' expenses were paid as a reimbursement of costs in pursuance of duties.

### Note 31 - OFFICERS' REMUNERATION

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

		Salary	Expenses	*Benefits in Kind	Total Excluding Pension	Employers Pension	<b>Gross remuneration</b>
Title	Year	£000	£000	£000	£000	£000	£000
Chief Fire Officer	<b>2016/17</b>	<b>129</b>	<b>2</b>	<b>6</b>	<b>137</b>	<b>33</b>	<b>170</b>
	<b>2015/16</b>	<b>128</b>	<b>2</b>	<b>6</b>	<b>136</b>	<b>33</b>	<b>169</b>
Deputy Chief Officer	<b>2016/17</b> Restated	<b>98</b>	<b>2</b>	<b>0</b>	<b>96</b>	<b>14</b>	<b>110</b>
	<b>2015/16</b> Restated	<b>97</b>	<b>2</b>	<b>0</b>	<b>99</b>	<b>14</b>	<b>113</b>
Asst Chief Fire Officer – Service Delivery	<b>2016/17</b>	<b>97</b>	<b>1</b>	<b>4</b>	<b>102</b>	<b>25</b>	<b>127</b>
	<b>2015/16</b>	<b>96</b>	<b>1</b>	<b>4</b>	<b>101</b>	<b>24</b>	<b>125</b>
Asst Chief Fire Officer – Technical Services	<b>2016/17</b> Restated	<b>97</b>	<b>1</b>	<b>4</b>	<b>99</b>	<b>14</b>	<b>113</b>
	<b>2015/16</b>	<b>97</b>	<b>1</b>	<b>4</b>	<b>102</b>	<b>13</b>	<b>115</b>
Asst Chief Fire Officer - People Services	<b>2016/17</b>	<b>92</b>	<b>2</b>	<b>0</b>	<b>92</b>	<b>13</b>	<b>105</b>
	<b>2015/16</b> Restated	<b>91</b>	<b>1</b>	<b>0</b>	<b>92</b>	<b>13</b>	<b>105</b>

\*Benefits in kind relate to an allowance for a vehicle on the service lease car scheme

Authority employees receiving more than £60,000 remuneration for the year were paid in the following amounts:

<b>Salary Bracket</b>	<b>Number 2015/16</b>	<b>Number 2016/17</b>
£60,000 to £64,999	9	10
£65,000 to £69,999	0	1
£70,000 to £74,999	1	0
£75,000 to £79,999	2	2
£80,000 to £84,999	2	3
£85,000 to £89,999	0	0
£90,000 to £94,999	1	1
£95,000 to £99,999	3	2
£100,000 to £104,999	0	1
£105,000 to £109,000	0	0
£110,000 to £114,999	0	0
£115,000 to £119,999	0	0
£120,000 to £124,999	0	0
£125,000 to £129,999	0	0
£130,000 to £134,999	1	1
£135,000 to £139,999	0	0

Remuneration includes all sums paid to/receivable by an employee, expense allowances chargeable to tax and the money value of benefits. The above data does not include employer's pension contributions or arrears of pay.

Individuals reported in the above salary brackets are also included in the senior officers' remuneration table above.

The median remuneration across the Service for 2016/17 is £30k and the ratio of the CFO remuneration to the median remuneration is 4.35:1.

For 2015/16 the median remuneration across the Service was £28k and the ratio of the CFO remuneration to the median remuneration is 4.57:1.

### Note 32 - EXIT PACKAGES

The number of exit packages and total cost of these per cost band are set out in the table below:

(a) Exit packages cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b) + (c)		(e) Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £000	2016/17 £000
£0 - £20,000	27	0	0	0	27	0	148	0
£20,000 - £40,000	0	0	0	0	0	0	0	0
£40,000 - £60,000	0	0	0	0	0	0	0	0
£60,000 - £80,000	0	0	0	0	0	0	0	0
£80,000 - £100,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27</b>	<b>0</b>	<b>148</b>	<b>0</b>

### Note 33 - TERMINATION BENEFITS

Employee termination benefits are accrued when offers are made and accepted in the financial year. Redundancy payments outlined above, were charged to the annual revenue budget with pensions representing the only other liability due. Liabilities are contained within pension liabilities, under IAS 19 and included within pension disclosure note 42.

