

Narrative Statement – 2017/2018

Tyne and Wear Fire and Rescue Service

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

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

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 Today, many of the traditional industries have been replaced by modern industrial developments and service based organisations, although manufacturing remains a sizeable sector (producing almost a quarter of the area's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

Vision and Purpose

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

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

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

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

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

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

Performance

The Fire Authority is responsible for Tyne and Wear Fire and Rescue Service and is required by law to publish certain performance indicators annually in the local press. These show the statistical

performance of the service but cannot provide any indication of the true quality or scope of the service delivered every day to the citizens of Tyne and Wear.

Summary of Performance

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

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

In addition, the Authority continues to work with local schools, businesses, residents and community groups with the overall aim of reducing the risk of injuries and death from fire. The main thrust of community safety, however, is targeted home safety checks, which involve Community Firefighters and Prevention and Education staff visiting homes to deliver fire safety advice and practical support, such as installing smoke detectors. During 2017/2018, the Service carried out 29,149 home safety checks (29,130 in 2016/2017) and attended a total of 17,081 incidents (15,459 in 2016/2017).

Service Led Priorities

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

Performance Indicator	2015/2016	2016/2017	2017/2018
Number of fatalities from all fires	2	4	4
Number of injuries from accidental dwelling fires (excluding precautionary checks)	40	43	37
Number of accidental fires in dwellings	554	563	530
Number of false alarms due to automatic fire detection from non-domestic properties	1,816	1,801	1,745
Number of primary fires	1,663	1,719	1,796
Number of deliberate fires	4,045	4,459	5,592

The Authority has a long track record of reducing fires but, sadly, in 2017/2018 there were four deaths attributed to fire. The service will continue to strive to work towards the target of zero fire deaths. The service has experienced both increases and decreases in local indicators during 2017/2018. Over the past ten years, there has been a number of significant performance achievements, including a 25% reduction in the number of accidental fires in dwellings, 30% reduction in the number of primary fires attended, 20% reduction in the number of deliberate fires and a 50% reduction in the number of false alarms due to automatic fire detection from non-domestic properties.

Performance Improvement

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

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

Efficiency Plan and Implications

The Authority published its Efficiency Plan covering the four financial years 2016/2017 to 2019/2020 in September 2016, being a requirement of the government to allow the Authority to accept the Four Year Grant Funding Settlement it was offering to all authorities. The government reviewed the plan and approved this, without any issues being raised, in the Autumn of 2016. The Efficiency Plan sets out the Authority's detailed approach to the delivery of savings necessary to address the reductions in funding over this four year period.

The Efficiency Plan identified savings totalling £8.248m to be achieved over the four year period, based on the Authority's Medium Term Financial Strategy (MTFS) 2016/2017 to 2019/2020 reported to members in February 2016. More detailed information on the Efficiency Plan can be found at www.twfire.gov.uk/about/improving-efficiency.

The table below shows, in summary, the total planned savings each year and how the Authority proposed to achieve these through a combination of Revenue Budget Efficiencies and planned actions from the Authority's Integrated Risk Management Plan (IRMP), a fully costed Plan which sets out separate, much wider major reviews of service areas to achieve savings.

	Published 4 Year Efficiency Plan £'000	Actuals Achieved £'000
2016/17 – Budget Efficiencies	1,323	1,323
IRMP Actions	1,184	1,184
2017/18 – Budget Efficiencies	1,394	1,441
IRMP Actions	1,773	2,267
Total as at 31st March 2018	5,674	6,215
Further Proposed Savings:		
2018/19 – Budget Efficiencies	4	948
IRMP Actions*	1,081	923
2019/20 – Budget Efficiencies	0	(15)
IRMP Actions	1,489	106
Total	8,248	8,177

*The Efficiency Plan reflects the fact that the Authority implemented the Organisational Management Review in full from 2017/2018 saving £1.690m. In the original Plan this was expected to straddle both 2017/2018 and 2018/2019 financial years.

It is pleasing to report that the Authority has found savings of £6.215m by the end of 2017/2018, £0.541m more than that set out in the Efficiency Plan. The Authority is not content with this position though as it has to deal with, not only grant funding reductions, but also spending pressures, such as significant inflationary cost increases and pay awards. A further £2.574m still has to be found in the remaining two years (2018/2019 to 2019/2020) of the four year Efficiency Plan, of which planned savings totalling £1.962m have been identified to date. Any additional savings beyond the total in the Efficiency Plan will help to address the increased future Budget Gap that has developed since the original Plan was drafted.

