HAMPSHIRE FIRE AND RESCUE AUTHORITY

Statement of Accounts 2016-17

Contents

Introduction

The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information so that members of the public, including electors and residents of Hampshire, Fire and Rescue Authority Members, partners, stakeholders and other interested parties can:

- Understand the overall financial position of the Authority and the outturn position for 2016/17;
- Have confidence that the public money with which the Authority has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that the financial position of the Authority is sound and secure.

The style and format of the accounts, complies with CIPFA standards and is similar to that of previous years. The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of an organisation such as Hampshire Fire and Rescue Authority are, by their nature, both technical and complex.

This Narrative Statement has been structured to help enable readers to understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The statement provides information about Hampshire, including the key issues affecting the Authority and its accounts. It also provides a summary of the financial position at 31 March 2017 and is structured as below:

- Statement from the Chairman of Hampshire Fire and Rescue Authority
- Introduction from the Chief Financial Officer
- An Introduction to Hampshire
- The Fire and Rescue Authority's Performance
- Financial Performance of the Authority 2016/17
- Corporate Risks
- Summary Position
- Where you can get further information

This is followed by an explanation of the Financial Statements, including information on changes during 2016/17.

Statement from the Chairman of Hampshire Fire and Rescue Authority

"As Chairman of the Fire and Rescue Authority, I am delighted to be able to present to you the Statement of Accounts for 2016/17. The Fire and Rescue Authority has always had a strong track record of financial management and stewardship and this continues to be evident as we progress through this period of austerity."

"The next phase of savings required to respond to reductions in Government grant are already well underway and are partly reflected in the out turn position for the Authority for 2016/17, which will contribute to balancing the budget over the medium term."

"We continue to be at the forefront of 'blue light' collaboration, opening the first joint Fire and Police Headquarters in the country and expanding our co-responding service which we provide in partnership with the South Central Ambulance Service."

"During 2016/17 our Risk Review project moved from development into implementation with the new vehicles, equipment and crewing arrangements supporting a new way of responding to incidents which we expect to improve performance but for less cost."

"The financial information contained in this narrative statement and the accounts themselves once again serve to highlight the strength and success of Hampshire Fire and Rescue Authority."

Councillor Chris Carter – Chairman of Hampshire Fire and Rescue Authority

Introduction from the Chief Financial Officer

The Statement of Accounts for 2016/17 draws to a close a further successful financial year for Hampshire Fire and Rescue Authority. Financial performance has been strong and the Authority is already benefitting from the next phase of the savings programme.

This Narrative Statement is designed to help readers better understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts themselves.

It contains background information about the Fire and Rescue Authority and outlines some of the key financial issues in areas such as revenue and capital spending, reserves and treasury management. It also provides information about the Fire Authority's performance during the year.

The accounts themselves are very complex and technical in nature, but I hope you will take the time to look through them and in particular, read the Narrative Statement which provides an excellent summary of what has happened during the financial year and outlines the financial standing of the Fire and Rescue Authority as at 31 March 2017.

If you would like more information on the accounts or have any questions on the content then contact information is contained within this Narrative Statement.

Rob Carr – Head of Finance

An Introduction to Hampshire

Hampshire is notable for housing the birthplaces of the Royal Navy, British Army and the Royal Air Force. It is bordered by Dorset to the west, Wiltshire to the north-west, Berkshire to the north, Surrey to the north-east, and West Sussex to the east. The southern boundary is the coastline of the English Channel and the Solent, facing the Isle of Wight. Hampshire is in the top ten of the largest counties by land area (covering approximately 1,400 square miles).

Hampshire Fire and Rescue Authority is a combined Fire Authority covering the whole of the geographic area of Hampshire including the two unitary authorities of Portsmouth and Southampton. The Fire Authority itself is made up of Councillors from Hampshire County Council and the two Cities.

The County also contains two national parks; the first covering the New Forest, and therefore governance of this area is carried out by a national park authority as well as the New Forest District Authority, the second the newer national park for the South Downs which covers the chalk downlands from Winchester eastwards which embraces a large number of local Authority areas across three counties, Hampshire, West and East Sussex.

Key Facts about Hampshire

There are a number of factors which affect the Authority's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Authority's financial position in both the short and medium term. Further background information about HFRA can be found at:

http://www.hantsfire.gov.uk/about-us/

Population 1,800,500 (Office for National Statistics Mid Year Estimates 2014)	728,980 households, of which 68% are owner-occupied (2011 Census)	85% of Hampshire is defined as rural and over a third of the County's area is within National Parks or Areas of Outstanding Natural Beauty
Hampshire has 80,000 businesses and a Gross Value Added of £47 billiion, making it the largest 'County area' economy in the UK	The Hampshire economy is worth approximately £44.5 billion (ONS)	Tourism is worth almost £3 billion annually to the Hampshire economy and each year Hampshire is visited by 4.6 million staying visitors and a further 48 million day visitors
There are 51 Fire Stations across Hampshire of which 13 are whole time and 38 are retained	Hampshire has 5,300 miles (8,600 kilometres) of road and 193 miles (310 kilometres) of railway track, incorporating 49 stations	The population aged 65 and over in Hampshire increased by 21% between 2001 and 2011, nearly double the national increase (11%)

Hampshire Fire and Rescue Authority provides a wide range of services which make a difference to residents' lives on a daily basis, including responding to fire incidents, attending road traffic collisions, Home Safety Visits, working with vulnerable or high risk groups to improve community safety and providing a co-responding service in partnership with South Central Ambulance Service.

Our Service Plan sets out our ambition to Make Life **Safer**, which we aim to achieve by:

- **Responding to Incidents** – We aim to continue to improve the way we respond to incidents and have effective strategies and appropriate resources and equipment in place to achieve this.
- **Creating Safer Communities** – We aim to reduce all risks across Hampshire by creating pioneering partnerships that target the most vulnerable people and places. This approach helps us to reach the wide range of societal and demographic changes that affect daily life, ensuring people are safer at home, travelling and socialising.
- **Building Community Resilience** – We will aim to enhance our communities' ability to prepare for, deal with and recover from incidents. We will work closely with partner agencies in targeted areas to assist communities and local businesses with pre-planning and education, enabling them to become more resilient to emergencies.

Our service plan for 2015-20

Our Service Plan sets out our Pathway to 2020 and how we aim to make Hampshire Fire and Rescue Authority, smarter, more efficient and relevant over the medium term, whilst at the same time responding to the Government grant reductions that have been applied across the public sector.

The Plan can be found at the link below and sets out how we intend to make the Service **Stronger** and make life **Safer** for the residents of Hampshire.

http://www.hantsfire.gov.uk/about-us/plan/

We feel that we will be a stronger organisation that makes life safer if...

Our communities…

- Feel safe and secure living and working in Hampshire
- See a professional and highly effective public service
- Trust the service to be there when they need it
- Feel public money is used effectively to make their lives safer

We aim to make ourselves Stronger by concentrating on 6 key areas:

- **Knowledge** – Using knowledge to plan and deliver better services for the public.
- **Technology** - Improving the technology we deploy to increase quality, agility and reduce cost across our business, establishing it as a driver for innovation and improvement.
- **People and Leadership** – Ensuring our people understand expectations on goals, standards and behaviour, and feel motivated and equipped to perform highly.
- **Assets and Money** - Improving the return on our physical assets and use medium-term financial planning to ensure we effectively prioritise our resources.
- **Communications and Engagement -** Developing targeted communications and engagement opportunities with our key stakeholders to improve our services.
- **Working with Partners -** Placing partnerships at the heart of all our work to deliver services across the county and over its borders

Looking towards 2020

The Authority's Medium Term Financial Plan (MTFP) sets out the strategy for balancing the budget over the next four years. Following the local government finance settlement issued in January 2016 (which set out provisional grant figures until 2019/20), together with favourable changes implemented as part of the 2017/18 budget setting process, the Authority was in the very strong position that it was able to largely balance its budgets to 2019/20 based on a strategy of:

- Full delivery of the existing Phase 2 savings programme
- Council tax increases of 1.99% each year for four years and
- Development of Phase 3 savings and income generation which would de-risk the financial plan and potentially provide additional resources for service development and annual contributions for financing the Capital Programme

The setting of the 2017/18 budget in February 2017, implemented further changes as part of the Phase 2 savings programme and increased council tax for the second year running, in line with the MTFP. The early implementation of savings, together with other favourable items such as savings in pension costs, generated a budget surplus in the year and this will be transferred to reserves to provide funding for the cost of implementing savings plans and service improvements.

A key part of the Phase 2 savings programme is the implementation of the changes arising from the Risk Review project, which makes fundamental changes to the way in which HFRS responds to incidents and the staffing and equipment that will be required on all of the stations across the county. The Risk Review has now moved into implementation under a separate major project called Service Delivery Re-Design (SDR), which is rolling out the new vehicles, equipment and revised crewing arrangements to facilitate fundamental changes to the way in which the Service responds to incidents. Further information on these changes can be found in the following report :

Service delivery redesign update

The early implementation of other savings, together with the additional income generated by council tax increases means that the implementation of the SDR can be left until later in the 4 year period to ensure that sufficient time and capacity is given to properly implement the changes and to test the effectiveness of the new arrangements as part of the implementation process.

The success of the savings programme, backed up by the significant levels of reserves available to fund new investment and transformation activity means that the Fire Authority is in a very strong financial position as it moves towards the end of the decade.

Key Facts about Hampshire Fire and Rescue Authority

All of the factors in the section above help to shape the Fire and Rescue Authority's priorities and provide a challenging environment for the organisation to operate in. Providing adequate Fire Risk cover across the County must be balanced with the efficient use of resources and the utilisation of the capacity that we have available to improve all aspects of public safety. Charged with directing the outcomes, priorities and policies of the Authority are the members of the Fire Authority who are nominated to serve on the Authority by Hampshire County Council and Southampton and Portsmouth City Councils.

During 2016/17 the Fire and Rescue Authority had 25 Members who decide the budgets and policies for the vital services provided by Hampshire Fire and Rescue Authority and the composition is as follows:

Nominating Authority	Number of Members	Composition
Hampshire County Council	19	11 Conservative, 4 Liberal Democrat, 2 UK Independence Party, 1 Labour, 1 Independent
Southampton City Council	3	2 Labour, 1 Conservative
Portsmouth City Council	3	2 Conservative, 1 Liberal Democrat
	25	

During the year, new governance arrangements were approved by the Authority that reduce the number of Authority members to 11 and made provision for one of those spaces to be filled by the Police and Crime Commissioner. These new arrangements will start in 2017/18 and further information can be found in the report below:

Governance structure - consultation

Under Hampshire Fire and Rescue Authority's Constitution, the Authority currently manages its affairs by way of a Committee system. The Chairman is appointed by the Fire and Rescue Authority and appointments to the various Committees are carried out at the Annual General Meeting each year, although again, these arrangements are being streamlined as part of the governance review.

Supporting the work of the Fire Authority Members are the Directors which comprise 6 Chief Officers and is led by the Chief Fire Officer. Directors work with, and for, the Authority to maximise the capacity and effectiveness of the organisation in order to protect and build strong, sustainable public services that improve the safety of people across Hampshire. In addition, there is a partnership arrangement with the Isle of Wight Council whereby Hampshire provides senior leadership to the Fire Service albeit that it remains part of the Isle of Wight Council democratic and financial set up. Work has been started to look at the potential option of combining the two services that will be presented to both authorities in the current financial year.

The current make up of the Directors Team is detailed below. Note 22 shows the further detail of people that have been in a strategic post during 2016/17.

- Chief Officer – Dave Curry
- Director of Service Delivery and Deputy Chief Officer – Neil Odin
- Director of Professional Services – Geoff Howsego
- Assistant Chief Officer (Head of Response) – Andy Bowers
- Assistant Chief Officer (Head of Community Safety) – Shantha Dickinson
- Director of Human Resources and Workforce Development – Jenny Lewis
- Director of Finance – Rob Carr

At the end of 2016/17, the Fire and Rescue Authority employed a Full Time Equivalent (FTE) total of 1,498 staff, which takes account of those staff that work part-time. There has been a general trend of reducing employee numbers over the last 4 years across all categories of staff as a result of the savings and transformation programs that have been in place, however, the increase in non-uniformed staff reflects additional activity across the service on managing and implementing a wide portfolio of change plans. The breakdown between staff groups is shown in the following table:

March 2016	Full-time equivalent employees	March 2017
729	Whole time Fire Fighters	715
502	Retained Duty System Fire Fighters	499
34	Control Room	33
233	Green book (non-uniformed staff)	251
1,498		**1,498**

The Fire and Rescue Authority's Non-Financial Performance

In Hampshire, we are proud of our strong record of delivering excellent services that provide value for money. Over the last few years we have risen to the challenge of national spending cuts with an ambitious program of savings and modernisation, while protecting frontline services and ensuring that we continue to keep people safe across the County.

The Fire and Rescue Authority's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to the Performance, Review and Scrutiny Committee. A number of key performance measures are recorded that seek to assess how well we are doing in the key areas covered by our Service Plan.

A summary of the key indicators at the end of 2016/17 is shown in the following tables:

Making life safer

	2015/16	2016/17	Variance
Fire Fatalities	9	3	-67%
Fire Casualties	47	48	2%
Building Fires Confined to Room of Origin	85.7%	85.7%	0%

Responding to incidents

	2015/2016	2016/2017	Variance
All Fires	3,778	3,875	3%
False Alarms	5,737	6,615	15%
Special Service Calls	2,130	2,822	32%
Co-Responder Calls	12,044	9,307	-23%
Critical Response (8mins/80%)	66%	64%	-3%

Creating safer communities

	2015/2016	2016/2017	Variance
Accidental Dwelling Fires	783	778	-1%
Deliberate Primary Fires	239	283	18%
Deliberate Secondary Fires	724	803	11%
Fires in regulated non-domestic properties	272	248	-9%

Some of the indicators show an improvement, however there has been a marginal deterioration in Critical Responses, although the Service's ability to respond within the target of 8 minutes is obviously dependent on a large number of factors such as location of the fire, time of day, traffic conditions and weather etc. Further information on the performance of the Fire Authority can be found at the following link:

July Fire Authority Agenda

The Fire and Rescue Authority's Financial Performance

Revenue Position

The Authority continued its policy of implementing savings ahead of need and this coupled with favorable changes in the budget and the first council tax increase for a number of years meant that once again Hampshire was able to set a surplus budget in 2016/17.

Most of the Fire and Rescue Authority's income comes from Government grants, council tax and business rates. Small amounts of fees and charges contribute to the cost of some services and interest is earned on day-to-day cash balances. Government capital grants and external contributions applied to finance capital expenditure have been excluded from the following table. The proportion of the Authority's income obtained from these sources is as follows:

	2015/16	2016/17
	%	%
Council tax	53	55
Business rates	19	19
General Government grants	22	19
Fees, charges and interest	4	5
Specific Government grants	2	2
	100	**100**

Revenue expenses relate to spending on the day to day operations of the Fire and Rescue Authority. Due to the nature of the services that the Fire and Rescue Authority provides, much of the cost of services relate to staffing. Other running expenses relate mainly to the cost of vehicles and property and the cost of borrowing money for financing capital expenditure. The breakdown of these costs is shown in the following table:

	2015/16	2016/17
	%	%
Employee benefit expenses	72	75
Other service expenses	28	25
	100	**100**

The Fire and Rescue Authority has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2016/17, overall net expenditure was over £2.1 million lower than budgeted mainly as a result of savings in Fire Fighter's staff costs and the delivery of elements of the next phase of savings. Income from partners and from interest on cash balances continue to make contributions above the budgeted level and there were savings in the costs of pension contributions during the year as a result of the move to the new 2015 Fire Fighter's Career Average Revalued Earnings (CARE) scheme. This latter position has now been reflected in the 2017/18 budget position.

