

1. INTRODUCTION

The documents referred to below comprise Cheshire Fire Authority's (the Authority) Statement of Accounts for the year 2015-16. This Narrative Report explains the structure of the Accounts, briefly describes the activity and structure of the Authority, and considers the overall financial position of the Authority in the context of the economic environment within which the Authority operates.

The production and presentation of the Accounts is determined by the Code of Practice on Local Authority Accounting (the Code), which is published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Authority makes every effort to avoid technical language, but the way in which the Accounts are presented means sometimes it has to be included. A glossary is included in the accounts, which explains what the technical terms mean.

The Accounts are presented as a series of statements, followed by supporting information to provide context and other detail. This is explained below.

2. THE STATEMENT OF ACCOUNTS

2.1 THE FINANCIAL STATEMENTS

Movement in Reserves Statement (MiRS)

This statement shows the movement in the year on the different reserves held by the Authority, split into usable reserves and other reserves (see the section on the Balance Sheet below for an explanation of usable and other reserves).

The Comprehensive Income and Expenditure Statement (CI&E)

The Comprehensive Income and Expenditure Statement includes all the financial transactions for which the Authority is responsible. Not all of these transactions impact on the Authority's General Fund and the MiRS shows how the differences are appropriated to other reserves.

Balance Sheet

The Balance Sheet sets out the Authority's overall financial position at the 31 March 2016, showing its balances and reserves, its long term liabilities, the non current and current assets employed in its operations and its short term liabilities. The net assets of the Authority (assets less liabilities) are matched by the reserves of the Authority, divided into usable reserves and other reserves. Usable reserves may be used by the Authority to provide services, subject to the need to maintain a prudent level and any statutory limitations on their use. Other reserves include those which hold unrealised gains and losses, those where amounts would only become available to provide services if the assets are sold and those which hold timing differences and

which are shown in the MiRS in “Adjustments between accounting basis and funding under regulations”.

Cash Flow Statement

The Authority’s Accounts are prepared on an accruals basis (see Note 1 of supporting notes to the Statement [Accounting Policies] for more detail on what this means). The Cash Flow Statement summarises the inflows and outflows of cash during the year and reconciles this back to the net position on the CI&E.

The Pension Fund Account

The Pension Fund Account provides information about the income and expenditure for the year on the Firefighter Pension Fund. The Account consolidates the 1992, 2006, 2015 and the 2006 Modified Firefighter Pension Schemes.

2.2 SUPPORTING INFORMATION

Note to the Accounts

The Financial Statements are supplemented by the inclusion of a comprehensive set of notes which explain the figures shown in the Financial Statements in more detail.

Statement of Responsibilities for the Statement of the Accounts

This makes clear the respective responsibilities of the Authority and the Treasurer to the Authority in the preparation of the Accounts.

Statement of Accounting Policies

This shows how the Authority determines the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. It makes clear, for each type of transaction, the criteria used to decide whether to include it in the accounts and, if included, how to present it.

3. CHESHIRE FIRE AUTHORITY

Cheshire Fire Authority is responsible for providing an efficient and effective fire and rescue service which protects the communities and infrastructure of Cheshire. The Authority covers the local authority areas of Cheshire East, Cheshire West and Chester, Halton and Warrington. The Authority comprises 23 elected Members drawn from these local authorities.

Cheshire Fire and Rescue Service is led by the Chief Fire Officer and Chief Executive (CFO) and the Service Management Team, which comprises the CFO, the Deputy Chief Fire Officer, and the Heads of departments within the Authority.

The Service operates out of 25 fire stations and has a headquarters in Winsford. 3 new fire stations are under development.

The Service responds to emergency incidents to protect life and property. It provides community safety advice, particularly to vulnerable people, which helps reduce risk and improve safety in the community. It works with the business community to help reduce risk from business activity and help improve safety at work. It also works with young people, developing awareness of safety issues at an early age.

4. FINANCIAL PERFORMANCE IN 2015-16

Where did the Authority get its revenue funding from?

The Authority received over half of its revenue funding from local taxpayers, by way of precepts (amounts of funding) levied on the four local authorities (Cheshire East, Cheshire West and Chester, Halton and Warrington) who collect Council Tax. The precept levied in 2015-16 was increased by 1.99% from 2014-15 and equated to £70.46 on a Band D property. In addition the Authority received its share of surpluses and deficits on the Council Tax collection funds of the local authorities.