### Note 34 - EXTERNAL AUDIT COSTS

2015/2016		2016/2017
£000		£000
0	Accounting adjustment to ensure audit fees are accounted for in the correct period for 15/16	38
0	Fees payable for additional audit services	27
54	Fees paid to the Auditor General for Wales for external audit services for 2016/17	72
0	Fees payable in respect of other services provided by the appointed auditor (NFI* and Well-Being of Future Generations Act)	4
<b>54</b>	<b>Total</b>	<b>141</b>

\* Participation in the National Fraud Initiative (NFI) occurs every two years.

### Note 35 - GRANTS

Gains relating to grants and donated assets are recognised in the CIES. Income is credited at the point when the Authority has met all stipulations, conditions and restrictions agreed with the entity providing the gain. (Grants from Welsh Government are marked WG)

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
	<b>Revenue</b>	
774	Community Risk Reduction (WG)	751
973	New Dimensions and USAR Funding (WG)	936
0	MTFA (WG)	38
55	Employability Programme	0
58	Crown Premises Inspector (WG)	60
66	Other*	121
632	Fire Link (WG)	632
0	PPE & Defibrillators (WG)	18
<b>2,558</b>		<b>2,556</b>
	<b>Capital</b>	
66	All Terrain Vehicles (ATV's)	0
0	CS Domestic Abuse Vehicles (WG)	23
0	Lightweight PPE (WG)	47
<b>66</b>		<b>70</b>

\* Other grants (external funding) comprise funding for small, non-recurring projects



## Note 36 - RELATED PARTIES

The Authority is required to disclose material transactions with related parties (bodies) or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to bargain freely.

### RELATED PARTY TRANSACTIONS

The South Wales Fire and Rescue Authority has a number of links with constituent authorities:

- Each member of the Fire and Rescue Authority is also a member of one of the constituent local government authorities.

During the year transactions with related parties arose as shown below.

<b>Funding Received from constituent authorities</b>	<b>Income £000</b>	<b>Expenditure £000</b>
Blaenau Gwent CBC	3,171	2
Bridgend CBC	6,541	4
Caerphilly CBC	8,279	7
Cardiff CC	16,776	158
Merthyr Tydfil CBC	2,748	2
Monmouthshire CC	4,209	4
Newport CBC	6,892	7
Rhondda Cynon Taf CBC	10,789	132
Torfaen CBC	4,208	3
The Vale of Glamorgan CBC	5,898	8
	<b>69,511</b>	<b>327</b>

Payments include the costs for supplies and services. Also included are associated costs of unfunded pensions, fire pension reforms and payroll charges. National Non Domestic Rates (NNDR) and salary deductions have been excluded from the above.

Members and senior officers of the Authority were asked to declare any third party transactions during the year. The declarations disclosed a variety of potential related parties, with the following being the only relationships where payments have been made.

<b>Related Party Organisation</b>	<b>Nature of relationship</b>	<b>Number of transactions</b>	<b>Payments £000</b>
Merthyr Tydfil Care and Repair	FAPM Member – In position of general control / management	12	2
Police and Crime Commissioner for South Wales	FAPM Member – Representative for SW Police	4	12
Cardiff Airport	FAPM Member – Nominee for Cardiff Airport Consultative Committee	11	75

The Deputy Chief Officer is the spouse of the Chief Executive of Merthyr Tydfil County Borough Council. All payments made to Merthyr Tydfil County Borough Council are detailed above.

Welsh Government is regarded as a related party due to its control of relevant legislation and funding. The only significant financial transactions with Welsh Government relate to a top up grant for funding Fire Fighters' pensions (see Firefighter's Pension Fund Account) and grants (see Note 35).

This note has been compiled in accordance with the current interpretation and understanding of IAS 24 as applicability to the public sector.