This underspend will be transferred to balances to provide investment funding for service improvement and transformation including a significant proportion that will be required to implement the SDR project highlighted above. The main components of the 2016/17 budget and actual income and expenditure are set out below:

	Budget £'000	Actual £'000	Variance over / (under) spend £'000
Service Delivery	46,524	43,929	(2,595)
Professional Services	18,174	17,163	(1,011)
Pensions	991	879	(112)
Other items not allocated to services	593	632	39
Net cost of Fire and Rescue Services	**66,282**	**62,603**	**(3,679)**
Minimum Revenue Provision	504	504	0
Interest	229	124	(105)
Revenue contributions to capital outlay	4,423	6,133	1,710
Planned draw from reserves	(6,445)	(6,469)	(24)
Budget requirement	**(64,993)**	**(65,037)**	**(44)**
Surplus transferred to transformation reserve	**0**	**(2,142)**	**(2,142)**

Capital

In 2016/17 the Fire and Rescue Authority spent just over £11 million on capital projects, which was lower than originally planned. This was mainly as a result of slippage in a number of schemes, together with a planned delay in the purchase of new vehicles due to changes in the type of vehicles to be used within the Service Delivery Re-design project. Key projects in the year were:

	£'000
Basingstoke Fire Station	4,513
Vehicle purchases	3,103
Estates Transformation	2,517
Other schemes including Equipment and Systems purchases	962

The total capital expenditure of £11.095 million (excluding leased vehicles) was financed in the following way :

	£'000
Capital grants	1,772
Capital receipts	2,914
Reserves	1,808
Revenue contributions	4,324
Other contributions	277
	11,095

The Authority may borrow on a day-to-day basis from internal resources, such as the revenue account and earmarked reserve balances to finance capital expenditure. Total external debt at 31 March 2017 was the same as the previous year at £8.35 million and investments decreased by £10.7 million to £26.7 million. Investment levels can fluctuate during the year as a result of changing cashflows, but part of the reduction in 2016/17 will relate to the use of previously held funds to finance the capital program.

Further information was provided in the outturn report presented to the Fire Authority in July:

July Fire Authority agenda

Treasury Management and Prudential Indicators

Treasury Management is concerned with managing the Authority's long term borrowing and lending activity and managing cash flows on a day to day basis to ensure that sufficient funding exists to pay staff and suppliers throughout the year.

The Fire and Rescue Authority's treasury management policy requires an annual report to the Authority on the exercise of the treasury management function and the Prudential Code for Capital Finance in Local Authorities requires that the Fire and Rescue Authority reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy.

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Chief Financial Officer to make decisions on the management of the Authority's debt and investment of surplus funds.

All treasury activity has complied with the Fire and Rescue Authority's Treasury Management Strategy and Investment Strategy for 2016/17, and all relevant statute, guidance and accounting standards. In addition the Fire and Rescue Authority has complied with all of the prudential indicators set in its Treasury Management Strategy.

Further information is provided in Appendix 4 to the outturn report for 2016/17 linked above.

Pension Fund Liability

The estimated future pension liability of the Authority has increased by £130.5m. This is mainly due to changes in the financial assumptions used to calculate the present value of liabilities, such as a lower discount rate being used this year to reflect the current rate of return on corporate bonds.

This is not a cause of concern for the Authority due to the Local Government Pension Scheme actuary adjusting contributions gradually in order to fully fund the scheme within 19 years and the Fire Fighters and new Fire Fighters pension schemes being fully funded by central government.

Reserves and Balances

The Fire and Rescue Authority maintains a number of useable reserves, as detailed in the Balance Sheet.

At the end of the 2016/17 financial year the Fire and Rescue Authority's earmarked reserves together with the general fund balance stand at just over £31 million - a decrease of £9m on the previous year, mainly as a result of funding the capital program during the year.

The table below summarises the total level of reserves and balances that the Fire and Rescue Authority holds and compares this to the position reported at the end of 2015/16:

	Balance 31/03/2016 £'000	Balance 31/03/2017 £'000
Transformation Reserve	8,767	4,018
Capital Payments Reserve	23,590	23,762
Earmarked Underspends Reserve	107	236
Revenue Grants Reserve	430	551
Capital Grants Reserve	1,759	0
Capital Receipts	2,914	0
General Balance	2,500	2,500
Total Reserves and Balances	**40,067**	**31,067**

The General Fund Balance is not earmarked for any specific purpose, but represents a minimum level of balances recommended by the Chief Finance Officer to provide a buffer against any significant unexpected expenditure during the year.

Corporate Risks

The Authority has an embedded process to manage risks and assist the achievement of its objectives, alongside national and local performance targets. The Corporate Risk Register plays an integral role to support production of the Service Plan and is subject to annual review by the Standards and Governance Committee. Directors and the Service Management Team oversee the management of risk in the Authority and continually assess risks as part of their day to day activities and in particular for major projects under their control.

Risk management arrangements are detailed in the Annual Governance Statement. The Authority currently has a number of significant projects covering a wide range of services, most of which are targeted at saving money over the medium term, which still remains one of the biggest risks to the effective operation of the service. These projects can involve working in partnership with others, many of which require considerable levels of one-off and recurrent funding from the Fire and Rescue Authority. Specific risks relating to partnerships and projects have been incorporated into the Annual Governance statement where appropriate.

The impact of the current economic climate on the Fire and Rescue Authority is taken into account when the Fire and Rescue Authority sets its budget, although in general terms, there is not a significant link between the two items. Any significant movements and events in the year were reported to Finance and General Purposes Committee. Monitoring of spend against the budget takes place throughout the year and is reported to Senior Management monthly and to Finance and General Purposes Committee on a quarterly basis. In the future all reporting will be direct to the Full Authority under the new governance arrangements.

Summary Position

It is clear that the Fire and Rescue Authority's financial and non financial performance in 2016/17 continues to be good. The revenue outturn with a £2.1m under spend is in line with expectations and allows a contribution to reserves in line with the Medium Term Financial Plan. Capital spend has been broadly in line with expectations allowing for the fact that elements of the programme were planned to be delayed. The Authority has sufficient reserves and balances to provide financial resilience for 2017/18 and future years.

In 2016/17, the Authority has faced and dealt successfully with significant change. This trend will continue and indeed accelerate as grant reductions deepen and the pace of change increases, but the Authority is well placed to adapt to the challenges and to take advantage of the opportunities offered. There are risks as highlighted above, but there are well established and robust risk management processes in place and, together with robust financial management and reporting, the Authority is in a very strong position as it moves into 2017/18.

Changes to the accounts

Expenditure and funding analysis

The Code of Practice 2016/17 introduced a requirement to present an Expenditure and Funding Analysis (EFA) as a replacement for the previous Service Reporting Code of Practice format. The EFA shows how annual expenditure is used and funded from resources (government grants, rents, council tax precept and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Whilst the EFA is not a main accounting statement, it provides an important analysis for the reader of the accounts. The Code requires the EFA to be given due prominence in the financial statements in accordance with the needs of the user. As a link between the budget (i.e. management accounts) and the statutory accounts (i.e. the financial accounts), the EFA is presented before the main statements in this document.

Summary of Statement of Accounts

The accounts for 2016/17 are set out from page 16.

They consist of the following:

- Expenditure and Funding Analysis – this disclosure note compares the net expenditure as funded by taxation with the accounting cost of providing services as presented in the Comprehensive Income and Expenditure Statement.
- Comprehensive Income and Expenditure Statement – shows the accounting cost in the year of providing services measured in accordance with international accounting standards rather than on the basis of the costs that are required to be financed from taxation.
- Movement in reserves statement – analyses the change in net worth between the general fund, other usable reserves and unusable reserves.
- Balance Sheet – this sets out the financial position on 31 March 2017.
- Cash flow statement - this summarises cash coming in or going out from transactions with others for revenue and capital purposes.
- Statement of accounting policies – sets out the policies adopted by the Authority in preparing the Accounts. They are largely determined by the Code of Practice.
- Pension Fund Accounts – reflects the payments made to pensioners and those retiring, transfers between pension funds by employees joining and leaving the Authority and employer contributions. These costs are met by a specific Government grant.

- Statement of responsibilities for the statement of accounts – records the respective responsibilities of the Authority, Treasurer and Chairman of the Authority.
- The Independent Auditor's Report – giving an opinion on the financial statements
- Annual Governance Statement – outlining the arrangements for, and effectiveness of, internal governance arrangements.

Relationship between Accounting Statements

The different accounting statements are linked in several important ways. The Expenditure and Funding Analysis compares the net expenditure as funded by taxation with the accounting cost of providing services as presented in the Comprehensive Income and Expenditure Statement.

The Comprehensive Income and Expenditure Statement balance is reconciled in the Movement in Reserves Statement to the actual movement in the general fund cash reserve.

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

The Cash Flow statement reconciles to the balance on the Comprehensive Income and Expenditure account for the year and the movement in Balance Sheet liquid assets and liabilities.

Where you can get further information

You can get more information about the accounts from the Head of Finance, Hampshire Fire and Rescue Authority, Fire and Police Headquarters, Eastleigh, SO50 9SJ, Telephone: (01962) 847533, e-mail: budget@hants.gov.uk.

Expenditure and Funding Analysis

The Expenditure and Funding Analysis is a new requirement of the 2016/17 Code of Practice for Local Authority Accounting and shows how annual expenditure is used and funded from resources (government grants, rents, council tax precept and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Whilst the EFA is not a main accounting statement, it provides an important analysis for the reader of the accounts. As such, the Code requires the EFA to be given due prominence in the financial statements in accordance with the needs of the user. As a link between the budget (i.e. management accounts) and the statutory accounts (i.e. the financial accounts), the EFA is presented before the main statements in this document.

	2015/16				2016/17	
Net Expenditure chargeable to the General Fund Balance	Adjustments between accounting and funding basis (see note 19)	Net expenditure in the CIES		Net Expenditure chargeable to the General Fund Balance	Adjustments between accounting and funding basis (see note 19)	Net expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
43,774	8,491	52,265	Service Delivery	43,929	10,497	54,426
15,556	1,889	17,445	Professional Services	17,163	2,421	19,584
758	(210)	548	Pensions	879	(100)	779
285	2,020	2,305	Other items not allocated to services	632	(113)	519
60,373	12,190	72,563	**Net cost of Fire and Rescue Services**	62,603	12,705	75,308
(65,514)	15,528	(49,986)	Other income and expenditure	(58,276)	12,076	(46,200)
(5,141)	27,718	22,577	**(Surplus) or deficit on the provision of services**	4,327	24,781	29,108
(30,253)			**Opening General Fund (including earmarked reserves) balance at 1 April**	(35,394)		
(5,141)			Plus (surplus)/deficit on provision of services	4,327		
(35,394)			**Closing General Fund (including earmarked reserves) balance at 31 March**	(31,067)		

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 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. From 2016/17, services are aligned with the operational structure of the Authority. Previously, total cost was analysed in accordance with CIPFA definitions of services.

2015/16 Net Expenditure chargeable to the General Fund Balance £'000	2015/16 Gross expenditure £'000	2015/16 Gross Income £'000		2016/17 Net Expenditure chargeable to the General Fund Balance £'000	2016/17 Gross expenditure £'000	2016/17 Gross Income £'000	*Note*
52,265	54,546	(2,281)	Service Delivery	54,426	57,133	(2,707)	
17,445	18,827	(1,382)	Professional Services	19,584	21,026	(1,442)	
548	548	0	Pensions	779	801	(22)	
70,258	73,921	(3,663)	**Fire and Rescue Services**	74,789	78,960	(4,171)	
2,305	2,305		Other items not allocated to services	519	519	0	
72,563	76,226	(3,663)	**Net cost of Fire and Rescue Services**	75,308	79,479	(4,171)	
			Other income and expenditure:-				
74	74	0	Other operating income and expenditure	10	10	0	*9*
21,719	23,224	(1,505)	Financing and investment income and expenditure	19,219	19,586	(367)	*10*
(71,779)	0	(71,779)	Taxation and non-specific grant income	(65,429)	0	(65,429)	
(49,986)	23,298	(73,284)	**Total other income and expenditure**	(46,200)	19,596	(65,796)	
22,577	**99,524**	**(76,947)**	**(Surplus)/deficit on the provision of services**	29,108	**99,075**	**(69,967)**	
(1,411)			(Surplus) or deficit on revaluation of PPE assets	(12,373)			
(115)			(Surplus) or deficit on revaluation of available for sale financial assets	(143)			
(111,038)			Remeasurement of the net defined pension benefit liability/(asset)	107,350			
(112,564)			**Other Comprehensive (Income)/Expenditure**	94,834			
(89,987)			**Total Comprehensive (Income)/Expenditure**	123,942			

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and other reserves. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The General Fund Balance includes earmarked revenue reserves held for specific purposes.

	General Fund Balance*	Capital receipts reserve	Capital grants unapplied reserve	Total Usable Reserves	Total Unusable Reserves	Total Reserves	*Note*
				8	*18*		
	£'000	£'000	£'000	£'000	£'000	£'000	
Balance as at 31 March 2015	**(30,253)**	**(3,136)**	**(1,138)**	**(34,527)**	**554,996**	**520,469**	
Movements During 2015/16:							
Total Comprehensive Income and Expenditure	22,577	0	0	**22,577**	(112,564)	**(89,987)**	
Adjustments between accounting basis and funding basis under regulations	(27,718)	222	(621)	**(28,117)**	28,117	**0**	*7*
Net (Increase)/Decrease in year	**(5,141)**	**222**	**(621)**	**(5,540)**	**(84,447)**	**(89,987)**	
Balance as at 31 March 2016	**(35,394)**	**(2,914)**	**(1,759)**	**(40,067)**	**470,549**	**430,482**	
Movements During 2016/17:							
Total Comprehensive Income and Expenditure	29,108	0	0	29,108	94,834	123,942	
Adjustments between accounting basis and funding basis under regulations	(24,781)	2,914	1,759	**(20,108)**	20,108	**0**	*7*
Net (Increase)/Decrease in year	**4,327**	**2,914**	**1,759**	**9,000**	**114,942**	**123,942**	
Balance as at 31 March 2017	**(31,067)**	**0**	**0**	**(31,067)**	**585,491**	**554,424**	

* includes earmarked reserves

Balance Sheet

The balance sheet shows the value of assets and liabilities recognised by the Authority as at 31 March. The assets less liabilities are matched by reserves. Usable reserves can be used 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 can only be used to fund capital expenditure). Unusable reserves include those that hold unrealised gains and losses (for example the revaluation reserve, where amounts would only become available to provide services if the assets are sold) and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 2016		31 March 2017	*Note*
£'000		**£'000**	
112,664	Property, plant and equipment	127,387	*11*
640	Investment property	670	*16*
7,619	Long term investments	11,900	*12.12*
47	Long term debtors	11	*12.17*
120,970	**Long term assets**	**139,968**	
1,200	Assets held for sale	1,200	*15*
928	Inventories	962	*14*
7,347	Short term debtors	11,484	*12.20*
19,946	Short term investments	10,450	*12.15*
9,832	Cash and cash equivalents	4,210	*12.23*
39,253	**Current assets**	**28,306**	
(7,939)	Short term creditors	(9,575)	*12.10*
(130)	Short term borrowing	(65)	*12.8*
(8,069)	**Current liabilities**	**(9,640)**	
31,184	**Net current assets**	**18,666**	
(573,020)	Net liabilities relating to defined benefit pension schemes	(703,530)	*30.4/30.6*
(32)	Long term creditors	0	*12.7*
(1,234)	Provisions	(1,178)	*17*
(8,350)	Long term borrowing	(8,350)	*12.7/12.9*
(582,636)	**Long Term Liabilities**	**(713,058)**	
(430,482)	**Net Liabilities**	**(554,424)**	
	Financed by:		
	Usable reserves		
(2,500)	Revenue account	(2,500)	*8*
(32,464)	Earmarked reserves	(28,016)	*8*
(2,914)	Usable capital receipts reserve	0	*8*
(1,759)	Capital grants unapplied reserve	0	*8*
(430)	Revenue grants unapplied reserve	(551)	*8*
(40,067)	**Total usable reserves**	**(31,067)**	
470,549	**Unusable reserves**	**585,491**	*18*
430,482	**Total reserves**	**554,424**	

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made 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.