The majority of the balance of the revenue funding was received from Central Government and the four local authorities in the form of Settlement Funding Assessment. This can be broken down into two elements, Revenue Support Grant and Baseline Funding Level. Revenue Support Grant is determined centrally by Government and is based on a formula. Baseline Funding Level is the amount which the Government determines should be available to the Fire Authority as its share of the Business Rates raised in the four local authorities. However, the amount of Business Rates which is available to the Fire Authority from the local authorities is not sufficient to meet this Baseline Funding Level, so the Government also pays the Authority a Top Up Grant to make up the difference.

CHESHIRE FIRE AUTHORITY – NARRATIVE REPORT

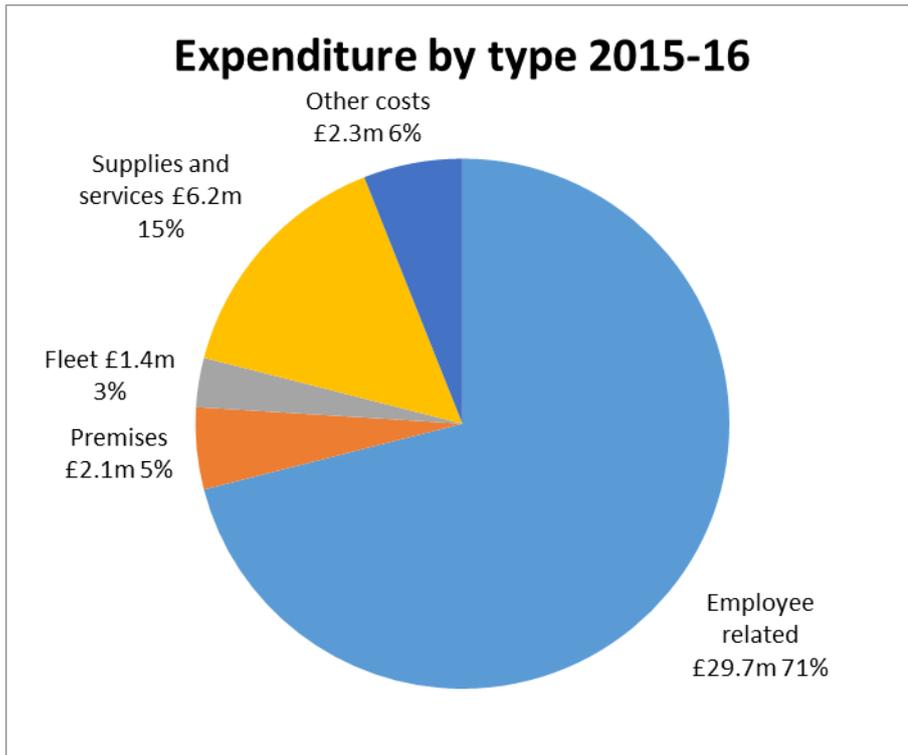
The actual amounts for 2015-16 for these elements are shown below:

	£000	£000
Council Tax		(24,513)
Council Tax (surplus)/deficit		(328)
Settlement Funding Assessment		
- Baseline Funding Level		
• Business Rates Baseline	(4,563)	
• Top Up Grant	(4,138)	
- Revenue Support Grant	(8,843)	
Total Settlement Funding Assessment		(17,544)
Business Rates (surplus)/deficit - distributed		69
Section 31 Grants re Business Rates		(293)
Provision for non collection of Business Rates and Council Taxes		5
Total 2015-16 Funding		(42,604)

What did the Authority spend its money on?

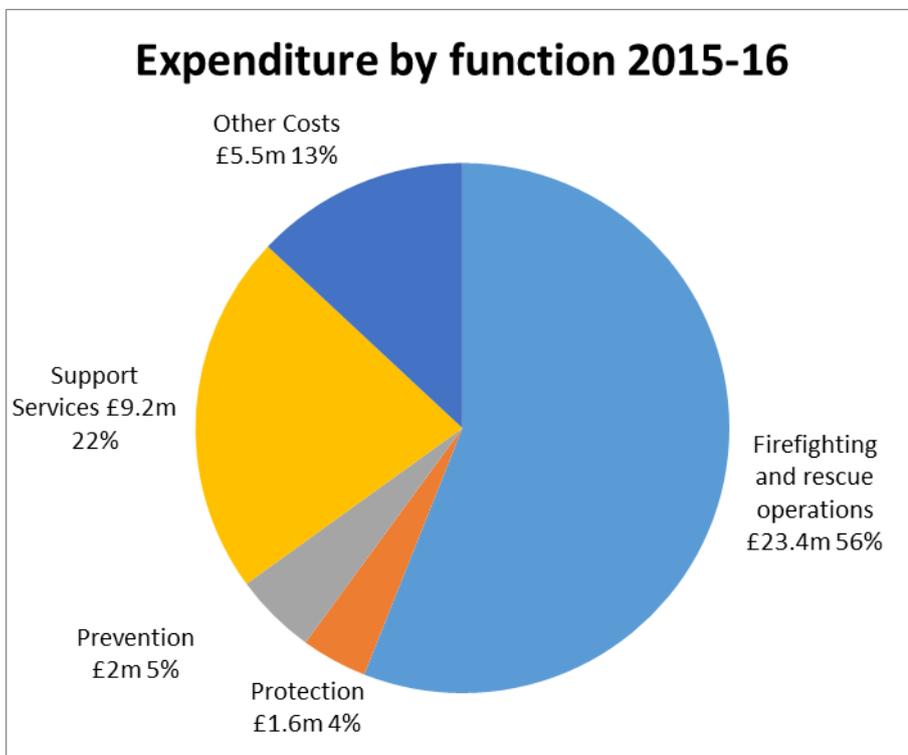
Actual expenditure broken down by type of expenditure is shown below. The bulk of the Authority's revenue is spent on employee related costs.

CHESHIRE FIRE AUTHORITY – NARRATIVE REPORT



Performance against budget

Financial and non financial performance is reported on a quarterly basis to the Authority's Performance and Overview Committee. Actual expenditure broken down by function is shown below.



The Authority budgeted to break even, so that expenditure and income were equal. However, the Authority has underspent its revenue budget in 2015-16. The estimated outturn against the budget is reported quarterly to the Authority's Performance and Overview Committee and revisions made to reflect the position. The intention is to reserve the underspend to help to fund the delivery of Integrated Risk Management Plans (IRMPs) and help to fund the Authority's capital programme.

The underspends reported during the year to the Committee and now treated in the accounts as reserve movements together amount to around £1.1m. They are mainly due to lower than budgeted levels of inflation, vacant posts in Protection and Prevention, and lower than anticipated ICT costs.

CHESHIRE FIRE AUTHORITY – NARRATIVE REPORT

The table below shows overall how the Authority performed against its revised revenue budget. More detail of the Authority's performance against its service area revenue budget is provided in Note 2, Amounts Reported for Resource Allocation Decisions.

Service Area	Revised Budget £000	Actual £000	Variance £000
Fire fighting and rescue operations	23,688	23,390	(298)
Protection	1,578	1,565	(13)
Prevention	2,051	2,025	(26)
Support Services	9,389	9,209	(180)
Other costs	5,750	5,474	(276)
Funding	(42,456)	(42,604)	(148)
Total	-	(941)	(941)

The underspend against the revised revenue budget is £941k. Some of the main reasons for this are explained below.

The underspend on Fire fighting and rescue operations reflects lower than budgeted costs of on call activity.

Protection and Prevention have both spent close to their revised budget level. Underspends on Support services are as a result of savings on ICT software and hardware, savings on vehicle fuel costs and savings on some utilities costs. The heading "Other costs" in the table refers to those costs which are budgeted for centrally. The underspend against the revised budget for other costs is mainly as a result of the service contingency not being called upon in 2015-16.

The underspending during the year reflects the trend of recent years, as the Authority anticipates savings to be made to support the delivery of IRMPs. It is intended that underspends will be transferred to the IRMP and capital reserves and will be used to ensure that funding is available to smooth timing differences between actual expenditure and the full realisation of planned savings, and to support the capital cost of delivering the Emergency Response Programme (ERP), and other capital projects.

Capital Expenditure

The Authority invested £6.1m in non current assets during the year. Some of this expenditure was against schemes included in the capital programme for 2015-16, whilst some was carried forward from previous years. It is the nature of capital expenditure that some schemes do span financial years. In particular, the amounts approved for spend on the ERP will not be fully spent until 2017-18, in line with the Authority's plan.

CHESHIRE FIRE AUTHORITY – NARRATIVE REPORT

The bulk of the capital expenditure in 2015-16 has been on the build costs of the 3 remaining fire stations being built as part of the ERP, and “Safety Central”, a dedicated safety centre to educate those most at risk.

The remainder of the capital expenditure has in the main been on the vehicle replacement programme. Two new fire appliances have been purchased and delivered, whilst two hydraulic platforms were substantially completed in 2015-16 and delivered to the Authority in early 2016-17. The Authority has also upgraded the Mobile Data Terminals in its appliances in the year. The table below gives a breakdown of capital expenditure in 2015-16.