### Note 37 - CAPITAL EXPENDITURE AND CAPITAL FINANCING

2015/16		2016/17
£000		£000
<b>46,165</b>	<i>Opening Capital Financing Requirement (CFR)</i>	<b>45,810</b>
5,153	Property, Plant and Equipment investment (note 12)	2,244
0	Software* (note 12)	61
0	Assets under construction (note 12)	168
<b>5,153</b>	<b>Total Additions</b>	<b>2,473</b>
	<i>Sources of finance</i>	
-66	Government grants and other contributions (note 35)	-70
0	Sums set aside from revenue (note 25)	-168
-239	Direct revenue contributions (note 25)	-291
-2,685	MRP/loans fund principal (note 25)	-2,816
-2,481	Capital Receipts	-600
-37	Adj to CFR for finance lease liability reduction	0
<b>45,810</b>	<b>Closing Capital Financing Requirement (CFR)</b>	<b>44,338</b>
	<i>Increase in underlying need to borrow</i>	
<b>-355</b>	<b>Increase/(Decrease) in CFR</b>	<b>-1,472</b>

Capital expenditure is incurred on schemes which have a life beyond one year, and is largely financed by a mix of borrowing and revenue contributions, albeit capital receipts can and will be used.

\*Software has been disclosed separately in 2016/17, and was shown under PPE (ICT equipment) in 2015/16.

Capital expenditure/additions during the year are as follows:

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>	<b>Scheme</b>	<b>£000</b>
2,500	Vehicles	1,251
1,845	Station Refurbishments	394
604	ICT	387
204	Equipment	212
0	Software	61
0	Assets under construction	168
<u>5,153</u>		<u>2,473</u>

### **Note 38 - FINANCING OF CAPITAL SPEND**

Capital expenditure in the year was financed as follows:

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
0	External loans	0
239	Revenue contribution (note 37)	291
0	Reserves (note 25)	168
66	Grant funding (note 35)	70
2,367	Internal Borrowing	1,344
2,481	Capital Receipts (note 25 & 37)	600
<u>5,153</u>	<b>Total</b>	<u>2,473</u>

### **Note 39 - CAPITAL COMMITMENTS**

The Authority is committed to capital expenditure in future periods arising from contracts entered into at the balance sheet date. Capital expenditure committed at the 31 March 2017 for future periods equates to £2.118m (2015/16: £1.384m). The commitments relate to the vehicle replacement programme (VPR), property refurbishments and the ICT programme (including the Command Control system for the new Joint Control Programme).

## Note 40 - LEASES

The Authority has acquired a number of water ladder appliances under finance leases.

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

<b>Asset</b>	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>
Vehicles	171	86

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles 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.

	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>
Finance lease liabilities (net present value of minimum lease payments):	180	90
Finance costs payable in future years	0	0
Minimum lease payments	180	90

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

	<b>Minimum Lease Payment</b>		<b>Finance Lease Liabilities</b>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	90	90	90	90
Later than one year and not later than five years	90	0	90	0
Later than five years	0	0	0	0
	<b>180</b>	<b>90</b>	<b>180</b>	<b>90</b>

### Note 41 - PFI.

During 2005/06 financial year, the Authority entered into a Private Finance Initiative (PFI) arrangement for the provision of a training centre at Cardiff Gate. The arrangement will run until September 2030. There is a commitment of £15.8m (Net Present Value) over the duration of the contract, which is to be funded by a combination of PFI Credits, agreed by the Welsh Government and Fire and Rescue Authority resources.

The Authority meets the costs of the Unitary Charge from its own resources and receives an annual grant from the Welsh Government. The profile of funding from the Assembly reduces annually until the expiry of the contract term whereas the unitary charge payable by the Authority increases annually over the same period. This results in a "surplus" of resources for PFI when compared to payments for the initial period of the contract period. These surplus amounts are set-aside in an earmarked reserve to fund the later part of the contract period where annual payments are greater than annual resources.

As at 31 March 2017, the balance on the PFI equalisation earmarked reserve is £3.798 million.

The total unitary payment is divided into the service charge element, the repayment of the liability element and the interest element. The charges are shown below:-

2015/16 £'000	Unitary Charge	2016/17 £'000
1,154	Service Charge Element	1,205
520	Interest Element	504
245	Finance Lease Liability	257
1,919	<b>Total</b>	<b>1,966</b>

These payments will be made over the life of the PFI contract and estimates for subsequent years are as detailed below at current prices:-

Unitary Charge	Payable in 2017/18 £'000	Payable 2 – 5 Years £'000	Payable 6 – 10 Years £'000	Payable 11 – 16 Years £'000
Service Charge Element	1,223	7,491	8,284	4,027
Interest Element	496	2,171	1,820	868
Finance Lease Liability	293	1,102	1,971	1,707
<b>Total</b>	<b>2,012</b>	<b>10,764</b>	<b>12,075</b>	<b>6,602</b>

Annual funding from the Welsh Government has been and will be receivable for the life of the contract and is detailed in the table below;

Funding	2016/17 £'000	2017/18 £'000	2018/19 - 2022/23 £'000	2023/24 - 2027/28 £'000	2028/29 - 2032/33 £'000
Grant	1,200	1,161	5,216	4,236	1,756

The PFI Finance Lease Liability will be written down over the life of the PFI contract, the below table details the annual movement;

2015/16 £'000	PFI Lease Liability	Movement £'000	2016/17 £'000
257	Short Term		293
5033	Long Term		4,780
<u>5,330</u>		<b>-257</b>	<u>5,073</u>

**Note 42 - PENSIONS (IAS 19)**

**(i) Local Government Services and Control Staff**

In 2016/17 the Authority paid employer pension contributions of £1.240 million to 'the fund' which provides members with defined benefits related to pay and service. For the last 6 years the deficit contribution figure has been expressed as a cash amount to protect the fund from payroll variations. Under current pension regulations, contribution rates are set to meet 100% of the overall liabilities of 'the Fund'.

Pension contributions to be paid into the scheme for the financial year 2017/18 are estimated to be £1.125 million for the employer.

The LGPS is a funded defined benefit plan (but also includes certain unfunded pensions) with benefits earned up to 31 March 2015 being linked to final salary. Benefits after 31 March 2015 are based on a Career Average Revalued Earning scheme (CARE).

The unfunded pension arrangements (Compensatory Added Years) relate to termination benefits made on a discretionary basis upon early retirement.

Further information on the RCT Pension Fund can be found in the Pensions Fund Annual Report and Accounts which is available on request from the Pensions Section, Rhondda Cynon Taf C.B.C. Bronwydd House, Porth, Rhondda, CF39 9DL or on the website [rctpensions.org.uk](http://rctpensions.org.uk)

**(ii) Fire Fighters**

The Fire Fighters' pension scheme is an unfunded scheme with defined benefits. In 2016/17 the Authority paid employer pension contributions of £5.452 million. Pensions paid from revenues equated to £964k. For 2017/18, the employer contribution to the scheme is estimated to be £5.3 million and the current estimate for pensions paid from revenue is £948k. The majority of pension payments to retired Fire Fighters are paid from a separate Pension Fund account administered by the Authority, details of the Fund and how it operates can be found on page 80.

On 1 April 2015 the 2015 pension scheme was introduced in addition to the original 1992 FPS and the (new) 2006 NFPS. The 2015 scheme introduced new contributions rates for both employers and employees and resultant pensioner benefits in an attempt at affordability. Members of the 1992 and 2006 schemes who do not meet the

prescribed criteria, will transition into the 2015 scheme under a tapering arrangement. The three schemes are combined in the following tables.

### **Transactions Relating to Post-employment Benefits**

In accordance with the requirements of International Accounting Standard No 19 – Retirement Benefits (IAS19) the Authority has to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in ‘Accounting Policies’, the Authority participates in two schemes, the Fire Fighters’ Pension Scheme for full time Fire Fighters which is unfunded, and the Local Government Pensions Scheme (RCT Pension Fund) for other employees which is administered by Rhondda Cynon Taf County Borough Council. In addition, the Authority has made arrangements for the payment of added years to certain retired employees outside the provisions of the schemes.

To comply with IAS19 the Authority appoints actuaries on an annual basis to assess the assets and liabilities of both schemes. Aon Hewitt was appointed to assess the Local Government Pension Scheme and the Government Actuary’s Department the Fire Fighters’ scheme as they relate to past and current employees of South Wales Fire Authority. For the Local Government Pension scheme the actuary assessed that the net liability to the Authority as at 31 March 2017 was £22 million (*31 March 2016, £15.46 million*) and for the Fire Fighters’ schemes the liability was £850 million as at 31 March 2017 (*31 March 2016, £698 million*). A breakdown of the assets and liabilities of both schemes and the assumptions used in the actuarial calculations can be found overleaf.