2015/16 £'000		2016/17 £'000	*Note*
22,577	Net (surplus) or deficit on provision of services	29,108	*CIES*
(31,216)	Adjustments to net surplus or deficit on the provision of services for non cash movements	(28,397)	*31.1*
3,864	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14	*31.2*
(4,775)	**Net cash (inflow)/outflow from Operating Activities**	**725**	
4,014	Investing Activities	4,832	*31.4*
92	Financing Activities	65	*31.5*
(669)	**Net (increase)/decrease in cash and cash equivalents**	**5,622**	
(9,163)	Cash and cash equivalents at the beginning of the reporting period	(9,832)	
(9,832)	**Cash and cash equivalents at the end of the reporting period**	**(4,210)**	

Contents

Notes to the core financial statements

1 Accounting policies

General principles

1.1 The Statement of Accounts summarises the Authority's transactions for the relevant financial year and its position at the relevant year end of 31 March. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which is based on International Financial Reporting Standards (IFRS) and the Best Value Accounting Code of Practice for the relevant year.

1.2 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 of income and expenditure

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

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Employee benefits, including pension benefits are accounted for as they are earned.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

1.4 Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Cash and cash equivalents

1.5 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice on the same day. Cash equivalents are investments that mature the same day as the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.6 In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

Exceptional items

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

Prior period adjustments, changes in accounting policies and estimates and errors

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

1.9 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.

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

Employee benefits

1.11 Employee benefits comprise those payable during employment, on termination of employment and post employment:

Benefits Payable During Employment

1.12 Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual would be made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year if it proved to be material. The accrual would be made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual would be charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

1.13 Analysis has proven that this is currently immaterial so no adjustment is made.

Termination Benefits

1.14 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 and are charged on an accruals basis to the cost of services in the Comprehensive Income and Expenditure Statement when the

Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

1.15 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 charges for pension enhancement termination benefits and replace them with a charge for the actual amount payable to the former employee and the pension fund.

Post Employment Benefits

1.16 Employees of the Authority are members of a number of separate pension schemes:

- The 1992 Firefighters' Pension Scheme (FPS 1992) (closed to new members on 5 April 2006)
- The 2006 New Firefighters' Pension Scheme 2006 (NFPS 2006) including retained firefighters (open to new members from 6 April 2006 until end of March 2015)
- the 2015 Firefighters' Pension Scheme (FPS 2015) for firefighters (open to new members from 1 April 2015)
- the Modified 2006 Firefighters' Pension Scheme (MNFPS 2006) for retained firefighters (closed to new members)
- The Local Government Pensions Scheme, administered by Hampshire County Council (LGPS)

1.17 All schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority where:

1.18 The liabilities attributable to the Authority are included in the Authority's Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).

1.19 Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.

1.20 The assets of the LGPS pension fund attributable to the Authority are included in the Authority's Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

1.21 The change in the net pensions liability is analysed into five components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost (including curtailments) – the increase in liabilities arising from current year decisions which effect years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of other costs

- financing cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Actuarial gains and losses – These are now analysed into three different groups:
  - Gains / losses due to a change in financial assumptions
  - Gains / losses due to a change in demographic assumptions
  - Gains / losses due to liability experience

  These show the changes in pension liabilities that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are debited to the pensions reserve.
- Contributions paid to the Hampshire County Council pension fund and pension fund account – cash paid as employer's contributions to the LGPS pension fund and firefighter schemes pension fund account in settlement of liabilities; not accounted for as an expense.

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

Discretionary benefits

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

Events after the balance sheet date

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

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

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

Financial instruments

Financial liabilities

1.26 Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

1.27 The Authority's long term borrowing is mainly with the Public Works Loan Board. For the borrowings that the Authority has this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial assets

1.28 Financial assets are classified into two types:

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

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

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

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments –net present value;

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

1.32 Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.33 If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

1.34 Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Fair Value Measurement

1.35 The Authority measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

1.36 The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

1.37 When measuring the fair value of a non-financial asset, the Authority takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

1.38 The Authority uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets and liabilities:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Fire Authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

Government grants and contributions

1.39 Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that the Authority will comply with the conditions attached to the payments, and the grants or contributions will be received.

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

1.41 Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

1.42 Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.43 Where revenue grants are credited to the Comprehensive Income and Expenditure Statement but are yet to be used, they are transferred to an earmarked reserve in the Movement in Reserves Statement. Once used in subsequent years, they are transferred to the General Fund to fund the revenue expenditure.

Intangible assets

1.44 Intangible assets do not have physical substance but are identifiable and controlled by the Authority and bring benefits to the Authority for more than one year. Typical examples include software licences and internally developed websites developed to deliver services rather than information about services. The Authority does not have any material intangible assets. Capital expenditure on immaterial intangible assets is classified as furniture and equipment.

Inventories and long term contracts

1.45 Inventories are included in the Balance Sheet at latest procured cost as this is not materially different from the recommended practice of carrying them at the lower of cost or net realisable value. Long term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year. The cost of capital schemes that are in progress at the date of the balance sheet are included as Assets Under Construction within Property, Plant and Equipment.

Investment properties

1.46 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between separate and knowledgeable parties. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

1.47 Material rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Leases

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

1.49 Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

1.50 The Authority as a lessee:

- Finance Leases - Where the Authority leases a material asset under a finance lease (such as the front-line appliances) it is recognised in the accounts as if it were the Authority's asset. The arrangement is treated as borrowing and rentals payable are treated partly as capital expenditure (for the principal element) and partly as revenue expenditure (for the interest element).
- Operating Leases - Where the Authority leases an asset under an operating lease (such as support vehicles) the asset is not recognised in the balance sheet. Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense on a straight line basis.

1.51 The Authority as a lessor:

- Finance leases - Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. A gain, representing the Authority's net investment in the lease, is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet. The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

- Operating Leases - Where the Authority grants an operating lease on an asset it is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease.

Overheads and support services

1.52 The costs of overheads and support services were previously charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). With the introduction of the Expenditure and Funding Analysis, overheads and support service costs are charged to other services only where these are reported to key decision makers during the year. The majority are shown within Professional Services.

Property, plant and equipment

1.53 Assets that have physical substance and are held for use in the provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

Recognition

1.54 Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment assets is capitalised on an accruals basis, provided that it benefits the Authority and the services that it provides are for more than one financial year. Spending on IT assets and intangible assets (such as software licences) typically yields benefits for a period of less than five years. Such expenditure is capitalised only if it yields benefits of five years or more which is not in accordance with recommended practice. This does not have a material effect in the accounts. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

Measurement

1.55 PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Land and Buildings are measured at fair value. For land and buildings this means Existing Use Value (EUV) for non-specialised properties or Depreciated Replacement Cost (DRC) for specialised properties such as fire stations.
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the fair value).
- Assets under construction are measured by historic cost
- Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation loss previously charged to a service.]

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

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

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

Impairment

1.58 Decreases in value (due to either physical impairment or market prices) are either charged to the Asset Revaluation Reserve (to the extent that it has any balance relating to the specific asset) or to the relevant service area within the Comprehensive Income and Expenditure Statement.

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

1.60 However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Depreciation

1.61 Depreciation is provided for on all PPE assets with a determinable and finite life by allocating the value of the asset in the Balance Sheet over their useful lives. An exception is made for assets without finite lives (e.g. land) assets that are not yet available for use (e.g. assets under construction) and assets held for sale.

1.62 The accounting standard IAS16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, where parts of the item are individually not significant and there are varying expectations for these parts, approximation techniques may be necessary to depreciate them in a manner that faithfully represents the consumption pattern and/or useful life of its parts. For building assets, the Authority uses a weighted average of all components rather than depreciating components separately. The difference in the depreciation calculated is not material.

1.63 Depreciation commences in the year after the year of acquisition and a full year's depreciation is charged in the year of disposal, except for vehicles disposed of in the first six months of a financial year when no depreciation is charged in the final period. Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer. The useful life of a building is the weighted average of all its components. When one or more components are replaced or enhanced incurring capital expenditure in excess of £350,000, all assets on the site are revalued and the useful life of each asset is reassessed to ensure an appropriate rate of depreciation. Replaced components are derecognised by disposing of their gross book value and accumulated depreciation.
- Furniture and equipment - 10 years.
- Vehicles - between five and 10 years.

1.64 Depreciation is charged to the relevant revenue service area within the Comprehensive Income and Expenditure Statement. However, depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

1.65 Where assets have been re-valued, the revaluation gains held in the Asset Revaluation Reserve are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged, based on their historic cost, being transferred each year from the Asset Revaluation Reserve to the Capital Adjustment Account.

Disposals and assets held for sale

1.66 When a material PPE asset is to be disposed of, and meets all of the criteria of an asset held for sale, it is reclassified as Assets Held for Sale. If the carrying amount at the time of reclassification is higher than the fair value less costs to sell the asset, then the asset held for sale will be impaired. This impairment is charged to other costs. Assets that are being abandoned or scrapped are written out without being reclassified.

1.67 When the asset is disposed of, or decommissioned, the carrying value of the asset is written out to the Other Operating Income and Expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Any revaluation gains accumulated for the asset in the Asset Revaluation Reserve are written out to the Capital Adjustment Account by way of a transfer between the accounts.

1.68 Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in Reserves Statement and then can only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement).

Heritage Assets

1.69 A heritage asset is one with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. They are intended to be preserved for future generations.

1.70 The Authority will only value and include in the financial statements such assets where the cost in measuring them would be proportionate to the benefit received by the readers of these financial statements.

Provisions

1.71 Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

1.72 Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

1.73 When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that payments will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.

Contingent liabilities

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

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

Contingent assets

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

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

Reserves

1.78 The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance.

1.79 When expenditure to be financed from a reserve is incurred, it is charged to the appropriate heading within the Comprehensive Income and Expenditure Statement in that year and is included in the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

1.80 Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

Revenue expenditure funded from capital under statute

1.81 Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

1.82 Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.83 An example of this type of expenditure is smoke detectors which are fitted into individual's homes and therefore do not add to the value of the Authority's assets.

VAT

1.84 VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Redemption of debt

1.85 The Authority's borrowing for capital purposes is determined by the Authority each year in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is known as the Capital Financing Requirement which is derived from the opening balance sheet. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 which came into force on 31 March 2008 and affect 2007/08 and subsequent years require the Authority to make provision for the redemption of debt. The Authority has approved the policy that in accordance with requirement a minimum revenue provision is put aside from revenue which will be equal to 4% of the capital financing requirement for capital purposes at the start of the financial year. For unsupported borrowing incurred after 1 April 2008, minimum revenue provision is made on a basis to reflect the life of the assets financed.

Interests in Companies and Other Entities

1.86 The Authority reviews their collaborative arrangements on an annual basis and will account for these accordingly or disclose their material interests in other entities where they exist.

1.87 Disclosures of material involvement with other entities are provided under note 26.

1.88 Under IFRS10 the Authority is required to produce consolidated group accounts as it has sole ownership and therefore control over a company '3SFire Ltd'. However, as permitted the Authority will not produce group accounts until their interest in the Company becomes material.

2 Accounting Standards Issued, Not Adopted

2.1 The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

2.2 The additional disclosures that will be required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are:

- Amendment to the reporting of pension fund scheme transaction costs;
- Amendment to the reporting of pension fund investment concentration

2.3 These changes relate to pension fund accounting disclosures and will not have a material impact upon the financial statements of the Fire Authority.

3 Critical judgements in applying accounting policies

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

- There is a high degree of uncertainty about future levels of funding for local government. The Authority has made decisions as to how much it should be adding to both the capital payments and transformation reserves in order to help minimise the impact of reduced funding.
- The Authority has made judgements on whether its vehicle lease arrangements are operating leases or finance leases. These judgements are based on an assessment as to whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are that front line appliances are finance leases and support vehicles remain as operational leases. The accounting treatment for operating and finance leases is significantly different but would have a significant effect on the accounts if any new lease entered into were of an extremely high value.

- Judgements have been made on whether any contracts for services include embedded leases. None have been identified.
- Judgements about the likelihood of pending and potential liabilities have been made and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

3.2 The Authority has made certain judgements about how to classify their partnership working. Not all partnership working has been deemed to meet the definition of a collaborative arrangement.

3.3 The following arrangements have been deemed outside the scope of group accounts, but due to the Authority having contractual rights and obligations and rights to assets and liabilities arising from their partnership agreements the transactions associated with the collaborative arrangement are included in the authority's accounts.

- Network Fire Control Services Partnership
- South Central Ambulance Service (SCAS) Co-responder scheme.
- Joint working with Hampshire County Council and Hampshire Constabulary

3.4 In the case of 3SFire Ltd they have been judged to be a subsidiary of the Authority and therefore group accounts will be required when their turnover becomes material. However, for 2016/17 this has been judged immaterial as their turnover is less than 1% of the Authority's total income.

4 Assumptions made about the future and other major sources of estimation uncertainty

4.1 The Statement of Accounts contains estimated figures on the Authority's net liability to pay pensions that are based on a number of complex assumptions made by the scheme's actuaries about things such as retirement ages, mortality rates, rate at which salaries will increase and expected returns on pension fund assets. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with complete certainty, actual results could be different from the assumptions and estimates. Sensitivity analysis to these assumptions is included in note 30.18.

4.2 Since the introduction of Business Rates Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier financial years in their proportionate share. Therefore, a provision has been recognised this year for the best estimates as provided by the district, borough and unitary authorities in Hampshire of the amount that businesses have been overcharged up to 31 March 2017. In most cases the estimates have been based on the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2017.

5 Material Items of income and expense

5.1 There were no individually material items of income or expenditure in 2016/17.

6 Events after the balance sheet date

6.1 The Statement of Accounts was authorised for issue by the Chief Financial Officer on 5 September 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes would have been adjusted in all material respects to reflect the impact of this information.

7 Adjustments between accounting basis and funding basis under regulations

7.1 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:

2015/16	Usable Reserves General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Adjustments to Revenue Resources				
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:				
* Pensions costs transferred to (or from) the Pensions Reserve	(26,888)			26,888
* Financial instruments (transferred to the Financial Instruments Adjustments Account)				
* Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(467)			467
* Holiday pay (transferred to the Accumulated Absences Reserve)	0			0
* Capital grants and contributions unapplied (transfers to capital grants applied)	621		(621)	
* Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)	0			0
* Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(7,081)			7,081
Total Adjustments to Revenue Resources	(33,815)	0	(621)	34,436
Adjustments between Revenue and Capital Resources				
* Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	0		
* Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	0		
* Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	624			(624)
* Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	160			(160)
Total Adjustments between Revenue and Capital Resources	784	0	0	(784)
Adjustments to Capital Resources				
* Use of the Capital Receipts Reserve to finance capital expenditure		222		(222)
* Application of capital grants to finance capital expenditure	5,313			(5,313)
* Cash payments in relation to deferred capital receipts				
Total Adjustments to Capital Resources	5,313	222	0	(5,535)
Total Adjustments	(27,718)	222	(621)	28,117

2016/17	Usable Reserves General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Adjustments to Revenue Resources				
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:				
* Pensions costs transferred to (or from) the Pensions Reserve	(23,160)			23,160
* Financial instruments (transferred to the Financial Instruments Adjustments Account)				
* Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	101			(101)
* Holiday pay (transferred to the Accumulated Absences Reserve)	0			0
* Capital grants and contributions unapplied (transfers to capital grants applied)	(1,759)		1,759	
* Equal pay settlements (transferred to the Unequal Pay/Back Pay Account)	0			0
* Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	(8,715)			8,715
Total Adjustments to Revenue Resources	(33,533)	0	1,759	31,774
Adjustments between Revenue and Capital Resources				
* Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	0		
* Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	0		
* Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	570			(570)
* Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	6,132			(6,132)
Total Adjustments between Revenue and Capital Resources	6,702	0	0	(6,702)
Adjustments to Capital Resources				
* Use of the Capital Receipts Reserve to finance capital expenditure		2,914		(2,914)
* Application of capital grants to finance capital expenditure	2,050			(2,050)
* Cash payments in relation to deferred capital receipts				
Total Adjustments to Capital Resources	2,050	2,914	0	(4,964)
Total Adjustments	**(24,781)**	**2,914**	**1,759**	**20,108**

8 Transfer to/from Usable Reserves

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. The table below sets out the opening and closing balance of each reserve.

