

SOUTH WALES FIRE AND RESCUE AUTHORITY



STATEMENT OF ACCOUNTS

2018/2019

Table of Contents

| | |
|---|----|
| NARRATIVE REPORT | 3 |
| STATEMENT OF RESPONSIBILITIES..... | 10 |
| ANNUAL GOVERNANCE STATEMENT YEAR ENDING MARCH 2019..... | 11 |
| AUDITORS REPORT | 25 |
| COMPREHENSIVE INCOME & EXPENDITURE STATEMENT (CIES)..... | 28 |
| MOVEMENT IN RESERVES STATEMENT (MiRS)..... | 29 |
| BALANCE SHEET | 31 |
| CASH FLOW STATEMENT | 32 |
| ACCOUNTING POLICIES | 33 |
| NOTES TO THE FINANCIAL STATEMENTS | 43 |
| Note 1 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES..... | 43 |
| Note 2 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION..... | 43 |
| Note 3 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATION..... | 44 |
| Note 4 – POST BALANCE SHEET EVENTS..... | 46 |
| Note 5 – EXPENDITURE AND FUNDING ANALYSIS (EFA)..... | 46 |
| Note 6 - EXPENDITURE AND INCOME ANALYSED BY NATURE..... | 48 |
| Note 7 - OTHER OPERATING EXPENDITURE AND INCOME..... | 49 |
| Note 8 - FINANCING AND INVESTMENT INCOME AND EXPENDITURE | 49 |
| Note 9 - TAXATION AND NON SPECIFIC GRANT INCOME..... | 49 |
| Note 10 - PLANT, PROPERTY, EQUIPMENT (PPE) & INTANGIBLE ASSETS | 50 |
| Note 11 - FINANCIAL INSTRUMENTS..... | 52 |
| Note 12 - FAIR VALUE OF ASSETS & LIABILITIES CARRIED AT AMORTISED COST .. | 53 |
| Note 13 - SHORT TERM INVESTMENTS | 54 |
| Note 14 - DEBTORS | 54 |
| Note 15 - CASH & CASH EQUIVALENTS..... | 55 |
| Note 16 - CREDITORS..... | 55 |
| Note 17 - PROVISIONS..... | 55 |
| Note 18 - USABLE RESERVES | 56 |
| Note 19 - UNUSABLE RESERVES | 57 |
| Note 20 - REVALUATION RESERVE..... | 57 |
| Note 21 - CAPITAL ADJUSTMENT ACCOUNT..... | 58 |
| Note 22 - PENSIONS RESERVE | 59 |
| Note 23 - ACCUMULATED ABSENCES ACCOUNT..... | 60 |
| Note 24 - CASH FLOW STATEMENT – OPERATING ACTIVITIES | 61 |
| Note 25 - CASH FLOW – INVESTING AND FINANCING ACTIVITIES..... | 62 |
| Note 26 - MEMBERS’ ALLOWANCES | 62 |
| Note 27 - OFFICERS’ REMUNERATION | 63 |
| Note 28 - EXTERNAL AUDIT COSTS | 64 |
| Note 29 - GRANTS..... | 65 |
| Note 30 - RELATED PARTIES | 66 |
| Note 31 - CAPITAL EXPENDITURE AND CAPITAL FINANCING | 69 |
| Note 32 - FINANCING OF CAPITAL SPEND | 69 |
| Note 33 - CAPITAL COMMITMENTS | 69 |
| Note 34 - PFI..... | 70 |
| Note 35 - PENSIONS (IAS 19) | 71 |
| Note 36 - CONTINGENT LIABILITIES..... | 78 |
| Note 37 - NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS | 78 |
| FIRE FIGHTERS’ PENSION FUND ACCOUNT (FFPF) | 80 |
| NOTES TO THE FIRE FIGHTERS’ PENSION FUND ACCOUNT | 81 |

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 Authority for the financial year 2018/19.

The Authority's accounts for 2018/2019 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 Pension Fund 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 2016 Retained 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 largely financed by contributions from the ten constituent local authorities in proportion to population. For 2018/19, the proportions were as follows:

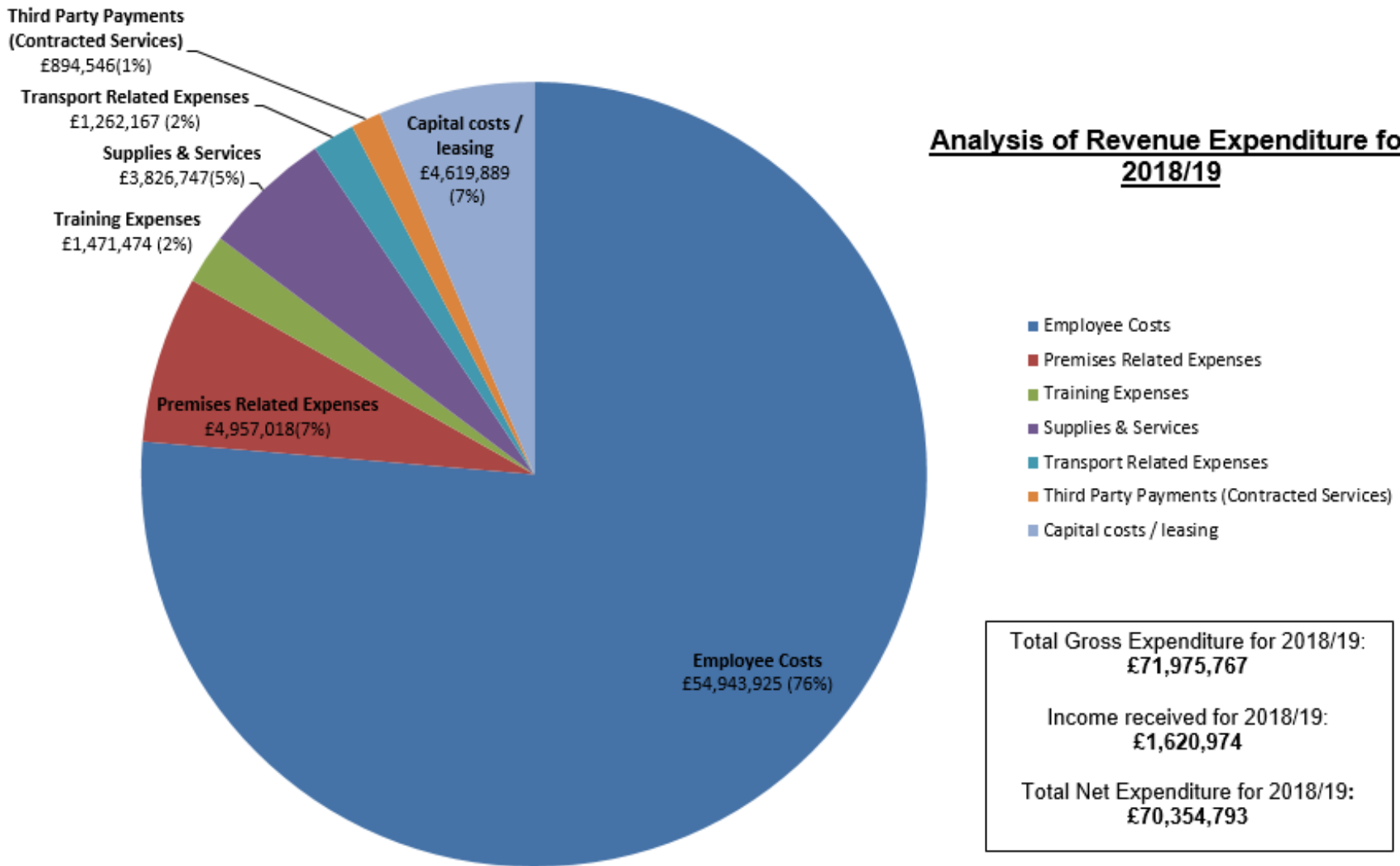
| | Values £000 | % |
|---|------------------------|------------|
| Blaenau Gwent County Borough Council | 3,251 | 5 |
| Bridgend County Borough Council | 6,689 | 9 |
| Caerphilly County Borough Council | 8,476 | 12 |
| Cardiff County Council | 17,181 | 24 |
| Merthyr Tydfil County Borough Council | 2,773 | 4 |
| Monmouthshire County Council | 4,351 | 6 |
| Newport County Borough Council | 6,963 | 10 |
| Rhondda Cynon Taff County Borough Council | 11,166 | 16 |
| Torfaen County Borough Council | 4,307 | 6 |
| The Vale of Glamorgan Council | 6,006 | 8 |
| Total (note 30) | 71,163 | 100 |

Financial Performance in 2018/19

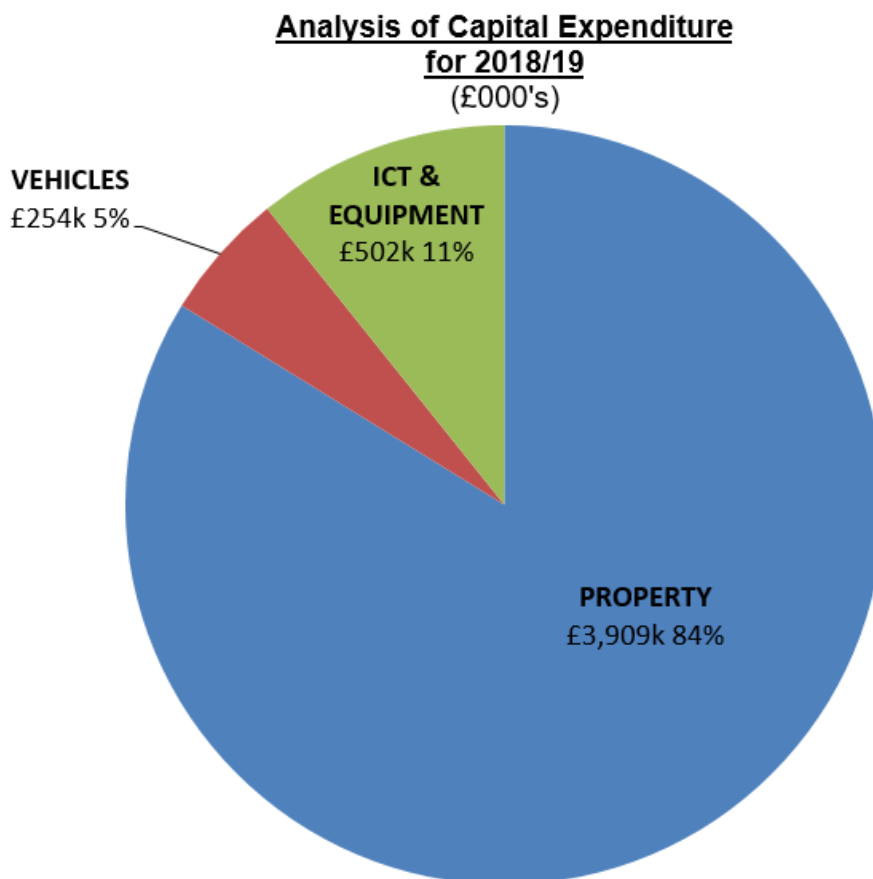
The financial performance is presented below. The surplus accrued was scrutinised by the Finance, Audit and Performance Management (FAPM) Committee and the Finance and Asset Management Working Group throughout the year.

| Budget Outturn | Budget £000 | Actual £000 | Variance £000 |
|-------------------------------|------------------------|------------------------|--------------------------|
| Revenue | | | |
| Expenditure (note 6) | 72,139 | 71,976 | (163) |
| Income (note 6) | (976) | (1,621) | (645) |
| Net Expenditure (note 6) | 71,163 | 70,355 | (808) |
| Unitary Authority (note 30) | 71,163 | 71,163 | 0 |
| (Surplus) /Deficit | 0 | (808) | (808) |
| Capital (inc slippage) | | | |
| Capital Spending (note 10) | 8,140 | 4,667 | (3,473) |

Expenditure by type 2018/19



Capital expenditure in the year amounted to £4.7 Million



Capital Borrowing

The Prudential Code allows the Authority to determine its own borrowing limits subject to the Responsible Financial Officer (RFO) deeming it to be prudent, sustainable and affordable. Loans outstanding comprise those provided by the Public Works Loans Board (PWLB), Welsh Government (WG) 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.

Charges for Consumption of Capital Assets

The charge made to the service revenue account to reflect the cost of fixed assets used in the provision of services was £5.8 million. This is a notional charge for depreciation and impairments and an adjustment is made to nullify the effect on the general fund balance.

Non Financial Performance in 2018/19

In 2018/19 the Authority 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 link highlights some of the activity in making South Wales safer in the past twelve months - [Performance Statistics - South Wales Fire and Rescue Service](#)

Future Financial Plans

Looking longer term the current austerity measures are likely to continue into the foreseeable future, with further funding pressures anticipated. The 2019/20 revenue budget approved by the Fire and Rescue Authority in February gave an increase of 0.93% taking the annual budget to £71.8 million.

The medium term financial strategy assumes further funding pressures making the challenge of producing a balanced budget increasingly difficult when faced with inflationary pressures and the investment required to maintain operational effectiveness.

The capital programme continues to invest in our asset portfolio, in particular refurbishment of stations, construction of the Compartment Fire Behaviour Training (CFBT) facility and vehicle replacement. Investment also continues in operational equipment and ICT, ensuring our personnel have the best equipment available.

Pension liability

In 2018/19, there were 46 whole-time duty system (WDS), 9 retained duty system (RDS), 1 retained modified scheme (RMS) operational staff retirements and 2 deferrals.

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 35).

Provisions, Contingencies and Write offs

The provision remains for the outstanding payments to on-call fire fighters as a result of the part time workers' conditions settlement.

Reserve Accounting

At the end of the financial year, the Statement of Accounts shows financial reserves carried forward into 2019/20. 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.

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 on the website for the Authority (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 2018/19 ("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 2019 and its income and expenditure for the year then ended.

Signature: _____ **Treasurer**

Date: 29 July 2019

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

Signature: _____ **Fire & Rescue Authority Chair**

Date: 29 July 2019

ANNUAL GOVERNANCE STATEMENT YEAR ENDING MARCH 2019

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 (SOLACE) - 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

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.

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.

This statement explains how the Authority has complied with Code of Practice on Local Authority Accounting in the United Kingdom (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

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.

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

The Governance Framework has been in place at the Authority for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

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

The Authority is responsible for ensuring that South Wales Fire & Rescue Service (SWFRS) is effective, efficient, and accountable to the public.

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

The Authority is organised into committees and a scrutiny group which are appointed at the annual meeting. Each committee and the scrutiny group has a comprehensive set of terms of reference which, together with details of their membership, can be found on the website. Working groups are established on an ad-hoc basis as and when required.

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.

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).

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 carried out under delegated authority or 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 any identified changes needed are carried out under delegated authority or are reported to the Authority for their approval. These powers form an integral part of the Governance arrangements and were last reviewed in March 2019.

The Medium Term Financial Strategy (MTFS) covers the period 2018-2019 to 2021-2022 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 and Reserve Strategy.

- A view on potential funding gaps and planned approaches to these over the period in question.

Strategic Plan – The plan outlines the direction that the organisation is taking and how we intend to meet the challenges over the next 5 years in order to continue to deliver high quality services that meet the needs of our communities.

The Authority's performance against the Strategic Plan, and Statutory indicators is reported regularly to the Authority and Finance Audit and Performance Management (FAPM) Committee together with an overall report that is reported annually to the Authority and on our website through the document "How did we do in 2017-2018 and what we plan to do in 2019-2020".

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 (Wales) Act 2015 together with the requirements of the Welsh Government's Wales Fire and Rescue Services National Framework Document 2016. Each directorate and department formulate their own plans in support of the strategic objectives which are reported on quarterly.

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. Senior managers identify, review and score the Strategic Risks assessing them in terms of likelihood and impact; identify 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. Strategic Risks are reported to the Authority FAPM Committee.

The FAPM Committee considers the effectiveness of the Authority's risk management arrangements and the work of the Internal and External Auditors. The FAPM Committee meets with the auditors privately following each committee meeting. In 2019/20 the FAPM Scrutiny Group will also consider departmental risks.

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.

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.

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.

The Authority has in place counter fraud arrangements and whistleblowing arrangements which are regularly reviewed by officers. There are agreed procedures to meet the requirements of the Regulation of Investigatory Powers Act 2000 which have been agreed by the Office of the Surveillance Commissioner and key staff have received training in the application of these regulations.

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 Internal Audit Plan is agreed by the FAPM Committee which receives regular reports on the audits undertaken together with TIAA's annual report.

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) Act 2004, The Local Government (Wales) Measure 2009, the Local Government Act 1999 and the Code of Audit Practice. They issue annual reports or 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 Office, 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 FAPM Committee meetings where they can discuss issues without officers being present. All reports are published on the Wales Audit Office website (www.audit.wales).

The Annual Pay Policy Statement is approved by the Authority and published in accordance with the Localism Act 2011.

Members' allowances are paid in accordance with the Independent Remuneration Panel recommendations and are published in accordance with their requirements.

Under the Equality Act 2010 (Specific Duties and Public Authorities) Regulations 2017 (the public sector Regulations), all public authorities are required to publish gender pay gap information by reporting the percentage differences in pay between their male and female employees. Public authorities must publish the required information based on data captured on the snapshot date of 31 March, 2018, within 12 months. Accordingly the Authority published this information within the deadline.

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.

Related party returns are completed and signed by the Authority Members and senior officers in accordance with the Code of Practice on Local Authority Accounting in the UK. These returns help to establish transactions and balances as required by the relevant accounting standard (International Accounting Standard 24, Related Party Disclosures).

They indicate if Officers or Members of the Authority have been involved in any transactions with individuals or any relatives or close acquaintance.

4. Review of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its Governance Framework, including the system of internal control. The review of effectiveness is informed by the work of the Executive Leadership Team within the Service who have responsibility for the development and maintenance of the governance environment, and the work and reports of the internal and external auditors. The work of peer assessors is also considered.

The regular and ongoing processes that have been applied to maintain, review and improve effectiveness of the Governance Framework include:

- Regular review of policies and 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 reviewed in March 2019.
- The FAPM Committee regularly scrutinises the revenue and capital expenditure and income 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 with regular reports to Members through the Authority and FAPM Committee.
- The Authority received annual reports from each of its committees and the Scrutiny group outlining the work that had been undertaken throughout the year, giving Members the opportunity to challenge and scrutinise any area that they feel fit.
- The appointed internal auditor 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 their annual report that in their opinion the organisation has adequate and effective management, control and governance processes to manage the achievements of its objectives.

Head of Internal Audit Opinion

“TIAA is satisfied that, for the areas reviewed during the year, South Wales Fire and Rescue Service has reasonable and effective risk management, control and governance processes in place.

This opinion is based solely on the matters that came to the attention of TIAA during the course of the internal audit reviews carried out during the year and is not an opinion on all elements of the risk management, control and governance processes or the ongoing financial viability or your ability to meet financial obligations which must be obtained by the South Wales Fire and Rescue Service from its various sources of assurance.”

- The Auditor General of the Wales Audit Office also provides assurance to the Authority, through their [Annual Audit Letter – South Wales Fire and Rescue Authority 2017-18](#).

Auditor General's Opinion

"I am satisfied that the Authority had appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources."

The Auditor General provides assurance on financial matters and confirmed that as stated in their report dated 26th February 2019 that:

- the financial statements give a true and fair review of the financial position of South Wales Fire and Rescue Authority and the Fire Fighters Pension Fund as at 31st March 2018 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018.

The Auditor General confirmed in its [Annual Improvement Report 2017-18 South Wales Fire and Rescue Authority](#): that "The Authority is meeting its statutory requirements in relation to continuous improvement based on, and limited to, the work carried out by the Wales Audit Office and relevant regulators, the Auditor General believes that the Authority is likely to comply with the requirements of the Local Government Measure (2009) during 2018-19."

5. How We Met Significant Governance Issues and Challenges for 2018-2019

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 must now comply with a set of national Welsh Language Standards.

The Welsh Language Commissioner has issued a Compliance Notice which sets out the Standards that apply to the Authority, along with any exemptions and their implementation dates. The Authority receive an annual report on compliance against the standards.

The Service has continued to rollout the Business Management Information System (BMIS) which has enabled us for the first time to link and display our overall performance to help inform us of how well we are doing as a Service and drive decision making. Over the last twelve months further functions the system has developed include our corporate risks, actions arising from audits as well as additional statistical information.

The system has also delivered our Business Plans and Station Community Risk Management Plans (CRMPs), and our statistical performance data (including incident statistics). The previous OWLe system was replaced.

The Services integrated Core HR and Payroll system was further developed this year rolling out the expenses and online recruitment elements.

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 nine Public Service Boards, we supported the development of the Local Well-being Plans. The Service has completed the first Self-Assessment as required by the commissioner.

The services wellbeing statement is published in the [Strategic Plan 2018-2023](#) which is available on our [website](#).

We are also working with local health boards to share information to identify the extent of unreported injuries resulting from fires to enable identification of potential vulnerable people or higher risk premises.

As one of the statutory partners on nine Public Service Boards, we will have supported the local Well-being Plans, and have evidenced through annual review how the goals are being achieved. We have ensured 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.

Following a review of asset management arrangements the external auditor recommended that the Authority agrees common measures with the other Welsh Fire and Rescue Authorities around land and buildings to enable comparison of performance and the identification of developing trends and develop an action plan to record and enable monitoring of the work of the Estates Project Review Group. The auditor required us to define a process for updating asset and property condition records.

The organisational restructure review, which included a Middle Manager Review as well as an Operational Response Review, was approved by the Authority in September 2018 and the Service aimed to implement the revised establishment by 31st March 2019.

The Service has implemented a co-location project in Barry with the Welsh Ambulance Service Trust. Work has commenced in Llantwit Major on a co-location project with South Wales Police, Welsh Ambulance Service Trust and the Coast Guard that will be completed in 2019.

The Service has maintained compliance with the National Framework for Fire and Rescue whilst also actively engaging with the Welsh Government White Paper on Reform of Fire and Rescue Authorities in Wales.

The Service has responded to changes in pensions provisions as a result of the changes to the Fire Fighters pension scheme (rule B5C).

6. Significant Governance Issues and Challenges for 2019 -2020

Over the next 12 months the Service will continue the development of the Business Management Information System (BMIS). Further functions the system will cover include Projects information as well as additional statistical information.

The services integrated Core HR and Payroll system will be further developed this year looking to rollout the training, rostering, health and safety, sickness monitoring and time recording elements.

The Service will continue to implement and embed the revised structure.

Changes to pension and tax legislation continues to provide challenges 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.

Public Sector Funding also remains a challenge. The impact of spending reductions in the public sector is a key issue for the Authority and the settlements that local authorities face is

always taken into account when the Authority sets its annual budget. These factors are always carefully considered when determining the Medium Term Financial Strategy.

The Accounts and Audit (Wales) (Amendment) Regulations 2018 set the requirement to approve and publish the accounts by 31 May and 31 July respectively from 31st March 2019 (previously 30 June and 30 September). The closure of the accounts at year end is a project and successful projects need to have a sound project management methodology in place. Plans and preparations for shortening the timetable in 2018/19 were successful from the viewpoint the draft accounts were completed and certified by the Treasurer on 31 May, although momentum must not be lost during the review phase to ensure these dealines can be maintained.

In November 2018 the Welsh Government published for consultation a White Paper "Reform of Fire and Rescue Authorities in Wales". A full consultation response on the proposed changes to governance, funding and performance management arrangements for Fire and Rescue Authorities was completed in February 2019. The Service will await Welsh Government's response to the consultation and consider the implications for both the Authority and the Service at this time.

7. Governance Action Plans

| Governance Action Plan 2018-2019 | | | | | |
|---|--|---|-------------------------------------|------------------------|--|
| Issue | Action | Outcome | Lead Officer | Completion Date | Progress |
| Middle Manager Review | Review the Middle Manager Structure within the Service | Develop a Middle Manager structure that is efficient and effective to deliver our services. | Head of Finance | September 2018 | This review was reported and accepted by the Executive leadership Team (ELT) and Senior Management Team (SMT) in June 2018 and formed some of the elements of the review of the organisational structure which was reported to the Authority on 24 September 2018. |
| Operational Response Review | Review the tactical Officer Roster | To deliver cover in an efficient and effective use of resources to ensure resilience at potentially high risk events and large scale exercises. | Head of Operational Risk Management | September 2018 | This review was reported and accepted by the ELT and SMT in June 2018 and formed some of the elements of the review of the organisational structure which was reported to the Authority on 24 September 2018. |

Governance Action Plan 2018-2019

| Issue | Action | Outcome | Lead Officer | Completion Date | Progress |
|--|---|---|-----------------------------|------------------------|---|
| Review of organisation structure to deliver Corporate objectives | Implement a new structure to support agreed strategic priorities | Strategic projects delivered | ELT | September 2018 | The revised structure was reported to the Authority on 24 September 2018. the Authority approved the revised structure and the Service is aiming to implement the new structure by 31 st March 2019. |
| Phase 2 of Core Rollout | The services integrated Core HR and Payroll system will be further developed looking to rollout the expenses, training, health and safety, sickness monitoring and time recording elements. | Improved performance management and decision making using single system | Director of Human Resources | March 2019 | The services integrated Core HR and Payroll system was further developed this year rolling out the expenses and online recruitment elements. Other elements continue to be developed. |

Governance Action Plan 2018-2019

| Issue | Action | Outcome | Lead Officer | Completion Date | Progress |
|----------------------|--|--|---------------------|------------------------|---|
| Support PSB Boards | Support the nine PSB Boards we support in delivering their Local Wellbeing Plans | 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. | ELT | March 2019 | The Service continues to support the 9 PSB's in South Wales, working in partnership to achieve the integrated PSB plans. |
| Co-location Projects | To review potential projects for co-location with Blue Light and Public Sector partners. | To deliver cover in an efficient and effective use of resources to ensure resilience to emergency services. | Head of Finance | March 2019 | The Service has implemented a co-location project in Barry with the Welsh Ambulance Service Trust. Work has commenced in Llantwit Major on a co-location project with South Wales Police, Welsh Ambulance Service Trust and the Coast Guard that will be completed in 2019. |

Governance Action Plan 2018-2019

| Issue | Action | Outcome | Lead Officer | Completion Date | Progress |
|-----------------------------|--|---|---------------------|------------------------|---|
| Member Champions | <p>Lead Members to be appointed as Champions in key functions of the Service to provide additional scrutiny.</p> <p>Meetings to be arranged post each FA meeting between Champions and respective Head of Department for the following functions:</p> <ul style="list-style-type: none"> • ICT • Property • Fleet • Operational and Personal Issue Equipment | <p>The appointment of a nominated Member a portfolio lead to each of the asset management strategies (Property, Fleet and ICT) will ensure adequate engagement in the delivery and monitoring of the Capital Programme.</p> | Monitoring Officer | September 2018 | Lead Member Champions were identified and appointed and approved by the FAPM Scrutiny Group meeting October 2018. |
| Scrutiny Arrangement Review | To review the scrutiny arrangements for working groups. | To ensure that robust scrutiny is applied to the decision making of the committees. | Monitoring Officer | September 2018 | The establishment of the FAPM Scrutiny Group was approved at the Authority Annual General Meeting June 2018 |

| Governance Action Plan 2019-2020 | | | | |
|--|---|--|--------------------------------------|--|
| Issue | Action | Outcome | Lead Officer | Completion Date |
| Faster Closure of Accounts | To approve and publish the accounts by 31 May and 31 July respectively from 31st March 2019 (previously 30 June and 30 September) | The successful accelerated closure of the accounts at year end will enable earlier auditing ensuring compliance with the Accounts and Audit (Wales) (Amendment) Regulations 2018 | Head of Finance | July 2019 |
| Reform of Fire and Rescue Authorities in Wales | Respond to the requirements placed upon the organisation | The Service will be in compliance with requirements from Welsh Government and able to evidence robust Governance, Financial arrangements and performance management. | Director Corporate Services. | To be determined pending Welsh Government response to the White Paper. |
| Brexit | Provide adequate planning and resilience through the Brexit Process | The Service will continue to deliver all functions during the Brexit process and beyond. | Director Technical Services | March 2020 |
| Pensions Appeals | To process appeals resulting from the Additional Pensions Benefit (APB) decision. | Appeals determined | ELT Pensions Appeals Panel (Members) | As per the process. |
| Ensure a high level of Operational Preparedness. | Develop structured reporting mechanisms of assurance and exercising across Operations and supporting departments. | The Service will be prepared to deliver the full range of functions expected through legislation and able to evidence this high level of preparedness. | Director Service Delivery | March 2020 |
| Constitutional Documents | To review and update the Constitutional Documents of the Service | The constitutional documents will be updated to reflect the revised Structure of the organisation. | Deputy Monitoring Officer | December 2019 |

8. 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. However due to external influences beyond our control it may not be possible to achieve everything identified.

Internal documents referred to in this statement can be found on our website at <https://www.southwales-fire.gov.uk/>

| | |
|--|---------------------------|
| Signed: | Signed: |
| Fire & Rescue Authority Chair | Chief Fire Officer |
| Date: | Date: |

AUDITORS REPORT

The independent auditor's report of the Auditor General for Wales to the members of South Wales Fire and Rescue Authority

Report on the audit of the financial statements

Opinion

I have audited the financial statements of:

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

for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

South Wales Fire and Rescue Authority's financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes, including a summary of significant accounting policies.

The Fire Fighters' Pension Fund's accounting statements comprise the Fund Account and the Net Assets 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 2019 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial position of South Wales Fire and Rescue Authority and the Fire Fighters' Pension Fund as at 31 March 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Fire and Rescue Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fire and Rescue Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The responsible financial officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated later in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by 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.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements and the Narrative Report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019;
- The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Governance Statement has been prepared in accordance with guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the Fire and Rescue Authority and its environment obtained in the course of the audit, I have not identified material misstatements in the Narrative Report or the Annual Governance Statement.

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

- proper accounting records have not been kept;
- the financial 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.

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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, the responsible financial officer is responsible for assessing the Fire and Rescue Authority's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
31 July 2019

24 Cathedral Road
Cardiff
CF11 9LJ

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT (CIES)

| 2017/18 | | | | 2018/19 | | |
|------------------------------|-------------------------|----------------------------|---|------------------------------|-------------------------|----------------------------|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 73,522 | -4,922 | 68,600 | Fire Fighting costs | 111,814 | -3,938 | 107,876 |
| 73,522 | -4,922 | 68,600 | Cost of Services | 111,814 | -3,938 | 107,876 |
| 0 | -12 | -12 | Other operating income & expenditure (note 7) | 0 | -114 | -114 |
| 24,935 | -72 | 24,863 | Financing and investment income and expenditure (note 8) | 25,109 | -73 | 25,036 |
| 0 | -71,367 | -71,367 | Taxation and non-specific grant income (note 9) | 0 | -72,566 | -72,566 |
| | | | 22,084 Deficit on Provision of Services | | | 60,232 |
| | | | 28,279 Re-measurement of the net defined benefit (asset) / liability (note 22 & 35) | | | -8,840 |
| | | | 28,279 Other Comprehensive (Income) and Expenditure (MIRS) | | | -8,840 |
| | | | 50,363 Total Comprehensive (Income) and Expenditure | | | 51,392 |

MOVEMENT IN RESERVES STATEMENT (MiRS)

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Capital Receipts Reserve £000 | Total usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------|--|----------------------------------|-------------------------------|---------------------------|----------------------------------|
| Balance as at 31 March 2018 carried forward | -3,000 | -14,975 | -787 | -18,762 | 885,787 | 867,025 |
| Total Comprehensive Income and Expenditure | 60,232 | 0 | 0 | 60,232 | -8,840 | 51,392 |
| Adjustments between accounting basis and funding basis under regulations (note 3) | -61,040 | 3,335 | -114 | -57,819 | 57,819 | 0 |
| Net (Increase)/Decrease before Transfers to Earmarked Reserves | -808 | 3,335 | -114 | 2,413 | 48,979 | 51,392 |
| Transfers to/(from) Earmarked Reserves | 808 | -808 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in 2018/19 | 0 | 2,527 | -114 | 2,413 | 48,979 | 51,392 |
| Balance as at 31 March 2019 carried forward | -3,000 | -12,448 | -901 | -16,349 | 934,766 | 918,417 |

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Capital Receipts Reserve £000 | Total usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------|--|----------------------------------|-------------------------------|---------------------------|----------------------------------|
| Balance at 31 March 2017 carried forward | -3,000 | -15,591 | -752 | -19,343 | 836,005 | 816,662 |
| Total Comprehensive Income and Expenditure | 22,084 | 0 | 0 | 22,084 | 28,279 | 50,363 |
| Adjustments between accounting basis and funding basis under regulations (note 3) | -21,746 | 278 | -35 | -21,503 | 21,503 | 0 |
| Net (Increase)/Decrease before Transfers to Earmarked Reserves | 338 | 278 | -35 | 581 | 49,782 | 50,363 |
| Transfers to/(from) Earmarked Reserves | -338 | 338 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in 2017/18 | 0 | 616 | -35 | 581 | 49,782 | 50,363 |
| Balance as at 31 March 2018 carried forward | -3,000 | -14,975 | -787 | -18,762 | 885,787 | 867,025 |

BALANCE SHEET

| 31 March 2018 | | 31 March 2019 | |
|------------------|--|-------------------|-------|
| £000 | | £000 | Notes |
| 80,508 | Property, Plant and Equipment | 79,614 | 10 |
| 275 | Intangible assets | 176 | |
| 600 | Long Term Debtors | 500 | 14 |
| 81,383 | Long Term Assets | 80,290 | |
| 701 | Inventories | 727 | |
| 4,372 | Short Term Debtors | 6,186 | 14 |
| 7,304 | Cash and Cash Equivalents | 6,354 | 15 |
| 5,000 | Short Term Investment | 0 | 13 |
| 17,377 | Current Assets | 13,267 | |
| -81 | Short Term Liabilities | -9 | 34 |
| -3,274 | Short Term Borrowing | -4,855 | 11 |
| -4,796 | Short Term Creditors | -4,030 | 16 |
| -38 | Provisions | -38 | 17 |
| -8,189 | Current Liabilities | -8,932 | |
| -30,987 | Long Term Borrowing | -26,478 | 11 |
| -4,699 | Other Long Term Liabilities – PFI | -4,690 | 34 |
| -921,910 | Liability related to defined benefit pension schemes | -971,874 | 35 |
| -957,596 | Long Term Liabilities | -1,003,042 | |
| -867,025 | Net Assets | -918,417 | |
| -18,762 | Usable Reserves | -16,349 | 18 |
| 885,787 | Unusable Reserves | 934,766 | 19 |
| 867,025 | Total Reserves | 918,417 | |

CASH FLOW STATEMENT

| 2017/18 | | 2018/19 |
|---------|---|---------------|
| £000 | | £000 |
| 22,084 | Net deficit on the provision of services (CIES & note 24) | 60,232 |
| -27,665 | Adjustments to net surplus or deficit on the provision of services for non-cash movements (note 24) | -61,915 |
| -1,644 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (note 24) | -1,534 |
| -7,225 | Net cash (inflow)/outflow from Operating Activities | -3,217 |
| 5,007 | Investing Activities (note 25) | -455 |
| 5,402 | Financing Activities (note 25) | 4,622 |
| 3,184 | Net (increase) or decrease in cash and cash equivalents | 950 |
| 10,488 | Cash and cash equivalents at the beginning of the reporting period | 7,304 |
| 7,304 | Cash and cash equivalents at the end of the reporting period (note 15) | 6,354 |

Note

A detailed breakdown of the above is provided in note 24 and 25

ACCOUNTING POLICIES

GENERAL

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position for the year ended 31 March 2019. 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 2018/19 (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.

ACCRUALS INCOME AND EXPENDITURE

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.
- 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 highly liquid investments that are readily convertible to known amounts of cash in no more than three months with insignificant risk of change in value.

CHARGES TO REVENUE FOR NON CURRENT ASSETS

Cost of 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 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 distinct pension schemes for Fire fighter and corporate members of staff. 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 22, 35 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 35 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 still ongoing.

There are no immediate changes to reporting requirements, and the Authority 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. 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

Financial Liabilities

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

This means that for most borrowings of the authority, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest if applicable); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets Measured at Amortised Cost

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

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority has adopted a simple approach to impairment and measures the loss of Trade Debtors and Loans to Third Parties at an amount equal to expected lifetime loss using a provision largely based on the age of the debt. This method ensures early recognition of the impairment of financial assets.

GOVERNMENT GRANTS AND CONTRIBUTIONS

Government grants and third party contributions are recognised as income at the date the Authority satisfies the conditions of entitlement, 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 CIES 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 AND EQUIPMENT

Recognition

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

Property, Plant and Equipment are capitalised where:

- it is held for use in delivering services;
- it is probable that future economic benefits will flow to, or service potentially be provided to, the Authority;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably;
- the cost of the individual asset is at least £10,000;
- the items form a group of assets which individually have a cost of at least £250, collectively have a cost of at least £10,000, where the assets are functionally interdependent, they broadly have simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; and
- the items form part of the initial equipping and setting-up cost of a new building or refurbishment of a station or offices, irrespective of their individual or collective cost. Where a large asset, for example a building, includes a number of components with significantly different asset lives e.g. plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

Measurement (Valuation Basis)

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

Property is subsequently valued for the financial statements on the basis of 'fair value' (FV) and, where the property is of a specialist nature, i.e. operational and there is no active market, depreciated replacement cost (DRC) has been applied.

Land and building assets are valued every 5 years by a professionally qualified valuer in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. Annual impairment reviews are carried out in other years internally. The annual reviews are conducted using the most appropriate information available at the date of the review. A full revaluation was last carried out in the year ending 31 March 2015.

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 - 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 31 March 2010 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.

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 Comprehensive Income and Expenditure Statement (CIES) and 'other comprehensive income and expenditure'.

Depreciation

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

- Buildings – straight line allocation over the remaining life of the property as estimated by the valuer.

- Vehicles, plant and equipment – straight line allocation over the remaining useful life (if bought before 31 December in the year of account).
- 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 Income and 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 the Authority 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

- Amendments to IAS 40 - Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration
- IFRIC 23 - Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation
- Implementation of IFRS 16 Leases has been deferred, by CIPFA/LASAAC local authority accounting Code Board, until 1st April 2020

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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|--|--|--|
| Property, Plant and Equipment (note 10) | 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 35) | 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 - 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

| Re-Statement 2017/18 | | | | | 2018/19 | | | |
|--|---|--|--|--|--|---|--|--|
| 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 |
| | | | | Adjustments primarily involving the Capital Adjustment Account: | | | | |
| | | | | Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| -4,509 | | | 4,509 | Charges for depreciation and impairment of non-current assets | -5,659 | | | 5,659 |
| | | | | Revaluation losses on Property Plant and Equipment | | | | |
| 169 | | | -169 | Capital grants and contributions applied | 92 | | | -92 |
| | | | | Fair value adjustment on assets held for sale | | | | |
| | | | | Adjustment to deferred liability on finance leases | | | | |
| 53 | -53 | | | Postings to PFI | 10 | -10 | | 0 |
| | | | | 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 | | | | |
| 12 | | -35 | 23 | | 115 | | -114 | -1 |
| -4,275 | -53 | -35 | 4,363 | | -5,442 | -10 | -114 | 5,566 |
| | | | | Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| | | | | Statutory provision for the financing of Capital Investment | | | | |
| 3,036 | | | -3,036 | Capital expenditure charged against the General Fund | 2,802 | | | -2,802 |
| 890 | 331 | | -1,221 | | 389 | 3,345 | | -3,734 |
| | | | | Adjustments primarily involving the capital receipts reserve: | | | | |
| | | | | Transfer of cash sale proceeds credited as part of the gain/loss on disposal | | | | |
| | | | | Contribution from the Capital Receipts Reserve to finance new capital expenditure | | | | |
| 3,926 | 331 | | -4,257 | | 3,191 | 3,345 | | -6,536 |
| | | | | Adjustment primarily involving the Deferred Capital Receipts Reserve: | | | | |
| | | | | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | | | | |
| | | | | Adjustments primarily involving the Pensions Reserve: | | | | |
| | | | | Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| -29,413 | | | 29,413 | Employer's pension contributions and direct payments to pensioners payable in the year | -66,468 | | | 66,468 |
| 7,813 | | | -7,813 | | 7663 | | | -7663 |
| -21,600 | | | 21,600 | | -58,805 | | | 58,805 |
| | | | | Adjustment primarily involving the Accumulated Absences Account: | | | | |
| | | | | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements (note 23) | | | | |
| 203 | | | -203 | | 16 | | | -16 |
| -21,746 | 278 | -35 | 21,503 | Total Adjustments: | -61,040 | 3,335 | -114 | 57,819 |

Note 4 – POST BALANCE SHEET EVENTS

There has been one material event after the balance sheet date. In December 2018, the Court of Appeal ruled against the Government, holding that changes made to pension schemes discriminated against a group of firefighters and a group of judges on the grounds of age. These cases are referred to as McCloud/Sergeant. The Government requested leave to appeal this decision but on Thursday, 27th June 2019, the Supreme Court denied the Government's application. There was sufficient evidence that these judgements apply to both Fire Fighters Pension Scheme and the Local Government Pension Scheme and there was also sufficient data to make a reliable estimate for accounting purposes. On this basis we have included an estimate of the impact on these schemes in our financial statements by including past service costs of £42million, uplifting our period end pensions liabilities by the same amount.

Note 5 – EXPENDITURE AND FUNDING ANALYSIS (EFA)

| 2017/18 | | | 2018/19 | | | |
|--|--|-------------------------------------|---|--|--|-------------------------------------|
| 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 |
| 70,544 | -1,944 | 68,600 | Fire Fighting Services | 70,355 | 37,521 | 107,876 |
| 70,544 | -1,944 | 68,600 | Net Cost of Services | 70,355 | 37,521 | 107,876 |
| -70,206 | 23,690 | -46,516 | Other Income and Expenditure | -71,163 | 23,519 | -47,644 |
| 338 | 21,746 | 22,084 | (Surplus) / Deficit (Note 5 and Note 6) | -808 | 61,040 | 60,232 |
| -3,000 | | | Opening General Fund Balance | -3,000 | | |
| 338 | | | +/- (Surplus) / Deficit on General Fund | -808 | | |
| -338 | | | Transfers to / (from) earmarked reserves | 808 | | |
| -3,000 | | | Closing General Fund Balance at 31 March | -3,000 | | |

| | 2018/19 | | | |
|--|--|---|-----------------------------------|-----------------------|
| 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 | 2,548 | 35,395 | -422 | 37,521 |
| Net Cost of Services | 2,548 | 35,395 | -422 | 37,521 |
| Other income and expenditure from the Expenditure and Funding Analysis | -114 | 23,410 | 223 | 23,519 |
| Difference between General Fund Surplus / Deficit and CIES Surplus / Deficit on the Provision of Services | 2,434 | 58,805 | -199 | 61,040 |

| | 2017/18 | | | |
|--|--|---|-----------------------------------|-----------------------|
| 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 | 797 | -1,450 | -1,291 | -1,944 |
| Net Cost of Services | 797 | -1,450 | -1,291 | -1,944 |
| Other income and expenditure from the Expenditure and Funding Analysis | -12 | 23,050 | 652 | 23,690 |
| Difference between General Fund Surplus / Deficit and CIES Surplus / Deficit on the Provision of Services | 785 | 21,600 | -639 | 21,746 |

Note 6 - EXPENDITURE AND INCOME ANALYSED BY NATURE

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

| | 2017/18 | 2018/19 |
|---|----------------|----------------|
| | £000 | £000 |
| Expenditure | | |
| Salaries, NI & Superann | 52,731 | 53,541 |
| Pensions (ill health) | 988 | 930 |
| Travel & Subsistence | 455 | 473 |
| Total Employee Costs | 54,174 | 54,944 |
| Premises Related Expenses | 5,666 | 4,957 |
| Training Expenses | 1,350 | 1,471 |
| Supplies & Services | 4,128 | 3,827 |
| Transport Related Expenses | 1,121 | 1,262 |
| Contracted Services | 827 | 895 |
| Capital Costs / leases | 5,132 | 4,620 |
| Gross Expenditure | 72,398 | 71,976 |
| Income | -1,854 | -1,621 |
| (Surplus) / Deficit for the year | 70,544 | 70,355 |

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

Amounts in the CIES not reported In the I&E

| | | |
|--|---------|---------|
| Accumulated absences | -203 | -16 |
| IAS 19 adjustments | 21,600 | 58,805 |
| PFI operating costs | 1,213 | 1,560 |
| Financing adj re: PFI /Leases | 496 | 391 |
| Depreciation (Inc impairments) | 4,509 | 5,659 |
| Capital grant | -169 | -92 |
| Non-current asset disposal | -12 | -114 |
| Contributions from constituent authorities | -70,206 | -71,163 |
| Grant | -1,161 | -1,122 |

Amounts included in I&E not in the CIES

| | | |
|------------------------|--------|--------|
| CERA | -890 | -389 |
| MRP (exc PFI & Leases) | -2,653 | -2,722 |
| Finance lease charges | -90 | 0 |
| Contribution to PFI | -894 | -920 |

| | | |
|---|---------------|---------------|
| (Surplus) / Deficit on the Provision of Services | 22,084 | 60,232 |
|---|---------------|---------------|

Note 7 - OTHER OPERATING EXPENDITURE AND INCOME

| 2017/18 | | 2018/19 |
|----------------|---|----------------|
| £000 | | £000 |
| -12 | Net (Gain)/Loss on disposal of non-current assets | -114 |
| -12 | Total | -114 |

Note 8 - FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2017/18 | | 2018/19 |
|----------------|---|----------------|
| £000 | | £000 |
| 1,885 | Interest payable and similar charges | 1,699 |
| 23,050 | Pensions interest cost and expected return on pensions assets | 23,410 |
| -72 | Interest receivable and similar income | -73 |
| 24,863 | Total | 25,036 |

Note 9 - TAXATION AND NON SPECIFIC GRANT INCOME

| 2017/18 | | 2018/19 |
|----------------|---|----------------|
| £000 | | £000 |
| 70,206 | Local Authority Contributions (note 30) | 71,163 |
| 0 | Capital Grants & Contributions | 281 |
| 1,161 | Government Grants – PFI (note 34) | 1,122 |
| 71,367 | Total | 72,566 |

Note 10 - PLANT, PROPERTY, EQUIPMENT (PPE) & INTANGIBLE ASSETS

Fixed Assets 2018/19

| | Land & Buildings | Vehicles & Equipment | Training Centre / PFI | AUC Total | PPE Total |
|-----------------------------------|------------------|----------------------|-----------------------|-----------|-----------|
| <u>Cost/Valuation</u> | £000 | £000 | £000 | £000 | £000 |
| Gross book value at 31 March 2018 | 66,258 | 32,252 | 5,750 | 8 | 104,268 |
| Additions | 1,978 | 686 | 0 | 1,957 | 4,621 |
| Assets under construction | | | | | |
| Disposal of Assets | 0 | -803 | 0 | 0 | -803 |
| Impairment | -1,734 | -36 | 0 | 0 | -1,770 |
| Gross book value at 31 March 2019 | 66,502 | 32,099 | 5,750 | 1,965 | 106,316 |

Depreciation and Impairments

| | | | | | |
|--|--------|--------|-------|-------|--------|
| Accumulated depreciation at 31 March 2018 | 5,779 | 17,316 | 665 | 0 | 23,760 |
| Annual depreciation | 1,837 | 1,922 | 159 | 0 | 3,918 |
| Disposal of Assets | 0 | -803 | 0 | 0 | -803 |
| Accumulated Depreciation on Revaluation | -173 | 0 | 0 | 0 | -173 |
| Accumulated depreciation as at 31 March 2019 | 7,443 | 18,435 | 824 | 0 | 26,702 |
| Net book value at 31 March 2018 | 60,479 | 14,936 | 5,085 | 8 | 80,509 |
| Net book value at 31 March 2019 | 59,059 | 13,664 | 4,926 | 1,965 | 79,614 |

Note: all properties with exception of PFI are freehold.

Assets under construction (AUC)

Additions relate to the breathing apparatus project which will be progressed during 2019/20 and ongoing construction works for the Compartment Fire Behaviour Training (CFBT) facility, which is also due for completion during 2019/20.

Fixed Assets 2017/18

| | Land & Buildings | Vehicles & Equipment | Training Centre / PFI | AUC Total | PPE Total |
|---|-----------------------------|---------------------------------|------------------------------|------------------|------------------|
| <u>Cost/Valuation</u> | £000 | £000 | £000 | £000 | £000 |
| Gross book value at 31 March 2017 | 65,045 | 30,588 | 5,750 | 168 | 101,551 |
| Additions | 1,520 | 2,681 | 0 | 8 | 4,209 |
| Reclassification of Assets Under Construction | 0 | 158 | 0 | -168 | -10 |
| Disposal of Assets | 0 | -950 | 0 | 0 | -950 |
| Impairment | -307 | -225 | | | -532 |
| Gross book value at 31 March 2018 | 66,258 | 32,252 | 5,750 | 8 | 104,268 |
| <u>Depreciation and Impairments</u> | | | | | |
| Accumulated depreciation at 31 March 2017 | 3,998 | 16,401 | 506 | 0 | 20,905 |
| Annual depreciation | 1,781 | 1,841 | 159 | 0 | 3,781 |
| Disposal of Assets | 0 | -926 | 0 | 0 | -926 |
| Accumulated depreciation as at 31 March 2018 | 5,779 | 17,316 | 665 | 0 | 23,760 |
| Net book value at 31 March 2017 | 61,047 | 14,187 | 5,244 | 168 | 80,646 |
| Net book value at 31 March 2018 | 60,479 | 14,936 | 5,085 | 8 | 80,508 |

Note: all properties with exception of PFI are freehold.

Assets under construction (AUC)

The £168 reduction relates to the reallocation of £158k hardware and £10k software for the new command and control system, operated between the Authority and Mid & West Wales Fire and Rescue Authority (MWWFRA) and hosted by South Wales Police. The system was operational during 2017/18, with partners committed to using the system for at least 8 years.

The £8k addition signifies initial investment in the Breath Apparatus project.

Note 11 - 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 2018 | 31 March 2019 | 31 March 2018 | 31 March 2019 |
| Borrowing | £000 | £000 | £000 | £000 |
| Financial liabilities (principal amount) | 30,987 | 26,478 | 2,916 | 4,510 |
| + Accrued Interest (accrued interest is short term) | 0 | 0 | 358 | 345 |
| Total borrowings | 30,987 | 26,478 | 3,274 | 4,855 |
| PFI and finance lease liabilities | 4,698 | 4,690 | 81 | 9 |
| Creditors | | | | |
| Financial liabilities at amortised cost | 0 | 0 | 4,796 | 4,030 |
| Investments | | | | |
| Loans and receivables (principal amount) | 0 | 0 | 5,000 | 0 |
| + Accrued interest | 0 | 0 | 35 | 22 |
| Cash and Cash Equivalents | 0 | 0 | 5,000 | 3,500 |
| Total investments | 0 | 0 | 10,035 | 3,522 |
| Total debtors | 600 | 500 | 4,372 | 6,186 |

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:

| Financial Instruments Gains and Losses | | | | |
|---|---|---|---|---|
| | 2017/18 | | 2018/19 | |
| | 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 in Surplus or Deficit on the Provision of Services | 1,885 | 0 | 1,699 | 0 |
| Interest income in Surplus or Deficit on the Provision of Services | 0 | 72 | 0 | 73 |
| Net gain/(loss) for the year | 1,885 | 72 | 1,699 | 73 |

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 18 £000's | Actual 31 March 19 £000's |
|------------------------|-------------------------|-------------------------|------------------------------|------------------------------|
| Less than 1 year | 0% | 25% | 2,916 | 4,510 |
| Between 1 and 2 years | 0% | 30% | 4,510 | 2,416 |
| Between 2 and 5 years | 0% | 50% | 4,740 | 3,613 |
| Between 5 and 10 years | 0% | 70% | 7,303 | 8,202 |
| More than 10years | 0% | 95% | 14,434 | 12,246 |
| Total | | | 33,903 | 30,987 |

The debt portfolio comprises of both Equal Installment of Principal (EIP) and Maturity loans and the average debt rate equates to 4.289%. Loans outstanding at the balance sheet date comprise £29.94 million with PWLB, £1 million with WG as invest to save borrowing became payable over a 3 year period commencing 2017/18 and £48k with Salix. Invest to save funding is interest free financing for the Joint Public Sector Centre 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 financing to the public sector to improve energy efficiency and reduce carbon emissions.

Note 12 - 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 2018 | | 31 March 2019 | |
|-------------------|-------|-----------------|---------------|-----------------|---------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| PWLB debt | | 31,841 | 37,398 | 29,939 | 35,724 |
| Non-PWLB debt | | 2,062 | 2,062 | 1,048 | 1,048 |
| Total debt | | 33,903 | 39,460 | 30,987 | 36,772 |

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 13 - SHORT TERM INVESTMENTS

In accordance with the treasury management strategy, there are no short term investments outstanding at the end of the year.

Note 14 - DEBTORS

| 31 March 2018 | | 31 March 2019 |
|---------------|---------------------------------------|---------------|
| £000 | | £000 |
| 1,752 | Central Government Bodies | 4,169 |
| 2,044 | Other Local Authorities* | 1,774 |
| 176 | NHS Bodies | 160 |
| 26 | Public Corporations and Trading Funds | 0 |
| 974 | Other Entities and Individuals | 583 |
| 4,972 | Total | 6,686 |

* Includes long term debtors of £600k for 17/18 and £500k for 18/19

Note 15 - CASH & CASH EQUIVALENTS

| 31 March 2018 | | 31 March 2019 |
|---------------|----------------------------|---------------|
| £000 | | £000 |
| 1 | Cash held by the Authority | 0 |
| 2,303 | Bank current accounts | 2,854 |
| 5,000 | Fixed term deposits | 3,500 |
| <u>7,304</u> | Total | <u>6,354</u> |

Note 16 - CREDITORS

| 31 March 2018 | | 31 March 2019 |
|---------------|---------------------------------------|---------------|
| £000 | | £000 |
| 1,346 | Central government bodies | 1,464 |
| 548 | Other local authorities | 480 |
| 7 | NHS Bodies | 13 |
| 56 | Public Corporations and Trading Funds | 43 |
| 2,325 | Other Entities and Individuals | 1,532 |
| 514 | Accumulated Absences (note 23) | 498 |
| <u>4,796</u> | Total | <u>4,030</u> |

Note 17 - PROVISIONS

| 31 March 2018 | | 31 March 2019 |
|---------------|--------------|---------------|
| £000 | | £000 |
| 38 | Provisions | 38 |
| <u>38</u> | Total | <u>38</u> |

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

Note 18 - USABLE RESERVES

| Balance at 1 April 2017 | Transfers Out 2017/18 | Transfers In 2017/18 | Balance at 31 March 2018 | | Transfers Out 2018/19 | Transfers In 2018/19 | Balance at 31 March 2019 |
|--------------------------------|------------------------------|-----------------------------|---------------------------------|--|------------------------------|-----------------------------|---------------------------------|
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 |
| 6,875 | -205 | 4 | 6,674 | Change Management Reserve | -1,697 | 918 | 5,895 |
| 0 | 0 | 0 | 0 | Joint Control Lease Reserve | -100 | 700 | 600 |
| 3,798 | 0 | 53 | 3,851 | PFI Equalisation Reserve | 0 | 10 | 3,861 |
| 418 | -351 | 34 | 101 | Managed Under Spend Reserve | -10 | 25 | 116 |
| 4,500 | -151 | 0 | 4,349 | Compartment Fire Behaviour Training (CFBT) Reserve | -2,373 | 0 | 1,976 |
| 752 | 0 | 35 | 787 | Capital Receipts | 0 | 114 | 901 |
| 16,343 | -707 | 126 | 15,762 | <i>Total (excluding General Fund)</i> | -4,180 | 1,767 | 13,349 |
| 3,000 | 0 | 0 | 3,000 | General Fund | 0 | 0 | 3,000 |
| 19,343 | -707 | 126 | 18,762 | Total Usable Reserves | -4,180 | 1,767 | 16,349 |

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

- The revenue under spend has been transferred to the change management reserve to enable budget efficiencies in future years. Other movements in the year relate to capital costs for energy efficiency schemes and website project. In addition, the lease costs for the Joint Public Service Centre which is payable over 8 years, commencing from 2017/18, has been transferred to a separate reserve, as shown.
- The PFI equalisation reserve exists to ensure the necessary funds are available to accommodate future payments to the PFI provider.
- £10k has been spent from the managed under spend reserve with additional funds of £25k being transferred in as requested by service managers.
- Movements on the CFBT reserve relate to the in year costs of the project.
- Capital receipts are ring fenced to fund capital investment although none have been applied as at the balance sheet date. Capital receipts of £114k 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 19 - UNUSABLE RESERVES

| 31 March 2018 | | 31 March 2019 |
|----------------------|---------------------------------------|----------------------|
| £000 | | £000 |
| -13,237 | Revaluation Reserve (note 20) | -12,001 |
| -23,400 | Capital Adjustment Account (note 21) | -25,605 |
| 921,910 | Pensions Reserve (note 22) | 971,874 |
| 514 | Accumulated Absence Reserve (note 23) | 498 |
| <hr/> | | <hr/> |
| 885,787 | Total Unusable Reserves | 934,766 |

Note 20 - 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.

| 2017/18 £000 | | 2018/19 £000 |
|-----------------|---|-----------------|
| -13,937 | Balance at 1 April | -13,237 |
| | Impairment adjustment | |
| 700 | Difference between fair value and historical cost depreciation | 1,236 |
| 0 | Accumulated gains on disposal of assets | 0 |
| <hr/> | | <hr/> |
| -13,237 | Balance at 31 March | -12,001 |

Note 21 - 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 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.

| 2017/18 £000 | Capital Adjustment Account | 2018/19 £000 |
|-----------------|---|-----------------|
| -22,805 | Balance as at 1 April | -23,400 |
| -3,036 | MRP (note 31) | -2,802 |
| 3,276 | Depreciation (net of revaluation) | 2,825 |
| 532 | Impairments (note 10) | 1,597 |
| -890 | Capital expenditure financed from revenue resources (CERA) (note 31) | -389 |
| -169 | Capital Grants (note 31) | -92 |
| -331 | Assets funded from General Fund (note 31) | -3,345 |
| 23 | Net non-current asset disposal | 1 |
| <hr/> | | <hr/> |
| -23,400 | | -25,605 |

Note 22 - 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.

| Re-stated 2017/18 £000 | | 2018/19 £000 |
|---------------------------------------|--|-------------------------|
| 872,030 | Balance at 1 April | 921,910 |
| 28,280 | Remeasurements of the net defined benefit liability (asset) | -8,840 |
| 29,413 | Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES | 66,467 |
| -7,813 | Employer's pensions contributions and direct payments to pensioners payable in the year | -7,663 |
| 921,910 | Balance at 31 March | 971,874 |

Adjustments relating to the pension reserve have been reclassified

Note 23 - 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.

| 2017/18 | | 2018/19 |
|----------------|---|----------------|
| £000 | | £000 |
| -717 | Balance at 1 April | -514 |
| 717 | Settlement or cancellation of accrual made at the end of the preceding year | 514 |
| 514 | Amounts accrued at the end of the current year (note 16) | 498 |
| 203 | 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 3) | 16 |
| -514 | Balance at 31 March | -498 |

Note 24 - CASH FLOW STATEMENT – OPERATING ACTIVITIES

| 2017/18 £000 | | 2018/19 £000 |
|-----------------|--|-----------------|
| 22,084 | Net Deficit on the Provision of Services | 60,232 |
| | Adjustments to Net Deficit for Non Cash Movements; | |
| 143 | Increases/(Decrease) in stock | 26 |
| -1,703 | Increase/(Decrease) in debtors | 1,714 |
| -211 | (Increase)/Decrease in creditors | 679 |
| -4,509 | Depreciation charge (inc impairment) | -5,659 |
| 12 | Gain on asset disposal | 114 |
| -21,600 | IAS 19 adjustments | -58,805 |
| 203 | Other non cash-items charged to the net deficit on the provision of services | 16 |
| -27,665 | Less Total | -61,915 |
| | Adjustments for items included in the net deficit on the Provision of Services that are Investing and Financing Activities; | |
| -1,885 | Interest Payable | -1,699 |
| 72 | Interest Receivable | 73 |
| 169 | Capital Grants | 92 |
| -1,644 | Less Total | -1,534 |
| -7,225 | Net Cash Flow from Operating Activity | -3,217 |

Note 25 - CASH FLOW – INVESTING AND FINANCING ACTIVITIES

| 2017/18 | | 2018/19 |
|--------------|--|--------------|
| £000 | | £000 |
| 4,234 | Purchase of property, plant and equipment, investment property and intangible assets | 4,746 |
| 5,000 | Purchase of short and long term investments | 0 |
| -35 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | -109 |
| -4,000 | Proceeds from short-term and long-term investments | -5,000 |
| -192 | Capital Grants received | -92 |
| 5,007 | Net cash (in)/outflow from investing activities | -455 |
| -48 | Other receipts from financing activities | -86 |
| 383 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 81 |
| 3,322 | Repayments of short and long-term borrowing | 2,916 |
| 1,745 | Other payments for financing activities | 1,711 |
| 5,402 | Net cash (in)/outflow from financing activities | 4,622 |

Note 26 - MEMBERS' ALLOWANCES

During 2018/2019, under the Local Authorities (allowances for Members of Fire Authorities) (Wales) Regulations 2004, the following annual rates were payable;

| 2017/18 | | 2018/19 |
|-----------|------------------------------|-----------|
| £000 | | £000 |
| 54 | Total of members' allowances | 62 |
| 3 | Total of members' expenses | 4 |
| 57 | Total | 66 |

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 27 - OFFICERS' REMUNERATION

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

| | | Salary | Expenses | *Benefits in Kind | Total Excluding Pension | Employers Pension | Gross remuneration |
|---|-----------------------|--------|----------|----------------------|-------------------------------|----------------------|-------------------------------|
| Title | Year | £000 | £000 | £000 | £000 | £000 | £000 |
| Chief Fire Officer | 2018/19 | 132 | 2 | 6 | 140 | 34 | 174 |
| | 2017/18 | 130 | 1 | 6 | 137 | 33 | 170 |
| Deputy Chief Officer | 2018/19 | 101 | 2 | 0 | 103 | 16 | 119 |
| | 2017/18 | 99 | 2 | 0 | 101 | 15 | 116 |
| Asst Chief Fire Officer - Service Delivery (A) | 2018/19 | 51 | 1 | 2 | 54 | 13 | 67 |
| | 2017/18 | 98 | 1 | 4 | 103 | 25 | 128 |
| Asst Chief Fire Officer - Service Delivery (B) | 2018/19 | 50 | 1 | 4 | 55 | 22 | 77 |
| Asst Chief Fire Officer - Technical Services | 2018/19 | 98 | 1 | 4 | 103 | 14 | 117 |
| | 2017/18 | 96 | 1 | 4 | 101 | 14 | 115 |
| Asst Chief Officer - People Services (A) | 2018/19 | 83 | 1 | 4 | 88 | 14 | 102 |
| | 2017/18 (restated) | 25 | 0 | 1 | 26 | 4 | 30 |
| Asst Chief Officer - People Services (B) | 2018/19 | 10 | 0 | 0 | 10 | 2 | 12 |
| Asst Chief Officer - People Services (C) | 2017/18 | 70 | 1 | 0 | 71 | 11 | 82 |
| Treasurer | 2018/19 | 26 | 0 | 0 | 26 | 4 | 30 |
| | 2017/18 | 23 | 0 | 0 | 23 | 4 | 27 |

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

* In 2018/19 there was a change in post holder for Service Delivery with B's appointment on 01/10/2018 and A's departure on 30/09/2018

* In 2018/19 there was a hand over with new director for People Services with B's appointment on 18/02/2019 and A's departure on 31/03/2019

* In 2017/18 there was a change in post holder for People Services with A's appointment on 27/11/2017 and C's departure on 31/12/2017

* Asst CFO – Technical services took unpaid leave 02/04/2018 – 08/04/2018

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

| Salary Bracket | Number 2017/18 | Number 2018/19 |
|-----------------------|---------------------------|---------------------------|
| £60,000 to £64,999 | 13 | 13 |
| £65,000 to £69,999 | 2 | 4 |
| £70,000 to £74,999 | 2 | 1 |
| £75,000 to £79,999 | 1 | 0 |
| £80,000 to £84,999 | 2 | 3 |
| £85,000 to £89,999 | 0 | 1 |
| £90,000 to £94,999 | 0 | 1 |
| £95,000 to £99,999 | 2 | 0 |
| £100,000 to £104,999 | 1 | 2 |
| £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 | 0 | 0 |
| £135,000 to £139,999 | 1 | 1 |

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 2018/19 is £29k and the ratio of the CFO remuneration to the median remuneration is 4.57:1.

For 2017/18 the median remuneration across the Service was £30k and the ratio of the CFO remuneration to the median remuneration is 4.35:1.

In previous years the median calculation was calculated using the 'main' salary of each member of staff regardless of how many contracts/roles they held. This year the calculation has been based on the posts, rather than the person as some members of staff may hold two posts.

Note 28 - EXTERNAL AUDIT COSTS

| 2017/2018 | | 2018/2019 |
|------------------|---|------------------|
| £000 | | £000 |
| -11 | Fees / refunds for previous years | 6 |
| 72 | Current year fees paid / due to the Auditor General for Wales | 72 |
| 61 | Total | 78 |

Note 29 - 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)

| 2017/18 | Revenue | 2018/19 |
|--------------|--------------------------------------|--------------|
| £000 | | £000 |
| 718 | Community Risk Reduction (WG) | 742 |
| 911 | New Dimensions and USAR Funding (WG) | 1,010 |
| 20 | MTFA (WG) | 152 |
| 60 | Crown Premises Inspector (WG) | 65 |
| 195 | Other* | 204 |
| 632 | Fire Link (WG) | 632 |
| 26 | Anti-Social Behaviour | 28 |
| 252 | Water Equipment (WG) | 12 |
| 113 | High Rise Living Team (WG) | 0 |
| 173 | Mobile Phones & Tablets (WG) | 6 |
| 0 | Electrical Safety First | 5 |
| 3,100 | | 2,856 |
| | Capital | |
| 21 | Phoenix Simulator (WG) | 0 |
| 45 | NR Chemical Detection Unit (WG) | 0 |
| 103 | Water Rescue (WG) | 0 |
| 0 | USAR Vehicle (WG) | 24 |
| 0 | MTFA Vehicle (WG) | 68 |
| 169 | | 92 |

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

Note 30 - 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 and this is reflected in the income detailed below which represents the 'Fire Levy' payable to the Service to finance annual running costs each.

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.

| | In Year Transactions | | Balances Outstanding at 31 st March, 2019 | |
|---------------------------|----------------------|-------------|--|------------------------------|
| | Income | Expenditure | Owed to Authority (Debtor) | Owed by Authority (Creditor) |
| | £000 | £000 | £000 | £000 |
| Blaenau Gwent CBC | 3,251 | 3 | 0 | 0 |
| Bridgend CBC | 6,689 | 0 | 0 | 0 |
| Caerphilly CBC | 8,476 | 8 | 0 | 0 |
| Cardiff CC | 17,181 | 76 | 0 | 1 |
| Merthyr Tydfil CBC | 2,773 | 3 | 0 | 0 |
| Monmouthshire CC | 4,351 | 10 | 0 | 0 |
| Newport CBC | 6,963 | 7 | 0 | 0 |
| Rhondda Cynon Taf CBC | 11,166 | 140 | 0 | 3 |
| Torfaen CBC | 4,307 | 10 | 1 | 0 |
| The Vale of Glamorgan CBC | 6,006 | 9 | 0 | 0 |
| | 71,163 | 266 | 1 | 4 |

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 table being the only relationships where payments have been made.

| Related Party Organisation | Nature of relationship | No. of transactions | In Year Transactions | | Balances Outstanding at 31 st March, 2019 | |
|-------------------------------|-------------------------------|---------------------|----------------------|---------------|--|--------------------------------|
| | | | Income £ | Expenditure £ | Owed to Authority (Debtor) £ | Owed by Authority (Creditor) £ |
| Cardiff University | FAPM Member - Representative | 1 | 157 | 0 | 0 | 0 |
| NCC | FAPM Member-Membership | 2 | 0 | 3,600 | 0 | 0 |
| Law Society | FAPM Member-Membership | 1 | 0 | 736 | 0 | 0 |
| Aneurin Bevan | FAPM Member-Nominee | 5 | 0 | 14,480 | 0 | 2,781 |
| Cymru's Housing - CIH | Budget Holder - Spouse | 1 | 0 | 999 | 0 | 0 |
| Coedffranc Town Council | Head of Finance - Spouse | 1 | 0 | 250 | 0 | 0 |
| St David's C.W Primary School | FAPM Member - Governor | 1 | 0 | 20 | 0 | 0 |
| Woodlands Primary School | FAPM Member - Governor | 1 | 0 | 280 | 0 | 0 |
| Gwent Police | Deputy Chief Officer - Spouse | 14 | 976 | 59,479 | 0 | 0 |

The Deputy Chief Officer is the spouse of the Chief Executive of Merthyr Tydfil County Borough Council. There are 22 payments (refuse collection) made to Merthyr Tydfil County Borough Council as detailed in the earlier table.

Welsh Government is regarded as a related party due to its control of relevant legislation and funding. Significant financial transactions with Welsh Government include Invest to Save where during 2018/19 the Authority paid £1 million against the loan with £1 million outstanding at the year end. In addition, further transactions relate to a top up grant for funding Fire Fighters' pensions (see Firefighter's Pension Fund Account see Note 35) and grants (see Note 29).

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

Joint Operations

In April 2014 South Wales Fire and Rescue Service (SWFRS) entered into a Memorandum of Understanding with South Wales Police and Mid and West Wales Fire and Rescue Service (MAWWFRS) to work together to establish a Joint Public Service Centre (JPSC). In October 2017 the JPSC WENT “live”. SWFRS and MAWWFRS have joint control of the operation and the agreed approach from both FRSs is set out in a Service Level Agreement (SLA). The SLA outlines a set of agreed high-level principles in relation to the day-to-day management of the team. It is the expectation of both Chief Fire Officers of the FRSs that the FRSs will work in collaboration to achieve the aims and objectives set out within the SLA.

The SLA provided that as from the point of the team becoming operational (October 2017) the staff budget (direct and indirect costs) for the JPSC would be shared on a 50% basis between the two FRSs. For 2018/19 onwards the SLA was renegotiated resulting in a revised basis – direct staff costs 60% SWFRS and 40% MAWWFRS, and 50% each for indirect staff costs.

The Authority’s share of the Joint Arrangement Income and Expenditure Account and Balance Sheet are shown in the table below.

| Joint Public Service Centre from Oct 2017 | 2017/18 | | 2018/19 | |
|--|-----------------------------|----------------|-----------------------------|----------------|
| | Joint Operation Total | SWFRS Share | Joint Operation Total | SWFRS Share |
| Revenue | | | | |
| Staff Expenditure | 1,592 | 796 | 2,680 | 1,608 |
| Non-Staff Expenditure | 91 | 46 | 156 | 78 |
| Total Expenditure | 1,683 | 842 | 2,836 | 1,686 |
| Intangible Asset - Command & Control System | | | | |
| Gross Book Value | 302 | 151 | 308 | 154 |
| Accumulated Amortisation | 0 | 0 | (62) | (31) |
| Net Book Value | 302 | 151 | 246 | 123 |

The authority also has a long-term debtor of £500k and short-term debtor of £100k with South Wales Police in relation to the Joint Public Service Centre.

Note 31 - CAPITAL EXPENDITURE AND CAPITAL FINANCING

| 2017/18 | | 2018/19 |
|---------------|---|---------------|
| £000 | | £000 |
| 44,338 | <i>Opening Capital Financing Requirement (CFR)</i> | 44,146 |
| 4,234 | Property, Plant and Equipment investment | 4,667 |
| 4,234 | Total Additions | 4,667 |
| | <i>Sources of finance</i> | |
| -169 | Government grants and other contributions (note 29) | -92 |
| -331 | Sums set aside from revenue (note 21) | -3,345 |
| -890 | Direct revenue contributions (note 21) | -389 |
| -3,036 | MRP/loans fund principal (note 21) | -2,802 |
| 44,146 | <i>Closing Capital Financing Requirement (CFR)</i> | 42,185 |
| | <i>Increase in underlying need to borrow</i> | |
| -192 | Increase/(Decrease) in CFR | -1,961 |

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.

Note 32 - FINANCING OF CAPITAL SPEND

Capital expenditure in the year was financed as follows:

| 2017/18 | | 2018/19 |
|--------------|--------------------------------|--------------|
| £000 | | £000 |
| 890 | Revenue contribution (note 31) | 389 |
| 331 | Reserves (note 21) | 3,345 |
| 169 | Grant funding (note 29) | 92 |
| 2,844 | Internal Borrowing | 841 |
| 4,234 | Total | 4,667 |

Note 33 - 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 2019 for future periods equates to £3.120m (2017/18:£1.437m). The commitments relate to property refurbishments and the ICT programme.

Note 34 - 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 2019, the balance on the PFI equalisation earmarked reserve is £3.861 million. The total unitary payment is divided into the service charge element, the repayment of the liability element and the interest element and these payments will be made over the life of the PFI contract. Annual funding from the Welsh Government has been and will be receivable for the life of the contract. The PFI Finance Lease Liability will be written down over the life of the PFI contract.

The below table details the aforementioned movement;

| PFI Element | 2017/18 | 2018/19 | 2019/20 | Payable | Payable | Payable |
|----------------------------------|---------|---------|---------|----------------------|-----------------------|------------------------|
| | £'000 | £'000 | £'000 | 2 - 5 years £'000 | 6 - 10 years £'000 | 11 - 16 years £'000 |
| Unitary Charge | | | | | | |
| Service Charge | 1,213 | 1,560 | 1,722 | 5,521 | 8,352 | 1,973 |
| Interest | 496 | 391 | 358 | 1,873 | 1,743 | 495 |
| Finance Lease | 293 | 81 | 9 | 1,450 | 2,173 | 1,067 |
| | 2,002 | 2,032 | 2,089 | 8,844 | 12,268 | 3,535 |
| Grant Funding | (1,161) | (1,122) | (1,082) | (3,938) | (4,041) | (1,026) |
| Fire Authority Contribution | (894) | (920) | (947) | (4,082) | (5,830) | (1,929) |
| Net contribution to equalisation | (53) | (10) | 60 | 824 | 2,397 | 580 |
| Equalisation Account | | | | | | |
| O/balance | (3,798) | (3,851) | (3,861) | (3,801) | (2,977) | (580) |
| | (53) | (10) | 60 | 824 | 2,397 | 580 |
| C/balance | (3,851) | (3,861) | (3,801) | (2,977) | (580) | 0 |
| Liability @ 31 March | | | | | | |
| Short Term | 81 | 9 | 229 | | | |
| Long Term | 4,699 | 4,690 | 4,461 | 3,240 | 1,067 | |
| | 4,780 | 4,699 | 4,690 | 3,240 | 1,067 | 0 |

Note 35 - PENSIONS (IAS 19)

(i) Local Government Services and Control Staff

In 2018/19 the Authority paid employer pension contributions of £1.59 million to 'the fund' which provides members with defined benefits related to pay and service. For the last 8 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 2019/20 are estimated to be £1.226 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

(ii) Fire Fighters

The Fire Fighters' pension scheme is an unfunded scheme with defined benefits. In 2018/19 the Authority paid employer pension contributions of £5.103 million. Pensions paid from revenues equated to £930k. For 2019/20, the employer contribution to the scheme is estimated to be £5.409 million and the current estimate for pensions paid from revenue is £789k. 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 is provided by the Fire Fighters' Pension Fund Account and related disclosures.

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.

On 1st April 2016 the retained Modified Pension Scheme was introduced. 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.

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 2019 was £23 million (*31 March 2018, £24 million*) and for the Fire Fighters' schemes the liability was £907 million as at 31 March 2019 (*31 March 2018, £898 million*). A breakdown of the assets and liabilities of both schemes and the assumptions used in the actuarial calculations can be found overleaf.

Within 2017/2018 a past service cost was recognised reflecting the extension of the interim solution regarding guarantee minimum pension ("GMP") indexation. Members of public service pension schemes with GMP entitlements who reach State Pension age on or after 6 December 2018 and before 6 April 2021 will be covered by this extension of the interim solution. As HMT have not announced any changes to the current solution, no past service cost has been recognised in 2018/19 in this respect.

Note that the disclosures make no allowances for the 29th March 2019 High Court ruling that firefighters' overtime payments are pensionable, as the impact of this ruling is unknown at the moment.

| Re-Stated 2017/18 £000 | Movements on Pension Reserve | 2018/19 £000 |
|------------------------------|---|-----------------|
| | Income and Expenditure Account | |
| | Net Cost of Service | |
| | Current Service Cost | |
| -15,100 | - Fire Fighters | -15,410 |
| -2,340 | - Local Government Pension Scheme | -2,490 |
| | Past Service Cost | |
| -540 | - Fire Fighters | -40,820 |
| -10 | - * Local Government Pension Scheme | -815 |
| 11,627 | Top Up Grant | 16,478 |
| | Net Operating Expenditure | |
| | Interest Cost | |
| -22,480 | - Fire Fighters | -22,790 |
| -2,080 | - Local Government Pension Scheme | -2,210 |
| | Expected Return on Pension Assets | |
| 0 | - Fire Fighters | 0 |
| 1,510 | - Local Government Pension Scheme | 1,590 |
| -29,413 | Total Post-employment benefit charged to the surplus or deficit on the provision of services | -66,467 |
| | Remeasurements of the net defined benefit liability (asset) | |
| -27,820 | - Fire Fighters | 6,200 |
| -460 | - * Local Government Pension Scheme | 2,640 |
| -57,693 | Total Post-employment benefit (charged)/credited to the C.I.E.S | -57,627 |
| | Movement on Reserve Statement | |
| 872,030 | Opening Balance 1 April | 921,910 |
| 57,693 | Reversal of Net Charges for IAS 19 | 57,627 |
| | Actual Amount Charged against the General Fund Balance for pensions in the year | |
| | Employer Contributions | |
| -5,713 | Fire Fighters | -5,434 |
| -1,490 | Local Government Pension Scheme | -1,620 |
| -610 | Retirement benefits paid to Fire Fighters | -609 |
| 0 | Transfers in | 0 |
| 49,880 | Movement on Pension Reserve | 49,964 |
| 921,910 | Closing Balance | 971,874 |

*The LGPS movements on pension reserve are inclusive of unfunded pension benefits arrangements; 2018/19 – Interest cost of £20k, actuarial gain of £10k and net benefits paid out £30k

Pension Schemes – Assets / Liabilities

The Authority's estimated share of assets and liabilities from 31 March 2015 to 31 March 2019 were as follows:

| | 31 March | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Estimated share of liabilities in the Fire Fighters' Pension Scheme | -788,420 | -698,060 | -849,560 | -897,550 | -947,849 |
| Estimated share of liabilities in the Rhondda Cynon Taff Pension Fund | -65,260 | -63,980 | -80,250 | -85,480 | -91,335 |
| Total liabilities | -853,680 | -762,040 | -929,810 | -983,030 | -1,039,184 |
| Share of assets in the Rhondda Cynon Taff Pension Fund | 46,510 | 48,520 | 57,780 | 61,120 | 67,310 |
| Net Pension Deficit | -807,170 | -713,520 | -872,030 | -921,910 | -971,874 |

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 | |
|--|-----------------------|--------|-----------|--------|
| | 2018 % | 2019 % | 2018 % | 2019 % |
| Rate of Inflation; | | | | |
| RPI | | | 3.2 | 3.3 |
| CPI | 2.3 | 2.35 | 2.1 | 2.2 |
| Rate of increase in Salaries | 4.3 | 4.35 | 3.35 | 3.45 |
| Rate of Increase in Pensions | 2.3 | 2.35 | 2.1 | 2.2 |
| Rate of Discounting Scheme Liabilities | 2.55 | 2.45 | 2.6 | 2.4 |
| Future Life Expectancy at 65 Men | | | | |
| Current Pensioners | 21.9 | 22 | 22.9 | 22.2 |
| Future Pensioners | 23.9 | 23.9 | 25.1 | 23.9 |
| Women | | | | |
| Current Pensioners | 21.9 | 22 | 25 | 24.1 |
| Future Pensioners | 23.9 | 23.9 | 27.3 | 25.9 |

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

| Adjustment to discount rate | +0.1%p.a. | -0.1%p.a. |
|--|------------------|------------------|
| Present value of total obligation (£m) | 88.12 | 91.73 |
| % change in present value of total obligation | -2.0% | 2.0% |
| Projected service cost (£m) | 2.58 | 2.74 |
| Approximate % change in projected service cost | -3.1% | 3.2% |

Rate of general increase in salaries

| Adjustment to salary increase rate | +0.1%p.a. | -0.1%p.a. |
|--|------------------|------------------|
| Present value of total obligation (£m) | 90.40 | 89.43 |
| % change in present value of total obligation | 0.5% | -0.5% |
| Projected service cost (£m) | 2.66 | 2.66 |
| 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

| Adjustment to discount rate | +0.1%p.a. | -0.1%p.a. |
|--|------------------|------------------|
| Present value of total obligation (£m) | 91.24 | 88.60 |
| % change in present value of total obligation | 1.5% | -1.5% |
| Projected service cost (£m) | 2.74 | 2.58 |
| Approximate % change in projected service cost | 3.2% | -3.1% |

Post retirement mortality assumption

| Adjustment to discount rate | -1 year | +1 year |
|--|----------------|----------------|
| Present value of total obligation (£m) | 92.82 | 87.03 |
| % change in present value of total obligation | 3.2% | -3.2% |
| Projected service cost (£m) | 2.76 | 2.56 |
| Approximate % change in projected service cost | 3.9% | -3.9% |

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.

| Impact on defined benefit obligation | % | £ million |
|---|----------|------------------|
| Rate of discounting scheme liabilities +0.5%p.a. | -10% | -89 |
| Long term rate of increase in salaries +0.5% p.a. | 1.5% | 15 |
| Rate of increase in pensions / deferred revaluation +0.5% p.a. | 7.5% | 70 |
| Life expectancy: each pensioner subject to longevity of an individual 1 further year younger than assumed | 2.5% | 22 |

In addition, the past service cost in respect of the McCloud / Sargeant judgement is expected to be highly sensitive to the gap between CPI inflation and the assumed rate of salary growth. Under the approach and remedy adopted, if the long term salary growth assumptions were 1.0% pa lower, then the impact on the past service cost is expected to be a change of around -10% on the provision. Alternative forms of remedy may have different levels of sensitivity to these assumptions.

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:

| | % |
|--------------------|--------------|
| 2019 | |
| Equity Investments | 64.5 |
| Bonds | 25.1 |
| Other Assets | 10.4 |
| Total | 100.0 |
| 2018 | |
| Equity Investments | 74.8 |
| Bonds | 17.9 |
| Other Assets | 7.3 |
| Total | 100.0 |

The overall return on pension assets was 9.9% for 18/19 (2017/18: 5.1%)

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

| 2017/18 £000 Fire Fighters | 2017/18 £000 LGPS | Liabilities | 2018/19 £000 Fire Fighters | 2018/19 £000 LGPS |
|---|--|--|---|--|
| -849,560 | -80,250 | Balance as at 1 April | -897,550 | -85,480 |
| -15,100 | -2,340 | Current Service cost | -15,410 | -2,490 |
| -22,480 | -2,080 | Interest | -22,790 | -2,210 |
| -4,120 | -510 | Contributions by scheme members | -4,090 | -530 |
| -27,820 | -1,930 | Actuarial Gains and Losses | 6,200 | -1,860 |
| 22,690 | 1,640 | Benefits Paid | 26,881 | 2,050 |
| -540 | -10 | Past Service Cost | -40,820 | -815 |
| -620 | 0 | Transfers in | -270 | 0 |
| -897,550 | -85,480 | Pension Liabilities at Year End | -947,849 | -91,335 |

Changes to the fair value of assets during the accounting period

| 2017/18 £000 LGPS | Assets | 2018/19 £000 LGPS |
|--|-----------------------------------|--|
| 57,780 | Balance 1 April | 61,120 |
| 1,510 | Return on Pension Assets | 1,590 |
| 1,470 | Actuarial Gain/Losses on Assets | 4,500 |
| 1,460 | Contributions by employer | 1,590 |
| 510 | Contributions by Scheme members | 530 |
| -1,610 | Net benefits paid out* | -2,020 |
| 61,120 | Pension Assets at Year End | 67,310 |

* 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 2018 £ Million | 31 March 2019 £ Million |
|---------------------------------------|--|--|
| Interest income on assets | 1.51 | 1.59 |
| Re-measurement gain/ (loss) on assets | 1.47 | 4.50 |
| Actual return on assets | 2.98 | 6.09 |

Note 36 - CONTINGENT LIABILITIES

The Fire Authority has recently reaffirmed its decisions on a number of cases related to the pensions of former employees. These include cases related to 'protected pension age' and 'Rule B5C' of the Fire Pension Scheme. The Authority believes that it has no further financial liability in respect of these cases however, it is possible that the group of pensioners concerned could challenge the outcome via the Pension Ombudsman or through the courts.

There are also a number of national issues ongoing in respect of pension schemes and the value of any potential liabilities is yet to be determined.

Note 37 - 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

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 invests 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 downgraded 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 11 (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 (FFPF)

| 2017/2018 | | 2018/2019 |
|----------------|---|----------------|
| £000 | Income to the fund | £000 |
| | Contributions receivable: | |
| | from employer | |
| -5,347 | normal contributions | -5,103 |
| -379 | other contributions | -335 |
| -3,966 | from members | -3,967 |
| -138 | Past service contributions (retained modified scheme) | -150 |
| <u>-9,830</u> | | <u>-9,555</u> |
| -681 | Transfers in from other pension funds | -499 |
| -10,511 | Total Income to the Fund | -10,054 |
| | Spending by the Fund | |
| | Benefits Payable: | |
| 18,980 | Pension payments | 20,044 |
| 2,942 | Pension commutations and lump-sum retirement benefits | 6,154 |
| 41 | Other Payments | 76 |
| <u>21,963</u> | | <u>26,274</u> |
| | Payments to and on account of leavers: | |
| 87 | Transfers out to other authorities | 182 |
| 22,050 | Total Spending by the Fund | 26,456 |
| 11,539 | Net amount payable for the year | 16,402 |
| -11,539 | Annual top up grant receivable from Welsh Government | -16,402 |
| <u>0</u> | Net amount payable for the year | <u>0</u> |

| 2017/2018 | Net Asset Statement | 2018/2019 |
|--------------|--|--------------|
| £000 | | £000 |
| | Current Assets; | |
| 0 | Top up grant due from Welsh Government | 3,502 |
| 1,645 | Payments in advance to pensioners | 0 |
| <u>1,645</u> | | <u>3,502</u> |
| | Current Liabilities; | |
| -1,078 | Top up grant due to Welsh Government | |
| -567 | Amount owed to general fund | -3,502 |
| <u>0</u> | | <u>0</u> |

NOTES TO THE FIRE FIGHTERS' PENSION FUND ACCOUNT

The Fund was established 1 April 2007 and covers the 1992, 2006, 2015 and 2016 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. On 1st 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 (the Authority) contributions are paid into the Fund from the revenue budget and payments to pensioners are made from here. Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by Welsh Government (WG) and are 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.

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) payable/receivable from the previous year. As such, any asset/liability on the Pension Fund is matched by a corresponding value on the Authority balance sheet. The 2018/19 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 2018/19 a total of 58 (including 3 deferred members) Fire Fighters retired compared to the estimate of 36. At the year end WG was a debtor to the Pension Fund with a value of £3.502m.

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 22 and 35 to the core financial statements.

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.