2015/16 £000	Movements on Pension Reserve	2016/17 £000
	Income and Expenditure Account	
	<b>Net Cost of Service</b>	
	Current Service Cost	
-14,720	- Fire Fighters	-10,620
-1,910	- Local Government Pension Scheme	-1,730
	Past Service Cost	
-4,863	- Fire Fighters	-500
0	- * Local Government Pension Scheme	0
	<b>Net Operating Expenditure</b>	
	Interest Cost	
-25,880	- Fire Fighters	-24,610
-2,140	- Local Government Pension Scheme	-2,230
	Expected Return on Pension Assets	
0	- Fire Fighters	0
1,540	- Local Government Pension Scheme	1,710
<b>-47,973</b>	<b>Total Post-employment benefit charged to the surplus or deficit on the provision of services</b>	<b>-37,980</b>
	Remeasurements of the net defined benefit liability (asset)	
107,980	- Fire Fighters	-136,540
4,520	- * Local Government Pension Scheme	-6,030
<b>64,527</b>	<b>Total Post-employment benefit (charged)/credited to the C.I.E.S</b>	<b>-180,550</b>
	<b>Movement on Reserve Statement</b>	
807,170	Opening Balance 1 April	713,520
-64,527	Reversal of Net Charges for IAS 19	180,550
	Actual Amount Charged against the General Fund Balance for pensions in the year	
	Employer Contributions	
-1,280	Local Government Pension Scheme	-1,270
-27,953	Retirement benefits paid to Fire Fighters	-20,870
110	Transfers in	100
<b>-93,650</b>	<b>Movement on Pension Reserve</b>	<b>158,510</b>
<b>713,520</b>	<b>Closing Balance</b>	<b>872,030</b>

\*The LGPS movements on pension reserve are inclusive of unfunded pension benefits arrangements; 2016/17 – Interest cost of £20k, actuarial loss of £70k and net benefits paid out £30k



## Pension Schemes – Assets / Liabilities

The Authority's estimated share of assets and liabilities from 31 March 2013 to 31 March 2017 were as follows:

	31 March				
	2013	2014	2015	2016	2017
Estimated share of liabilities in the Fire Fighters' Pension Scheme	-733,140	-721,520	-788,420	-698,060	-849,560
Estimated share of liabilities in the Rhondda Cynon Taff Pension Fund	-61,360	-56,170	-65,260	-63,980	-80,250
<b>Total liabilities</b>	<b>-794,500</b>	<b>-777,690</b>	<b>-853,680</b>	<b>-762,040</b>	<b>-929,810</b>
Share of assets in the Rhondda Cynon Taff Pension Fund	35,990	39,960	46,510	48,520	57,780
<b>Net Pension Deficit</b>	<b>-758,510</b>	<b>-737,730</b>	<b>-807,170</b>	<b>-713,520</b>	<b>-872,030</b>

Liabilities have been valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value. The Fire Fighters' Scheme has been valued by the Government Actuary's Department and the LGPS Fund liabilities have been valued by Aon Hewitt, an independent firm of actuaries. The main assumptions used in the calculations are as follows:

### Basis for estimating assets and liabilities

	Fire Fighters' Scheme		LGPS Fund	
	2016 %	2017 %	2016 %	2017 %
Rate of Inflation;				
RPI			2.9	3.1
CPI	2.2	2.35	1.8	2.0
Rate of increase in Salaries	4.2	4.35	3.3	3.25
Rate of Increase in Pensions	2.2	2.35	1.8	2.0
Rate of Discounting Scheme Liabilities	3.55	2.65	3.5	2.6
Future Life Expectancy at 65 Men				
Current Pensioners	22.3	22.4	23.1	22.8
Future Pensioners	24.6	24.7	25.3	25.0
Women				
Current Pensioners	22.3	22.4	26.0	24.9
Future Pensioners	24.6	24.7	28.4	27.2

## Sensitivity analysis

The scheme actuary of the LGPS scheme has estimated the approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation. In each case, only the assumption mentioned is altered, all other assumptions above remain the same.

### Discount rate assumption

<b>Adjustment to discount rate</b>	<b>+0.1%p.a.</b>	<b>-0.1%p.a.</b>
Present value of total obligation (£m)	78.06	81.26
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£m)	2.27	2.42
Approximate % change in projected service cost	-3.1%	3.2%

### Rate of general increase in salaries

<b>Adjustment to salary increase rate</b>	<b>+0.1%p.a.</b>	<b>-0.1%p.a.</b>
Present value of total obligation (£m)	80.07	79.22
% change in present value of total obligation	0.5%	-0.5%
Projected service cost (£m)	2.34	2.34
Approximate % change in projected service cost	0.0%	0.0%

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption

<b>Adjustment to discount rate</b>	<b>+0.1%p.a.</b>	<b>-0.1%p.a.</b>
Present value of total obligation (£m)	80.82	78.48
% change in present value of total obligation	1.5%	-1.5%
Projected service cost (£m)	2.42	2.27
Approximate % change in projected service cost	3.2%	-3.1%

### Post retirement mortality assumption

<b>Adjustment to discount rate</b>	<b>-1 year</b>	<b>+1 year</b>
Present value of total obligation (£m)	82.01	77.29
% change in present value of total obligation	3.0%	-3.0%
Projected service cost (£m)	2.43	2.25
Approximate % change in projected service cost	3.7%	-3.6%

The scheme actuary of the Fire Fighters' Pension scheme has estimated the approximate impact of changing the key assumptions on the present value of the defined benefit obligation.

	<b>Impact on defined benefit obligation</b>	
	<b>%</b>	<b>£ million</b>
Rate of discounting scheme liabilities +0.5%p.a.	-9.4%	-79.9
Long term rate of increase in salaries +0.5% p.a.	1.3%	10.8
Rate of increase in pensions / deferred revaluation +0.5% p.a.	8.7%	73.6
Life expectancy: each pensioner subject to longevity of an individual 1 further year younger than assumed	2.7%	22.8
Early Retirement: each member assumed to retire 1 year later than expected	0.0%	0.1

## Assets

The Fire Fighters' Pension scheme is an unfunded scheme and as such holds no assets to generate income to meet the schemes liabilities. Funding for the payments made from the scheme is met from employers and employees contributions in the year and an annual grant from the Welsh Government.

The Local Government scheme is a funded scheme and as such has built up assets over the years to generate income to meet future liabilities. Assets in the RCT Pension Fund are valued at fair value, principally bid value for investments, and consist of:

	%
<b>2017</b>	
Equity Investments	72.6
Bonds	19.4
Other Assets	8.0
<b>Total</b>	<b>100.0</b>
<b>2016</b>	
Equity Investments	70.1
Bonds	19.8
Other Assets	10.1
<b>Total</b>	<b>100.0</b>

The overall return on pension assets was 18.7% for 2016/17 (2015/16: 3.6%).

The movement in the pension deficit for the year can be analysed as followed based on the present value of the scheme liabilities.

2015/16 £000 Fire Fighters	2015/16 £000 LGPS	Liabilities	2016/17 £000 Fire Fighters	2016/17 £000 LGPS
-788,420	-65,260	<b>Balance as at 1 April</b>	-698,060	-63,980
-14,720	-1,910	Current Service cost	-10,620	-1,730
-25,880	-2,140	Interest	-24,610	-2,230
-3,860	-520	Contributions by scheme members	-3,920	-500
107,980	4,410	Actuarial Gains and Losses	-136,540	-13,210
31,813	1,440	Benefits Paid	24,790	1,400
-4,863	0	Past Service Cost	-500	0
-110	0	Transfers in	-100	0
<b>-698,060</b>	<b>-63,980</b>	<b>Pension Liabilities at Year End</b>	<b>-849,560</b>	<b>-80,250</b>

### Changes to the fair value of assets during the accounting period

2015/16 £000 LGPS	Assets	2016/17 £000 LGPS
46,510	<b>Balance 1 April</b>	48,520
1,540	Return on Pension Assets	1,710
110	Actuarial Gain/Losses on Assets	7,180
1,250	Contributions by employer	1,240
520	Contributions by Scheme members	500
-1,410	Net benefits paid out*	-1,370
<b>48,520</b>	<b>Pension Assets at Year End</b>	<b>57,780</b>

\* Consists of net benefits cash-flow out of the Fund in respect of the employer, including an approximate allowance for the expected cost of death in service lump sums and Fund administration expenses. Excluding £30k unfunded pension payments.

### Actual return on assets

	31 March 2016 £ Million	31 March 2017 £ Million
Interest income on assets	1.54	1.71
Re-measurement gain/ (loss) on assets	0.11	7.18
Actual return on assets	1.65	8.89

### Note 43 - CONTINGENT LIABILITIES

The Part-Time Workers (Prevention of less favourable treatment) Regulations came into force on 1<sup>st</sup> July 2000. As a consequence of a court case under certain circumstances Retained Duty Fire Fighters are permitted to buy into the Uniformed Staff Pension Scheme. Where Retained Fire Fighters choose to buy into the Pension Scheme there will be a considerable liability for the Authority to bear the cost of such pensions. A detailed calculation of the liability has not yet been fully agreed and an element may be funded by the Welsh Government. At present the costs and timing of any such liability, if any, is unquantifiable.

There are a number of national issues ongoing on the basis of discrimination also, discrimination in relation to the introduction of the new 2015 scheme and the value of which is yet to be determined.

## Note 44 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

The Authority has adopted the CIPFA Code of Practice on Treasury Management which ensures the Authority has measures in place to manage the above risks. At the beginning of the financial year Members are presented with a report outlining the Treasury Management Strategy to be followed for the year and setting out the Prudential Indicators (PI's) for the year. Half way through the year a report detailing progress against strategy and if necessary a revision of the PI's. At year end the final report sets out how the Authority has performed during the year. How the Authority manages risks arising from financial instruments are detailed in the treasury reports presented to Members and can be accessed from [www.southwales-fire.gov.uk](http://www.southwales-fire.gov.uk)

The highest credit risk is for the investments and these are managed through the Treasury Management Strategy as detailed above. The current strategy states the Authority will only invest short term, up to a maximum of 12 months, with institutions that are on the Authority's counterparty list. On a daily basis the Authority is updated with any changes to the credit status of institutions on the counterparty list and if any institutions are down graded and fail to meet the criteria set out in the Treasury Management Strategy then they are removed from the list. If an institute failed to repay an investment then the financial loss to the Authority could be in excess of £1m. However, due to careful management of the portfolio no institutions have failed to repay monies due.

The Authority has ready access to borrowing from the Public Works Loan Board and there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates.

The maturity analysis of financial liabilities is provided in note 14 (2) Financial Instruments.

**Interest rate risk** - The Authority is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Authority's prudential and treasury indicators and its expected treasury activities, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

**Price risk** - The Authority, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

**Foreign exchange risk** - The Authority has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

## FIRE FIGHTERS' PENSION FUND ACCOUNT

2015/2016 Re-Stated		2016/2017
£000	Income to the fund	£000
	Contributions receivable:	
	from employer	
-5,653	normal contributions	-5,452
-351	other contributions	-921
-3,867	from members	-3,918
<u>-9,871</u>		<u>-10,291</u>
-105	Transfers in from other Authorities	-100
<b>-9,976</b>	<b>Total Income to the Fund</b>	<b>-10,391</b>
	<b>Spending by the Fund</b>	
	Benefits Payable:	
17,977	Pension payments	18,698
9,466	Pension commutations and lump-sum retirement benefits	5,342
1,938	Taxation costs relating to **Milne settlement	0
698	Other Payments	89
<u>30,079</u>		<u>24,129</u>
	Payments to and on account of leavers:	
1,016	Transfers out to other authorities	9
<b>31,095</b>	<b>Total Spending by the Fund</b>	<b>24,138</b>
<b>21,119</b>	Deficit for the year before top-up grant	<b>13,747</b>
16,256	Annual top up grant receivable from Welsh Government	13,747
2,925	Top up grant received from Welsh Government in respect of GAD vs Milne **	0
1,938	Top up grant paid by HM Treasury on behalf of the Pension Fund in respect of GAD vs Milne**	0
<u>0</u>	Net amount payable for the year	<u>0</u>

2015/2016 Re-Styled £000	Net Asset Statement	2016/2017 £000
3,022	Balance at 1 April	15,031
21,119	Plus: amount receivable for year	13,747
-4,248	Less: monies received in year	
0	Previous year top-up	-8,030
-2,925	In year top-up grant	-11,456
-1,938	Milne funding	0
	Taxation re Milne funding	0
	**Pension Contribution Holiday funding	-513
	Correction top-up from WG	-6,702
<b>15,031</b>	<b>Cumulative top up grant receivable from WG</b>	<b>2,076</b>
<b>-15,031</b>	<b>Amount owed to the General Fund</b>	<b>-2,076</b>

\*Included as a debtor on the South Wales Fire & Rescue Balance sheet

*\*\*On 31<sup>st</sup> Dec 2016 the pension 'contributions holiday' provision came into force. Under the previous terms of the 1992 scheme, firefighters who were members of that scheme were obliged to pay pension contributions until they reached the age of 50. However, their pensions could only reflect a maximum of 30 years' service. Those who joined the Fire Service between the ages of 18 and 20 and accrued 30 years pensionable service still had to continue paying contributions until they reached 50, even though they could not accrue any further pension benefits in return.*

*The 'Firefighters Pension (Wales) Scheme (Amendment and Transitional Provision) Order 2016' has amended the 1992 scheme by implementing an employee pension 'contribution holiday' for scheme members who accrued the maximum 30 years' pensionable service prior to age 50. This applies from the point of accruing maximum pensionable service in the scheme until the member's 50<sup>th</sup> birthday. No employee contributions are to be made during this period, and any such contributions already made after 1 December 2006 must be refunded with interest. The cost of doing so has been met by Welsh Government.*

## NOTES TO THE FIRE FIGHTERS' PENSION FUND ACCOUNT

The Fund was established 1 April 2007 and covers the 1992, 2006, 2015 and 2006 Retained Modified Fire Fighters' Pension Schemes and is administered by the Authority. The 2015 scheme introduced new contributions rates for both employers and employees and reduced pensioner benefits. Members of the 1992 and 2006 schemes who do not meet the prescribed criteria, will transition into the 2015 scheme under a tapering arrangement. On 1<sup>st</sup> April 2016 the retained Modified Pension Scheme was introduced in addition to the original 1992, 2006 and 2015 schemes. The scheme allowed individuals who were employed as Retained members of staff between the years 2000 – 2006 the opportunity to buy back service. If the individuals were still employees then they could enter into the Retained Modified Pension Scheme which benefits from the same contribution rates as the 1992 scheme.

Employee and employer contributions are paid into the Fund, from which payments to pensioners are made. Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by Welsh Government (WG) and subject to triennial revaluations by the Government Actuary's Department (GAD). The scheme is an unfunded scheme with no investment assets and any difference



between benefits payable and contributions receivable is met by the top up grant receivable from the Welsh Government (WG).

Transfers into the scheme are a transfer of pension benefits from another pension scheme for new or existing employees and transfers out are transfer benefits for employees who have left the Authority and joined another pension scheme.

The Authority is responsible for paying the employer's contributions into the fund these are the costs that are identified in the accounts for the Authority.

At the beginning of the financial year an assessment is made of the amount of Top Up grant required from WG and 80% of the estimate is paid in addition to the surplus/deficit (asset/Liability) which is payable/receivable from the previous year. As such, the asset/liability is held on the Authority balance sheet. The 2016/17 estimate includes an assessment of the number of Fire Fighters retiring within the year and as a result, an estimate of pension payments is calculated. In 2016/17 a total of 38 Fire Fighters retired compared to the estimate of 44. At the year end WG was a debtor to the Authority with a value of £2.1 million.

The accounting policies for the Pension Fund Account are consistent with the accounting policies on pages 32 – 40.

The accounting policies adopted for the production of the Pensions Fund Account are in line with recommended practice and follow those that apply to the Authority's primary statements.

### **Contribution Rates**

Under the Fire Fighters' Pension Regulations the employer contribution rates for the 1992, 2006, 2015 and Retained Modified Schemes were 25.5%, 16.8%, 14.3% and 25.5% respectively. Employee rates are determined by a tiered system according to salary bands with higher earners contributing at a higher rate relative to their salary, i.e. rates start at 8.5% and end at 17% for the current period.

The Fire Fighters' Pension Fund Account does not take account of liabilities for pensions and other benefits after the period. Details of the long term pension obligations can be found in Note 26 and 42 to the core financial statements.