	Balance 1 April 2015 £'000	Movement in 2015/16 £'000	Balance 31 March 2016 £'000	Movement in 2016/17 £'000	Balance 31 March 2017 £'000	note
Revenue Reserves						
A. General Fund Balance	**(2,500)**	**0**	**(2,500)**	**0**	**(2,500)**	
B. Earmarked Revenue Reserves Fully Committed to Existing Spend Programmes						
Designated Underspending Reserve	(104)	(3)	**(107)**	(129)	**(236)**	*8.3*
General Capital Reserve	(20,595)	(2,995)	**(23,590)**	(172)	**(23,762)**	*8.1*
Revenue Grants Unapplied	(648)	218	**(430)**	(121)	**(551)**	*8.4*
	(21,347)	**(2,780)**	**(24,127)**	**(422)**	**(24,549)**	
Corporate Reserves						
Equipment Reserve	0	0	**0**		**0**	
Grant Equalisation Reserve	0	0	**0**		**0**	
Service Improvement Reserve	(284)	284	**0**		**0**	*8.7*
Transformation Reserve	(6,122)	(2,645)	**(8,767)**	4,749	**(4,018)**	*8.2*
	(6,406)	**(2,361)**	**(8,767)**	**4,749**	**(4,018)**	
Total Earmarked Revenue Reserves Available	**(27,753)**	**(5,141)**	**(32,894)**	**4,327**	**(28,567)**	
Total Revenue Reserves and Balances	**(30,253)**	**(5,141)**	**(35,394)**	**4,327**	**(31,067)**	
Capital Reserves						
Capital Grants Unapplied	(1,138)	(621)	**(1,759)**	1,759	**0**	*8.6*
Capital Receipts Reserve	(3,136)	222	**(2,914)**	2,914	**0**	*8.5*
Total Capital Reserves and Balances	**(4,274)**	**(399)**	**(4,673)**	**4,673**	**0**	
Total Usable Reserves	**(34,527)**	**(5,540)**	**(40,067)**	**9,000**	**(31,067)**	

8.1 The general capital reserve is used to match the timing of available resources with capital payments. The Authority has had the aim for a number of years to increase this reserve given the withdrawal of Government funding for capital.

8.2 The Transformation Reserve was established in 2014/15 to fund all transformational projects that will support the re-design of the service over the next few years in order to achieve the financial savings that are required to balance the budget.

8.3 The designated underspends reserve enables departments to carry forward specific underspends into the next financial year.

8.4 The revenue grants unapplied reserve is required as grants have to be accounted for in the year they are received. This reserve contains the value of grants unspent during the year, where there is no repayment conditions attached, in order for them to be applied when the expenditure is incurred.

8.5 The capital receipts reserve is the proceeds from the sale of capital assets (buildings and vehicles) which is available to finance future capital expenditure.

8.6 The capital grants unapplied reserve is the equivalent of the revenue grants unapplied reserve (8.4) but for capital grants.

8.7 The Service Improvement Reserve was established in 2014/15 to hold any of the unspent budget controlled by the Heads of Service, for day to day improvements which will benefit the service. This reserve has now been consolidated into the Transformation Reserve (8.2).

9 Other Operating Expenditure

Other operating expenditure represents the net surplus or deficit on the disposal of non-current assets. The following statement shows the analysis:

2015/16 £'000		2016/17 £'000
0	Sale proceeds	0
74	Less net book value of assets sold	10
0	Costs of sale	0
74	**(Gain) / loss on sale charged to the Comprehensive Income and Expenditure Account**	**10**

10 Financing and investment income and expenditure

The financing and investment income is made up of the following elements:

2015/16 £'000		2016/17 £'000	
469	Interest payable	426	
(1)	Interest on loans	0	
(267)	Interest from short-term investments	(224)	
(99)	Dividend income	(143)	
945	Investment property (gains) and losses	(30)	
(88)	Investment property transactions	0	*
21,810	Pensions interest cost	20,380	
(1,050)	Pensions interest on assets	(1,190)	
21,719	**Total**	**19,219**	

* For 2016/17 investment property transactions of £109,393 are credited to the net cost of services.

11 Property, Plant and Equipment

Movements

11.1 The movements in property, plant and equipment are shown in the following tables. Note that the 2015/16 analysis has been restated in respect of the gross book value and depreciation of disposed assets. However, the net book value at 31 March 2016 is not affected by these changes.

2015/16 (restated)	Other land and build's £'000	Vehicles and equip't £'000	Surplus assets £'000	Assets under const'n £'000	Total £'000
Cost or Valuation:					
At 31 March 2015	**112,101**	**34,415**	**0**	**1,432**	**147,948**
Adjustment to opening balance	0	0	0	0	**0**
Revised value as at 31 March 2015	**112,101**	**34,415**	**0**	**1,432**	**147,948**
Additions in year	18	1,986	0	3,821	**5,825**
Donations	0	0	0	0	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,643)	0	0	0	**(2,643)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,704)	0	0	0	**(1,704)**
Derecognition - Disposals	0	(1,017)	0	0	**(1,017)**
Derecognition - Other	0	0	0	0	**0**
Assets reclassified (to)/from held for sale	0	0	0	0	**0**
Other movements in cost or valuation	(1,674)	237	0	(350)	**(1,787)**
At 31 March 2016	**106,098**	**35,621**	**0**	**4,903**	**146,622**
Accumulated depreciation:					
At 31 March 2015	**(14,078)**	**(20,721)**	**0**	**0**	**(34,799)**
Adjustment to opening balance	0	0	0	0	**0**
Revised value as at 31 March 2015	**(14,078)**	**(20,721)**	**0**	**0**	**(34,799)**
Depreciation Charge	(1,961)	(2,486)	0	0	**(4,447)**
Depreciation written out on revaluation	4,059	0	0	0	**4,059**
Depreciation written out on the Surplus/Deficit on the Provision of Services	89	0	0	0	**89**
Impairment (losses)/reversals recognised in the Revaluation Reserve	(6)	0	0	0	**(6)**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	**0**
Derecognition - Disposals	0	943	0	0	**943**
Derecognition - Other	0	0	0	0	**0**
Assets reclassified (to)/from held for sale	0	0	0	0	**0**
Other movements in cost or valuation	203	0	0	0	**203**
Accumulated depreciation as at 31 March 2016	**(11,694)**	**(22,264)**	**0**	**0**	**(33,958)**
Net book value 31 March 2016	**94,404**	**13,357**	**0**	**4,903**	**112,664**
Net book value 31 March 2015	**98,023**	**13,694**	**0**	**1,432**	**113,149**

2016/17	Other land and build's £'000	Vehicles and equip't £'000	Surplus assets £'000	Assets under const'n £'000	Total £'000
Cost or Valuation:					
At 31 March 2016	**106,098**	**35,621**	**0**	**4,903**	**146,622**
Adjustment to opening balance					**0**
Revised value as at 31 March 2016	**106,098**	**35,621**	**0**	**4,903**	**146,622**
Additions in year	682	3,153		7,260	**11,095**
Donations					**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	7,443				**7,443**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,476)				**(2,476)**
Derecognition - Disposals	(2,272)	(85)			**(2,357)**
Derecognition - Other					**0**
Assets reclassified (to)/from held for sale					**0**
Other movements in cost or valuation	4,596	2,122		(6,718)	**0**
Gross book value as at 31 March 2017	**114,071**	**40,811**	**0**	**5,445**	**160,327**
Accumulated depreciation:					
At 31 March 2016	**(11,694)**	**(22,264)**	**0**	**0**	**(33,958)**
Adjustment to opening balance	0	0	0	0	**0**
Revised value as at 31 March 2016	**(11,694)**	**(22,264)**	**0**	**0**	**(33,958)**
Depreciation Charge	(1,950)	(2,405)			**(4,355)**
Depreciation written out on revaluation	5,573				**5,573**
Depreciation written out on the Surplus/Deficit on the Provision of Services	27				**27**
Impairment (losses)/reversals recognised in the Revaluation Reserve	(642)				**(642)**
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	(1,932)				**(1,932)**
Derecognition - Disposals	2,272	75			**2,347**
Derecognition - Other					**0**
Assets reclassified (to)/from held for sale					**0**
Other movements in cost or valuation					**0**
Accumulated depreciation as at 31 March 2017	**(8,346)**	**(24,594)**	**0**	**0**	**(32,940)**
Net book value 31 March 2017	**105,725**	**16,217**	**0**	**5,445**	**127,387**
Net book value 31 March 2016	**94,404**	**13,357**	**0**	**4,903**	**112,664**

Capital commitments

11.2 As at 31 March 2017 the Authority had entered into a number of contracts for the construction or enhancement of property and the purchase of vehicles and equipment. Formally committed expenditure as at 31 March 2017 totalled £340,119 (£1,827,634 at 31 March 2016).

Major commitments were:

	£
Basingstoke Fire Station	36,466
Estates Transformation	6,214
Fireground Radios	172,418
Solar Photovoltaic Panels	27,568
Vehicle Replacement Programme	95,596

Revaluations

11.3 The freehold and leasehold properties of the Authority's property portfolio have been valued under a rolling programme by qualified property services staff from Hampshire County Council. Valuations were carried out in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

11.4 The following statement shows the progress of the Authority's rolling programme for the revaluation of property. Land and buildings are required to be valued within five years. Vehicles, plant and equipment are held at historic cost.

	Land and buildings	Vehicles, plant and equipment	Total property, plant and equipment
	£'000	£'000	£'000
Valued at historic cost		16,217	16,217
Valued at current value in:			
Pre 2012/13	2,268		2,268
2012/13	2,816		2,816
2013/14	15,972		15,972
2014/15	7,400		7,400
2015/16	16,149		16,149
2016/17	61,120		61,120
Total	**105,725**	**16,217**	**121,942**

Impairment losses

11.5 During 2016/17 the Authority recognised impairment losses totalling £2.574 million (£1.615 million in 2015/16).

Heritage assets

11.6 The heritage assets held by the authority are two vintage vehicles and a small collection of equipment such as helmets.

11.7 The collection is not recognised in the financial statements as no information is available on the value of these assets. Obtaining specialist valuations for these assets would be disproportionate in comparison to the benefits to the users of the financial statements.

12 Financial Instruments

Financial Instruments – classifications

12.1 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

12.2 A financial liability is an obligation to transfer economic benefits controlled by Hampshire Fire & Rescue Authority and can be represented by a contractual obligation to deliver cash and financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to Hampshire Fire & Rescue Authority.

12.3 Hampshire Fire & Rescue Authority's financial liabilities held during the year were long-term loans from the Public Works Loan Board and are measured at amortised cost.

Financial Assets

12.4 A financial asset is a right to future economic benefits controlled by Hampshire Fire & Rescue Authority that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by Hampshire Fire & Rescue Authority during the year are held under the following classifications:

12.5 Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:

- Cash
- Bank current and notice accounts
- Loans to other local authorities

12.6 Available for sale financial assets (those that are quoted in an active market or do not have fixed or determinable payments) comprising:

- Money market funds
- Pooled equity and property funds
- Certificates of deposit and covered bonds issued by banks and building societies
- Bonds issued by multilateral development banks and large companies

Financial Instruments – Balances

12.7 The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term 31/03/2016 £'000	Long Term 31/03/2017 £'000	Short Term 31/03/2016 £'000	Short Term 31/03/2017 £'000
Loans at amortised cost:				
-Principal sum borrowed	(8,350)	(8,350)	0	0
-Accrued interest	0	0	(65)	(65)
Total borrowing	**(8,350)**	**(8,350)**	**(65)**	**(65)**
Liabilities at amortised cost:				
-Finance leases	(32)	0	(65)	(32)
-Trade creditors	0	0	(4,619)	(4,102)
Total other liabilities	**(32)**	**0**	**(4,684)**	**(4,134)**
Total	**(8,382)**	**(8,350)**	**(4,749)**	**(4,199)**

Short term borrowing

12.8 This balance represents the interest payable to the PWLB within one year.

Long- term borrowing

12.9 Hampshire Fire & Rescue Authority's long-term borrowing consists of loans from the Public Works Loan Board and are measured at amortised cost.

Creditors

12.10 The short term creditors balance on the balance sheet includes non-exchange creditors that do not meet the definition of a financial instrument. Total creditors can be further analysed as amounts due to:

2015/16 £'000		2016/17 £'000
	Financial instrument creditors	
0	Deposits	(150)
0	Central government bodies	(3)
(2,168)	Other local authorities	(153)
(2,451)	Other creditors	(3,796)
(4,619)	**Total Financial Instrument creditors**	**(4,102)**
	Non-financial instrument creditors	
(3,320)	Central government bodies	(3,578)
0	Other local authorities	(1,864)
	Finance leases - to be repaid within 1 year	(31)
(7,939)	**Total short term creditors**	**(9,575)**

12.11 Receipts in advance are also included within creditors. The balance is in the main relating to next years expenditure and as such their amortised cost in the balance sheet is a reasonable assessment of fair value.

Financial Assets

12.12 The financial assets disclosed in the balance sheet are analysed across the following categories:

Financial Assets	Long Term 31/03/2016 £'000	Long Term 31/03/2017 £'000	Short Term 31/03/2016 £'000	Short Term 31/03/2017 £'000
Loans and receivables:				
- Principal at amortised cost	0	0	11,000	9,000
- accrued interest	0	0	27	29
Available for sale investments:				
- principal at fair value	7,619	11,900	8,914	1,420
- accrued interest	0	0	5	1
Total investments	7,619	11,900	19,946	10,450
Loans and receivables:				
- cash (including bank accounts)	0	0	(221)	(524)
- cash equivalents at amortised costs	0	0	3,040	480
- accrued interest	0	0	11	3
Available for sale investments:				
- cash equivalents at fair value	0	0	7,000	4,250
- accrued interest	0	0	2	1
Total cash and cash equivalents	0	0	9,832	4,210
Loans and receivables:				
- trade debtors	0	0	3,643	1,677
- loans made for service purposes	47	11	0	0
Total financial assets	**7,666**	**11,911**	**33,421**	**16,337**

Long-term investments

12.13 Surplus cash balances are lent to borrowers on the Authority's approved list. Long term investments are not due to be repaid until after a year from the balance sheet date for periods of up to two years.

12.14 This balance also includes available for sale financial investments which are not planned to be redeemed in the next financial year.

Short term investments

12.15 Surplus cash balances are lent to borrowers on the Authority's approved list. Short term investments are due to be repaid within a year and so their amortised cost in the balance sheet date is a reasonable assessment of their fair value.

12.16 This balance also includes available for sale financial investments which are planned to be redeemed in the next financial year.

Long term debtors

12.17 In the main these represent the loan made to 3SFire Ltd on a commercial basis and staff car loans. Staff car loans attract a market rate of interest for a period of less than five years and the value in the balance sheet is a reasonable assessment of fair value. All loans are expected to be repaid in full and so a reduction for impairment is not considered necessary.

Debtors

12.18 Receipts are due within one year without interest and as such the fair value of receivables equals the original invoice amount. The total amount has not been reduced to take account of debts that are unlikely to be collectable as it is believed all debts will be repaid in full. Consideration was given as to the need for a provision for bad debts but none was required for either 2015/16 or 2016/17.

12.19 The debtors balance incorporates payments in advance. These represent the proportion of leasing payments made that relate to 2017/18 as payments are made annually in advance. As the balance relates to less than a financial year the fair value is equivalent to the proportion of the original invoice that relates to 2016/17.