It should be noted that the Authority has already made very difficult budget cost reductions that have impacted upon all areas of the service. Front line services have been affected, both in terms of reducing firefighter numbers and changes to the response model in operation. The base budget has been reduced significantly since 2010/2011 by 19.7% and the Revenue Budget Gap identified in the MTFS up until 2021/2022 of £3.600m will become much more challenging for the Authority to address as a result.

Going forward, new actions need to be examined to make the further budget efficiencies needed. The Authority has already approved to work on three new reviews set out in the IRMP 2017/2020. These reviews covering, Response, Collaboration and Ways of Working are all in their initial stages and, once

savings can be quantified, they will be factored in to an updated Medium Term Financial Strategy. In the medium term it is recognised that temporary use of reserves may be needed until these actions can be implemented and permanent budget reductions achieved.

Funding Context and Financial Planning

Financial Outlook for the Authority

In February 2018, the Government confirmed the local government finance settlement for 2018/2019 and projections for 2019/2020. The Authority continues to face a disproportionately greater reduction in funding compared to most other Fire Authorities. The Settlement appears to show that the more deprived areas, mainly the Metropolitan Fire Authorities, have lower overall percentage cuts to government funding because of a fairer approach adopted by government. However, when locally generated resources are also taken in to account, the more deprived areas still show greater reductions to their overall resources, known as the Core Spending Power, than other types of Fire Authority. The revised grant distribution methodology also does not address the inequalities experienced by the Authority from 2010/2011 to 2015/2016 where it received some of the greatest government grant funding reductions within the fire service.

The Government has increased the threshold council tax limit to hold a referendum from 2% to 3% in both 2018/2019 and 2019/2020 and has assumed annual increases to both business rates and council tax. There is an expectation within the Settlement that the Authority will grow Council Tax alone by 4% through a combination of increases in the tax base and precept. This continues the government's policy of shifting some of the cuts to local government services directly on to the council tax payer through anticipated annual council tax increases up to 2019/2020.

The key elements of the Authority's settlement for 2018/2019 are:

- An increase in the Government's Core Spending Power of £0.458m or 0.8%, largely due to the higher Council Tax increase of 1%, and inclusion of the compensation funding for over indexing the Business Rates Multiplier (detailed in the Provisional Local Government Finance Settlement report in January) and trailed by the Chancellor to restrict business rates increases at CPI from 2018/2019 (rather than using RPI, a higher measure of inflation); and
- A reduction in the Settlement Funding Assessment (SFA) of £0.841m or 3.31% in 2018/2019;
- Confirmation of the Revenue Support Grant (RSG) element of the settlement (a reduction of £1.278m in 2018/2019). However this is no longer a comparable measure of funding as those authorities taking part in the 100% Business Rates Retention pilots do not receive RSG.

Against this context of significant and continuing grant reductions, and the fact the Authority has to also meet significant cost pressures from its Budget, the Authority has published a revised Medium Term Financial Strategy (MTFS), which covers the period 2018/2019 to 2021/2022 and can be found on the Authority's website (12th February 2018 Authority meeting). This aims to:

- provide an analysis of the financial position likely to face the Authority over the medium term and establish approaches to address the Strategic Priorities of the Authority as set out in the current Integrated Risk Management Plan which will achieve value for money in the use of the resources available;
- set out the medium term financial position which the Authority is likely to face and to update the Budget Planning Framework for the preparation of future Revenue and Capital Budgets; and
- set out actions to be taken in the short to medium term to mitigate against the significant grant reductions already detailed and the additional cost pressures the Authority faces and to plan for the additional grant reductions and increased costs expected in the next four year period to 2021/2022.

As set out in the previous section, the MTFS over the four year period up to the end of 2021/2022 using the government's funding projections, shows that the Authority is facing an increased budget gap of £3.600m. In light of this position and the anticipated prolonged funding reductions over the next four years, the Authority's decision to earmark reserves to temporarily help support the budget over the medium term until it can implement its IRMP actions, will now be necessary on a continuing basis

and considered prudent.

Financial Performance of the Fire Authority 2017/2018

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2017/2018 to be met from Government Grants and local taxpayers was approved by the Authority at £47.921million*. This meant that the precept, at the Band D level of Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts, was set at £77.62 for 2017/2018. This represented a 1.99% increase in Band D, below the Government's 2% referendum threshold level. The following table summarises the financial position for the year:

	2017/2018 Original Estimate £000	2017/2018 Revised Estimate £000	2017/2018 Actual Outturn £000	2016/2017 Actual Outturn £000
Community Safety	5,636	5,878	4,903	4,508
Fire Fighting and Rescue Operations	42,747	42,784	22,713	24,585
Corporate and Democratic Core	255	255	183	180
Non Distributed Costs	(175)	(175)	777	1,067
Exceptional Items	0	0	0	8,639
Net Cost of Services	48,463	48,742	28,576	38,979
(Gain) / Loss on Derecognition of Non Current Assets	0	0	0	0
Interest Payable	0	0	2,320	2,500
Contingencies	952	855	309	0
Interest on Balances	(154)	(154)	(126)	(124)
Pension Interest Cost and Expected Return on Pension Assets	630	630	21,960	24,470
Net Operating Expenditure	49,891	50,073	53,039	65,825
Capital Financing:				
Reversal of Capital Charges and Impairments	(3,452)	(3,452)	(1,897)	(4,838)
Minimum Revenue Provision	1,185	1,185	1,257	1,447
Revenue Contribution to Capital Outlay	932	952	1,468	2,297
Government Capital Grant Applied	0	0	(395)	(1,891)
	48,556	48,758	53,472	62,840
Contribution to/(from) IAS 19 Pension Reserve	(406)	(406)	(7,160)	(7,650)
Contribution to/(from) Collection Fund Account	0	0	121	8
Contribution to/(from) Accumulated Absences Account	0	0	(43)	22
Contribution to/(from) Injury Pension Account	0	0	(8,639)	0
Contribution to/(from) Earmarked Reserves	(229)	(431)	10,215	(6,432)
Net Budget	47,921	47,921	47,966	48,788
Resources:				
Revenue Support Grant and General Grants	(10,898)	(10,898)	(10,898)	(13,180)
Top Up Grant	(10,688)	(10,688)	(10,688)	(10,064)
Business Rates and Collection Fund	(4,186)	(4,186)	(4,244)	(4,454)
Precepts and Collection Fund	(22,149)	(22,149)	(22,136)	(21,090)
Total Resources	47,921	47,921	47,966	48,788
(Increase) / Reduction to Balances in year	0	0	0	0
General Fund Balance Brought Forward	(3,943)	(3,943)	(3,943)	(3,943)
General Fund Balance Carried Forward	(3,943)	(3,943)	(3,943)	(3,943)

* In the accounts, the Net Budget Requirement for 2017/2018 of £47.966m is made up of Total Resources of £47.921m, as set out in the estimates in the above table, adjusted for a reduction to the section 31 grant funding of £0.076m, plus an amendment required under the Code in respect of the Collection Fund Account of £0.121m.

Comprehensive and detailed budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the full Authority. These reports detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items, including Treasury Management and Prudential Indicators. Again, this reflects strong and robust financial management in 2017/2018, continuing the Authority's strong track record in this regard.

The Revenue Budget Outturn for 2017/2018 is showing a net overall underspend of £1.273m, at £46.648m compared with an original budget of £47.921m. This will be reported to a meeting of the Fire Authority in June. The Authority has made a huge positive drive during the year to achieve this level of saving with a number of significant initiatives:

- Improved financial management throughout, with increased financial awareness and tighter budgetary control, culminated in a Revenue Budget Review in the Autumn which achieved savings of £0.195m across the full service, increased by £0.084m, to a total of £0.279m at the end of 2017/2018;
- A review of insurance services provided by the Lead Authority and a new approach adopted by Sunderland whereby all policies are separately tendered to ensure best value, has led to a significant year-end saving on premiums of £0.153m. The risks of future insurance claims has also been revised in light of the Authority's low claims and excellent risk management arrangements, resulting in a return of reserves of £0.110m to the Revenue Budget in the year;
- A move to riding four on all appliances, phased in from 1st January 2018, has made instant savings of £0.098m in year in line with expectations. This measure has additionally had a positive impact on helping to reduce overtime during this period, along with new measures brought in by Management during the year to proactively reduce the level of overtime. The combination of these factors has significantly reduced overtime costs during the last quarter of the financial year, saving just over £0.200m; and
- A review of all aspects of the Authority's finances and a more commercially based approach to income generation has been carefully and sensibly applied where appropriate, to ensure Best Value is achieved for the Authority. The increases in income above budget during the year of £0.182m (excluding government grant changes) reflect this approach and income generation is expected to increase in future years as a result of this new impetus.

The main variations, are detailed subjectively below, for information:

- Employee costs – a net underspend of £0.462m. Savings have continued to be made during the year from reduced employer pension costs, arising from the impact of temporary staffing arrangements, transitional movements between pension schemes, and employees opting out of the pension scheme. These savings have absorbed overtime costs during the year which have continued to be a feature of this year's expenditure against budget. Actions have been taken during the year to reduce overtime costs and an IRMP response action to move to riding four on four stations across the service from 1st January has resulted in a significant reduction to costs to increase the outturn underspend on employees;
- Premises – an underspend of £0.021m on utility budgets across the Authority's estate from continued efficiency measures and a prudent approach to price increases;
- Transport – an underspend of £0.113m through savings on transport costs due to revised travel arrangements introduced during 2017/2018 and lower transport insurance premiums;
- Supplies and Services – an underspend of £0.228m on supplies and services due to a review of delegated budgets and continued prudent spend and savings on annual insurance premiums under the revised approach to renewing insurance policies taken by the lead authority;
- Contingencies – an underspend of £0.221m as budget set aside has not been required, mainly due to the operational service delivery actions taken during the year, and the successful implementation of riding four on appliances reducing the call on overtime costs;

- Support Services and Recharges – a net underspend of £0.025m after an agreed reduction with Sunderland City Council for certain roles now undertaken by the Authority;
- Income – a net overachievement of £0.106m, largely due to one-off sales of vehicles and equipment, additional income for Phoenix courses and Princes Trust, additional income for collaboration with other blue light services and a one-off audit fee refund, partially offset by a reduction in the Authority's Business Rates Section 31 Grant funding;
- Interest received - £0.027m under budget due to reductions in cash flow levels;
- Capital Financing – an underspend of £0.115m from savings in debt charges; and
- Reserves and Provisions Appropriations - £0.009m decrease predominantly due to year end accounting entries required for the IFRS employee benefits.

It will be recommended to Members to appropriate the surplus funds of £1.273m as follows:

- Transfer £0.300m to the Medium Term Planning Reserve, as the potential gap in resources required has already been identified as being at least £0.500m short of the amount needed. This would help address more of this financial risk, especially during a time when government are looking to review the way local authorities are self-funded;
- Transfer £0.500m to the Resilience Reserve as the amount identified is seen as the minimum level that would be required if the Authority was facing a significant bout of industrial action; and
- Transfer the remaining balance of £0.473m to the Capital Developments Reserve to help future proof the reserve and the known additional capital works that are scheduled for future years. This will also help to delay the need to borrow to fund the Capital Programme.

Injury Pension Liability

After a prolonged period of due diligence, which relied on Queens Counsel and independent legal advice, the Authority has resolved the Pensions Top up Grant issue with the Home Office, resulting in a conclusion that the Authority is liable to repay the Pensions Top up Grant claimed in error of £10.532 million. A non-adversarial approach has been taken in all communications to reach an agreement on the timing and level of repayments that satisfies both parties.

The Home Office Repayment Schedule recognises and takes into account the financial position of the Authority and that the amount repayable each year, although challenging, is considered a fair settlement. The Authority put forward a sound and well argued case that its reserves were fully committed (which they continue to be) and showed how the Authority planned to use most of its reserves in the short to medium term, whilst balancing financial risks with its ability to fulfil its statutory obligations. It was very important that this issue did not impact upon services in a detrimental way and the settlement is considered a reasonable outcome and manageable in the circumstances.

The Authority has made an initial payment of £1.892m in this financial year (2017/2018), removing the short term provision set up in 2011/2012. The remaining £8.639m will be repaid by equal instalments of £0.500m from 2018/2019 to 2034/2035, with a final amount of £0.140m payable in 2035/2036. As such, the long term provision of £8.639m set up at the end of 2016/2017 has been removed and is now recognised as a long term liability to reflect the fact that the Authority has now agreed to the repayment over the longer term.

The Authority consequently has included the £0.500m annual liability in its base Revenue Budget for 2018/2019, which has been helped by achieving increased budget efficiencies through improved financial management as previously reported.

Accounting for Pensions

International Accounting Standard 19 (IAS19)

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

An actuarial valuation of the LGPS Pension Scheme was carried out at 31st March 2016. The last actuarial valuation of the Firefighters' Pension Scheme was at 31st March 2015 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2018.

The Authority continues to comply fully with this Standard and the Accounting Policy 1.13 in the Statement of Accounts on pages 41 to 43 and the Notes to Core Financial Statements provide details of the necessary disclosures required.

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

The financial health of the Authority is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit, as assessed by the Actuary as at 31st March 2018, is being addressed by the Authority in line with government regulations whereby a period of 21 years to correct the deficit position has been agreed. The Authority can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

Arrangements for Funding and Accounting for Firefighter Pensions

From 1st April 2006, revised arrangements came into effect for funding firefighter pensions, with Fire and Rescue Authorities administering and paying firefighters' pensions through a local firefighters' pension fund.

Together, employee and employer contributions meet the accruing pension liabilities of currently serving firefighters, meaning that Fire and Rescue Authorities meet all of the costs of employing a firefighter, including the cost of future pension liabilities, at the time of employing them.

Ill-health costs are paid by the Authority from its pension fund. Employer payments towards the future cost of

ill-health retirements come from a combination of a flat rate employer contribution applicable to all authorities and from an individual charge payable by the relevant Authority where an ill-health retirement occurs. The Authority has invested in health awareness and intervention measures through its Occupational Health Unit and it is pleasing to report that there have been only three firefighter ill health retirements since 2009/2010 to date, one of which took place during 2017/2018.

Employee and employer contributions are paid into the pension fund each year, with the fund being topped up by annual Government grant if the contributions are insufficient to meet the cost of pension payments. Any

surplus is recouped by the Government. The pension fund is ring-fenced to ensure accounting clarity. As such, a Pensions Fund Account and Net Assets Statement are reported as separate supplementary financial statements within the Authority's Statement of Accounts.

Balance Sheet Position

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

	Balance at 31 st March 2017 £'000	Balance at 31 st March 2018 £'000
Non-current assets	67,618	69,562
Net current assets	33,822	36,744
Long term liabilities and provisions	(879,756)	(926,252)
Net Assets	(778,316)	(819,946)
Represented by:		
Usable reserves	26,552	37,076
Unusable reserves	(804,868)	(857,022)
	(778,316)	(819,946)

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

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

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

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

The Authority is a going concern due to the fact that, whilst recognising that the Authority has a negative net worth of £819.946m on its Balance Sheet, most of the 'deficit' relates to the pensions deficiency of £886.490m which must be disclosed as part of the international financial reporting standard IAS19 (Accounting for Pensions) requirements.

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

If this element is removed then the Authority has a 'real' net worth of £66.544m. The Authority also has assets worth £69.562m and cash backed reserves of £37.076m which support the view that the Authority's Balance Sheet and finances are in fact healthier than implied by the published accounts.

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

Capital Expenditure

In February 2017, the Authority approved a capital programme for 2017/2018 of £7.301m which was subsequently revised to £2.921m during the year. The Authority carried out an extensive Capital Budget Review during the year, identifying savings of £0.427m across the Programme. In addition, a decision was made to ensure that the Authority fully considers the most appropriate site and type of development in replacing and relocating the current Hebburn Community Fire Station. The estimated cost is approximately £5.250m, of which £4.250m is now expected to be incurred in 2018/2019 rather than in 2017/2018. Current expectations are that the new Fire Station development is being targeted to open in the Autumn of 2020.

Actual capital expenditure at the end of the financial year was £1.564m, financed from a combination of revenue contributions of £0.519m, deferred grant funding of £0.495m, earmarked reserves of £0.063m and capital receipts applied of £0.487m. The main reasons for the variation in spending of £1.357m have arisen due to the following:

- Expenditure on a number of projects planned for 2017/2018 of £1.280m slipped in to 2018/2019:
 - Further works required at the site of Fulwell Community Station prior to completion of sale of the site in 2018/2019;
 - Underspend on rope rescue and confined space equipment to be used to purchase additional equipment required in 2018/2019 to support the IRMP review;
 - Delays on delivery of the replacement foam and firefighting equipment;
 - Implementation of Phase one of the Integrated Data System extended in to 2018/2019;
 - Decision to use hardware for longer has delayed purchases into 2018/2019;
 - Re-schedule of the national government led Emergency Services Mobile Communications Project with subsequent re-profiling over future years;
 - Contractual issues with replacement of the BA Compressors, delaying final payments;
 - Tender exercise for the Appliance Closed Circuit Television to be undertaken in 2018/2019; and
 - Stowage still to be fitted to one of the new Transit Vans.
- Net underspend of £0.106m on the Vehicle Replacement Programme; and
- Acceleration of £0.029m from the 2018/2019 Capital Programme for purchase of smoke detectors;

Disposals

There have been no disposals during 2017/2018, although the Authority is actively progressing some asset disposals that are expected to be completed in the next financial year.

Authority's Current Borrowing and Capital Borrowing Provision

The Capital Programme report, incorporating the Prudential Indicators and the Treasury Management Strategy, was submitted to the Authority meeting on 13th February 2017, which detailed the 2017/2018 borrowing limits for the Authority. All borrowing is undertaken by the Lead Authority (Sunderland City Council) on the Authority's behalf.

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

- Authorised Limit for External Debt for 2017/2018 of £48.858 million;
- Operational Boundary for External Debt for 2017/2018 of £43.858 million.

The Lead Authority administers all of the Authority's borrowing through its Consolidated Advances and

Borrowing Pool (CABP). The above two statutorily required Prudential Indicators are monitored on a daily basis and neither limit has been exceeded during 2017/2018. The highest level of external debt incurred by the Authority during 2017/2018 was £33.806m on 1st April 2017. This includes borrowing debt of £13.219m and £20.587m in relation to the Authority's long term liabilities (consisting of its PFI Schemes commitments and finance leases) which forms part of both borrowing limits in order to comply with IFRS accounting requirements.

Private Finance Initiative (PFI)

The Authority entered into a contract on 28th March 2003 to provide facilities at six new Community Fire Stations, a Service Headquarters and a new Technical Services Centre. These PFI facilities are located on more effective sites, designed and located to meet the Authority's strategic objectives. Improved community

outcomes are being delivered through better engagement with communities through these facilities and the scheme has enabled a major redesign of service delivery. The contract expires on 2nd May 2029 when all of the facilities will become the assets of the Authority.

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

The Authority's costs of both schemes are included within its financial statements and are regularly reviewed, challenged and monitored to achieve the lowest unitary charge cost possible to the Authority.

Estates Development Plan

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

The key action points are:

- Continue to implement the findings and recommendations of a service wide Access Audit. This will ensure all our buildings and facilities comply with The Equalities Act 2010 and are accessible to all.
- Commissioned a comprehensive Stock Condition Survey (SCS). The findings of this survey will drive future capital investment and forms a key element in our Medium Term Financial Planning (MTFP).
- Completed a detailed service wide building and asset review that, when implemented, will result in the disposal/remodelling of surplus assets. This in turn will yield both capital and revenue savings.
- Continue to explore collaborative and co-location opportunities with partner agencies. To date we now have North East Ambulance Service (NEAS), Northumbria Police, Great North Air Ambulance Service, Northumbria Community Rehabilitation Company, RNLI, North of Tyne Mountain Rescue, The Princes Trust and Northumbria Blood Bikes operating from our locations.

The Authority has a Capital Developments Reserve to assist in implementing the estates development plan over the medium to long term.

Financial Statements

The Statement of Accounts shows the Authority's final accounts for 2017/2018. They have been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018' and are based on International Financial Reporting Standards (IFRS), known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2011, and the Local Government and Housing Act 1989.

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

1. **Statement of Responsibilities**

This discloses the respective responsibilities of the Authority and the Finance Officer.

2. **Movement in Reserves Statement (MiRS)**

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

3. **Comprehensive Income and Expenditure Statement**

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

4. **Balance Sheet**

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

5. **Cash Flow Statement**

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

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

The Notes to the financial statements have three significant roles. They:

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

7. **Supplementary Statements**

Firefighters' Pensions – Fund Account, Net Assets Statement and Notes

These statements summarise the transactions and the net assets relating to the Firefighters' Pension Fund, which are required to be reported separately within the Statement of Accounts for the Authority.


Dennis Napier
Finance Officer

Dated: 31st May 2018