Capital scheme	£000
3 new station builds and “Safety Central”	5,119
Fire appliances	441
Hydraulic platforms	219
Other vehicles	93
Technology / business systems	157
HQ boiler replacement	29
Total capital expenditure 2015-16	6,058

5. NON FINANCIAL PERFORMANCE IN 2015-16

Members of the Authority’s Performance and Overview Committee, receive comprehensive performance reports quarterly, including a Corporate Performance scorecard. The final scorecard for 2015-16 shows that overall the Authority is performing well against target.

There were 6 fire related fatalities in 2015-16, 3 as a result of the incident in Bosley (see below for more details on this), 2 in accidental dwelling fires and 1 in an outdoor fire. Injuries are over target, however year on year decreases have been recorded.

Accidental dwelling fires ended the year over target by just 3 incidents, however this equated to the second lowest number of these incidents ever recorded. The number of deliberate fires increased compared to 2014-15, where unusually low numbers of incidents were recorded. 2015-16 recorded figures for deliberate fires were lower than any year prior to 2014-15. Prevention teams continue to work with local authorities and business owners to reduce the occurrence of these incidents.

Indicators relating to fires and Automatic Fire Alarms (AFAs) in non domestic premises performed well in 2015-16, with the lowest figures ever recorded for both indicators. 47% fewer attendances were made to AFAs in non domestic premises in 2015-16 compared to 5 years ago.

Year on year improvements have also been made in the number of Home Safety Assessments (HSAs) delivered to vulnerable residents.

The Authority reviews its performance against the projects which support delivery of the Authority's IRMP. A key success has been the delivery of the first part of the organisational reviews which has identified around £800k of savings that have been recognised in the 2016-17 budget. The Authority has also substantially developed a new Firefighter Apprentice Scheme for launch in 2016-17.

The Authority continues to work in partnership and on collaborative projects. In particular, the Authority is working with partners on a pan Cheshire Complex Dependency Programme and this includes a Fire Authority employee being based in the Cheshire East, Halton and Warrington Council front door teams, building on the success of work already done in partnership with Cheshire West and Chester Council. The Authority is also working closely with Cheshire Police on a collaboration project which will include co-location and shared support services.

The new station at Alsager is now fully operational. The building of the remaining new stations and the safety centre continues, with the stations at Penketh and Powey Lane programmed to be open in 2016-17 and the station and safety centre at Lymm programmed to be open in 2017-18.

In July 2015 the Authority experienced a major incident at a wood mill at Bosley, near Macclesfield, resulting in tragic loss of life. The incident continued for some weeks, with specialist support obtained from across the country. The Authority has fully participated in the investigation into the circumstances. During the year the Authority also supported other authorities in dealing with significant floods.

The Authority has a robust performance management framework. This helps it improve in areas where targets are not achieved and to focus on outcomes which will help realise the vision of "A Cheshire where there are no deaths, injuries or damage from fires or other emergencies."

6. PENSIONS LIABILITY

The Authority is a responsible employer and encourages its employees to participate in pension schemes. Firefighters may be members of four schemes. These are the 1992 Firefighter Pension Scheme; the 2006 New Firefighter Pension Scheme; a modified version of the 2006 scheme; and the Firefighter Pension Scheme 2015. The Authority administers these schemes in partnership with a specialist external partner. Support staff may be members of the Local Government Pension Scheme (LGPS), which is administered on the Authority's behalf by Cheshire West and Chester Council.

The Firefighter Pension Schemes are unfunded, which means that there are no underlying assets to fund them and liabilities are funded as they fall due out of the annual income to the scheme. The requirements of International Accounting

Standard 19 - employee benefits (IAS 19) means that the Authority must account in the current year for the liability which it incurs as an employer for future pension costs. This leads to a liability on the Authority's Balance Sheet for all pension costs, for both the Firefighter Pension Schemes and the LGPS, of £474m, which is based on a calculation of the future costs by the Authority's actuaries. This is offset in the Balance Sheet by a notional reserve of an equal and opposite amount. At present, all current deficits on the Firefighter Pension Schemes are funded by Government through payment of a specific grant.

7. CHANGES IN ACCOUNTING POLICY

There have only been minor changes to Accounting Policies during the year, and the impact of these changes on the accounts is minimal.

8. CURRENT BORROWING FACILITIES

In accordance with its Treasury Management Strategy, the Authority has recently been using cash balances to fund capital expenditure, as the poor investment returns available make this the most cost effective use of these balances. At the beginning of the year the Authority had outstanding loans with the Public Works Loans Board (PWLB) of £2,214k and an interest free loan of £44k from Salix, a not for profit company which lends money to public bodies for invest to save environmental schemes. In keeping with the repayment schedule, £11k of Salix funding was paid back during 2015-16, leaving a balance of £33k on this loan on 31 March 2016. The policy on premature repayment of loans continues to be reviewed, but there have been no premature or maturity repayments of PWLB loans during 2015-16. A loan from PWLB of £322k is due to be repaid on 30 September 2016.

9. SOURCES OF FUNDS FOR CAPITAL

The Authority funded its capital expenditure in 2015-16 by using capital grants, capital receipts and contributions from reserves (see Note 32). The key issue in respect of funding remains the Authority's ability to contain the potential impact from any capital funding decisions within its revenue budget, and this is regularly considered as part of reviews of the Medium Term Financial Plan (MTFP).

10. CONTINGENCIES AND MATERIAL WRITE OFFS

The Authority has a Risk Management Framework which identifies significant risks and where those risks are clearly financial in nature they are designated as such and are considered regularly at the Authority's Risk Management Board, which is chaired by the Chief Fire Officer and Chief Executive.

In its accounts for 2014-15 the Authority identified four contingent liabilities. Of these, one, a potential liability in respect of meeting back dated employer pension contributions after a successful legal challenge by a firefighter against the Government Actuary's Department (known as GAD vs Milne) is no longer applicable, as the Government has agreed to fund the additional contributions.

The remaining 3, relating to potential liabilities arising from the insolvency of a historic insurer, increased future cost relating to on call firefighters gaining access to pension rights going back to 2001, and additional holiday pay becoming payable to employees, remain as contingent liabilities in these accounts. More detail can be found in Note 34.

In addition, the Authority has recognised a risk relating to the possibility that some firefighters may be due to have contributions refunded as a result of their age on commencing as firefighters and when they joined the pension scheme, and the length of service that they have subsequently achieved. It is not possible to quantify the impact of this so it has been treated as a contingent liability.

The Authority has not incurred any significant write offs during the year, and does not anticipate any such write offs in the future.

11. MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

There have been no known material events after the Balance Sheet date.

12. IMPACT OF THE CURRENT ECONOMIC CLIMATE

With effect from January 2016, the responsibility for Fire and Rescue Services was passed from the Department for Communities and Local Government (DCLG) to the Home Office. It is unclear whether this will have any material impact on the financial position of the Authority.

A new Comprehensive Spending Review was released by the Chancellor in November 2015. Shortly afterwards the draft local government settlement was announced, and this was finalised in February 2016. This contained a draft four year settlement which the Authority has been invited to consider agreeing to. An agreement to participate in the four year settlement will require an efficiency statement to be agreed by the Authority and submitted to the Home Office in 2016-17.

The settlement contained a higher level of government funding than the Authority had been modelling in its MTFP. This has resulted in a reduced target for efficiencies over the life of the plan. The Authority's MTFP, which is regularly reviewed, indicates a level of efficiencies which the Authority needs to deliver over the life of the plan.

The Authority has in place an IRMP reserve which will be used to fund capital and one off revenue expenditure to support the delivery of the IRMP and support other capital projects. The use of reserves helps the Authority mitigate against some of the risks attached to volatility in funding, a risk that has been exacerbated by the inclusion of business rates in the Fire Authority's funding stream.

The Government has indicated that there will be a review of local authority funding during the current Comprehensive Spending review period. There is no clear picture yet as to how this will affect the Authority, but it clearly represents some risk.

The Authority continues to benefit from the current low level of inflation which reduces strain on the revenue budget. However, the Authority is currently maintaining high cash balances and the low levels of interest rates reduces the potential for generating significant return on investments.

13. FUTURE PLANS

The Authority has commenced a second Emergency Response Programme (ERP2) which is examining the potential for future changes to Service Delivery. The results will be considered by the Authority during 2016-17.

The Authority has agreed to collaborate with the Police in co-locating its headquarters and jointly delivering support services to both the Police and the Authority. It is hoped that this will foster closer working relationships and lead to efficiencies. The programme has commenced and will be completed by April 2018.

During 2015-16 the Authority created a company limited by guarantee, Safer Cheshire Limited, which will be registered as a charity in 2016-17 and act as a focus for delivering prevention activity. The objects of the company are to reduce accidental death, injury and harm by educating those most at risk about staying safe at home, on the road and in the community.

The Authority has a number of new initiatives planned for introduction during 2016-17. These include rolling out a scheme to act as first responder for cardiac arrests; working in partnership with the North West Ambulance Service to force entry to allow ambulance staff access to patients; and introducing safe and well visits to help keep vulnerable residents safe and well in their homes.