12.20 The short term debtors balance on the balance sheet includes non-exchange debtors that do not meet the definition of a financial instrument. Total debtors can be further analysed as amounts due from:

2015/16 £'000		2016/17 £'000
	Financial instrument debtors	
0	Central government bodies	44
2,954	Other local authorities	560
0	NHS bodies	139
689	Other debtors	934
3,643	**Total Financial Instrument debtors**	**1,677**
	Non-financial instrument debtors	
3,704	Central government bodies	5,483
0	Other local authorities	1,546
0	Payments in advance	1,733
0	Other debtors	1,045
7,347	**Total debtors and prepayments**	**11,484**

Cash and cash equivalents

12.21 Cash comprises cash in hand and on demand deposits.

12.22 Balances classified as 'cash equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These are carried at amortised cost.

12.23 The balance of cash and cash equivalents is made up of the following elements at the balance sheet date;

2015/16 £'000		2016/17 £'000
12	Cash in hand	10
3,051	Call Account (same day access fund)	483
7,002	Available for sale cash equivalents	4,251
(233)	Bank overdraft	(534)
9,832	**Total**	**4,210**

Financial Instruments – Fair Values

12.24 Financial assets classified as available for sale and all derivative assets and liabilities are carried in the Balance Sheet at fair value. For most assets, including bonds, treasury bills and shares in money market funds and other pooled funds, the fair value is taken from the market price. The fair values of other instruments have been estimated calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumption:

- Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity.

12.25 Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2017, using the following methods and assumptions:

- Loans borrowed by the Fire & Rescue Authority have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- No early repayment of impairment is recognised for any financial instrument.
- The fair value of short-term investments, including trade payables and receivables is assumed to be approximate to the carrying amount.
- The fair values of investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices

Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.

Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness.

	Fair Value level	Balance Sheet 31/03/2016 £'000	Balance Sheet 31/03/2017 £'000	Fair Value 31/03/2016 £'000	Fair Value 31/03/2017 £'000	Note
Financial Liabilities						
Long term loans from PWLB	2	(8,350)	(8,350)	(10,300)	(10,935)	
Accrued interest		(65)	(65)	0	0	
Total loans borrowed		(8,415)	(8,415)	(10,300)	(10,935)	
Liabilities for which fair value is not disclosed *		(4,716)	(4,134)			
Total financial liabilities		**(13,131)**	**(12,549)**	**(10,300)**	**(10,935)**	
Recorded on balance sheet as:						
Short term creditors		(4,619)	(4,134)			*12.10*
Short term borrowing		(130)	(65)			*12.7*
Long term creditors		(32)	0			*12.7*
Long term borrowing		(8,350)	(8,350)			*12.9*
Total financial liabilities		**(13,131)**	**(12,549)**			
Financial Assets						
Available for sale assets held at fair value:						
Money market funds	1	7,002	4,251	7,002	4,251	
Bond, equity & property funds	1	2,079	3,692	2,079	3,692	
Certificates of deposit	2	3,505	1,001	3,505	1,001	
Corporate & government bonds	2	10,954	8,628	10,954	8,628	
Assets held at amortised cost:						
Long term loans to other authorities		0	0	0	0	
Total		**23,540**	**17,572**	**23,540**	**17,572**	
Assets for which fair value is not disclosed *		17,547	10,676			
Total financial assets		**41,087**	**28,248**			
Recorded on balance sheet as:						
Long term investments		7,619	11,900			*12.13*
Long term debtors		47	11			*12.17*
Short term investments		19,946	10,450			*12.15*
Cash and cash equivalents		9,832	4,210			*12.23*
Short term debtors		3,643	1,677			*12.20*
Short term service loans			0			
Total financial assets		**41,087**	**28,248**			

* the fair value of short term liabilities and assets including trade payables and receivables is assumed to approximate to the carrying amount.

12.26 The fair value of long term liabilities held at amortised cost is higher than the balance sheet carrying amount because the Authority's portfolio of loans includes a number of loans, where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

Financial Instruments - Gains and Losses

12.27 Interest payable and receivable on financial assets in 2016/17 is detailed in note 12. Details of gains and losses on financial assets held for sale are shown in note 18.11.

13 Financial Instruments – Risks

13.1 Hampshire Fire & Rescue Authority (subsequently HFRA) has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

13.2 As part of the adoption of the Treasury Management Code, HFRA approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. HFRA also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

13.3 The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Communities and Local Government 'Guidance on Local Government Investments.' This guidance emphasises that priority is to be given to security and liquidity, rather than yield. HFRA's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

13.4 The main risks covered are:

- Credit risk: The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to HFRA.
- Liquidity risk: The possibility that HFRA might not have the cash available to make contracted payments on time.
- Market risk: The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Investments

13.5 HFRA manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of BBB+, the UK government, other local authorities, and organisations without credit ratings upon which HFRA has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, HFRA has regard to other measures including default credit swap and equity prices when selecting commercial entities for investment.

13.6 A limit of £5m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £3m applies. HFRA also sets limits on investments in certain sectors. No more than £15m in total can be invested for a period longer than one year.

13.7 HFRA's maximum exposure to credit risk in relation to its investments in banks, building societies and money market funds cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of being irrecoverable applies to all of HFRA's deposits, but there was no evidence at 31 March 2017 that this was likely to crystallise.

13.8 The credit quality of £8.4m of HFRA's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of HFRA suffering a loss on these investments. The table below summarises the credit risk exposures of HFRA's investment portfolio by credit rating:

Credit rating	Long term 31/03/2016 £'000	Long term 31/03/2017 £'000	Short term 31/03/2016 £'000	Short term 31/03/2017 £'000
AAA	5,540	8,208	3,570	420
AA+	0		1,344	0
AA	0		0	0
AA-	0		2,041	480
A+	0		1,003	0
A	0		5,010	4,005
A-	0		2,009	3
AAA Money Market Funds	0		7,002	4,251
Unrated local authorities	0		8,020	6,025
Unrated pooled funds	2,079	3,692	0	0
Total Investments	**7,619**	**11,900**	**29,999**	**15,184**

Liquidity Risk

13.9 HFRA has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that HFRA will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of HFRA's borrowing that matures in any one financial year. The maturity analysis of the principal sums borrowed is as follows:

Time to maturity (years)	31/03/2016 £'000	31/03/2017 £'000
Not over 1	0	0
Over 1 but not over 2	0	0
Over 2 but not over 5	(1,250)	(1,700)
Over 5 but not over 10	(1,900)	(1,550)
Over 10 but not over 20	(4,350)	(4,600)
Over 20 but not over 30	(850)	(500)
Total	**(8,350)**	**(8,350)**

Market Risks: Interest Rate Risk

13.10 HFRA is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority.

For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

13.11 Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on 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. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive & Expenditure. The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2017, the entire net principal borrowed (i.e. debt net of investments) was exposed to fixed rates. HFRA’s investments with less than one year to maturity (£15.15m at 31 March 2017), floating rate notes with more than one year to maturity (£6.00m at 31 March 2017) and pooled property funds (£3.5m at 31 March 2017) are classed as being held at variable rates and exposed to interest rate risk.

13.12 If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£’000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(212)
Impact on (Surplus) or Deficit on the Provision of Services	**(212)**
Decrease in fair value of available for sale financial assets	18
Impact on Comprehensive Income and Expenditure	**18**

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed.

Market Risks: Price Risk

13.13 The market prices of HFRA’s fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

13.14 HFRA’s investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by HFRA’s investment strategy, which limits the amount invested in pooled investments, such as pool property investments. A fall in commercial property prices would result in a charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

14 Inventories

2015/16	Opening balance £'000	Purchases £'000	Recognised as an expense in the year £'000	Written off balances £'000	Reversal of write offs in previous years £'000	Closing balance £'000
Uniforms	437	522	(486)	0	0	**473**
Equipment & foam	167	734	(694)	0	0	**207**
Workshops	181	647	(630)	0	0	**198**
Fuel	62	359	(371)	0	0	**50**
Total	**847**	**2,262**	**(2,181)**	**0**	**0**	**928**

2016/17	Opening balance £'000	Purchases £'000	Recognised as an expense in the year £'000	Written off balances £'000	Reversal of write offs in previous years £'000	Closing balance £'000
Uniforms	473	635	(563)	0	0	**545**
Equipment & foam	207	998	(1,023)	0	0	**182**
Workshops	198	732	(748)	0	0	**182**
Fuel	50	439	(436)	0	0	**53**
Total	**928**	**2,804**	**(2,770)**	**0**	**0**	**962**

15 Assets held for sale

2015/16 £'000		2016/17 £'000
1,200	**Balance outstanding at start of year**	**1,200**
	Assets newly classified as held for sale:	
	- Property, Plant and Equipment	0
0	Revaluation losses	0
0	Revaluation gains	0
0	Impairment losses	0
	Assets declassified as held for sale:	
0	Property, Plant and Equipment	0
0	Assets sold	0
0	Transfers from non-current to current	0
1,200	**Balance outstanding at year-end**	**1,200**

16 Investment properties

16.1 During 2016/17, two properties were identified as surplus and are now leased to a third party at a market rent. The following table summarises the movement in the fair value of the investment properties over the year:

2015/16 £'000		2016/17 £'000
0	**Balance outstanding at start of year**	**640**
1,585	Property assets newly classified as investment property	
(945)	Revaluation losses	
0	Revaluation gains	30
0	Impairment losses	0
0	Property assets declassified as investment property	0
0	Assets sold	0
0	Transfers from non-current to current	0
640	**Balance outstanding at year-end**	**670**

16.2 Valuation of non financial assets carried at fair value:

Value as at 31 March 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Investment property		670		670
Surplus assets				0
	0	**670**	**0**	**670**

Valuation techniques used to determine Level 2 and 3 fair values:

Significant observable inputs – level 2

16.3 The fair value for the properties within level 2 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant unobservable inputs – level 3

16.4 The fair value for the properties within level 3 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets, but with a level of valuer judgement as the recent sales prices and other relevant information are not as significant as with Level 2. This results in more significant unobservable inputs being used in order to determine the fair value.

16.5 The assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

17 Provisions

17.1 The Authority holds four provisions.

- The first is for uninsurable and other claims. This covers costs which may arise as a result of the Authority being uninsured for a period (the Authority's insurers went into liquidation some years ago), possible employment tribunals (together with their associated costs) and other claims made against the Authority. These cases may take a number of years to settle.
- The second relates to estimated pension contributions that have been paid on certain allowances which were not originally treated as pensionable, but which now following the ruling in the Norman versus Cheshire legal case it is deemed they should be treated as pensionable.
- The third is for various potential tax liabilities the Authority is liable for in respect of current or former employees.
- The fourth provision relates to the outstanding amount of appeals on business rate valuations, which may impact on future business rates collected by the Authority.

17.2 The movement on these provisions can be summarised as follows:

	Uninsurable and other claims £'000	Pensionable allowances £'000	Tax liabilities £'000	Provision charged to net cost of services £'000	Business Rate appeals £'000	Total provision made £'000
Balance as at 1 April 2016	(141)	(51)	(141)	**(333)**	(901)	**(1,234)**
Payments made in the year	24			**24**	320	**344**
(Increase) /decrease	(90)	51		**(39)**	(249)	**(288)**
Balance as at 31 March 2017	**(207)**	**0**	**(141)**	**(348)**	**(830)**	**(1,178)**

18 Unusable reserves

18.1 The following table is a summary of the unusable reserves. Details of each are set out in the following paragraphs.

2015/16 £'000		2016/17 £'000	Note
(30,528)	Revaluation reserve	(42,121)	*18.2*
(71,191)	Capital adjustment account	(74,922)	*18.5*
573,020	Pensions reserve	703,530	*18.9*
(675)	Collection fund adjustment account	(776)	*18.10*
(77)	Available for sale financial instruments reserve	(220)	*18.11*
470,549	**Total unusable reserves**	**585,491**	

Revaluation reserve

18.2 The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment [and Intangible Assets]. The balance is reduced when assets with accumulated gains are

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

18.3 The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2015/16 £'000		2016/17 £'000
(30,614)	Balance as at 1 April	(30,528)
(2,694)	Upward revaluation of assets	(14,391)
1,283	Downward revaluation of assets and impairment losses not charged to the (surplus) / deficit on the cost of services	2,018
(32,025)	Surplus or deficit on revaluation of non-current assets not posted to the (surplus) / deficit on the cost of services	**(42,901)**
736	Difference between fair value depreciation and historic cost depreciation	780
761	Write down of revaluation reserve on assets sold	0
0	Accumulated gains on assets sold or scrapped	0
1,497	**Sub total written off to the capital adjustment account**	**780**
(30,528)	**Balance at 31 March**	**(42,121)**

Capital adjustment account

18.4 The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

18.5 The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

18.6 The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

18.7 Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

18.8 The movement in the reserve is analysed below:

2015/16 £'000		2016/17 £'000	2016/17 £'000
(69,354)	**Balance as at 1st April**		**(71,191)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
6,062	Charges for depreciation and impairment of non-current assets	8,735	
945	Revaluation (gain)/loss on investment property	(30)	
74	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	10	
7,081			**8,715**
(1,497)	Adjusting amounts written out of the revaluation reserve		(780)
5,584	**Net written out amount of the cost of non-current assets consumed in the year**		**7,935**
	Capital financing applied in the year:		
(222)	Use of the Capital receipts Reserve to finance new capital expenditure	(2,914)	
(5,313)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(2,050)	
(624)	Statutory provision for the financing of capital investment charged against the general fund	(570)	
(160)	Capital expenditure charged against the general fund	(6,132)	
(6,319)			**(11,666)**
(1,102)	Movement in the donated assets account credited to the Comprehensive Income and Expenditure Statement		0
(71,191)	**Balance as at 31 March**		**(74,922)**

Pensions reserve

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

2015/16 £'000		2016/17 £'000
657,170	**Balance 1 April**	**573,020**
(111,038)	Actuarial (gains) or losses on pensions assets and liabilities	107,350
33,560	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit in the Comprehensive I&E Statement	29,740
(6,672)	Employer's pension contributions and direct payments to pensioners in the year	(6,580)
573,020	**Balance 31 March**	**703,530**

Collection fund adjustment account

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

2015/16 £'000		2016/17 £'000
(1,142)	**Balance 1 April**	**(675)**
(44,002)	Accrued income in the Comprehensive Income and Expenditure account	(45,390)
44,469	Amount calculated in accordance with statutory requirements	45,289
(675)	**Balance 31 March**	**(776)**

Available for sale financial instruments reserve

18.11 The available for sale financial instruments reserve contains the gains or losses made by the Authority arising from changes in the value of the Authority's investments that have a quoted market price or otherwise do not have fixed determinable payments.

2015/16 £'000		2016/17 £'000
38	**Balance 1 April**	(77)
(122)	Upward revaluation of investments	(176)
7	Downward revaluation of investments not charged to the surplus / deficit on the provision of services	33
(77)	**Balance 31 March**	(220)

19 Expenditure and Funding Analysis – Supporting Statement

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (government grants, rents, council tax precept and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the authority's services.

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. The EFA includes a column which identifies the statutory adjustments required by the Code of Practice separately from the income and expenditure which has an impact upon the General Fund Reserve. These are called 'Adjustments between the accounting and funding basis'. These are shown in more detail in Note 7 and an extract of these is presented below:-

2015/16					2016/17			
Adjustments for capital purposes (Note 1) £'000	Net change for the pensions adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000		Adjustments for capital purposes (Note 1) £'000	Net change for the pensions adjustments (Note 2) £'000	Other Differences (Note 3) £'000	Total Adjustments £'000
				Adjustments between accounting and funding basis analysis:-				
5,022	3,469		8,491	Service Delivery	6,671	3,826		10,497
1,040	849		1,889	Professional Services	2,064	357		2,421
	(210)		(210)	Pensions		(100)		(100)
	2,020		2,020	Other items not allocated to services		(113)		(113)
6,062	**6,128**	**0**	**12,190**	**Net cost of services**	**8,735**	**3,970**	**0**	**12,705**
(5,699)	20,760	467	15,528	Other income and expenditure from the funding analysis	(7,013)	19,190	(101)	12,076
363	**26,888**	**467**	**27,718**	**Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit**	**1,722**	**23,160**	**(101)**	**24,781**

Notes

Other operating expenditure, financing and investment income and expenditure and taxation and non-specific grant income and expenditure are all included within other income and expenditure from the funding analysis.

1. Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and with other income and expenditure:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

2. Net change for pensions' adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs;
- For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

3. Other changes

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts;
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Accounting Code of Practice. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

20 Nature of expenses

20.1 The Cost of Services includes the following items of income and expenditure:

2015/16 Expenditure in the CIES £'000		Note	2016/17 Expenditure in the CIES £'000
55,123	Employee Benefit Expenses	1	53,957
15,041	Other Service Expenses	2	16,787
6,062	Depreciation and Impairment	3	8,735
76,226	**Total Expenditure**		**79,479**
(2,665)	Grants, contributions and reimbursements		(2,767)
(998)	Fees, charges and other service income		(1,404)
(3,663)	**Total Income**		**(4,171)**
72,563	**Net Cost of Services**		**75,308**

1. Employee benefit expenses include pay, employer national insurance contributions, employer pension contributions and other employee benefits. Accounting adjustments are then made under IAS19 so that the expenditure in the CIES reflects the current service cost of the benefit granted in the period, rather than the payments made.

2. Other service expenses includes costs relating to premises, transport, supplies and services. An accounting adjustment is made so that the charge to the CIES also includes revenue expenditure charged to capital under statute (REFCUS).

3. Depreciation and impairment charges are made to the CIES to reflect the use of fixed assets during the period. These are not chargeable to the general fund.

Income received from external customers is analysed by service in the table below:

2015/16 £'000		2016/17 £'000
(357)	Service Delivery	(670)
(641)	Professional Services	(734)
(998)	**Total income from external customers analysed on a segmental basis**	**(1,404)**

21 Members' allowances

21.1 The Authority paid the following amounts to members of the Authority during the year:

2015/16 £'000		2016/17 £'000
129	Allowances	130
8	Expenses	2
137		**132**

22 Officers' remuneration

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

2015/16	**Salary**	**Benefits in kind (e.g. car allowance)**	**Employers pension contributions**	**Total remuneration**
	£	**£**	**£**	**£**
Chief Officer - Dave Curry	151,425	82	32,698	**184,205**
Director of Service Delivery	121,090	257	17,238	**138,585**
Director of Professional Services	115,669	53	14,570	**130,292**

2016/17	**Salary**	**Benefits in kind (e.g. car allowance)**	**Employers pension contributions**	**Total remuneration**
	£	**£**	**£**	**£**
Chief Officer - Dave Curry	154,450	0	33,352	**187,802**
Director of Service Delivery	123,560	0	17,583	**141,143**
Director of Professional Services	113,521	88	14,871	**128,480**

The Chief Officer leads on services provided to the Isle of Wight Fire Service for which the Hampshire Fire and Rescue Service receives income as part of the partnership agreement.

The Clerk to the Authority is the Chief Executive of Hampshire County Council. The Chief Financial Officer role (S151 Officer) and Director of Human Resources & Workforce Development are provided by senior officers at Hampshire County Council as part of a joint working agreement for a range of corporate services. These officers are included in disclosures by Hampshire County Council.

22.2 The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

	Number of Employees	
Total remuneration	**2015/16**	**2016/17**
£50,000 - £54,999	43	41
£55,000 - £59,999	19	16
£60,000 - £64,999	7	10
£65,000 - £69,999	5	5
£70,000 - £74,999	2	0
£75,000 - £79,999	0	2
£85,000 - £89,999	1	1
£110,000 - £114,999	2	0
£115,000 - £119,999	0	1
£120,000 - £124,999	0	1
£125,000 - £129,999	0	1
Total	**79**	**78**

23 Exit Packages

23.1 The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below:

2015/16 Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band
£0 to £20,000	0	23	23	**£248,991**
£20,001 - £50,000	0	10	10	**£268,658**
	0	**33**	**33**	**£517,649**

2016/17 Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Total cost of exit packages in each band
£0 to £20,000	0	10	10	**£73,993**
£20,001 - £50,000	0	3	3	**£72,744**
	0	**13**	**13**	**£146,737**

24 External audit costs

24.1 The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors.

2015/16 £'000		2016/17 £'000
36	External audit services	36
0	Statutory inspection	0
0	Grant claims and returns	0
0	Other services	0
36	**Total**	**36**

25 Grant income

25.1 The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

2015/16 £'000		2016/17 £'000
	Credited to taxation non specific grant income:	
(27,668)	General Government grants (RSG, locally retained business rates & top up grant)	(19,172)
(404)	CLG- Council Tax freeze grant	0
(453)	S31 Grant funding	(475)
	Specific capital grants:	
(3,864)	CLG – Capital priorities	(14)
(2,070)	Capital contributions	(277)
(34,459)	**Total**	**(19,938)**
	Credited to services:	
(895)	New Dimensions - USAR	(895)
(6)	New Dimensions – Vehicle Insurance	(6)
(73)	New Dimensions - Enhanced Command Support	(73)
(278)	Radio System	(531)
(19)	New Risks	(19)
(134)	SD Transformation	0
0	LAA - Reward Grant SCC	(31)
(1,405)	**Total**	**(1,555)**

25.2 The Authority has received a number of grants that have yet to be recognised as income as they have conditions attached to them that could require the money to be returned:

2015/16 £'000	Revenue grants receipts in advance	2016/17 £'000
31	SCC LAA Reward Grant	0
0	Emergency Service Mobile Communicaton Programme (ESMCP)	53
0	Professional Standards Body for the Fire Sector - Set up Grant	152
40	Firesetters intervention - Police and Crime Commissioner	40
71	**Total**	**245**

25.3 The Authority had not received any contributions or donations which, as at 31 March 2017, had conditions which had not been met.

26 Related parties

26.1 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 operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government

26.2 Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates and provides a significant proportion of its funding in the form of grants.

Members

26.3 Members of the Authority have direct control over the Authority's financial and operating policies. The total of Members' allowances is shown in Note 21. During 2016/17 there were no potential conflicts of interest involving Members of the Authority.

Officers

26.4 The Chief Finance Officer (CFO) to the Fire Authority is also the Head of Finance for Hampshire County Council. The Fire Authority's governance arrangements and the Head of Finance independence and professional status ensure that this relationship is not compromised. The Director of Human Resources & Workforce Development and the Clerk to the Authority, the Chief Executive of Hampshire County Council, are also provided by the County Council and similar assurances as with the CFO would have applied.

3SFire Ltd

26.5 The Authority has sole control over a company – 3SFire Ltd. It is a company limited by shares held by the Authority and was formed on 20 February 2013.

26.6 There is one Non-Executive Director of the Company, Royston Smith (MP) and two Executive Directors, Councillor Chris Carter and Councillor Roger Price who are also Members of the Authority. Neil Odin, Deputy Chief Fire Officer is a director of the company.

26.7 The Authority has agreed to loan up to £250,000 to the Company at a commercial rate of interest. The outstanding loan balance at 31 March 2016 of £25,200 was fully repaid during 2016/17, meaning that as at the 31 March 2017 the Company had no outstanding loan amounts to be repaid.

Joint Working

26.8 During 2014/15, the Authority entered into a number of joint working agreements with Hampshire County Council and Hampshire Constabulary for a range of corporate services including finance, HR, IT, facilities management and procurement across the three organisations. The services are hosted but not controlled by Hampshire County Council as they are delivered with joint direction, governance, control and senior management, with each organisation accounting for its share of cost. The total cost of these services in 2016/17 was £27.3 million (£27.0 million in 2015/16) of which the Fire Authority's share was £2.0 million (£1.9 million in 2015/16).

27 Capital expenditure and capital financing

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

2015/16 £'000		**2016/17 £'000**
13,256	**Opening capital financing requirement**	**12,762**
	Capital investment:	
5,825	Property, plant and equipment	11,095
	Sources of finance:	
(222)	Capital receipts	(2,914)
(5,313)	Government grants and contributions	(2,050)
	Sums set aside from revenue:	
(160)	Direct revenue contributions (budgeted)	(6,132)
(624)	Minimum revenue provision	(570)
12,762	**Closing capital financing requirement**	**12,191**
	Explanation of movements in year:	
130	Increase in finance leases	0
(624)	Minimum revenue provision	(570)
(494)	**Increase/(decrease) in capital financing requirement**	**(570)**

28 Assets held under finance leases

28.1 No new finance lease arrangements were entered into in 2016/17 or 2015/16.

28.2 The following values of assets are held under finance leases by the Authority, accounted for as part of Property, Plant and Equipment:

31 March 2016 £'000		31 March 2017 £'000
97	**Vehicles**	**32**

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

31 March 2016 £'000		31 March 2017 £'000
	Finance lease liabilities:	
65	· Short term	32
32	· Long term	0
22	Finance costs payable in future years	0
119	**Minimum lease payments**	**32**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2016 £'000	31 March 2017 £'000	31 March 2016 £'000	31 March 2017 £'000
Not later than one year	87	32	65	32
Later than one year and not later than five years	32	0	32	0
Later than five years	0	0	0	0
Total	**119**	**32**	**97**	**32**

28.5 At 31 March 2017 the Authority had one signed lease extension for vehicles where payments had not started.

29 Assets used under operational lease

29.1 Some of the Authority's premises and operational vehicles, including leased cars for its employees, are leased.

29.2 The future minimum lease payments due under non-cancellable leases in future years for premises and operational vehicles are:

31 March 2016 Vehicles £'000	31 March 2016 Property £'000	31 March 2016 Total £'000		31 March 2017 Vehicles £'000	31 March 2017 Property £'000	31 March 2017 Total £'000
0	13	13	Not later than one year	0	29	29
0	48	48	Later than one year and not later than five years	0	108	108
0	538	538	Later than five years	0	1,101	1,101
0	**599**	**599**	**Total**	**0**	**1,238**	**1,238**

29.3 The expenditure charged to the cost of services within the Comprehensive Income and Expenditure Statement in 2016/17 was £21,831.

The Authority as lessor

29.4 The Authority grants operating leases to third parties for example for parking and or storage by other emergency services. The future minimum lease payments receivable in future years are:

31 March 2016 £'000		31 March 2017 £'000
682	Not later than one year	877
1,863	Later than one year and not later than five years	2,564
8,278	Later than five years	9,424
10,823		**12,865**

30 Defined benefit pension schemes

Participation in pension schemes

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

30.2 The Authority participates in a number of pension schemes:

- the Local Government Pension Scheme (LGPS) for support staff which is administered by Hampshire County Council. This is a funded defined benefit scheme meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Benefits earned up to 31 March 2014 are linked to final salary and benefits after 31 March 2014 are based on a Career Average Revalued Earnings (CARE) scheme.. Discretionary arrangements for the award of post retirement benefits upon early retirement can be made. These are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

- the 1992 Firefighters' Pension Scheme (FPS);
- the 2006 New Firefighters' Pension Scheme (FPS). This scheme was opened to new members from 1 April 2006;
- the 2015 Firefighters' Pension Scheme (FPS); and
- the Modified 2015 Firefighters' Pension Scheme (FPS) for retained firefighters.

All of the Firefighters pension schemes are unfunded 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 eventually fall due. All costs in connection with the scheme except those relating to injury pensions and any ill-health early retirement costs are funded by the Government. All costs in relation to injury pensions and ill-health early retirement costs are met by the employer.

The 2015 scheme is a career average scheme (CARE), and is available to operational firefighters appointed on or after 1 April 2015. Serving firefighters will also have been transferred into the scheme, unless they have protected status under one of the existing schemes.

Transactions relating to post-employment benefits

30.3 The cost of post-employment benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Account and the General Fund Balance via the Movement in Reserves Statement during the year:

	Firefighters' Pension Schemes 2015/16 £'000	Firefighters' Pension Schemes 2016/17 £'000	Injury Pensions (firefighters) 2015/16 £'000	Injury Pensions (firefighters) 2016/17 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
- Current service cost	8,640	7,980	600	560
- Past service costs	1,960	390	0	0
- (Gain)/loss from settlements	0	0	0	0
Financing and Investment Income and Expenditure				
Net interest expense	19,350	17,860	830	770
Total Charge to the Surplus or Deficit on the Provision of Services	**29,950**	**26,230**	**1,430**	**1,330**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- Actuarial (Gains)/Losses arising	(104,368)	99,620	(3,810)	4,610
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**(74,418)**	**125,850**	**(2,380)**	**5,940**
Movement in Reserves Statement				
Reverse charge to Provision of Services	**(29,950)**	**(26,230)**	**(1,430)**	**(1,330)**
Actual amount charged against the General Fund Balance for pensions in the year				
Employer's contributions to the scheme	**4,442**	**4,340**	**0**	**0**
Benefits paid direct to beneficiaries	**0**	**0**	**810**	**660**
Charge on General Fund	**4,442**	**4,340**	**810**	**660**

	LGPS (Staff) 2015/16 £'000	LGPS (Staff) 2016/17 £'000	All schemes - Summary 2015/16 £'000	All schemes - Summary 2016/17 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
- Current service cost	1,540	1,530	**10,780**	**10,070**
- Past service cost	60	90	**2,020**	**480**
Financing and Investment Income and Expenditure	0	0	**0**	**0**
Net interest expense	580	560	**20,760**	**19,190**
Total Charge to the Surplus or Deficit on the Provision of Services	**2,180**	**2,180**	**33,560**	**29,740**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
- Return on plan assets	600	(3,980)	**600**	**(3,980)**
- Actuarial (Gains)/Losses arising:-	(3,460)	7,100	**(111,638)**	**111,330**
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**(680)**	**5,300**	**(77,478)**	**137,090**
Movement in Reserves Statement				
Reverse charge to Provision of Services	**(2,180)**	**(2,180)**	**(33,560)**	**(29,740)**
Actual Amount charged against the General Fund Balance for pensions in the year				
Employer's contributions to the scheme	1,420	1,580	**5,862**	**5,920**
Benefits paid direct to beneficiaries	0	0	**810**	**660**
Charge on General Fund	**1,420**	**1,580**	**6,672**	**6,580**

Liabilities in relation to post-employment benefits

30.4 The following tables set out the reconciliation of the present value of the various schemes liabilities:

2015/16	LGPS	Firefighters' Pension Schemes	Injury	Total
	£'000	£'000	£'000	£'000
1 April	51,400	612,030	26,190	**689,620**
Current service cost	1,540	8,640	600	**10,780**
Interest cost	1,630	19,350	830	**21,810**
Contributions by scheme participants	420	3,430	0	**3,850**
Actuarial (gains) and losses	(3,460)	(93,670)	(3,810)	**(100,940)**
Net benefits paid out	(1,150)	(18,570)	(810)	**(20,530)**
Past service costs	60	1,960	0	**2,020**
31 March	**50,440**	**533,170**	**23,000**	**606,610**

2016/17	LGPS	Firefighters' Pension Schemes	Injury	Total
	£'000	£'000	£'000	£'000
1 April	50,440	533,170	23,000	**606,610**
Current service cost	1,530	7,980	560	**10,070**
Interest cost	1,750	17,860	770	**20,380**
Contributions by scheme participants	460	3,680	0	**4,140**
Actuarial (gains) and losses	7,100	111,700	4,610	**123,410**
Net benefits paid out	(1,350)	(20,100)	(660)	**(22,110)**
Past service costs	90	390	0	**480**
31 March	**60,020**	**654,680**	**28,280**	**742,980**

30.5 Under IAS 19, a prospective allowance for injury benefits is required. At the last valuation of the FPS scheme, the value of injury pensions was around 3.9% of the pensioner liabilities. The Actuaries advise that a reasonable estimate of the accrual of injury pensions is 3.9% of the cost of benefits accruing. A sum equal to 3.9% of the active liabilities in the 1992, 2006 and 2015 firefighters' pension schemes has been added to the injury pension liabilities.

Assets in relation to post-employment benefits

30.6 The following table set out the reconciliation of the fair value of the Local Government Pension Scheme:

2015/16 £'000		2016/17 £'000
32,450	**1 April**	**33,590**
1,050	Expected return on assets	1,190
(600)	Actuarial gains and (losses)	3,980
1,420	Employer contributions	1,580
420	Contributions by scheme participants	460
(1,150)	Net benefits paid out	(1,350)
33,590	**31 March**	**39,450**

30.7 The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

30.8 The actual return on assets in the year was a gain of £5.17m in 2016/17 (£450,000 gain in 2015/16).

Pension Scheme Assets

30.9 The Local Government Pension Scheme assets consist of the following categories, by proportion of the total assets held by the Fund:

31 March 2016		31 March 2017
56%	Equities	60%
8%	Property	7%
26%	Government bonds	25%
10%	Other assets	8%
100%	**Total**	**100%**

The firefighters' schemes have no assets to cover their liabilities.

Impact on the Authority's cash flows

30.10 The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The liability has a substantial impact on the net worth of the Authority recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

30.11 Finance is only required to be raised to cover firefighters' pensions when the pension payments relate to injury pensions and the cost of ill-health early retirement. All other firefighter pensions are paid by the Government.

30.12 The deficit on the LGPS will be made good by increased contributions over the remaining life of employees, as assessed by the actuary. The objectives of the LGPS are to keep the employer's contribution rate as constant as possible. The aim is to achieve a 100% funding level over a period of 19 years from 1 April 2017. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2019.

30.13 The employer's regular contributions to the LGPS fund for the accounting period 31 March 2018 are estimated to be £1.64m. In addition pension strain contributions may be required.

Basis for estimating Assets and Liabilities

30.14 Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

30.15 All schemes have been assessed by an independent actuary, AON Hewitt Limited, against a formal actuarial valuation as at the following dates:

Scheme	Date
Local Government Pension Scheme – funded	31 March 2016
Local Government Pension Scheme – unfunded	31 March 2016
1992 Firefighters’ Pension Scheme	31 March 2015
2006 Firefighters’ Pension Scheme	31 March 2015
2015 Firefighters’ Pension Scheme	31 March 2015
Firefighters’ Injury and Ill-Health Pensions	31 March 2015

30.16 The main financial assumptions in their calculations have been:

2015/16		2016/17
2.9%	RPI Inflation - Firefighter schemes	3.1%
2.9%	RPI Inflation – LGPS schemes	3.1%
1.8%	CPI Inflation - Firefighter schemes	2.0%
1.8%	CPI Inflation – LGPS schemes	2.0%
3.3%	Rate of general increase in salaries - Firefighters	3.5%
3.3%	Rate of general increase in salaries - LGPS	3.5%
1.8%	Pension increases - Firefighters	2.0%
1.8%	Pension increases - LGPS	2.0%
3.4%	Discount rate - Firefighters	2.6%
3.5%	Discount rate - LGPS	2.6%

30.17 The commutation assumptions made are:

	31 March 2016	31 March 2017
LGPS	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.
Firefighter schemes	Assumed that 90% of members of the 1992 Scheme commute 25% of their pension. Assumed that 75% of members of the 2006 and 2015 schemes commute 25% of their pension.	Assumed that 90% of members of the 1992 Scheme commute 25% of their pension. Assumed that 75% of members of the 2006 and 2015 schemes commute 25% of their pension.

The mortality assumptions are based on the recent actual mortality experience of members within the fund and allow for expected future mortality improvements. The principal demographic assumptions concerning post retirement mortality are:

LGPS schemes	Males 31 March 2016	Males 31 March 2017	Females 31 March 2016	Females 31 March 2017
Year of birth base Table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard SAPS Normal Health Light Amounts (S2P)	Standard SAPS Normal Health Light Amounts (S1NFA_L)	Standard SAPS Normal Health Light Amounts (S2P)
Scaling to above base Table rates	100%	100%	95%	80%
Improvements to base Table	CMI_2012 with a long term rate of improvement of 1.5% p.a.	CMI_2014 with a long term rate of improvement of 1.5% p.a.	CMI_2012 with a long term rate of improvement of 1.5% p.a.	CMI_2014 with a long term rate of improvement of 1.5% p.a.
Future lifetime from age 65	24.6	24.0	26.4	27.0
Future lifetime from age 65 (now aged 45)	26.7	26.0	28.7	29.3

Firefighter schemes	Males 31 March 2016	Males 31 March 2017	Females 31 March 2016	Females 31 March 2017
Base Table	Standard SAPS normal health all amounts (S1NMA)	Standard SAPS normal health all amounts (S1NMA)	Standard SAPS normal health all amounts (S1NFA)	Standard SAPS normal health all amounts (S1NFA)
Scaling to above base Table rates	110%	110%	110%	110%
Improvements to base Table	Allowance for improvements in line with the CMI 2014 improvements, with a long term rate of improvement of 1.5% p.a.	Allowance for improvements in line with the CMI 2014 improvements, with a long term rate of improvement of 1.5% p.a.	Allowance for improvements in line with the CMI 2014 improvements, with a long term rate of improvement of 1.5% p.a.	Allowance for improvements in line with the CMI 2014 improvements, with a long term rate of improvement of 1.5% p.a.
Future lifetime from age 65	22.0	22.1	24.5	24.6
Future lifetime from age 65 (now aged 45)	24.1	24.2	26.8	26.9

Sensitivity analysis of financial assumptions

30.18 The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the preceding tables. The sensitivity analysis' below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes whilst all other assumptions remain constant. For example, the assumptions in longevity assume that life expectancy increases for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The assumptions used in the analysis have followed accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous method. A sensitivity analysis has not been undertaken on unfunded benefits as it is immaterial.

Baseline:-

Fire Schemes

Present Value of total obligation (excluding injury benefits) @ 31.3.17 = £654.68m
Projected Service cost 2017/18 = £12.12m

Local Government Superannuation Scheme

Present Value of total obligation (funded scheme only) @ 31.3.17 = £59.98m
Projected Service cost 2017/18 = £2.13m

	LGPS		Fire Schemes	
	+ 0.1% p.a.	- 0.1% p.a.	+ 0.1% p.a.	- 0.1% p.a.
Adjustment to discount rate				
* Present value of total obligations (£M)	58.76	61.23	642.14	667.47
* % change in present value of total obligations	-2.0%	2.1%	-1.9%	2.0%
* Projected service cost (£M)	2.07	2.20	11.65	12.61
* % change in projected service cost	-3.0%	3.1%	-3.9%	4.0%
Rate of general increase in salaries				
* Present value of total obligations (£M)	60.27	59.89	658.07	651.33
* % change in present value of total obligations	0.5%	-0.5%	0.5%	-0.5%
* Projected service cost (£M)	2.13	2.13	12.38	11.88
* % change in projected service cost	0.0%	0.0%	2.1%	-2.0%
Rate of increase to pensions in payment and deferred pensions				
* Present value of total obligations (£M)	60.93	59.04	664.04	645.46
* % change in present value of total obligations	1.6%	-1.6%	1.4%	-1.4%
* Projected service cost (£M)	2.20	2.07	12.37	11.89
* % change in projected service cost	3.1%	-3.0%	2.1%	-1.9%
Adjustment to mortality age rating assumption				
	-1 year	+1 year	-1 year	+1 year
* Present value of total obligations (£M)	61.72	58.24	672.35	637.01
* % change in present value of total obligations	2.9%	-2.9%	2.7%	-2.7%
* Projected service cost (£M)	2.21	2.05	12.58	11.66
* % change in projected service cost	3.6%	-3.6%	3.8%	-3.8%

31 Cash Flow Statement

31.1 The adjustment to the surplus or deficit for non-cash items comprises the following items:

2015/16 £'000		2016/17 £'000
(4,447)	Depreciation	(4,355)
(1,615)	Impairments & downward revaluations	(4,380)
0	Amortisations	0
0	(Increase)/Decrease in impairment for bad debts	0
1,023	(Increase)/Decrease in creditors	(733)
2,136	Increase/(Decrease) in debtors	4,121
81	Increase/(Decrease) in inventories	34
(341)	(Increase)/Decrease in provisions	(288)
38	Actual cash payments made from provisions	344
(26,888)	Movement in pension liability	(23,160)
(945)	Movement in the value of investment properties	30
(74)	Carrying amount of non current assets and non current assets held for sale, sold or derecognised	(10)
(184)	Other non-cash items charged to the net surplus or deficit on the provision of services	0
(31,216)	**Adjustment for non-cash items**	**(28,397)**

31.2 The adjustment for items that are financing or investing cash flows comprises the following items:

2015/16 £'000		2016/17 £'000
0	Proceeds from the sale of fixed assets	0
3,864	Capital grants and contributions received	14
3,864	**Adjustment for activities that are investing or financing cash flows**	**14**

31.3 The cash flow from operating activities includes the following items:

2015/16 £'000		2016/17 £'000
(366)	Interest received	(257)
0	Dividends received*	(121)
469	Interest paid	426
103	**Net cash outflow from investing activities**	**48**

*Dividends received were included within interest received in the 2015/16 statements of accounts.

31.4 The cash flow from investing activities comprises the following items:

2015/16 £'000		2016/17 £'000
	Cash outflows	
5,825	Purchase of property, plant and equipment	10,374
39,814	Purchase of short-term and long-term investments	26,531
	Cash inflows	
0	Proceeds from the sale of property, plant and equipment	(150)
(37,761)	Proceeds of sale of short-term and long-term investments	(31,909)
(3,864)	Capital grants received	(14)
0	Other income	0
4,014	**Net cash outflow from investing activities**	**4,832**

31.5 The cash flow from financing activities comprises the following items:

2015/16 £'000		2016/17 £'000
	Cash outflows	
31	Cash payments for the reduction of the outstanding liabilities relating to finance leases	65
61	Repayments of long and short term borrowing	0
0	Other payments for financing activities	0
	Cash inflows	
0	Cash receipts of long and short term borrowing	0
0	Other receipts from financing activities	0
92	**Net cash outflow from financing activities**	**65**

32 Contingent liabilities and assets

32.1 The Authority is not aware of any contingent liabilities and assets.

33 Other notes that require disclosure but which this Authority has nothing to report

33.1 The Authority has no undischarged obligations from long-term projects.
33.2 The Authority does not have any intangible assets.
33.3 The Authority has no material interests that would require the production of Group Accounts.
33.4 The Authority does not administer any Trust Funds.
33.5 The Authority does not have any PFI schemes.
33.6 The Authority is not undertaking any construction contracts on behalf of a third party
33.7 The Authority does not provide any agency services.
33.8 The Authority does not have any pooled budget arrangements.
33.9 The Authority does not receive any dedicated schools grant.
33.10 The Authority does not capitalise borrowing costs.
33.11 The Authority does not operate a road charging scheme under the Transport Act 2000.
33.12 The Authority did not acquire or discontinue any operations in the year.

33.13 The Authority does not have sufficient accumulated absences to require an accumulated absences account to be maintained.

Pension Fund Account

2015/16 £'000		2016/17 £'000	2016/17 £'000	see note
	Contributions receivable:			
(4,449)	Normal contributions from employer	(4,293)		
0	Early retirement contributions from employer	(61)		
(3,425)	Contributions from members	(3,686)	(8,040)	
(7,874)				
(53)	**Transfers in**		(97)	
	Benefits payable:			
14,071	Pensions	15,530		
4,413	Commutations and lump sum retirement benefits	4,468		
0	Lump sum death benefits	0	19,998	
18,484				
	Payments to and on account of leavers:			
0	Refunds of contributions	0		
140	Individual transfers out to other schemes	351	351	
140				
10,697	Net amount payable for the year before top-up grant receivable from the Government		12,212	
(10,697)	**Top up grant receivable from the Government**		(12,212)	
0	**Net amount receivable/payable for the year**		**0**	

Net Assets statement

2015/16 £'000	Net current assets and liabilities	2016/17 £'000	
1,662	Pension top-up grant receivable from Government	5,481	
	Pensions paid to pensioners in advance	1,258	
	Liabilties to be paid in relation to employee contribution holidays	(509)	
(1,662)	Temporary (borrowing) / lending	(6,230)	4
0		**0**	

Notes to the pension fund accounting statement

1 Accounting policies

1.1 The accounting policies for the Pension Fund Account are the same as those of the main Authority and can be found in section 1 of the main Authority's notes to the core financial statements.

2 Funding arrangements

2.1 The funding arrangements changed for the Firefighters' Pension scheme on 1 April 2006 at the same time as the New Firefighters' Pension Scheme was introduced. Before, the Authority was responsible for the cost of paying the pensions of its own former employees on a pay-as-you-go basis. Under the new arrangements the schemes remain unfunded and as before do not have any investment assets. The Authority no longer meets the out going pensions directly, instead it pays an employer's pension contribution based on a percentage of pay into the pension fund account. All Fire Authorities are required by legislation to operate a Pension Fund Account and the amounts paid into and out of it are specified by regulation.

2.2 The Account is balanced to nil each year by receiving cash in the form of a pension top-up grant from the Government equal to the amount by which the amount payable from the Account exceeded the amount receivable. Should the position arise where the amounts receivable ever exceed those payable then the surplus would be paid over to the Government.

3 Accounting for future liabilities

3.1 These accounts do not take into account the liabilities to pay pensions and other benefits after the end of the financial year. As this liability rests with the Authority it is included in the Authority's own Income and Expenditure Account and Balance Sheet. Further details can be found in note 30 to the main Authority accounts.

4 Temporary borrowing or lending

4.1 This represents the balance held in or owed to Hampshire Fire & Rescue Authority's bank account.

1 The Authority's responsibilities

1.1 The Authority is required

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

2 The Chairman's Statement

2.1 I certify that the Statement of Accounts for 2016/17 were considered and approved at the Standards and Governance Committee Meeting on 15 September 2017.

Chairman
Standards and Governance Committee

1 The Chief Financial Officer's responsibilities

1.1 The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in Great Britain ('the code of practice').

In preparing this statement of accounts, the Chief Financial Officer has sought to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that were reasonable and prudent
- comply with the Code of Practice on Local Authority Accounting in Great Britain.

The Chief Financial Officer has also:

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

2 The Chief Financial Officer's statement

2.1 I certify that the Statement of Accounts gives a true and fair view of the position of the Hampshire Fire and Rescue Authority as at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Rob Carr CPFA
Chief Financial Officer / Section 151 Officer

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

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Annual Governance Statement for Hampshire Fire and Rescue Authority

1 Scope of Responsibility

Hampshire Fire and Rescue Authority is responsible for ensuring that:

- its business is conducted in accordance with the law and to proper standards;
- public money is safeguarded and properly accounted for, and used economically, efficiently and effectively;
- pursuant to the Local Government Act 1999 it secures continuous improvements in the way in which its functions are exercised, having regard to a combination of efficiency, effectiveness and economy; and
- there is a sound system of internal control which facilitates the effective exercise of the Fire Authority's functions and which include arrangements for the management of risk.

This Annual Governance Statement explains how the Authority meets with the requirements of the Accounts and Audit (England) Regulations 2015 and complies with the principles contained in the Delivering Good Governance in Local Government Framework in 2016-2017.

2 The purpose of Corporate Governance

The governance framework comprises the systems and processes, and cultures and values, by which the Hampshire Fire and Rescue Service is directed and controlled and its activities through which it accounts to, engages with, and leads the community. It enables the Fire Authority to monitor the achievement of its priorities and to consider whether they have led to the delivery of appropriate, cost effective and efficient services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve its 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 risk to the achievement of the Authority's priorities. It evaluates the likelihood of those risks being realised and the impact should they be realised, in order to manage them efficiently, effectively and economically.

The governance framework was in place at Hampshire Fire and Rescue Authority for the year ending 31 March 2017 and up to the date of approval of the Statement of Accounts.

3 Core Principles of good governance

3.1 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

3.1.1 The Fire Authority took a proactive approach in reviewing its governance arrangements during 2015/16. The aim was to ensure the Authority was in the best position to continue to lead Hampshire Fire and Rescue Service in delivering excellent quality services to the residents of Hampshire whilst remaining resilient and responsive to challenges in the future. The new shaped Authority will comprise 10 members. The Police and Crime Commissioner attends Authority meetings and has the ability to speak on items on the agenda. The aim of the new arrangements is to have a strategic and business focus with Member engagement and scrutiny across the business of the Authority.

3.1.2 The key policies that set out the scope of authority for Members and that delegated to staff is detailed in the Scheme of Delegation, Contract Standing Orders and Financial Regulations. Both Members and staff are aware of their responsibilities within these policies. In particular, the Scheme of Delegation and Financial Regulations have been reviewed and will be presented to the Fire Authority at their meeting in June 2017.

3.1.3 There are a well-established set of core values which Members and staff are expected to observe and promote. These values are underpinned by a range of policies and procedures including Codes of Conduct for Members and for staff, registers of interests and gifts and hospitality.

3.1.4 The Fire Authority is committed to the highest ethical standards. A Code of Corporate Governance has been included in the refreshed Fire Authority Constitution to be considered in June 2017. The Code of Corporate Governance demonstrates a comprehensive commitment on the part of the Fire Authority to accountability, integrity, ethical values and the rule of law.

3.1.5 Members of Service Management Team have the relevant professional external networks and expertise to identify the impacts of new legislation. Legal advice is also provided to ensure the Authority continues to comply with legislation and regulation.

3.1.6 The Service has reviewed its internal governance structures and set up several internal boards to oversee key areas such as performance, risk management and assurance, culture, inclusion and diversity (people) and physical assets (vehicles and estates). These boards provide extra scrutiny on behalf of the Service Management Team, to which they report on a regular basis.

3.1.7 A Policy Framework has been developed and approved and a newly formed Policy Group is overseeing a review and embedding of all Service policies which will be completed by December 2017.

3.2 Ensuring openness and comprehensive stakeholder engagement.

3.2.1 The Authority’s Service Plan 2015-2020 sets out our aim to be the best fire and rescue service in the country and vision to work smarter, be more efficient, and to make life safer for everyone in Hampshire. It contains clear strategic Priorities. The Plan is on the Authority’s website and available to stakeholders in electronic and paper formats.

3.2.2 The Authority operates in an open and transparent way. It complies with the Openness of Local Government Bodies Regulations 2014. The Authority’s meetings are open to the public, and its papers and decisions are available through our website (save for individual items of a sensitive nature properly considered in confidential session). In addition, Fire Authority meetings are live-streamed to enable staff and the public better access to view decision making.

3.2.3 Clear guidance and protocols on decision making, effective arrangements for the approval of exempt reports and a revised template for reports and decisions ensures that the Fire Authority takes decisions in public when appropriate and after full consideration of relevant information.

3.2.4 The Authority enjoys a constructive relationship with the Trade Unions and

Associations representing staff groups within the Service, through which meaningful consultation and negotiation on service issues takes place.

3.2.5 Public consultation to listen to stakeholders and inform decision making is undertaken. Extensive consultation was undertaken during the Authority's recent Risk Review which was the most comprehensive integrated risk review the Service has carried out in recent years. The consultation process for the proposals enabled our staff, the public and other stakeholders to have their say on how their fire and rescue service should operate in the future. The process was quality assessed by the Consultation Institute and found to have conformed to best practice.

3.2.6 Hampshire Fire and Rescue Authority has a long history of collaborative working with partner agencies. In particular, Blue Light Collaboration is governed by an Executive Board consisting of the chief officers of Hampshire Constabulary, South Central Ambulance Service and Hampshire Fire and Rescue Service. The Board sets the strategic direction and oversees collaboration projects. The Chief Officer reports progress to the Fire Authority on a periodic basis.

3.3 Defining outcomes in terms of sustainable economic, social and environmental benefits.

3.3.1 Delivery of fire and rescue services and the associated community safety activity remains the Authority's core activity.

3.3.2 Our aim, vision and priorities are set out in the Hampshire Fire and Rescue Service Plan 2015-2020. The Plan sets out – for the benefit of our stakeholders – how the Authority:

- Assesses the risks
- Responds to changes and challenges, and
- Sets priorities and targets for improvement.

3.3.3 Our priorities and aims are clear and arranged under the themes of 'Making life safer' and 'Making our Service stronger' – our 'Safer, Stronger' aims. These focus our resources to the relevant community risks, and our organisational improvements to support our service delivery to ensure that we are efficient and effective. This Plan is underpinned by detailed departmental plans and our corporate Portfolio of projects. Progress against these plans is monitored through regular performance updates to the Service Management Team, Safer Stronger Board and the Fire Authority.

3.3.4 People Impact Assessments (PIAs) are used to assess the impact of projects to inform decision making. These include assessments of equality, health and safety, environmental and financial impacts.

3.4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the Authority ensures that they are only made after relevant options have been weighed and associated risks assessed.

3.4.2 The budget setting process is well established and prioritises budgets and spending to achieve intended outcomes. In recent years, the budget setting process has focussed on the achievement of savings to meet reductions in Government grant funding. However it is clear that it is focussed to deliver the Authority's aims and priorities which is underpinned by improvement.

3.4.3 Risks associated with the achievement of intended outcomes are detailed in Risk Registers held at strategic, departmental and project level. These evaluate the effectiveness of existing control measures as well as identifying proposed mitigation.

3.5 Developing the entity's capacity including the capability of its leadership and the individuals within it

3.5.1 The relationship between Members and Officers is established on a professional culture of mutual respect, trust and co-operation. Both uphold the principles set out in the Leadership Framework.

3.5.2 Members receive good induction training and attend regular 'awareness' sessions on current topics which are delivered during the year. The topics are decided by Members and officers to ensure that decision-making is based on knowledge and understanding of the issues involved. Regular bulletins (Members' Updates) are issued and Members receive copies of key internal staff communications. The Fire Authority has a Member Development champion who supports and oversees the development of Members in a number of ways, such as internal and external briefings and courses. The Fire Authority has achieved the South East Employers Charter for Member Development.

3.5.3 The Authority, its committees and the Chief Officer have access to a full range of professional advisers to enable them to carry out their functions effectively and in compliance with statutory requirements. Some legal, ICT and democratic services are provided through contracts for services (service level agreements) with Hampshire County Council. The Shared Service partnership with Hampshire County Council and Hampshire Constabulary provides a wide pool of professional advice for areas such as HR, finance and procurement.

3.5.4 The Service has a People Strategy which describes what is required of our people and provides clarity about what we will achieve in order to meet the changing needs and expectations of society and future opportunities for the Service.

3.5.5 Hampshire Fire and Rescue Service regularly reviews the shape of its workforce against the needs of the Service in the context of its capacity and capability requirements. This then informs a range of strategies, for example recruitment, retention and people development in order to provide effective leadership and deploy appropriate resources to meet the needs of the Service.

3.5.6 A refreshed Performance Development Review Process provides a framework for staff and managers to meet to discuss and set goals. The system now focuses on individual contribution within a team approach with effective performance conversations at all levels. This is supported by the development of a culture of on-going coaching style conversations which focus upon high performance in all aspects of our work. Staff are held accountable for their own performance and how this contributes to the overall performance of their team. They are encouraged to use the range of learning opportunities that are available across the Service.

3.5.7 Leadership and change management development programmes have been delivered to all levels of management.

3.6 Managing risks and performance through robust internal control and strong public financial management.

3.6.1 The Authority operates a Risk Management Strategy, with oversight of the arrangements provided by the Risk and Assurance Board, which reports to Service Management Team and the Fire Authority.

3.6.2 Effective performance management is in place to measure progress against aims and priorities to prompt remedial action where appropriate. Our newly formed Service Performance Board adds improved scrutiny of the performance management process. The Authority has a framework for regularly monitoring its performance with timely and relevant information. Both the Service Management Team and the Fire Authority review our key performance indicators on a regular basis.

3.6.3 We compare our performance to that of other fire and rescue services; for example, we make use of national benchmark information. This continues to show that we are performing well when compared with other fire and rescue services.

3.6.4 The Internal Audit Plan 2016 – 17 was developed to operate at a strategic level providing a value-adding, and proportionate level of assurance aligned to the Authority's key risks and objectives. This includes a regular review of the Service's risk management processes.

3.6.5 The internal audit plan incorporates provision for both proactive and reactive counter fraud and corruption work, which is underpinned by an Anti-Fraud and Corruption Strategy and Policy.

3.6.6 The delivery of the internal audit plan enables the Chief Internal Auditor to provide an annual report providing an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control which is reported to the Service Management Team and the Fire Authority.

3.6.7 The Standards and Governance Committee has a clear 'Terms of Reference' providing an effective source of scrutiny, challenge and assurance regarding the arrangements for managing risk and maintaining an effective control environment.

3.6.8 The Authority has strong financial management arrangements at both the strategic and operational level and consistently obtains unqualified opinions for its annual accounts and value for money assessments. The Section 151 Officer is the Chief Finance Officer and all formal significant financial decision making has the benefit of advice and review from this officer or his team.

3.6.9 Financial management in key risk areas across the Service focusses on activity and performance management alongside the budget management processes and the financial management framework throughout the Service is appropriately advised and supported by the Finance team.

3.6.10 The Authority has a medium term financial plan to inform its corporate planning. This identifies the likely levels of funding available to the Authority, the cost of its current spending plans and the shortfall we are anticipating in future years. It also provides information on the level and use of reserves in transforming and improving the Service. It has established a clear Financial Plan to 2021 with the specific purpose of closing our predicted and estimated funding gap of £1.75m. The medium term financial plan is overseen and monitored by our Safer Stronger Board and regularly reported to the Fire Authority.

3.6.11 The Authority has submitted an Efficiency Plan to the Home Office setting out its performance and plans for sustainable financial stewardship.

3.6.12 Financial planning and management is fully integrated with, and driven by, the corporate planning and monitoring processes set out above. This includes processes for the forward planning of expenditure, consultation on budget proposals, setting and monitoring income and budgets, and the completion of final accounts.

3.6.13 The Treasury Management Strategy is reviewed regularly and approved by the Fire Authority annually with the budget.

3.7 Implementing good practices in transparency reporting and audit to deliver effective accountability.

3.7.1 The 'Internal Audit Charter' is presented annually for approval by the Standards and Governance Committee. The purpose of the Internal Audit Charter is to formally define its purpose, authority, and responsibility. The Chief Internal Auditor has direct access to elected Members of the Authority and those who serve on the Standards and Governance Committee.

3.7.2 The on-going work of internal audit is presented through a quarterly progress report to the Standards and Governance Committee providing an overview of Service performance; delivery against the plan; and progress made by the Service in the implementation of management actions agreed to mitigate risks identified through internal audit work.

3.7.3 Where appropriate, internal audit will gain assurances from third parties to contribute to their overall assurance opinion.

3.7.4 Representatives of External Audit routinely attend Standards and Governance Committee meetings and present External Audit reports. Any recommendations for corrective action detailed within Internal or External Audit reports are highlighted to Members.

3.7.5 Financial reporting complies with relevant statute, codes and good practice guidance. Financial and performance information are reported consistently throughout the year. Where relevant and appropriate, performance comparisons are made to other organisations.

4 Obtain assurances on the effectiveness of key controls

4.1 Key controls relating to risks, internal control (including financial management), and governance processes are identified by senior managers as part of the governance framework and recorded on an annual return (assurance statement). Risks are included in risk registers at corporate and departmental level. Internal Audit, as part of its planned review of internal controls regularly evaluates the key controls to determine their adequacy and also carries out tests to confirm the level of compliance. An audit opinion on effectiveness is provided to management, and any actions for improvement to be agreed.

4.2 Hampshire Fire and Rescue Authority prides itself on being a professional learning organisation that actively seeks challenge and review.

4.3 In November 2015, the Authority underwent the Local Government Association's (LGA) Fire Peer Challenge, as part of sector led improvement. In January 2017, the Peer Challenge team was invited back to the Service to review our progress in implementing the improvements to which it had committed.

4.4 Other external reviews include the following:

- the ISO 270001 accreditation we hold for information security.
- a Home Office review of arrangements for our Public Sector Network.
- the LGA was used to help with the HFRA Governance Review.
- Hampshire Safeguarding Board's review of our safeguarding arrangements.

5 Evaluate assurances and identify gaps in control/assurance

5.1 One of the key elements of the Corporate Governance regime and the production of the Annual Governance Statement is the methodology applied to obtain the necessary assurance. This has included:

- a self-assessment assurance statement being sent every year to members of Service Management Team.
- consultation with other relevant officers throughout the Service.

5.2 The assurance statements cover a range of corporate governance and performance issues and they refer to the existence, knowledge and application within departments of governance policies generally.

6 Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance

6.1 The Service's Policy Group will ensure that all Service policies are up to date reviewed, and then embedded where appropriate by the end of the calendar year.

6.2 The Service Risk and Assurance Board is currently overseeing the review of Risk Registers and framework.

6.3 The Service will review its consultation strategy.

6.4 Preparation will be made to prepare the Service for the requirements under the new General Data Protection Regulations which come into force in May 2018.

6.5 The Service is currently reviewing its partnership policy and framework.

6.6 We will review the framework and arrangements that govern our People Impact Assessments.

6.7 The Service is reviewing its procurement practices and Contracts Register to ensure they are effective and ensure value for money.

7 There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored.

In response to the Action Plan identified in the 2015-2016 Annual Governance Statement:-

7.1 The Authority has concluded a review of its governance arrangements, including a review of the terms of reference of all committees of the Authority. The revisions have been included in a refreshed Constitution for the Fire Authority to be considered by Members at its meeting in June 2017.

7.2 The Authority has reviewed the Scheme of Delegation to officers to ensure that it remains effective. This is included in the Fire Authority's refreshed Constitution to be considered by Members in June 2017.

7.3 We have used external expertise to review the maturity of our Project Management Office function and benchmarked with our partners, particularly Hampshire Constabulary. We continue to improve the function to ensure that the form and structure of programme and project management is effective and efficient.

7.4 Having reviewed our internal governance arrangements, we have established several internal boards that report to Service Management Team. These provide added scrutiny to further improve how we make decisions and plan within the Service.

7.5 We continue to ensure our people are equipped with the appropriate knowledge, skills and equipment to have a culture that is focussed on high performance. This will be further enabled through the Performance Management and Assurance project taking place from 2016 – 2018.

7.6 We remain committed to embedding our engagement principles (time, space, conditions to think, talk, listen, include, and do) into the work that we do to include, involve, and consult with our stakeholders. The Service Plan and the Pathway to our cultural vision continue to focus our efforts. Responsibility to meaningfully engage with key groups of people is integrated into our programme and project management process. This is now overseen by our newly formed People Committee.

7.7 As part of the planned approach to ensuring that in the medium term, Hampshire Fire and Rescue Authority has a sustainable and balanced budget, a phase 3 savings programme is already in development which is expected to close the remaining forecast budget gap of £1.75m by 2020/21.

7.8 We have made some improvements to the technical relationship between our availability and payroll systems and continue to optimise these.

7.9 We have implemented most the recommendations from the 2015 Peer Review (some are longer term). In January 2017, we invited the LGA Peer Review team visited to follow up on our progress. This team reached a positive conclusion.

7.10 We have developed the new Service Performance Board to improve the oversight of performance of Service activity. This Board focusses on performance on behalf of the Service Management Team to ensure that appropriate measures are in place to enable effective performance monitoring and that reports are relevant and timely.

Declaration

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are set out in this Statement.

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

Signed:

Chairman

Date:

Signed:

Chief Officer

Date: