



# Statement of accounts 2018–2019

London Fire Commissioner



# Contents

## PREFACE

Narrative Statement	<b>3</b>
Statement of Responsibilities for the Statement of Accounts	<b>20</b>
Independent Auditor's Report	<b>21</b>
Statement of Accounting Policies	<b>22</b>
Accounting Standards Issued but Not Yet Adopted	<b>25</b>

## CORE ACCOUNTING STATEMENTS

Comprehensive Income and Expenditure Statement	<b>27</b>
Movement in Reserves Statement	<b>28</b>
Balance Sheet	<b>29</b>
Cash Flow Statement	<b>30</b>
Notes to Core Accounting Statements	<b>32</b>

## SUPPLEMENTARY STATEMENTS

Firefighters' Pension Schemes Fund Account	<b>117</b>
Net Assets Statement	<b>117</b>
Firefighters' Pension Schemes Fund Account notes	<b>118</b>
Annual Governance Statement	<b>121</b>
Glossary of Terms	<b>131</b>

**WRITTEN STATEMENTS AND  
NARRATIVE REPORT**

# Director of Corporate Services' Narrative Report

## 1. THE LONDON FIRE BRIGADE

The London Fire Brigade (LFB) is the busiest fire and rescue service in the country. It is also one of the largest firefighting and rescue organisations in the world, protecting people and property from fire within the 1587 square kilometres of Greater London.

The LFB is run by the London Fire Commissioner (LFC), a corporation sole and the fire and rescue authority for London.

The LFB is here to help make London the safest global city. Our vision is to be a world class fire and rescue service for London, Londoners and visitors. A number of factors are important to us and they influence how the Brigade will meet the challenges of making London a safer place to live, work and visit.

## HOW THAT WORKS IN PRACTICE

The LFB's main role as a fire and rescue service is to make London the safest global city. This means working to make sure London has the lowest number of fires, and fewer injuries and deaths caused by fire. The LFB can do this by influencing safety in the 'built environment' – buildings, roads, transport systems and so on – and through education and regulation.

The LFB is a trusted partner, helping to create a safer, healthier London by working with local communities to promote healthier lifestyles. The LFB raises awareness of safety and wellbeing considerations in a whole range of activities, from fire safety and road safety, through to caring for the most vulnerable residents and educating and informing tomorrow's young Londoners.

The LFB will maximise what it can do by working with individuals and businesses to help them identify what they can do for themselves to ensure their own safety and the safety of others. The LFB will continue to provide services to meet the needs of London's diverse communities.

In addition to the aims of reducing the risk of fire, LFB will also deliver a wide range of services, information and advice together with emergency partners to contribute to:

- The lowest numbers of deaths and injuries from road traffic collisions
- The highest survival rates in cardiac arrests in the world
- The lowest levels of crime and disorder

## Director of Corporate Services' Narrative Report (continued)

### 2. THE MAYOR OF LONDON

The London Fire Commissioner is a corporation sole and the fire and rescue authority for London. It is a functional body of the Greater London Authority. The Mayor of London sets its budget, approves the London Safety Plan, and can direct it to act. There is a Deputy Mayor for Fire and Resilience.

### 3. THE LONDON FIRE COMMISSIONER

#### HOW THE LONDON FIRE BRIGADE IS GOVERNED

The London Fire Commissioner is the fire authority for Greater London and is responsible for providing London's fire and rescue service, ensuring that it is effective and efficient.

All formal decisions about London Fire Brigade are taken by the London Fire Commissioner. Some decisions relating to the London Fire Brigade may need to be taken by, or in consultation with, the Deputy Mayor for Fire and Resilience, or the Mayor of London.

These decisions are published, and can also be subject to scrutiny by the London Assembly.

#### HOW DECISIONS ARE MADE

The process for decisions is:

- i. Reports for decision are taken to a Commissioner's Board, usually following consideration by the relevant directorate Board(s)
- ii. The Commissioner's Board will discuss and agree final recommendations
- iii. The London Fire Commissioner will then take final decisions based on recommendations from the Commissioner's Board
- iv. Once the formal decision is made by the London Fire Commissioner, the decision and the reports supporting it will be published on our decisions page

#### EXCEPTIONS TO THE PROCESS

The Mayor can direct that reports should go to him or the Deputy Mayor for Fire and Resilience. If that is the case, final recommendations will still come back to the London Fire Commissioner for formal decision and publication.

#### HOW THE LONDON FIRE COMMISSIONER IS SCRUTINISED

The Fire, Resilience and Emergency Planning (FREP) Committee has been set up to scrutinise how the London Fire Commissioner is exercising its functions.

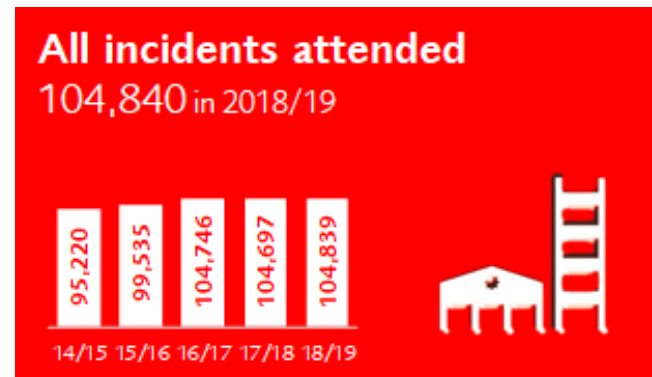
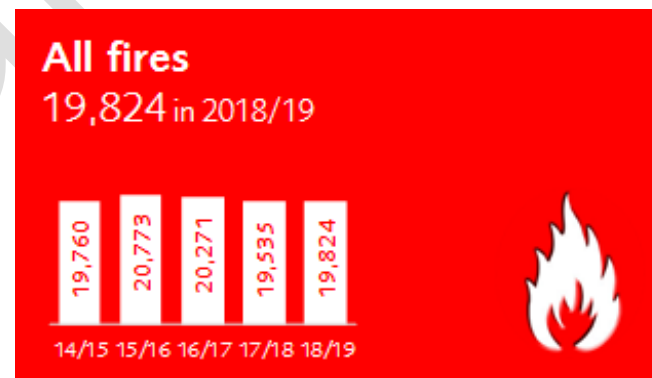
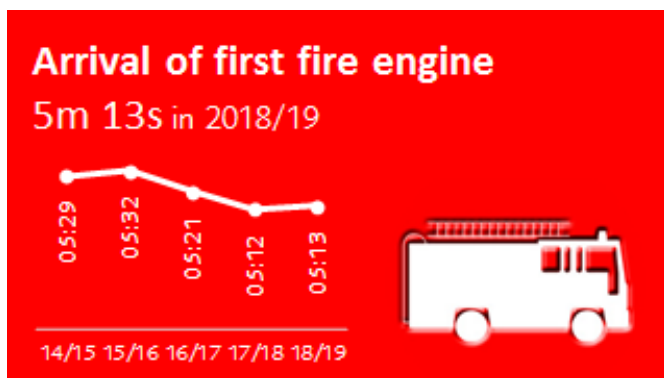
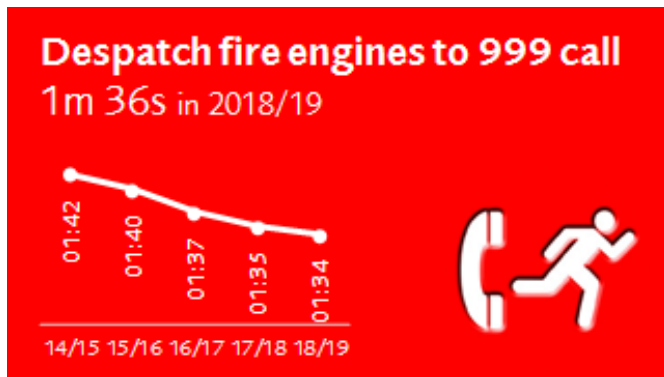
The LFB staff will prepare performance reports, monitoring data and help develop thematic reviews to facilitate the scrutiny work of FREP.

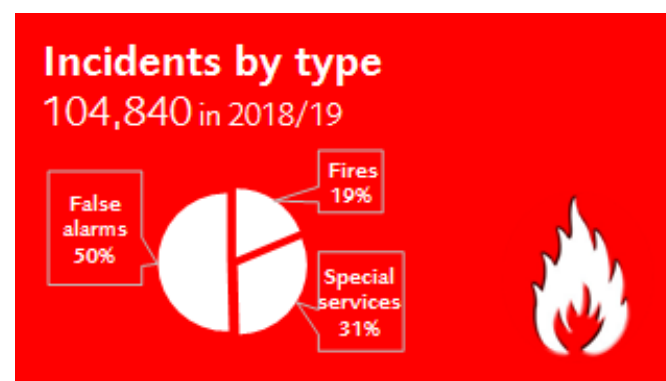
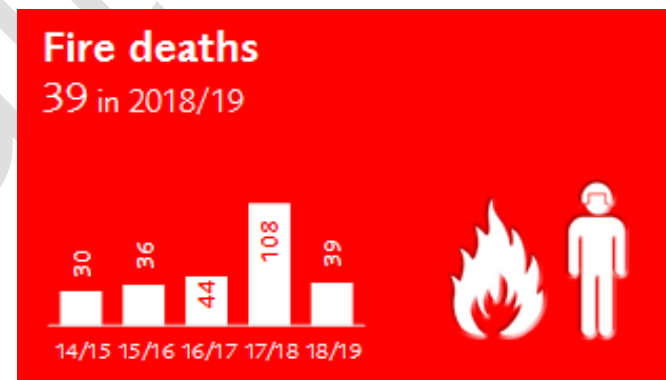
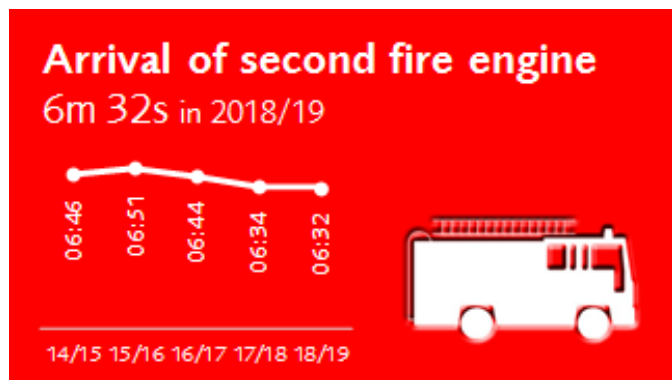
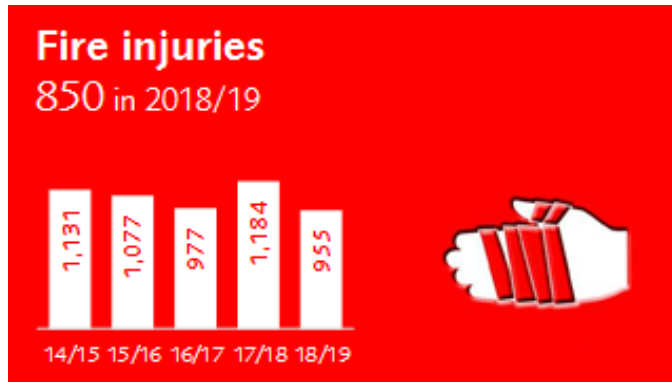
The London Fire Commissioner's budget is also subject to scrutiny through the London Assembly's Budget and Performance Committee.

## Director of Corporate Services' Narrative Report (continued)

### THE BRIGADE'S PERFORMANCE ACHIEVEMENTS 2018/19

Performance as at year ending March 2019 shows that most performance indicators are meeting their target. Highlights include:





## Director of Corporate Services' Narrative Report (continued)

### THE BRIGADE'S PERFORMANCE

The LFC has made significant progress in making London safer and more secure in 2018/19. Some of these achievements are set out below.

### THE FIRE AT GRENFELL TOWER

The fire at Grenfell Tower on 14 June 2017 was an unprecedented and tragic event. Since then LFB has continued to support the Public Inquiry and the ongoing police investigation into the Grenfell Tower fire and has been identifying and putting in place any changes to help prevent another community suffering a similar incident.

New equipment such as fire escape hoods have been introduced. These provide members of the public with up to 15 minutes protection from toxic smoke. Firefighters can now offer people a hood to wear while they are being rescued. They will also be used to protect those who aren't able to escape easily, such as elderly people or wheelchair users.

The LFB continues to work with building owners and local authorities across London to make sure the right interim measures are in place where ACM cladding is on buildings, to help keep people safe.

### PREVENTING AND RESPONDING TO FIRES AND EMERGENCIES

Londoners continue to receive one of the fastest fire emergency responses in England, with a London wide average of a first fire engine arriving at an incident in just over five minutes and a second in just over six and a half minutes.

Over 82,000 homes in London received a home fire safety visit (HFSV) from firefighters.

The 2018 recruitment campaign targeted women and used the concept "firefighter, so much more" to break down perceptions of the role of the modern firefighter. It attracted more than 6,000 applicants, including over 800 women. LFB is building on this for other under represented communities – research on the perceived barriers preventing people from BAME communities applying to join was completed and has fed into the work of the new Outreach team who are working with communities across London and saw their first candidates become apprentice firefighters this year.

New modernised Personal Protective Equipment (PPE) has been issued to all our firefighters and officers in the biggest fire kit update for eight years.

The Fire, Safe and Well pilot ran in Islington, Merton, Ealing, Greenwich and Waltham

Forest. This is where firefighters work with partners to provide a new joined up service covering winter warmth, smoking cessation and slips, trips and falls as well as fire safety for some of the most vulnerable members of communities. Over 1,000 of these visits have taken place.

Over 22,000 Londoners visited the temporary London Fire Brigade Museum in Lambeth, learning about the heritage of the fire service in London, how to keep themselves safer in the home and helping to shape what the new Museum at 8 Albert Embankment will look like when it opens in 2023.



## Director of Corporate Services' Narrative Report (continued)

### CAMPAGNING FOR CHANGE

The LFB continued to take forward the Total Recalls campaign calling for improvement in the safety of white goods in people's homes and saw progress with new commitments from Government to take forward the changes being called for.

LFB has advocated the greater use of sprinklers in homes where vulnerable people live, in all residential blocks over 18 metres tall and in all schools, generating high profile media coverage and a parliamentary debate around the Government consultation on the issue.

LFB is directly contributing to change at a national level with specialist officers embedded in the Government building safety programme and by hosting the National Operational Guidance team. This team has now transitioned into the Central Programme Office for the National Fire Chiefs' Council (NFCC) maintaining operational guidance alongside the provision of programme, project and benefits management services for the fire sector.

Following an audit of care homes in the capital - which showed many did not have proper fire safety measures in place - the LFB has worked with the Care Quality Commission (CQC) and wrote to all care homes highlighting the issues identified and the steps that can be put in place to make vulnerable residents safer from fire.

## Director of Corporate Services' Narrative Report (continued)

### 4. FINANCIAL PERFORMANCE

#### CORE FUNDING

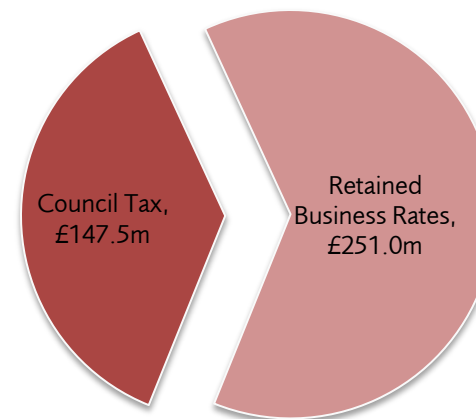
As one of the Greater London Authority's functional bodies the LFC's core funding is set and provided by the Mayor of London. This funding is provided through a mix of council tax and retained business rates which provided funding of £398.5m in 2018/19.

For a Band D council tax payer the LFB's element of the their council tax bill was £50.22 in 2018/19, or 97p a week.

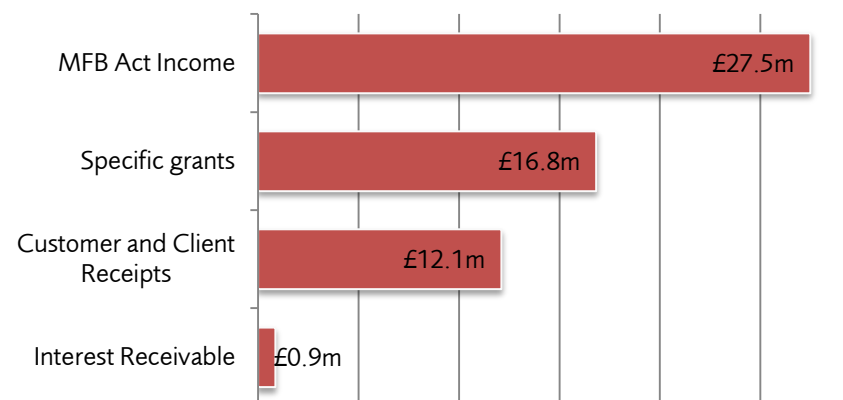
#### INCOME

The LFC also receives additional income through a range of items, including income under the Metropolitan Fire Brigade (MFB) Act and grants from central government. This additional income totals £57.3m.

#### FUNDING FROM THE GLA



#### OTHER INCOME SOURCES



## Director of Corporate Services' Narrative Report (continued)

### REVENUE EXPENDITURE

This combination of core funding from the GLA and other income provided total funds of £455.7m in 2018/19. After including a net payment into earmarked reserves of £17.4m this provided for expenditure of £438.3m.

Total expenditure in 2018/19 was £434.2m, £4.1m less than budgeted and the breakdown of that expenditure, shown to the right, was largely on staff costs – Operational staff (£239.9m) and Other Staff (£54.6m).

LFC Revenue	Budget £'000	Draft Outturn £'000	Variance £'000
Operational staff	241,115	239,924	(1,191)
Other staff	55,994	54,611	(1,383)
Employee related	23,890	24,764	874
Pensions	20,445	20,493	48
Premises	37,865	37,362	(503)
Transport	16,330	15,449	(881)
Supplies and services	29,230	30,011	781
Third party payments	2,262	2,207	(55)
Capital financing costs	9,770	9,365	(405)
Central contingency against inflation	215	-	(215)
<b>Total revenue expenditure</b>	<b>437,116</b>	<b>434,186</b>	<b>(2,930)</b>
Other income	(39,043)	(40,434)	(1,391)
<b>Net revenue expenditure</b>	<b>398,073</b>	<b>393,752</b>	<b>(4,321)</b>
Use of earmarked reserves	16,749	17,398	649
<b>Financing Requirement</b>	<b>414,822</b>	<b>411,150</b>	<b>(3,672)</b>
<b>Financed by:</b>			
Specific grants	(16,352)	(16,826)	(474)
GLA funding	(398,470)	(398,470)	-
<b>Net Financial Position</b>	<b>-</b>	<b>(4,146)</b>	<b>(4,146)</b>

## Director of Corporate Services' Narrative Report (continued)

### CAPITAL EXPENDITURE

Total capital expenditure in the year was £13.4m, of which £13.3m was funded from capital receipts and £0.1m from capital grants.

The majority of the capital expenditure (71%) was on the fleet and equipment replacement, which included the roll out of 50 new fire appliances in the year.

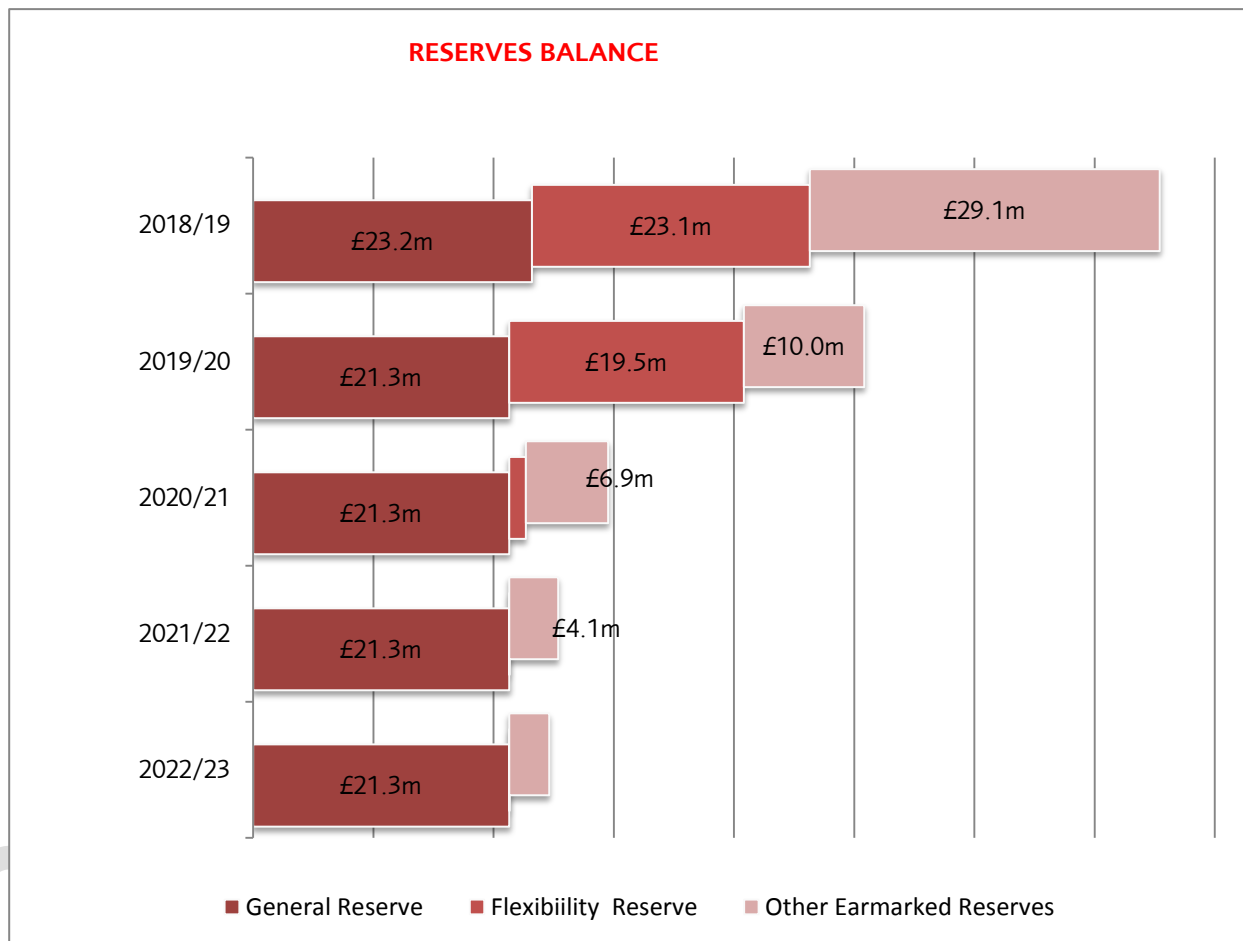
LFC Capital	Draft Outturn 2018/19 £'000
ICT Projects	582
Estate Projects	3,212
Fleet and Equipment Projects	9,638
<b>Total capital expenditure</b>	<b>13,432</b>
<b>Financed by:</b>	
Capital Receipts	13,314
Grants	84
Revenue Contribution to Capital	34
<b>Total</b>	<b>13,432</b>

## Director of Corporate Services' Narrative Report (continued)

### RESERVES

The LFC had total reserves of £75.4m as at 31 March 2019, comprising £23.2m in general reserves and £52.2m in earmarked reserves. The chart shows how earmarked reserves are expected to be consumed over the next four years.

The general reserve is maintained at a minimum of 3.5% of net revenue expenditure, and funds above this amount will be transferred into the budget flexibility reserve as part of the review of the 2018/19 outturn position, to support the budget in future years. This and other agreed transfers at the end of the 2018/19 financial year will increase the budget flexibility reserve to £30.4m, earmarked reserves to £31.1m and reduce the general reserve to £13.9m. The general reserve would then be expected to remain at the 3.5% minimum level of £13.9m in each of the following financial years from 2020/21 to 2022/23.



## Director of Corporate Services' Narrative Report (continued)

### PLANNED EXPENDITURE FOR FUTURE YEARS

The LFC has set out revenue and capital plans for its expenditure over the next four financial years, as shown in the table.

The plans show a balanced revenue budget to 2020/21 but with a budget gap of £18.0m by 2022/23.

Revenue Expenditure	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
<b>Operational Staff</b>	<b>269.8</b>	<b>273.5</b>	<b>278.9</b>	<b>284.6</b>
Other Staff	59.9	58.3	58.9	59.6
Employee Related	20.4	19.9	20.7	21.2
Firefighter's Pensions	22.1	22.3	22.6	22.6
Premises	51.4	38.7	40.2	41.1
Transport	18.9	17.0	17.5	17.8
Supplies and Services	31.1	29.6	30.6	29.6
Third Party Payments	1.8	1.8	1.8	1.8
Capital Financing Costs	9.8	11.3	12.4	12.4
Savings to be achieved	-	-	(17.8)	(18.0)
<b>Total Revenue Expenditure</b>	<b>485.2</b>	<b>472.4</b>	<b>465.8</b>	<b>472.7</b>
Income	(38.0)	(39.7)	(41.7)	(42.9)
<b>Net Revenue Expenditure</b>	<b>447.2</b>	<b>432.7</b>	<b>424.1</b>	<b>429.8</b>
Use of Earmarked Reserves	(23.8)	(20.9)	(3.8)	(0.7)
<b>Financing Requirement</b>	<b>423.4</b>	<b>411.8</b>	<b>420.3</b>	<b>429.1</b>
Specific Grants	31.1	12.5	12.5	12.5
<b>GLA Funding</b>	<b>392.3</b>	<b>399.3</b>	<b>407.8</b>	<b>416.6</b>

Capital Expenditure	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Estates Projects	10.7	11.4	14.8	15.0
ICT Projects	4.8	4.6	3.2	4.7
Fleet	25.3	22.2	7.6	2.3
<b>Total</b>	<b>40.8</b>	<b>38.2</b>	<b>25.6</b>	<b>22.0</b>

## Director of Corporate Services' Narrative Report (continued)

### FINANCIAL CHALLENGE

The LFB's Medium Term Financial Plan sets out the financial pressures the organisation is facing over the next four financial years, with the latest position showing a budget gap of £18.0m by 2022/23. This is despite delivering savings of £126.4m since 2010/11, and additional funding provided by the Mayor that will increase the LFC's funding by £30.0m over the next four years.

In addition to inflation and pay pressures one of the largest financial challenges facing the LFB in the coming years is a result of increasing pension costs. The full impact of these pension pressures is yet to be confirmed.

### FOUR YEAR BUDGET GAP

The Brigade's Medium Term Forecast provides a high level forecast of the organisation's spend and funding for each of the next four financial years. The table below summarises the most recent position which was included in the

2019/20 Budget report.

The table demonstrates that the four year budget gap is £18.0m. The table shows there is a budget gap in 2019/20 of £3.6m and a forecast budget gap of £18.1m in the second year that can be met through a draw on the budget flexibility reserve, resulting in a balanced budget. The remaining budget flexibility reserve can then be applied in 2021/22 to reduce the £19.2m gap in that year to £17.8m.

The budget gap over a new four year period up to 2023/24 will be considered as part of the budget process in 2019/20.

Resources allocation for the Brigade reflects the priorities as set out in the London Safety Plan.

### RISK MANAGEMENT

Strategic risk management enables the Brigade to plan for, anticipate, manage, and mitigate risks which have the potential to seriously impact upon the services provided by the organisation. Risk management is a process which seeks to identify, evaluate and manage these risks in a structured way. A robust strategic risk management framework enables the LFC to take sufficient action, which could involve prevention of significant risks and/or reduction of the impact of those that do occur by putting adequate risk mitigation controls in place.

Since the new risk strategy was approved on 12 March 2018 and the corporate risks reviewed, Heads of Service have been consulted to identify and develop risk controls and mitigations and regular quarterly reviews take place at Director Boards to monitor controls and assess risk ratings. This allows dynamic monitoring of risks as controls develop and the risk landscape changes. The following (corporate) risks are those which officers have identified could have a serious impact on how the Brigade operates.

Summary Budget Gap	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Budget Gap/ (Surplus)	3.6	18.1	19.2	18.0
Payment into / (Draw from) Budget Flexibility Reserve	(3.6)	(18.1)	(1.4)	-
<b>Budget Gap After Reserve Use</b>	<b>-</b>	<b>-</b>	<b>17.8</b>	<b>18.0</b>
Budget Flexibility Reserve Balance	19.5	1.4	-	-

## Director of Corporate Services' Narrative Report (continued)

There are 23 risks on the Brigade's corporate risk register. There are five 'red' risks, the highest of which relates to the Grenfell Tower Fire Inquiry and public confidence. There has been one significant change to the register in the last quarter as a result of latest reviews. In order to ensure that the Brigade is appropriately prepared for all eventualities, a Brexit risk has been added to the risk register: CRR35 - the UK leaving the European Union will have an number of implications for the Brigade, Partner agencies and the London Community, which are likely to vary in significance depending on the ultimate withdrawal scenario (e.g. no-deal, hard or soft Brexit).

Code	Risk Description	Score
CRR1	Death or serious injury occurs as a result of our staff not operating a safe system of work	6
CRR7	Failure of a significant contractual relationship impacts on the delivery of services	6
CRR8	The actions arising from the inclusion strategy fail to deliver a more diverse workplace	6
CRR10	The current environment doesn't support effective planning to meet the budget gap forecast in 2022/23	6
CRR13	A breakdown in industrial relations affects our ability to deliver the service	8
CRR15	The national programme to replace Airwave with the Emergency Services Network (ESN) does not deliver a solution for the provision of radio and data communications which is both affordable in the long term and which delivers the complete functionality required by LFB	6
CRR18	The current threat levels arising from terrorism means that the Brigade is under prepared in its initial response to certain types of incident	9
CRR19	Complete failure of the Brigade's mobilising system	6
CRR20	The Grenfell inquiry process impacts on staff/officer wellbeing resulting in an increase in officers unavailable for key roles and reducing the resilience of the service	8
CRR21	The Brigade's Adult Safeguarding Framework does not support effective and efficient referrals to appropriate agencies to adequately support the needs of vulnerable people	6
CRR22	Brigade ICT services are affected by a cyber attack	9
CRR23	Staff do not get support for their mental health problems which negatively affects individual wellbeing and organisational effectiveness	6
CRR24	Our capacity to deliver change is exceeded meaning that benefits are not fully delivered	8
CRR25	Brigade services are vulnerable to a pandemic outbreak	2
CRR26	HM Inspection results in areas of the service receiving a poor or inadequate rating which reduces public confidence in LFB	4
CRR27	The resilience of the Brigade is impacted by a series of serious incidents and major events	6
CRR29	The Grenfell Tower Fire Public Inquiry results in conclusions about Brigade policies or actions which reduce staff/public confidence and / or public safety.	12
CRR30	High sickness levels result in a reduction in operational resilience	6
CRR31	Operational vacancies at the Firefighter grade impacts on operational resilience	6
CRR32	Newly commissioned training requirements are not accurately planned, specified, or evaluated	6
CRR33	The training provider is unable to provide effective and efficient training to deliver the Brigade's needs	9
CRR34	Non contracted training provision does not effectively and efficiently secure maintenance of skills	9
CRR35	The United Kingdom leaves the European Union causing disruptions to communities, infrastructure or costs sufficient to challenge LFB service delivery through disruptions to services, suppliers, or by demand increases	3



## Director of Corporate Services' Narrative Report (continued)

### 5. UPCOMING CHALLENGES

#### GRENFELL TOWER FIRE

The Brigade received the first of multiple calls to a fire at Grenfell Tower in North Kensington at 00:54 on the morning of Wednesday, 14 June 2017. The fire affected all floors of the 24 storey building, from the second floor up, and was declared a major incident by the Brigade. Over 200 firefighters and officers attended, with 40 appliances and a range of specialist vehicles, including 14 fire rescue units. Crews wearing breathing apparatus worked in extremely difficult conditions to rescue 65 people and to bring the major fire under control. Nevertheless, the fire led to major loss of life.

The Grenfell Tower Inquiry is examining the circumstances leading up to and surrounding the fire at Grenfell Tower. It will establish the facts and will make recommendations as to the action needed to prevent a similar tragedy happening again. Phase 1 of the inquiry, which looked at the night of the fire, is expected to report in the autumn of 2019. Phase 2 of the inquiry will then look at the circumstances that lead up to the fire.

The Criminal Investigation led by the Metropolitan Police also continues. Both this

and the inquiry itself are expected to have resource implications for the London Fire Commissioner in future years.

#### CORE FUNDING

The Government has announced that a spending review will take place in 2019/20, which could have funding implications for the LFB in future years. The precise nature and timing of this is being affected by the challenges in securing a deal for the UK's exit from the European Union.

## Director of Corporate Services' Narrative Report (continued)

### ACCOUNTING STATEMENTS

The LFC's accounting statements that follow have been prepared using the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The Code is based on International Financial Reporting Standards (IFRS), except where interpretations or adaptations have been made to fit the Public Sector as detailed in the Code. Accounting policy changes arising out of the adoption of the IFRS-based Code are accounted for retrospectively unless the Code requires an alternative treatment. The accounts are supported by the Statement of Accounting Policies and by various notes to the accounts.

It should be noted that as this is the first year of the LFC there are no prior year comparisons included in the accounts and where balances have been brought forward from LFEPA they are shown as opening balances on 1 April 2018.

The accounting statements following comprise:

- **THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

This sets out the respective responsibilities of the LFC and the Director of Corporate Services for the accounts.

The Core Accounting statements:

- **THE MOVEMENT IN RESERVES STATEMENT**

This shows the movement in year on the different reserves held by the LFC, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus/ (Deficit) on the Provision of Services line shows the true economic cost of providing 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 net increase/decrease before transfers to the earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves.

- **THE COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT**

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

position is shown in the Movement in Reserves Statement.

- **THE BALANCE SHEET**

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the the LFC. The net assets (assets less liabilities) are matched by the reserves held by the LFC. Reserves are reported in two categories.

The first category is usable reserves, i.e. those reserves that may 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 that may only be used to fund capital expenditure or repay debt).

The second category of reserves is for those that can not be used to provide services. This category of reserves includes reserves 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'.

## Director of Corporate Services' Narrative Report (continued)

### • THE CASH FLOW STATEMENT

This shows the changes in cash and cash equivalents of the LFC during the year. The statement shows how the LFC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations are funded by way of taxation and grant income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to 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 LFC.

The Statement of Accounts also includes the following Accounting Statements;

### • THE FIREFIGHTERS' PENSION SCHEMES FUND ACCOUNT

This shows transactions on the Fund account determined by regulation for the Firefighters' Pension Scheme for England. The Fund is unfunded but the LFC pays an employer's pension contribution based on a percentage of pay into the Pension Fund. The LFC is required by legislation to operate a Pension Fund and the amounts that must be paid in and out of the Fund are specified by regulation. The Fund is

balanced to nil at year end by either payment of the excess to, or receiving a top up grant to meet a deficit from, the Home Office (HO).

### • THE EXPENDITURE AND FUNDING ANALYSIS

This shows how annual expenditure is used and funded from resources by the LFC in comparison with those resources in accordance with generally accepted accounting practices.

### • THE ANNUAL GOVERNANCE STATEMENT (AGS)

This is also published in conjunction with the Statement of Accounts. In England, the preparation and publication of the Statement is in accordance with the CIPFA/SOLACE publication 'Delivering good governance in Local Government framework' and is necessary to meet the statutory requirement set out in Regulation 6 of The Accounts and Audit Regulations 2015 and does not form part of the annual financial statements.

### CAPITAL EXPENDITURE

The Local Government Act 2003 provides a prudential framework for capital finance. As part of these arrangements a Prudential Code for Capital Finance in Local Authorities, developed by CIPFA, provides a professional code of practice to support local authorities in taking decisions on capital management. The

key objectives of the prudential code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

In 2018/19, total spending on the capital programme for tangible and intangible assets was £13.4m. Spend included the rebuilding and modernising of fire stations and other buildings (£3.2m), upgrading ICT equipment (£0.6m) and the purchase of fleet vehicles and equipment (£9.6m). Capital expenditure on assets (£13.4m) is to be financed in accordance with the Prudential Code, funded by Government capital grant (£0.1m), and capital receipts (£13.3m).

The LFC took no new external borrowing during the year. Settlement of maturing principal debt during 2018/19 totalled £4m. As a result, as at 31 March 2019, the level of outstanding principal debt totalled £68.7m. The average interest payable on outstanding loans as at 31 March 2019 was 4.7% (4.9% at 1 April 2018).

The former training centre and fire station at Southwark was sold during the year, resulting in a capital receipt of £42.3m. There were no other property disposals during the year.

## Director of Corporate Services' Narrative Report (continued)

### INCOME AND EXPENDITURE FOR THE YEAR

The income and expenditure relates to monies collected and spent on the day to day running of the LFC's services, such as employees, premises, supplies and services costs, and income from levies and services we supply. The balance of expenditure that exceeds our income is funded by grant from the Greater London Authority (£398.5m) made up of the following elements; Retained Business Rates (£238.7m) and Council Tax (£148.0m) and the Sale of Southwark (£11.8m).

Before accounting adjustments required by the Code of Practice on Local Authority Accounting in the UK (that provides for the inclusion of accounting adjustments for pensions liabilities under International Accounting Standard 19 (IAS19) Retirement Benefits (see core statement note 28), depreciation, impairment and revaluation charges), the figure for net service expenditure for 2018/19, was £434.2m against a budgeted net expenditure sum of £437.1m. The outturn position after application of reserves and grants was £4.1m less than the approved LFC budget.

Following movements between the LFC's general fund and reserves, the general fund balance decreased by £0.5m from £23.7m as at 1 April 2018 to £23.2m as at 31 March 2019 and the LFC's earmarked reserves increased by

£22.0m from £30.2m as at 1 April 2018 to £52.2m as at 31 March 2019.

The £4.1m underspend in year was a combination of under and overspends as set out in the table on page 10 which provides a summary comparison of the actual and budgeted figures for the year. The figures exclude charges made in the main accounts for depreciation and pension liabilities as these costs are purely technical accounting adjustments and do not impact on the LFC's funding requirements through GLA grant.

### PENSION FUND

The LFC participates in four pension schemes that meet the needs of particular groups of employees. There are three firefighter pension schemes known as the 1992 Firefighters' Pension Scheme, the 2006 Firefighters' Pension Scheme, and the 2015 Firefighters' Pension Scheme, for which only operational firefighters are eligible. The other scheme is the Local Government Pension Scheme, which all other employees may join. The schemes provide members with defined benefits related to pay and service.

The Net Pensions Obligation, recorded in the Balance Sheet, for both the Local Government Pension Scheme (LGPS) and the Firefighters' Pension Schemes, as at 31 March 2019, is £6.67bn (1 April 2018 £6.41bn). This is the sum of the LFC's liabilities in both schemes arising

from pension benefits accrued by employees, less the assets of the LGPS. Although this is a significant amount, it represents the future cost of pension benefits earned by employees rather than the in-year cost to the LFC.

The movement in the pension liability between years relates to an increase of £0.26bn in the long term liability for the firefighter schemes, as assessed by the LFC's actuary. The increase relates to a re-measurement of the schemes net defined liability taking into account the rate of CPI inflation, discount rates, long term salary increases and the rate of revaluation for CARE pensions.

### FURTHER INFORMATION

Further information concerning the accounts is available from:

Director of Corporate Services, London Fire Brigade Headquarters, 169 Union Street, London SE1 0LL.



Sue Budden CPFA  
Director of Corporate Services and Chief  
Financial Officer

# Statement of Responsibilities for the Statement of Accounts

## THE LONDON FIRE COMMISSIONER RESPONSIBILITIES

The London Fire Commissioner (LFC) is required:

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

## DIRECTOR OF CORPORATE SERVICES RESPONSIBILITIES

The Director of Corporate Services is responsible for the preparation of the LFC's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Services has:

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

## THE DIRECTOR OF CORPORATE SERVICES HAS ALSO:

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

## CERTIFICATION OF THE DIRECTOR OF CORPORATE SERVICES

I hereby certify that the Statement of Accounts on pages 21 to 118 gives a 'true and fair view' of the financial position of the LFC at the reporting date and of its expenditure and income for the year ended 31 March 2019.



*Sue Budden CPFA  
Director of Corporate Services*

*Dated 29 May 2019*

# Audit Opinion and Certificate

< To be inserted post audit >

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# Statement of Accounting Policies

## ACCOUNTING POLICIES

Individual specific accounting policies are included within the relevant financial note to the accounts.

## GENERAL PRINCIPLES

The Statement of Accounts summarises the LFC's transactions for the financial year and its position at the year-end of 31 March 2019. The Financial Statements provide information about the LFC's financial performance, financial position and cash flow which is useful to a wide range of users for assessing the stewardship of the LFC's management and for making economic decisions. The LFC has been required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the Service reporting Code of Practice (SeRCOP), supported by International Financial Reporting Standards (IFRS) and other statutory guidance.

The accounting convention adopted in the accounting statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## ACCRUALS OF INCOME AND EXPENDITURE

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 sale of goods is recognised when the LFC transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the LFC.
- Revenue from the provision of services is recognised when the LFC can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the LFC.
- 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.
- 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.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where 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.

## Statement of Accounting Policies (continued)

- Accruals are recognised where the value exceeds £5,000.

### CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

The LFC is not required to raise funding for depreciation, revaluation and impairment losses or amortisations. However, it is required to make annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the LFC in accordance with statutory guidance).

Depreciation, revaluation, impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement of Reserves Statement for the difference between the two.

### EVENTS AFTER THE BALANCE SHEET DATE

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. Two types of events can be identified:

- 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.

### FAIR VALUE MEASUREMENTS

Fair values of financial instruments measured at amortised cost are disclosed in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption 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

The LFC must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market



## Statement of Accounting Policies (continued)

participant that would use the asset in its highest and best use.

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the LFC determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value

measurement as a whole) at the end of each reporting period.

### FOREIGN CURRENCY TRANSLATION

When the LFC has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

### VALUE ADDED TAX

- Income and expenditure excludes any amounts related to Value Added Tax, as all VAT collected on income is payable to HM Revenue and Customs (HMRC) and all but very few items of VAT paid on expenditure is recoverable from it. Where VAT is not recoverable from HMRC it is charged to the appropriate area of expense.

## Accounting Standards Issued but Not Yet Adopted

At the balance sheet date the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation this standard makes clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Authority has no loans to whom this will apply.
- Amendments to IAS40 Investment Property - Transfers of Investment Property in which a property can be reclassified as investment property. This will have no impact on the Authority as LFC do not have any investment properties.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Authority does not have any material transactions within the scope of the amendment.

- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. The Authority does not have any material transactions within the scope of the amendment.
- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities. CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2020.

These standards and amendments have limited application to LFC and the impact is not deemed to be material or have a significant impact on the financial statements.

# **CORE ACCOUNTING STATEMENTS**

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## Comprehensive Income and Expenditure Statement

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

Comprehensive Income and Expenditure Statement	2018/19			Note
	Gross Expenditure	Gross Income	Net Expenditure	
	£'000	£'000	£'000	
Firefighting and rescue operations, community fire safety, emergency planning and civil defence	356,220	(48,699)	307,521	
Cost of services			<b>307,521</b>	
Other operating expenditure	26,665	(42,600)	<b>(15,935)</b>	3
Interest payable and similar charges	9,433			10
Interest and investment income		(861)		10
Firefighter pensions net interest on the net defined benefit liability	156,500			28
Support staff pension net interest on the net defined benefit liability	6,429			28
Financing and Investment Income and Expenditure			<b>171,501</b>	
GLA Grant		(398,470)		22
PFI Grant		(3,732)		22
Capital Grant		(881)		22
Taxation and Non-Specific Grant Income			<b>(403,083)</b>	
(Surplus) or Deficit on Provision of Services			<b>60,004</b>	18
Surplus on revaluation of non-current assets	-		-	4
Impairment losses on non-current assets charged to revaluation reserve	7,668			4
Re-measurement of the net defined benefit liability	166,211			4
Other Comprehensive Income and Expenditure			<b>173,879</b>	
<b>Total Comprehensive Income and Expenditure</b>			<b>233,883</b>	

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the LFC, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus/(Deficit) on the Provision of Services line shows the true economic cost of providing the LFC'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 Grant funding purposes. The Net Increase/Decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfer to or from earmarked reserves undertaken by the LFC.

Movement in Reserves Statement	General Fund	Earmarked Reserves	Revenue Grants Applied	Capital Grants Applied	Capital Receipts Reserves	Total Usable Reserves	Unusable Reserves	Total Reserves	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance as at 01/04/18</b>	(23,688)	(30,201)	(3,954)	(664)	(759)	(59,267)	6,104,106	6,044,839	
(Surplus) or deficit on provision of services (accounting basis)	60,004					60,004	-	60,004	
Other Comprehensive Income & Expenditure						-	173,879	173,879	4
<b>Total Comprehensive Income and Expenditure</b>	<b>60,004</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,004</b>	<b>173,879</b>	<b>233,883</b>	
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	<b>(81,548)</b>		<b>3,954</b>	<b>(797)</b>	<b>(29,287)</b>	<b>(107,678)</b>	<b>107,678</b>	<b>-</b>	<b>6</b>
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(21,544)</b>	<b>-</b>	<b>3,954</b>	<b>(797)</b>	<b>(29,287)</b>	<b>(47,674)</b>	<b>281,557</b>	<b>233,883</b>	
Transfers (to)/from Earmarked Reserves	22,029	(22,029)				-		-	7
<b>Increase/(Decrease) in Year</b>	<b>485</b>	<b>(22,029)</b>	<b>3,954</b>	<b>(797)</b>	<b>(29,287)</b>	<b>(47,674)</b>	<b>281,557</b>	<b>233,883</b>	
<b>Balance as at 31/3/19</b>	<b>(23,204)</b>	<b>(52,230)</b>	<b>-</b>	<b>(1,461)</b>	<b>(30,046)</b>	<b>(106,941)</b>	<b>6,385,663</b>	<b>6,278,772</b>	

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the LFC. The net assets of the LFC (assets less liabilities) are matched by the reserves held by the LFC. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the LFC may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the LFC is not able to use to provide services. This category of reserves includes reserves 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'.

01 April 2018		Balance Sheet	31 March 2019		Note
£'000	£'000		£'000	£'000	
		<b>Property, Plant &amp; Equipment</b>			
113,162		Land	113,812		
270,879		Buildings	255,452		
28,655		Vehicles, Plant and Equipment	38,778		
25,450		Non Operational Assets – Surplus	23,000		
10,126		Non Operational Assets – Other	5,852		
1,346		Heritage Assets	1,347		
	<b>449,618</b>			<b>438,241</b>	9
5,962	<b>5,962</b>	Intangible Assets	4,342	<b>4,342</b>	9
52	<b>52</b>	Long Term Debtors	62	<b>62</b>	
	<b>455,632</b>	<b>Long Term Assets</b>		<b>442,645</b>	
27,006		Assets Held For Sale	500		9
469		Inventories	560		
41,443		Short Term Debtors	33,035		12
38,535		Cash and Cash Equivalents	109,701		13
	<b>107,453</b>	<b>Current Assets</b>		<b>143,796</b>	
(6,123)		Short Term Borrowing	(8,127)		10
(41,653)		Short Term Creditors	(48,507)		14
(3,596)		Provisions	(8,249)		15
(1,213)		Short Term Liabilities	(1,268)		26
	<b>(52,585)</b>	<b>Current Liabilities</b>		<b>(66,151)</b>	
(1,462)		Provisions	(3,075)		15
(67,349)		Long Term Borrowing	(61,268)		11
(6,486,528)		Other Long Term Liabilities	(6,734,669)		25
	<b>(6,555,339)</b>	<b>Long Term Liabilities</b>		<b>(6,799,012)</b>	
	<b>(6,044,839)</b>	<b>Net Assets</b>		<b>(6,278,722)</b>	
	<b>(59,267)</b>	Usable Reserves		<b>(106,941)</b>	16
	<b>6,104,106</b>	Unusable Reserves		<b>6,385,663</b>	17
	<b>6,044,839</b>	<b>Total Reserves</b>		<b>6,278,722</b>	

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the LFC during the reporting period. The statement shows how the LFC 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 LFC are funded by way of grant income or from recipients of services provided by the LFC.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the LFC'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 LFC.

Cash Flow Statement	2018/19 £'000	Notes
<b>Net (Surplus) or Deficit on the Provision of Services</b>	<b>60,004</b>	
Adjustments to Net (Surplus) or Deficit on the provision of Services for Non-Cash Movements	(148,480)	32
Adjustments for items in the Net (Surplus) or Deficit on the Provision of Services that are Investing or Financing Activities	43,481	
<b>Net cash flows from Operating Activities</b>	<b>(44,995)</b>	
Investing Activities	(31,384)	34
Financing Activities	5,213	34
<b>Net (Increase) or Decrease in Cash and Cash Equivalents</b>	<b>(71,166)</b>	
Cash and cash equivalents at the beginning of the period	38,535	13
<b>Cash and Cash Equivalents at the End of Period</b>	<b>109,701</b>	

**NOTES TO CORE  
ACCOUNTING STATEMENTS**



## Note 1 Critical Judgements in Applying Accounting Policies

In applying the accounting policies, the LFC 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 as follows:

### FORMER BRIGADE HQ 8 ALBERT EMBANKMENT

The LFC has entered into an agreement to develop the former Brigade HQ at Albert Embankment. The new development will include the re-provision of the existing fire station together with the LFB Museum. In January 2017, LFB entered into a lease with the developer for the rear block at the site, to enable the developer to operate from in order to secure a planning consent for the redevelopment of the whole site in accordance with the Development Agreement. In 2017/18, the site was split into two separate assets, the former HQ and fire station and the separate rear block at the site. The former HQ and fire station is an operational property given its continued use as an operational fire station and offices, whilst the rear block was reclassified as a surplus asset in the financial accounts.

### ASSETS HELD FOR SALE AT FAIR VALUE AND SURPLUS ASSETS

The sites closed following the implementation of the last London Safety Plan that have not been sold and are held as Assets Held for Sale have been valued at 31st March 2019 at the lower of its carrying value and fair value less costs to sell at initial reclassification. Surplus assets have been valued at fair value as per IFRS 13 methodology. The fair value is based on level 2 valuation techniques by reference to sales comparisons and market variables and based on advice which has been provided to the LFC by Dron & Wright. LFC is satisfied that the figures provided by Dron and Wright meet the requirements of 'fair value' as deemed by the CIPFA Code of Practice for Local Government Accounting 2018/19.

### GOVERNMENT GRANTS

The LFC receives government grants and contributions and under the CIPFA Code must determine the conditions under which the grants and contributions can be applied. Apart from funding from the Home Office for the firefighter pensions fund account, which is conditional based on corresponding expenditure, all other grants and contributions have been determined to be unconditional.

## Note 2 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing substantial adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current carrying value of non-current assets (excluding Assets held for sale) as at 31st March 2019 is £438.2m. A full valuation was carried out as at 1 April 2017.</p> <p>The following issues result in heightened estimation uncertainty:</p> <ul style="list-style-type: none"> <li>• Use of existing assets rather than Modern Equivalent Asset (MEA) to determine existing use value using a depreciated replacement cost methodology.</li> <li>• Use of estimated disposal proceeds as a proxy for fair value as defined by IFRS 13.</li> </ul> <p>For more details of the assumptions applied and treatments used please refer to Note 9.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £1.6m for every year that useful lives had to be reduced.</p> <p>It is estimated that if land and building costs increased by an additional 5%, the land and building valuations would increase by £5.7m and £12.8m respectively.</p>
Pension Liability	<p>Estimation of the net liability to pay pensions depend on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Two firms of consulting actuaries are engaged (one for the Local Government Pension Scheme and another for the Firefighters scheme) to provide the LFC with expert advice about the assumptions to be applied. The current carrying value of the pension liability as at 31st March 2019 is £6,668m.</p>	<p>The effects of the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption for the combined fire fighter pension scheme would result in an approximate 9.5% increase in the pension liability, in the region of £619m. However the assumptions interact in complex ways. An increase or decrease in liability due to estimates being corrected as a result of experience can be offset by a decrease or increase attributable to updating of the assumptions. A sensitivity analysis is included under Note 28.</p>

## Note 2 Assumptions made about the Future and Other Major Sources of Estimation Uncertainty (continued)

Item	Uncertainties	Effect if actual results differ from assumptions
Impairment Allowance for Doubtful Debts	As at 31 March 2019, the LFC had an outstanding balance of short term debtors totalling £2.43m. Against this debtors balance, there is an impairment allowance of £0.28m. It is not certain that this impairment allowance would be sufficient as the LFC cannot assess with certainty which debts will be collected or not.	An understatement of doubtful debts would lead to a future adjustment and impairment to be reflected. The impairment allowances held are based on policies adapted to the nature of the debt and service area, historic experience and success rates experienced in collection.
Britain leaving the European Union: asset values and pension liability	There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the pension discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the LFC's assets or change the pension discount rate. However, this assumption needs to be revisited and reviewed regularly.	Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

### Note 3 Material items of Income and Expenditure

The LFC collected £27.5m in the form of a levy placed on the Insurance industry under the Metropolitan Fire Brigade (MFB) Act 1865. This is included as income in the Net Cost of Services against Community Fire Safety and Firefighting and Rescue Operations.

#### OTHER OPERATING EXPENDITURE/(INCOME)

The sum shown in the CIES comprises of the following:

<b>Other operating expenditure</b>		<b>2018/19</b>
		<b>£'000</b>
Non current assets impairment		4,071
Non current assets – disposed in year		22,594
<b>Sub total</b>		<b>26,665</b>
Sale proceeds received in year		(42,600)
Reversal of impairment charged		-
<b>Sub total</b>		<b>(42,600)</b>
<b>CIES - Other operating expenditure/(income)</b>		<b>(15,935)</b>

## Note 4 Other Comprehensive income and expenditure

The sum shown in the Movement in Reserves Statement for other income and expenditure is shown in the table:

Surplus or deficit on revaluation of non-current assets	2018/19	
	£'000	£'000
Gain on the revaluation of Property assets	-	
Loss on the revaluation of Property assets	7,668	
<b>Surplus on revaluation of non current assets</b>		<b>7,668</b>
Actuarial losses on Firefighter pension liabilities	189,950	
Actuarial losses on LGPS pension assets/liabilities	(23,739)	
<b>Actuarial (gains)/losses on pension assets/liabilities</b>		<b>166,211</b>
<b>Total Other Comprehensive Income and Expenditure</b>		<b>173,879</b>

## Note 5 Events after the Balance Sheet Date

### ACCOUNTS AUTHORISED

The accounts were authorised for issue by Sue Budden, Director of Corporate Services on 28 May 2019. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Unaudited

## Note 6 Adjustments between Accounting Basis and Funding Basis under Regulations

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

2018/19 - Adjustments between Accounting Basis and Funding Basis under Regulations	General Fund	Revenue Grants Unapplied	Capital Grants Unapplied	Capital Receipts Unapplied	Total Usable Reserves	Total Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation, amortisation and impairment of fixed assets	22,674	-	-	-	22,674	(22,674)
Transfer of cash sale proceeds credits as part of the gain/loss on disposal to the CIES and Use of the Capital Receipts Reserve to finance new capital	(42,600)	-	-	29,287	(13,314)	13,314
MRP for capital financing Not debited to the Comprehensive Income and expenditure account	(7,262)	-	-	-	(7,262)	7,262
Amounts of non current assets written off on disposal as part of the gain/loss on disposal to CIES	22,594	-	-	-	22,594	(22,594)
Amount by which pension costs calculated in accordance with Code are different from contributions due under the pension scheme regulations	83,274	-	-	-	83,274	(83,274)
Capital Grants and contributions unapplied credited to the Comprehensive Income and Expenditure Account	(881)	-	881	-	-	-
Application of capital grants, receipts and contributions to capital financing transferred to the Capital Adjustment Account	(34)	-	(84)	-	(118)	118
Transfer to Revenue Grants Unapplied Account	3,954	(3,954)	-	-	-	-
Adjustment due to Accumulated Absences, reversal of prior year charge	(4,037)	-	-	-	(4,037)	4,037
Adjustment due to Accumulated Absences, current year charge	3,867	-	-	-	3,867	(3,867)
<b>Total Adjustments</b>	<b>81,548</b>	<b>(3,954)</b>	<b>797</b>	<b>29,287</b>	<b>107,678</b>	<b>(107,678)</b>

## Note 7 Transfers to/from Earmarked Reserves

The table below shows the in year movements between the LFC's earmarked reserves.

Earmarked Reserves	Balance as at	Transfers Out	Transfers In	Balance as at
	01/04/2018			31/03/2019
	£'000	£'000	£'000	£'000
Firefighter III Health Pensions	1,172	(1,172)	-	-
Vehicle Fleet Reserve	1,163	(421)	2,123	2,865
London Resilience	2,115	(1,236)	136	1,015
Sustainability Reserve	235	-	-	235
Hydrants	462	-	-	462
Compensation	1,000	-	-	1,000
Hazardous Material Protection	-	(18)	18	-
Property	-	-	-	-
Property PFI	-	-	-	-
Pension Early Release	400	(400)	-	-
LSP 2017 Implementation	4,561	(557)	174	4,178
Emergency Services Mobile Communication Programme	155	(57)	1,830	1,928
Emergency Medical Response	830	(536)	-	294
EU Procurement Projects	-	-	210	210
Community Safety Fund	-	(101)	101	-
ICT Development Reserve	1,310	(750)	1,291	1,851
New Governance Arrangements	300	(300)	-	-
Recruitment/Outreach	350	(380)	401	370
Fire Safety & Youth Engagement	318	(194)	590	715
Additional Resilience Requirements	4,361	(4,005)	412	767
Budget Flexibility	11,469	-	11,642	23,110
Capital Receipt - GLA	-	-	11,745	11,745
HMICFRS Inspection Regime	-	(128)	149	21
LFC Control Centre	-	-	959	959
Organisational Reviews	-	-	505	505
<b>Total</b>	<b>30,201</b>	<b>(10,255)</b>	<b>32,285</b>	<b>52,230</b>



## Note 8 Minimum Revenue Provision

The LFC is required by statute to set aside a minimum revenue provision, that it considers prudent, for the repayment of external debt and notional interest on credit arrangements, principally leases. The total amount set aside to the Capital Adjustment Account in 2018/19 was £7.26m, being assessed by the LFC as being prudent.

Unaudited

## Note 9 Property Plant and Equipment

### ACCOUNTING POLICIES

Assets that have a physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### RECOGNITION

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

### MEASUREMENT

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for

it to be capable of operating in the manner intended by management

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The LFC does not capitalise borrowing costs incurred whilst assets are under construction. A de minimis limit of £20,000 is in place for the capitalisation of expenditure.

The cost of an asset acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the LFC). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the LFC.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment

Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Assets under construction - depreciated historical cost
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

With non-property assets that have short useful lives or low values (or both) depreciated historical cost basis is used as a proxy for fair value.

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

## Note 9 Property, Plant and Equipment (continued)

the reversal of a loss previously charged to a service.

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 an insufficient balance in the revaluation reserve, the revaluation reserve is written down to nil and the remaining amount of the decrease in value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- Where there is no balance in the Revaluation Reserve, the whole amount of the decrease in value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses 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 an insufficient balance in the revaluation reserve, the revaluation reserve is written down to nil and the remaining amount of the decrease in value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.
- Where there is no balance in the Revaluation Reserve, the whole amount of the decrease in value is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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.

## Note 9 Property, Plant and Equipment (continued)

### DEPRECIATION

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and Heritage Assets) and assets that are not yet available for use (i.e. assets under construction), surplus assets and assets held for sale.

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
- Vehicles, plant, furniture and equipment - straight-line allocation over the useful life

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account. Depreciation is charged the year after a new asset becomes operational and a full years depreciation is charged in the year of disposal.

Category	Depreciation Rate
Heritage Assets	Not depreciated
Surplus Assets	Not depreciated
Assets Held for Sale	Not depreciated
Buildings – Structure, roof, plant & services	Estimated life between 10 to 60 years
Vehicles	5 to 25 years
Plant and Equipment	5 to 10 years

## Note 9 Property, Plant and Equipment (continued)

### COMPONENT ACCOUNTING

For assets, where the building value is classed as material (£5 million and above) to the LFC, component accounting is applied.

Componentisation is applicable to any significant enhancement and/or acquisition expenditure incurred and revaluations carried out as from 1st April 2010. During 2018/19, the non-current tangible assets of the LFC were revalued and this included a re-consideration of the components. Component accounting requirements affects the depreciation charge levied in subsequent financial years.

Componentisation does not apply to land assets and it applies where an item of property, plant and equipment asset has major components whose cost is significant (20% or above) in relation to the total cost of the item. In these instances, the components are recognised and depreciated separately according to the useful life.

### SURPLUS ASSETS

Surplus assets are those assets that are not being used to deliver services but do not meet the criteria to be classified as either investment properties or non-current assets held for sale. The asset is revalued immediately before reclassification from operational non current assets to surplus assets under the existing use value. Once the asset is reclassified to surplus assets, the asset is revalued under the IFRS 13 fair value measurement methodology. Any

revaluation gains or losses are accounted for under the general measurement of non-current assets. Depreciation is not charged on surplus assets.

### DISPOSALS AND NON-CURRENT ASSETS HELD FOR SALE

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount or fair value less costs to sell which is deemed to be the estimated disposal proceeds for the site. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on the Provision of Services.

Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned the carrying amount of the asset in the Balance Sheet (whether Property, Plant or Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure

line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Only amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the LFC's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in Movement in Reserves Statement.

A loss on disposals is not a charge against LFC revenue funding, as the cost of noncurrent 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.

## Note 9 Property, Plant and Equipment (continued)

### PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

PFI and similar contracts are agreements to receive services, where the responsibility for making available the non current assets needed to provide the service passes to the PFI contractor. As the LFC is deemed to control the services that are provided under its vehicle PFI scheme, the LFC carries the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these vehicles is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Non-current assets recognised on the Balance Sheet are depreciated in the same way as property, plant and equipment owned by the LFC.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Financing and Investment Income and

- Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for vehicles arising during the contract, debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)

Lifecycle replacement costs – recognised as additions to property, plant and equipment when vehicles are purchased

## Note 9 Property, Plant and Equipment (continued)

The table below shows the movements in the LFC's Non Current Assets during 2018/19:

Non Current Assets	Operational				Non Operational & Surplus Assets	Heritage Assets	Assets held for sale	Total
	Land £'000	Buildings £'000	Vehicles £'000	Equipment £'000	£'000	£'000	£'000	£'000
Net Book value as at 01/04/18	113,162	270,879	20,879	7,776	35,576	1,347	27,006	476,625
Add back Depreciation	-	11,160	13,444	35,712	1,124	-	10,136	71,576
<b>Gross Value as at 01/04/18</b>	<b>113,162</b>	<b>282,039</b>	<b>34,323</b>	<b>43,488</b>	<b>36,700</b>	<b>1,347</b>	<b>37,142</b>	<b>548,201</b>
Reclassification	742	14	6,365	720	(3,686)	-	(4,155)	-
Impairment to CIES	-	(2,978)			(1,093)			(4,071)
Revaluation Loss to Revaluation Reserve	(92)	(4,305)			(3,271)			(7,668)
Additions in year		3,229	6,087	2,102	1,550			12,968
Disposals in year	-	-	(3,199)	-	(224)	-	(32,487)	(35,911)
<b>Gross value as at 31/03/19</b>	<b>113,812</b>	<b>277,999</b>	<b>43,575</b>	<b>46,310</b>	<b>29,976</b>	<b>1,347</b>	<b>500</b>	<b>513,519</b>
Accumulated Depreciation as at 01/04/2018	-	(11,160)	(13,444)	(35,712)	(1,124)	-	(10,136)	(71,576)
Disposals in year	-		3,180				10,136	13,316
Depreciation for year	-	(11,387)	(3,257)	(1,874)				(16,518)
<b>Total Depreciation as at 31/03/19</b>	<b>-</b>	<b>(22,547)</b>	<b>(13,521)</b>	<b>(37,586)</b>	<b>(1,124)</b>	<b>-</b>	<b>-</b>	<b>(74,778)</b>
<b>Net Book Value as at 31/03/19</b>	<b>113,812</b>	<b>255,452</b>	<b>30,054</b>	<b>8,724</b>	<b>28,852</b>	<b>1,347</b>	<b>500</b>	<b>438,741</b>

## Note 9 Property, Plant and Equipment (continued)

### BASIS OF VALUATIONS

#### OPERATIONAL PORTFOLIO

For the whole of the LFC operational portfolio, Existing Use Value (EUV) has been adopted. For specialised operational properties, a Depreciated Replacement Cost (DRC) methodology has been used to determine EUV, as there are no market transactions for this type of asset.

In accordance with UK Valuation Standard 1.15 of the Red Book the figures reported below using DRC methodology are subject to the prospect and viability of the continued occupation and use of the properties by the LFC.

The DRC has been assessed on the basis of the existing properties, rather than by reference to 'Modern Equivalent Assets' (MEAs), which would include deduction for physical deterioration, obsolescence and optimisation. Deductions instead are based on a blended approach of the age and obsolescence of the property. Where a property has physically deteriorated the property would be revalued as and when it is known.

All fire stations are categorised into groups of similar build, structure and age for valuation purposes. Not all the properties within the LFC's estate were visited in the preceding 12 months, although a sample was assessed from

each category in order to ensure that the valuations provided are satisfactory for the purposes of the financial statements.

In order to assess any under utilisation in the operational portfolio an exercise was undertaken to account for any identified excess space and the DRC valuations have been reduced accordingly to reflect any under utilisation.

Although this approach is a departure from the 'Modern Equivalent Assets' (MEAs) approach, LFC believes that it has satisfied the CIPFA Code and Red Book requirements by ascertaining the 'service requirement' of the operational portfolio and addressed any over capacity within the operational estate.

#### THE FORMER LFEPA HEADQUARTERS

The LFC has entered into an agreement to develop the former Brigade HQ at Albert Embankment. The new development will include the re-provision of the existing fire station together with the LFC Museum. In addition, a meanwhile use lease has been signed with the developer for the use of the separate rear block at the site, to enable the developer to operate from the site in order to secure a planning consent for the redevelopment of the whole site in accordance with the Development Agreement.

Previously the site has been valued as one asset but due to the above the site has been split into two separate assets, the former HQ and fire station and the separate rear block at the site. The former HQ and fire station is considered to be an operational asset and as such has been valued as a specialised asset. Whilst the rear site is a non operational asset and has been classified as a surplus asset which has been revalued at fair value (market value) in line with IFRS 13. The planning application for the development of the whole site has been submitted and the planning hearing is expected to take place during 2019/20.

#### SURPLUS ASSETS

Once an asset is classified to surplus assets the asset is revalued under the IFRS 13 fair value methodology. The fair value is based on level 2 valuation techniques by reference to sales comparisons and market variables and based on advice which has been provided to the LFC by Dron & Wright, in connection with the estimated Market Values (MVs).

LFC is satisfied that the MV figures provided meet the requirements of 'fair value' as deemed by the CIPFA Code of Practice for Local Government Accounting 2018/19. On the basis of that advice, we are of the view that the figures referred to in our accounts are a reasonable reflection of the present values of our property interests.



## Note 9 Property, Plant and Equipment (continued)

### ASSETS HELD FOR SALE

Assets held for sale are valued at the lower of EUV/DRC and fair value. The methods and assumptions applied to these valuations are the same as noted above for our operational portfolio (EUV/DRC) and surplus assets (fair value). The fair value is represented by the market value of the asset, which is defined at the estimated amount for which an asset or liability should exchange on the valuation date, between a willing buyer and a willing seller, in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

### FREEHOLD AND LONG LEASEHOLD INTERESTS

The freehold and long leasehold interests in the various properties which are owned by the London Fire Commissioner (LFC) were valued by External Valuers, Dron & Wright, Chartered Surveyors and Property Consultants, at 31<sup>st</sup> March 2019, in accordance with the current edition of the RICS Valuation – Global Standards 2017 (The Red Book), included the UK National Supplement, effective from 14<sup>th</sup> January 2019.

### VALUER'S REPORT

In their report, Dron & Wright confirmed that, for the whole of the LFC operational portfolio, Existing Use Value (EUV) has been adopted. For specialised operational properties, a Depreciated Replacement Cost (DRC) methodology has been used. Non-specialised operational properties have been valued by reference to sales comparisons and market variables. Special assumptions have been made to disregard the leases which are linked to commercial contracts between LFC and third parties, in the case of the PFI properties (with Blue3) and Ruislip Workshops (with Babcock). Properties which are held for sale have been valued adopting Market Value, based on sales comparisons and market variables. The EUVs may be different to the prices which would have been obtainable in the open market for LFC's interests in the properties, if they had been declared surplus to LFC's operational requirements, at the valuation date.

In accordance with section 5 of Professional Standard 2 of the Red Book, Dron & Wright have made the following disclosures:-

1. This is the ninth time that the Valuers have been the signatory of the report provided to LFC and LFEPA, (LFC previous incumbent) and the previous valuation dates were 1st April 2003, 1st April 2008, 1st April 2013, 1st April 2014, 1st April 2015 and 1st April 2016, 1<sup>st</sup> April 2017 and

31<sup>st</sup> March 2018. This is the tenth time that the Valuer's firm has carried out the valuation instruction, with the first valuation date being 1st April 1999. Although this may be construed as a departure from the recommendations which are contained in the Red Book, we do not consider that it has prevented us from providing LFC with an independent and objective opinion of the values of your various properties.

2. The firm has acted for LFEPA/LFC for a period of over 22 years. During that time, the firm has provided property management, landlord and tenant, agency, building surveying and rating services to LFEPA/LFC, under a series of contracts for the provision of property and estate management functions.
3. In the firm's preceding financial year, the fees payable to the firm by LFEPA represented a significant proportion of the total fee income of the firm.
4. No material increase is anticipated in the proportion referred to in 3, in the foreseeable future.

## Note 9 Property, Plant and Equipment (continued)

LFC are satisfied with the safeguards that the valuers have put in place to ensure independence and objectivity, which includes peer review from a valuer who has no involvement with other services provided by Dron & Wright to the LFC.

### VEHICLES

Expenditure on vehicles is part of an ongoing fleet replacement programme over several years.

The LFC have ownership of New Dimension vehicles and equipment, that were previously the property of the Department for Communities and Local Government.

These vehicles are available for national deployment and include specialist vehicles and equipment such as high volume pumps and mass de-contamination equipment.

### INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the LFC due to past events (e.g. software licences) are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the LFC.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the LFC will be able to generate future economic benefits or service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is primarily intended to promote or advertise the LFC's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the LFC can be determined by reference to an active market. If intangible assets held by the LFC fail to meet this criterion they are carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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.

## Note 9 Property, Plant and Equipment (continued)

Intangible Assets represent expenditure on computer software which has been capitalised, but which is not an integral part of a particular IT system and accounted for as part of the hardware item of Property Plant and Equipment. All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the LFC. The useful lives assigned to the major software suites used by the LFC are:

	Software Licences	In-house Software
<b>7 years</b>	Firelink radio software Wide-Area Network Command Support System	Mobile Work Systems
<b>5 years</b>	All other Intangible assets	

Intangible Assets	Operational			Under Development (non-operational)		
	Software licences	In-house Software	Total	Software licences	In-house Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net Value as at 01/04/18	1,067	4,560	5,627	-	335	335
Amortised	(442)	(1,643)	(2,085)	-	-	-
Additions	72	298	370	-	95	95
Reclassification	-	264	264	-	(264)	(264)
<b>Net Value as at 31/03/19</b>	<b>697</b>	<b>3,479</b>	<b>4,176</b>	<b>-</b>	<b>166</b>	<b>166</b>

## **Note 9** Property, Plant and Equipment (continued)

### **HERITAGE ASSETS**

Heritage assets are assets that are held by the LFC principally for their contribution to knowledge or culture. These assets are accounted for as a separate item on the balance sheet and are valued on an insured value basis. The Museum at Southwark closed in 2015/16 pending a move to a new site, the collection is in storage until the new site is ready, meanwhile some museum pieces will be placed on display at various sites. The collection can be divided across four main areas: museum exhibits, the art collection, the museum archive and museum library.

Unaudited

## Note 10 Financial Instruments

### ACCOUNTING POLICY

#### FINANCIAL LIABILITIES

Financial liabilities are recognised on the Balance Sheet when the LFC becomes party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at amortised cost. The LFC has taken loans from the Public Works Loans Board (PWLB) at fixed rates to maturity and the associated arrangement cost of the loans is not material. In these circumstances there is no need to carry out a formal effective interest rate calculation as the instruments carry the same interest rate for the whole term of the instrument.

For most of the borrowings that the LFC 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.

The LFC has not restructured its borrowing during the year therefore there have been no gains or losses on the repurchase or early settlement of borrowing resulting from any premiums or discounts.

#### FINANCIAL ASSETS

To meet new Code requirements, financial assets are now classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

For most of the loans that the LFC 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.

The LFC has made a number of loans to employees at less than market rate (soft loans). However the difference in the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal is not material and therefore does not require adjustment to the Comprehensive Income and Expenditure Statement.

## Note 10 Financial Instruments (continued)

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

Financial liabilities and Assets at amortised cost	01 April 2018		31 March 2019	
	Long Term	Current	Long Term	Current
<b>Borrowings</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Public Work Loan Board Debt (PWLB)	66,725	6,000	60,725	8,000
PWLB Accrued Interest	624	123	543	127
<b>Total borrowings</b>	<b>67,349</b>	<b>6,123</b>	<b>61,268</b>	<b>8,127</b>
PFI and finance lease liabilities	65,315	1,213	64,047	1,268
<b>Total Other Long term liabilities</b>	<b>65,315</b>	<b>1,213</b>	<b>64,047</b>	<b>1,268</b>
Creditors	-	11,386	-	11,159
<b>TOTAL</b>	<b>132,664</b>	<b>18,722</b>	<b>125,315</b>	<b>20,554</b>

Financial liabilities and Assets at amortised cost	01 April 2018		31 March 2019	
	Long Term	Current	Long Term	Current
<b>Loans &amp; Receivables</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investments				
Short term investments	-	-	-	-
Accrued Interest	-	-	-	-
<b>Total investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Debtors	52	786	62	4,269
Cash Equivalents	-	38,535	-	109,701
<b>TOTAL</b>	<b>52</b>	<b>39,321</b>	<b>62</b>	<b>113,970</b>

## Note 10 Financial Instruments (continued)

### FINANCIAL INSTRUMENTS GAINS/LOSSES

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

<b>Financial Instruments Income &amp; Expenditure</b>	<b>2018/19 £'000</b>
Interest expense	9,433
Interest income	(861)
<b>Net gain/(loss) for the year</b>	<b>8,572</b>

<b>Financial Instruments Income &amp; Expenditure</b>	<b>2018/19 £'000</b>
PWLB borrowing	3,315
PFI lease interest & contingent rentals	3,195
Merton Lease Payment	2,923
<b>Total Interest expense</b>	<b>9,433</b>

## Note 10 Financial Instruments (continued)

### FAIR VALUE OF ASSETS AND LIABILITIES

Financial liabilities and financial assets classed as loans and receivables and financial liabilities at amortised cost are carried in the balance sheet at amortised cost.

Their fair values can be estimated by calculating the present value of cash flows that will take place over the remaining term of the instruments. The fair values calculated are as follows:

The Code of Practice incorporates the adoption of IFRS 13 Fair Value measurement, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The valuations use the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation should be equal to the same instrument from a comparable lender. The discount rates were obtained by the LFC's treasury advisor Link Asset Services and PWLB from the market on 31 March 2019, using bid prices where applicable.

The fair value of fixed term deposits includes accrued interest as at the balance sheet date. Interest is calculated using the most common market convention, ACT/365, over the actual number of days in a calendar year. Interest is not paid/received on the start date of an instrument, but is paid/received on the maturity date.

The fair value of PWLB debt is based on PWLB valuation and the local authority debt is based on Link Asset Services valuation level 2, who are an independent treasury management service provider to UK public service organisations. Link Asset Services valuation uses the new borrowing rates in their valuation assessment.

01 April 2018		Liabilities & Assets	31 March 2019	
Carrying amount	Fair value		Carrying amount	Fair value
£'000	£'000		£'000	£'000
72,725	96,719	Public Work Loan Board Debt (PWLB)	68,725	92,659
66,528	66,528	PFI & Other Finance Leases	65,315	65,315
11,386	11,386	Trade and other creditors	11,159	11,159
<b>150,639</b>	<b>174,633</b>	<b>Total Liabilities</b>	<b>145,199</b>	<b>169,133</b>
786	786	Trade and other debtors	4,269	4,269
52	52	Long term debtors	62	62
38,535	38,535	Cash & Cash Equivalents	109,701	109,701
<b>39,373</b>	<b>39,373</b>	<b>Total Liabilities</b>	<b>114,032</b>	<b>114,032</b>

\*The value of debtors and creditors reported in the table are solely those amounts meeting the definition of a financial instrument.



## Note 10 Financial Instruments (continued)

### NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

#### KEY RISKS

The LFC's activities expose it to a variety of financial risks. The key risks are:

(i) Credit risk - the possibility that other parties might fail to pay amounts due to the LFC

(ii) Liquidity risk - the possibility that the LFC might not have funds available to meet its commitments to make payments

(iii) Re-financing risk - the possibility that the LFC might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms

(iv) Market risk - the possibility that financial loss might arise for the LFC as a result of changes in such measures as interest rates movements

### OVERALL PROCEDURES FOR MANAGING RISK

The LFC's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the LFC to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall these procedures require the LFC to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The LFC's overall borrowing

- Its maximum and minimum exposures to fixed and variable rates
- Its maximum and minimum exposures to the maturity structure of its debt
- Its maximum annual exposures to investments maturing beyond a year
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government guidance
- These are required to be reported and approved before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the LFC's financial instrument exposure. Bi-annual reports on the treasury management performance are submitted to the Corporate Services Directorate Board for scrutiny, and then to the LFC.

## Note 10 Financial Instruments (continued)

The LFC's daily treasury management function is managed under a shared service arrangement with the Greater London Authority who carry out borrowing, investment and reporting requirements. Investments are managed through a Group Investment Syndicate. The annual treasury management strategy for 2018/19 which incorporates the prudential indicators and investment strategy was approved by LFEPA on 29 March 2018 which was adopted by LFC on 1 April 2018 and is available on the LFC website (FEP2827).

The key issues within the strategy were:

- (i) The Authorised Borrowing Limit for 2018/19 was set at £225m with an Operational Borrowing Limit of £220m. This is the maximum limit of external borrowings or other long term liabilities.
- (ii) The maximum amounts of fixed and variable interest rate exposure were set at 100% and 75% respectively based on the LFC's net debt position.
- (iii) The maximum and minimum exposures to the maturity structure of debt are as per the table.
- (iv) No principal sums to be invested for periods longer than one year, subject to review.

The LFC sets these policies and officers maintain approved written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically. Any changes are reported to the LFC for consideration.

Exposure to the maturity of debt	Upper Limit	Lower Limit
Under 12 Months	20%	0%
12 – 24 Months	20%	0%
2 – 5 Years	50%	0%
5 – 10 Years	75%	0%
10 Years and over	90%	25%

## Note 10 Financial Instruments (continued)

### CREDIT RISK

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the LFC's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are only made with financial institutions on the Approved Counterparty Lending List. Acceptability as an authorised counterparty will be based upon credit ratings issued by credit ratings agencies, advice from the LFC's treasury advisors, Link Asset Services and other financial information sources deemed appropriate by the Director of Corporate Services in order to ensure that investments are made giving sufficient priority to security over yield in accordance with Section 15 (1) of the Local Government Act 2003. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after these initial criteria are applied. The additional criteria for the LFC's loan portfolio (quantified at the day of lending) are set out in the LFC's investment strategy (FEP2827).

The LFC's Annual Investment Strategy takes a risk averse approach to investment that gives priority to the security of funds over the

potential rates of return. As set out in the Strategy Statement for the current year LFC is using the current creditworthiness service from Link Asset Services as a starting point. This method uses credit ratings from all three agencies and a scoring system that incorporates credit default swap rates. It does not give undue prevalence to any one agency's ratings.

The LFC's maximum exposure to credit risk in relation to its investments in banks and building societies 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 irrecoverability applies to all of the LFC's deposits, but there was no evidence as at the 31 March 2019 that this was likely to crystallise.

The major element of the LFC's investments are held and managed in the GLA Group Investment Syndicate (GIS), which is jointly controlled by the GLA, syndicate members including LFC through their respective chief financial officers.

The LFC's cash balances averaged £96.0m for the year 2018/19 and attracted interest of £0.83m. The closing investment position on the GIS, as of 31 March 2019, was £109.1m with a Weighted Average Maturity of 83.7days. Including a sum held on a NatWest Call account

(£4.6m) the total investment position as at 31 March 2019 was £113.7m. Cumulative performance for the year was 0.86% versus the average 3 Month LIBID benchmark of 0.71% (gross outperformance of 0.15%). The performance figure is net of fees.

## Note 10 Financial Instruments (continued)

### LIQUIDITY RISK

The LFC manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The LFC has ready access to borrowings from the money markets to cover any day to day cash flow needed, and also has access to the PWLB, Local Authority and money markets for access to longer term funds. The LFC is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All sums owing including investments and non-statutory trade debtors, are due to be paid in less than one year. The maturity analysis of financial liabilities is as follows:

01 April 2018	Maturity analysis	31 March 2019
£'000		£'000
6,000	Within 1 year	8,000
6,000	Between 1 and 2 years	5,000
12,000	Between 2 and 5 years	9,000
17,225	Between 5 and 10 years	17,225
31,500	More than 10 years	29,500
<b>72,725</b>	<b>Total</b>	<b>68,725</b>

\* All trade and other payables are due to be paid in less than one year and are not shown in the table.

## Note 10 Financial Instruments (continued)

### REFINANCING AND MATURITY RISK

The LFC maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the LFC relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator provides limits for the maturity structure of debt and on investments of greater than one year in duration. These are the key parameters used to address this risk. The LFC approved treasury and investment strategies address the main risks and the GLA treasury management team address the operational risks within the approved parameters.

This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the LFC's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of borrowing is as follows, with the upper and lower limits for fixed interest rates maturing in each period:

<b>Maturity analysis of fixed rate borrowing</b>	<b>Approved upper limits</b>	<b>Approved lower limits</b>	<b>Actual 01/04/2019</b>	<b>Actual 31/03/2019</b>
Less than 1 year	20%	0%	8%	12%
Between 1 and 2 years	20%	0%	8%	7%
Between 2 and 5 years	50%	0%	17%	13%
Between 5 and 10 years	75%	0%	24%	25%
More than 10 years	90%	25%	43%	43%

## Note 10 Financial Instruments (continued)

### MARKET RISK

#### INTEREST RATE RISK

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

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

## Note 11 Long Term Borrowing

01 April 2018	Long-term Borrowing	31 March 2019
<b>£'000</b>	<i>The sources are:</i>	<b>£'000</b>
66,725	Public Works Loan Board	60,725
<b>66,725</b>	<b>Total</b>	<b>60,725</b>
	<i>These loans mature as follows:</i>	
6,000	Between 1 and 2 years	5,000
12,000	Between 2 and 5 years	9,000
16,225	Between 5 and 10 years	17,225
9,000	Between 10 and 15 years	6,000
23,500	More than 15 years	23,500
<b>66,725</b>		<b>60,725</b>
624	Add accrued interest	543
<b>67,349</b>	<b>Total</b>	<b>61,268</b>

## Note 12 Debtors

### SHORT TERM DEBTORS

These are as the illustrated in the table:

01 April 2018	Debtors	31 March 2019
£'000		£'000
27,003	Central government bodies - Home Office	21,823
3,288	Central government bodies - HMRC	2,528
10	Central Government bodies - Other	81
3,405	Other Local Authorities	834
8,567	Other entities and individuals	8,054
(830)	Less: Impairment Allowance for Doubtful Debts	(285)
<b>41,443</b>	<b>Total</b>	<b>33,035</b>

### IMPAIRMENT ALLOWANCE

Following a review of the particular circumstances and profile of the LFC's debtors, the general provision of £830k brought forward from 2017/18 to safeguard against future losses or non-recoveries has been reduced, as at 31 March 2019, by £545k to £285k.

The aged debt analysis below shows that £323k (£934k 2017/18) of the total outstanding debt is past its due date for payment. All outstanding debt shown below has been allowed for in the LFC's assessment of bad debt provision. The majority of third party debts are being repaid in instalments.

Aged debt analysis	Greater than 2 Years	1-2 years	120-365 days	90-120 days	60-90 days	30-60 days	Total
	£'000	£'000	£'000	£'000	£'000	£'000	
Sundry debt	41	28	40	26	15	61	211
Third party claims	99	11	1	-	-	1	112
<b>Total</b>	<b>140</b>	<b>39</b>	<b>41</b>	<b>26</b>	<b>15</b>	<b>62</b>	<b>323</b>



## Note 13 Cash and Cash equivalents

Cash is represented as cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 90 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. 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 LFC's cash management.

01 April 2018	Cash and Cash Equivalents	31 March 2019
£'000		£'000
53	Cash held by the Authority	21
(2,206)	Bank current accounts	(4,057)
40,688	Short term deposits held on demand	113,737
-	Short term deposits with maturity of 3 months or less	-
<b>38,535</b>	<b>Total Cash and Cash Equivalents</b>	<b>109,701</b>

## Note 14 Creditors

01 April 2018	Creditors	31 March 2019
<i>£'000</i>		<i>£'000</i>
7,785	Central government bodies - HMRC	8,193
105	Central government bodies - Other	453
990	Other local authorities	738
12,827	Other entities and individuals	13,076
4,037	Accumulated Absences	3,867
15,909	Receipts in advance	22,180
<b>41,653</b>	<b>Total Creditors</b>	<b>48,507</b>

## Note 15 Provisions

### PROVISIONS

Provisions are made where an event has taken place that gives the LFC a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation. For instance the LFC may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the LFC becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required.

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 a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the LFC settles the obligation.

01 April 2018			Summary of Provisions	31 March 2019		
Current £'000	Long Term £'000	Total £'000		Current £'000	Long Term £'000	Total £'000
1,069	167	1,236	<b>Legal</b>	1,011	474	1,485
1,768	-	1,768	Employees	6,177	-	6,177
-	-	-	Pensions	295	-	295
710	968	1,678	Motor Insurance	691	1,285	1,976
-	327	327	Property	-	660	660
-	-	-	MFB Refund	75	510	585
49	-	49	MMI Insurance Levy	-	146	146
<b>3,596</b>	<b>1,462</b>	<b>5,058</b>	<b>Total</b>	<b>8,249</b>	<b>3,075</b>	<b>11,324</b>

## Note 16 Usable Reserves

Usable reserves consist of the LFC's general fund and a range of earmarked reserves for specific purposes. Movements in the LFC's usable reserves are detailed in the Movement in Reserves Statement.

Unaudited

## Note 17 Unusable Reserves

### ACCOUNTING POLICY

The LFC 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 in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

01 April 2018	Unusable Reserves	31 March 2019
£'000		£'000
(158,613)	Revaluation Reserve	(137,259)
(159,517)	Capital Adjustment Account	(148,629)
6,418,199	Pensions Reserve	6,667,684
4,037	Accumulated Absences Account	3,867
<b>6,104,106</b>	<b>Total Unusable Reserves</b>	<b>6,385,663</b>

## Note 17 Unusable Reserves (continued)

### REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the LFC arising from increases in the value of its Property, Plant and Equipment and Intangible Assets.

The balance of the Revaluation Reserve 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.

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.

Revaluation Reserve	2018/19	
	£'000	£'000
Balance as at 1 April		(158,613)
Upward revaluation of assets	-	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	7,668	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		7,668
Difference between fair value depreciation and historical cost depreciation	1,981	
Accumulated gains on assets sold or scrapped	11,705	
Amount written off to the Capital Adjustment Account		13,686
<b>Total Unusable Reserves</b>		<b>(137,259)</b>

## Note 17 Unusable Reserves (continued)

### CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement 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 LFC as finance for the costs of acquisition, construction and enhancement.

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

Capital Adjustment Account	2018/19	
	£'000	£'000
Balance at 1 April		(159,517)
Charges for depreciation and impairment of non current and intangible assets	20,692	
Amounts of non current assets de-recognised or written off on the disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	10,889	
		31,581
Use of Capital Receipts to finance new capital expenditure	(13,313)	
Capital Expenditure Charged Against The General Fund	(34)	
Capital grant and contributions credited to the Comprehensive Income and Expenditure Account that have been applied to the capital financing	-	
Application of grants to capital financing from the Capital Grants unapplied Account	(84)	
Statutory provision for the financing of capital investments charged against the General Fund	(7,262)	
		(20,693)
<b>Balance at 31 March</b>		<b>(148,629)</b>

## Note 17 Unusable Reserves (continued)

### PENSIONS RESERVE

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 LFC 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 LFC 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 LFC has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>Pensions Reserve</b>		<b>2018/19</b>
		<b>£'000</b>
Balance at 1 April		6,418,199
Actuarial gains or losses on pensions assets and liabilities		166,211
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement		255,845
Employer's pensions contributions and direct payments to pensioners payable in the Year		(172,571)
<b>Balance at 31 March</b>		<b>6,667,684</b>



## Note 17 Unusable Reserves (continued)

### ACCUMULATED ABSENCES ACCOUNT

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the LFC. The most significant benefit covered by this heading is holiday pay.

Employees build up entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the LFC is required to accrue for any annual leave earned but not taken at 31 March each year.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when

employees earn the benefits. Amounts are transferred to the Accumulated Absences Account, which is included in Unusable Reserves on the Balance Sheet, until the benefits are used.

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Accumulated Absences Account	2018/19	
	£'000	£'000
Balance as at 1 April		4,037
Settlement or cancellation of accrual made at the end of the preceding year	(4,037)	
Amounts accrued at the end of the current year	3,867	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(170)
<b>Balance as at 31 March</b>		<b>3,867</b>

## Note 18 Expenditure and Income Analysed By Nature

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by CIPFA's Best Value Accounting Code of Practice. However decisions about resource allocation are taken by the LFC on the basis of budget reports analysed on a subjective rather than objective format based on available funding through GLA grant. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to depreciation, revaluation and impairment losses, or amortisation. These are charged to services in the Comprehensive Income and Expenditure Statement. The reports do however include external financing costs, which includes debt charges such as interest costs and Minimum Revenue Provision to reflect the cost of repaying debt.
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year as defined by the LFC's actuaries.
- Expenditure on some support services is budgeted for centrally and not charged to directorates.

The LFC receive and approve a budget report in March for the following financial year. During the year they receive quarterly financial and service performance monitoring reports.

<b>Expenditure and Income Analysed by Nature</b>		<b>2018/19</b>
		<b>£'000</b>
Employee Benefits Expenditure		422,895
Premises		34,439
Transport		15,449
Supplies and Services		29,977
Third Party Payments		2,207
Interest Payments		5,026
Depreciation and Impairment		22,674
<b>Total expenditure</b>		<b>532,667</b>
Fees, charges and other service income		(39,573)
Interest and investment income		(861)
Gain on disposal of non-current assets		(20,006)
Government grants and contributions		(13,753)
GLA Funding		(398,470)
<b>Total income</b>		<b>(472,663)</b>
<b>Surplus or Deficit on the Provision of Services</b>		<b>60,004</b>

*The table shows the Deficit on the Provision of Service in a subjective format as presented in end of year outturn management reports. Management reports are available to view on the LFC's website.*

**Note 18** Expenditure and Income Analysed By Nature (continued)

**EXPENDITURE AND FUNDING ANALYSIS**

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources by the LFC in comparison with those resources consumed or earned by the LFC in accordance with generally accepted accounting practices.

Expenditure and Funding Analysis	2018/19		
	Expenditure chargeable to general fund	Adjustments between funding and accounting basis	Net Expenditure in CIES Statement
	£'000	£'000	£'000
<b>Firefighting and rescue operations, community fire safety, emergency planning and civil defence</b>	393,752	(86,231)	307,521
<b>Cost of services</b>	393,752	(86,231)	307,521
Other income and expenditure	(415,296)	167,779	(247,517)
(Surplus) or Deficit on Provision of Services	<b>(21,544)</b>	<b>81,548</b>	<b>60,004</b>
Opening General Fund Balance			(53,890)
(Surplus) or Deficit on Provision of Services			(21,544)
<b>Closing General Fund Balance</b>			<b>(75,434)</b>

Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	2018/19		
	Adjustment for capital purposes	Net change for the pensions adjustment	Adjustments between funding and accounting basis
	£'000	£'000	£'000
Firefighting and rescue operations, community fire safety, emergency planning and civil defence	(6,406)	(79,825)	(86,231)
<b>Cost of services</b>	<b>(6,406)</b>	<b>(79,825)</b>	<b>(86,231)</b>
Other income and expenditure from the Expenditure and Funding Analysis	4,850	162,929	167,779
<b>Difference between General Fund surplus or deficit and the Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(1,556)</b>	<b>83,104</b>	<b>81,548</b>

## Note 19 Members Allowances

The Policing and Crime Act 2017 received Royal Assent 31 January 2017. The Act changed the governance arrangements for the fire and rescue service in London by abolishing the London Fire and Emergency Planning Authority (LFEPA) and creating the London Fire Commissioner (LFC) as a corporation sole and the fire authority for Greater London, discharging the functions described by the Fire and Rescue Services Act 2004. A new London Fire Commissioner (LFC) has been appointed by the Mayor of London. Accordingly, London's fire authority does not have any directly paid elected members.

Under the arrangements, the Mayor has the power to give directions and guidance to the London Fire Commissioner relating to the exercise of their functions. The London Fire Commissioner's appointed statutory deputy is the Deputy Commissioner and Director of Operations. The Mayor has also appointed a Deputy Mayor for Fire and Resilience to exercise some function of the Mayor relating to fire and rescue. The governance changes arising from the Act came into effect on 1 April 2018.

## Note 20 Officer Remuneration

### SENIOR OFFICERS

Senior officers are defined by the CIPFA Code as those officers whose salary/remuneration is £150k or more, and those whose salary is £50k or more and who meet the criteria of statutory chief officers as defined by Section 2(6) of the Local Government and Housing Act 1989, as amended, and their direct reports. The remuneration paid to the LFC's senior officers is as follows:

2018/19 Post title and Name	Remuneration (including fees and allowances) £	Expense Allowances £	Other Compensation payments £	Total Remuneration (excluding pensions) £	Pension Contributions £	Total Remuneration (including pensions) £
<b>London Fire Commissioner - Office Holder and Corporation Sole</b> Dany Cotton	202,000	-	-	202,000	31,959	233,959
2018/19 Post title and Name	Salary (including fees and allowances) £	Expense Allowances £	Compensation for Loss of Office £	Total Remuneration (excluding pensions) £	Pension Contributions £	Total Remuneration (including pensions) £
<b>Directors</b>						
<b>Deputy Commissioner, Director of Operations</b> Tom George	152,795	228	-	153,023	22,514	175,537
<b>Deputy Commissioner, Director of Safety &amp; Assurance</b> Steve Apter	150,581	322	-	150,903	32,676	183,579
<b>Director of Corporate Services and S127 Officer</b> Sue Budden	174,435	670	-	175,105	23,967	199,072
<b>General Counsel</b> Miles Smith*	190,377	-	-	190,377	-	190,377

\*The General Counsel Officer was retained by the LFC on an interim basis via an agency arrangement and as such was not salaried.

## Note 20 Officer Remuneration (continued)

The London Fire Commissioner - Office Holder and Corporation Sole annual remuneration, excluding fees and allowances as at 31 March 2019 is shown in the table:

<b>Office Holder and Corporation Sole- Remuneration</b>	<b>As at 31 March 2019</b>
	£
London Fire Commissioner	202,000

The annual salary of senior officers is reviewed each year and the annual basic salary, excluding fees and allowances, for each of these senior officers as at 31 March 2019 are shown in the table:

<b>Basic Salary</b>	<b>As at 31 March 2019</b>
	£
Director of Corporate Services	171,055
Deputy Commissioner, Director of Operations	155,076
Deputy Commissioner, Director of Safety and Assurance	152,829

**Note 20 Officer Remuneration (continued)**

**EMPLOYEES WHOSE REMUNERATION  
(EXCLUDING EMPLOYER'S PENSION  
CONTRIBUTIONS) WAS £50K OR HIGHER**

The number of employees shown in each band in the table above do not include those senior employees whose remuneration is shown individually in the table:

Salary Range	2018/19 No.
£50,000 - £54,999	163
£55,000 - £59,999	79
£60,000 - £64,999	83
£65,000 - £69,999	70
£70,000 - £74,999	51
£75,000 - £79,999	25
£80,000 - £84,999	18
£85,000 - £89,999	15
£90,000 - £94,999	7
£95,000 - £99,999	4
£100,000 - £104,999	1
£105,000 - £109,999	1
£110,000 - £114,999	1
£115,000 - £119,999	1
£120,000 - £124,999	1
£125,000 - £129,999	4
£130,000 - £134,999	2

## Note 21 Audit Fees

The LFC has incurred the following costs in relation to the audit of the Statement of Accounts and statutory inspections provided by the LFC's external auditors, Ernst and Young (EY)

<b>Audit Fees</b>	<b>2018/19</b>
	<b>£'000</b>
Fees payable to appointed Auditor for External Audit services	58
<b>Total</b>	<b>58</b>

Unaudited



## Note 22 Grant Income

### GOVERNMENT GRANTS AND CONTRIBUTIONS ACCOUNTING POLICY

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the LFC when there is reasonable assurance that:

- The LFC will comply with the conditions attached to the payments, and
- The grants/contributions will be received.

Amounts recognised as due to the LFC are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify 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 transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. 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.

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.

## Note 22 Grants (continued)

The LFC credited grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19 as shown in the table.

The grants received by the LFC are non-ring fenced and therefore these are unconditional. The 2018/19 £398.5m GLA grant shown in the table is now comprised of three elements, grant funding in the form of Retained Business rates £238.7m, GLA Precepts £148.0m and £11.8m relating to the Sale of Southwark Property.

Credited to Taxation and Non-Specific Grant Income	Source of Funding	2018/19 £'000
GLA Grant	Greater London Authority	398,470
PFI Grant	Home Office	3,732
Contributions to capital	The Metropolitan Masonic Charity	881
<b>Total</b>		<b>403,083</b>
<b>Credited to services</b>		
Fire Control Grant	Home Office	3,059
New Dimensions & USAR Grant	Home Office	3,263
New Risks Grant	Home Office	139
National Operational Guidance	Home Office	1,500
Emergency Services Mobile Communications Programme (ESMCP)		-
National Operational Guidance	National Fire Chiefs Council	760
Apprentice Grant	HMRC	267
Other Revenue Grants	HO	61
European Unified Response	EU	-
Low Emissions Grant	DOT	-
Hydrogen Truck Initiative	TEC Strategy Board	16
<b>Revenue Grant Income</b>		<b>9,065</b>
Revenue Contributions Received		1,112
<b>Total</b>		<b>10,177</b>

## Note 23 Related Party Transactions

### MAYOR OF LONDON AND THE GREATER LONDON AUTHORITY (GLA)

The London Fire Brigade is run by the London Fire Commissioner, a corporation sole and the fire and rescue authority for London and is one of the five GLA functional bodies.

The Policing and Crime Act was enacted on 31 January 2017. The Act abolished the LFEPA, and provided for the Mayor of London to take responsibility for fire and rescue services in London. The functions sit within existing Greater London Authority structures, with a Deputy Mayor for Fire and Resilience, a statutory "London Fire Commissioner" and a new Committee of the London Assembly, which provides scrutiny. All Assets, Liabilities and Resources of the LFEPA transferred to the London Fire Commissioner under statute on 1 April 2018.

The Mayor sets and provides the budget for LFC and provides grant funding to support it.

### CENTRAL GOVERNMENT

The LFC has relations with and obtains grant funding from Central Government departments. In particular the Home Office has significant influence over the general operations of the LFC – it is responsible for providing the statutory framework within which the LFC operates and provides the majority of its funding via the GLA in the form of various grants. As at 31st March 2019, sums due to and from central government departments are shown in Notes 12 and 14. Grants received from government departments are set out in Note 22.

### MEMBERS/OFFICERS

The LFC has direct control over the LFC's financial and operating policies. As of 2018/19 member allowances are no longer paid as detailed in Note 19.

A number of LFC officers were members of the London Fire Brigade Welfare Fund Executive Council. One senior officer is an unpaid Director of the LFB Enterprises Ltd, the wholly owned trading company.

All LFC officers including senior management except The Fire Commissioner have declared that during the year they, or their close

relations or members of the same household had not undertaken any declarable transactions neither with related parties nor with the LFC.

The Fire Commissioner, made a declaration of being the Chair of the Executive Committee, Women in the Fire Service UK, this organisation received payments from LFC during the 2018/19 financial year of £20.9k. No further declarations were made.

This disclosure note has been prepared on the basis of specific declarations obtained in April 2019, in respect of related party transactions. The LFC has prepared this disclosure in accordance with its current interpretation and understanding of CIPFA's Code of Practice on Local Authority Accounting in the UK. The Code's provisions are based on International Accounting Standard 24 (IAS24).

## Note 24 Capital Expenditure and Capital Financing

In 2018/19, total spending on the capital programme for tangible and intangible assets was £13.4m. The spend included the rebuilding and modernising of fire stations and other buildings (£3.2m), upgrading ICT equipment (£0.6m) and the purchase of fleet vehicles and equipment (£9.6m). Capital expenditure on LFC assets (£13.4m) is to be financed in accordance with the Prudential Code, Government capital grant (£0.1m), and Capital receipts (£13.3m)

The table shows the movement in the LFC's Capital Financing Requirement (CFR) showing expenditure in year and sources of funding applied.

As at 31st March 2019 the LFC has committed a total of £3.8m to future capital works and purchases.

The capital programme approved by LFC on 27 March 2019 (LFC-0134) included a total forecast capital spend of £40.9m in 2019/20, £38.2m in 2020/21 and £25.6m in 2021/22.

<b>Capital Expenditure and Financing</b>	<b>2018/19</b>
	<b>£'000</b>
Opening Capital Financing Requirement	164,457
Tangible Operational Assets	11,417
Tangible Non Operational Assets	1,550
Intangible Assets	465
<b>Sources of finance</b>	
Government grants and other contributions	(13,398)
Sums set aside from Revenue to Fund Capital Expenditure	(34)
Minimum Revenue Provision	(7,262)
Other Movements	
Closing Capital Financing Requirement	157,195
<b>Explanation of movements in year</b>	
Other long term liability PFI and finance lease	
Borrowing from PWLB & Local Authorities in year	
Increase/(decrease) in underlying need to borrow	(7,262)
Other movements	
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(7,262)</b>

## Note 25 Other Long Term Liabilities

Other long term liabilities shown in the balance sheet comprise of the long term elements of the vehicle PFI and Merton Control Finance lease, with deferred credits and the pensions liability, details of which are shown in the notes that follow.

01 April 2018 £'000	Other Long Term Liabilities	31 March 2019 £'000	Note
46,890	Long Term PFI Properties	45,622	26
18,425	Long Term Finance Leases	18,425	26
3,015	Deferred Credit	2,939	
6,418,198	Pensions Liability	6,667,683	28
<b>6,486,528</b>	<b>Total</b>	<b>6,734,669</b>	

## Note 26 Service Concession Arrangements, Finance and Operating Leases

### LEASES

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 and equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### THE LFC AS A LESSEE FINANCE LEASES

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the LFC are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets,

subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the LFC at the end of the lease period).

The LFC is not required to raise funding to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## Note 26 Service Concession Arrangements, Finance and Operating Leases (continued)

### PRIVATE FINANCE INITIATIVE (PFI) AND SIMILAR CONTRACTS

#### PROPERTY PFI SCHEME

The LFC has entered into a PFI agreement with Blue3 (London) Ltd to design, build, finance and maintain nine new fire stations. The PFI project will see the Brigade receive £51.5m index linked from Central Government over the contract period. The new fire stations were opened at Dagenham, Dockhead, Leytonstone, Mitcham, Old Kent Road, Orpington, Plaistow, Purley and Shadwell. Eight of the stations were completely re-built on their existing sites and one station, Mitcham, was built on a new site.

PFI provides a way of funding major capital investments, without the public purse having to find all the cost up front. The £51.5m is extra money for the Brigade which is index linked to cover for inflation and is payable over a twenty-five year period.

The LFC will carry the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment. As Non-current assets recognised on the Balance Sheet they will be depreciated in the same way as property, plant and equipment owned by the LFC.

The contract runs for a period of 25 years and in return the Brigade will pay a regular charge on the property, known as the Unitary Charge.

Once the agreed repayment period ends, the fire station buildings will be returned to the Brigade in a pre-agreed and acceptable condition, although the buildings always remain the Brigade's property.

The amounts paid under the PFI finance lease in 2018/19 is shown below:

<b>Finance Lease Property PFI 2018/19</b>	<b>Unitary Charge</b>	<b>Deferred liability</b>	<b>Income &amp; Expenditure Account</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening balance as at 1 Apr 2018		48,103	
New finance lease liability in year		-	
Principal sum paid in year	1,213	(1,213)	
Interest	3,195		3,195
Contingent rentals	41		41
Operational expenses	1,151		1,151
<b>Balance as at 31 March 2019</b>	<b>5,600</b>	<b>46,890</b>	<b>4,387</b>

**Note 26 Service Concession Arrangements, Finance and Operating Leases (continued)**

The table below shows the forecast future payments due under the property PFI arrangement.

<b>PFI Property Future Liabilities</b>	<b>Within 1 Year</b>	<b>Within 2 to 5 Years</b>	<b>Within 6 to 10 Years</b>	<b>Within 11 to 15 Years</b>	<b>Within 16 to 20 Years</b>	<b>Within 21 to 25 Years</b>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Lease rental liabilities	1,268	5,712	8,023	10,035	14,912	6,940
Operating Costs	1,208	5,455	9,547	12,058	12,256	4,796
Interest Costs	3,114	11,555	12,142	9,267	5,206	571
Contingent Rentals	49	257	46	(312)	134	125
<b>Total</b>	<b>5,639</b>	<b>22,979</b>	<b>29,758</b>	<b>31,048</b>	<b>32,508</b>	<b>12,432</b>



## Note 26 Service Concession Arrangements, Finance and Operating Leases (continued)

### FINANCE LEASES

The LFC holds two finance leases as at 31<sup>st</sup> March 2019, one is for its control centre at Merton and the other is for the nine fire stations being provided under the PFI contract.

The LFC entered into a 25 year finance lease arrangement for the provision of its control function at Merton in March 2011 (currently valued on the balance sheet at £14.4m). The building became operational in February 2012, when control functions transferred from the LFC's site at 2 Greenwich View to Merton. Lease payments of £2,923k were paid during 2018/19. The table below shows the future payments under the lease agreement.

<b>Merton Control Centre Finance Lease</b>	<b>Total value of minimum lease payments as at 01/04/2018</b>	<b>Present value of minimum lease payments as at 01/04/2018</b>	<b>Total value of minimum lease payments as at 31/03/2019</b>	<b>Present value of minimum lease payments as at 31/03/2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Not later than one year	2,923	916	2,923	776
Later than one year and no later than five years	12,490	2,605	12,875	2,282
Later than five years	45,268	2,795	41,961	2,342
<b>Total</b>	<b>60,681</b>	<b>6,316</b>	<b>57,759</b>	<b>5,400</b>

<b>PFI Property Finance Lease</b>	<b>Total value of minimum lease payments as at 01/04/2018</b>	<b>Present value of minimum lease payments as at 01/04/2018</b>	<b>Total value of minimum lease payments as at 31/03/2019</b>	<b>Present value of minimum lease payments as at 31/03/2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Not later than one year	4,408	4,408	4,381	4,381
Later than one year and no later than five years	17,344	14,732	17,267	14,664
Later than five years	71,399	31,020	67,096	29,861
<b>Total</b>	<b>93,151</b>	<b>50,160</b>	<b>88,744</b>	<b>48,906</b>

## **Note 26 Service Concession Arrangements, Finance and Operating Leases (continued)**

### **OPERATING LEASES**

#### **THE LFC AS A LESSEE**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (i.e. there is a rent free period at the commencement of the lease).

Unaudited

## Note 26 Service Concession Arrangements, Finance and Operating Leases (continued)

### OPERATING LEASES AND LIABILITIES

The following table shows a breakdown of the LFC's current operating leases as at 31 March 2019 with future sums committed.

The future minimum lease payments payable under non-cancellable leases in future years are:

### THE LFC AS A LESSOR

Where the LFC grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (i.e. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and are charged as an expense over the lease term on the same basis as rental income.

Land and Buildings As at 01/04/2018 £'000	Vehicles, Plant and Equipment As at 01/04/2018 £'000	Operating lease payments	Land and Buildings As at 31/03/2019 £'000	Vehicles, Plant and Equipment As at 31/03/2019 £'000
4,974	2,179	Not later than one year	5,129	3,657
18,916	1,101	Later than one year and no later than five years	20,406	9,574
22,750	-	Later than five years	22,813	3,401
<b>46,640</b>	<b>3,280</b>	<b>Total</b>	<b>48,348</b>	<b>16,632</b>

## Note 27 Termination Benefits

### ACCOUNTING POLICY

Termination benefits are amounts payable as a result of a decision by the LFC to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the LFC is demonstrably committed either to the termination of the employment of an employee or group of employees, or to making an offer to encourage voluntary redundancy.

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

The LFC terminated the contracts of six employees in 2018/19, incurring liabilities of £0.1m. Four of the six staff included in the 2018/19 figures were given notice prior to 1 April 2018, however their last day of service was in 2018/19 and the total cost exceeded the liability last year. Therefore these staff are included in both sets of figures.

The support staff comprised of five officers from the Corporate Services Directorate.

Exit package cost band 2018/19 £'000	Number of compulsory redundancies No.	Number of other agreed departures No.	Total number of exit packages No.	Total cost of exit packages in each band £'000
0 - 20	-	2	2	12
20 - 40	-	2	2	63
40 - 60	-	-	-	-
60 - 80	-	1	1	66
80 - 100	-	1	1	90
100 - 150	-	-	-	-
Over 150	-	-	-	-
<b>Total</b>	-	<b>6</b>	<b>6</b>	<b>231</b>

## Note 28 Pensions

### Defined Benefit Pension Schemes

#### **POST EMPLOYMENT BENEFITS – ACCOUNTING POLICY**

Post-employment benefits can include pensions, life insurance or medical care. Postemployment benefit plans are classified as either defined contribution plans or defined benefit plans. The LFC has no post-employment benefit plans other than pensions.

Pensions are provided for all full-time employees under the requirements of statutory regulations. In certain circumstances these regulations extend to cover part-time employees. The schemes in operation are:

- **THE 1992 FIREFIGHTERS' PENSION SCHEME, THE 2006 FIREFIGHTERS PENSION SCHEME, AND THE 2015 FIREFIGHTERS PENSION SCHEME:**

These are unfunded schemes, which are administered by the LFC in accordance with regulations initially laid down by the Department for Communities and Local Government (CLG), now the responsibility of the Home Office. These schemes are administered under a shared service

arrangement with the London Pension Fund Authority (LPFA), now subcontracted to the Local Pensions Partnership (LLP) on behalf of the LFC. For such schemes as there are no investment assets, IAS 19 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the Comprehensive Income and Expenditure Statement for movements in the liability and reserve. The last actuarial review for IAS 19 purposes was dated April 2018.

- **LOCAL PENSION GOVERNMENT PENSION SCHEME (LGPS):**

This scheme is funded by employer and employee contributions to the LPFA, with administration and investment management services provided through LLP. The scheme provides members with defined benefits related to pay and service. The contribution rate is determined by the LPFA with advice from the fund's Actuary, based on triennial actuarial valuations, the last review, impacting on 2018/19, being at 31 March 2013. Under Pension Fund Regulations, contribution rates are set to meet all of the overall liabilities of the Fund. The last actuarial review for IAS 19 purposes was dated April 2018.

Post employment benefits have been included in the LFC's accounts to comply with accounting standard IAS19 - Employee Benefits. The International Accounting Standards Board (IASB) issued a new version of IAS19 in June 2011. This revised standard applies to financial years starting on or after 1 January 2013.

Consequently, the following tables and disclosures have been presented in the revised formats as required by the CIPFA Code of Practice on Local Authority Accounting 2018/19.

## Note 28 Pensions (continued)

### ACTUARIAL FIGURES ARE INCLUDED IN THE AUTHORITY'S ACCOUNTS ON THE FOLLOWING BASIS:

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond.

The assets of the Fund (LGPS only) attributable to the LFC are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The change in the net pensions liability is analysed into seven components, being:

- 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 – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in

earlier years – debited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Expected return on assets (LGPS only) – the annual investment return on the fund assets attributable to the LFC, based on an average of the expected long term return – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
- Gains/losses on settlements and curtailments – the result of actions to relieve the LFC of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have

updated their assumptions – debited to Pensions Reserve

- Contributions paid to the Fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the LFC to the pension fund in the year 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 amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## Note 28 Pensions (continued)

### TRANSACTIONS RELATING TO POST-EMPLOYMENT BENEFITS

The LFC recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge the LFC is required to make against council tax funding is based on the cash payable in the year, so the real cost of post employment/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 Statement and the General Fund via the Movement in Reserves Statement during the year.

The firefighter pension actuary figures shown in the following tables are the combined figures for the 1992, 2006 and 2015 schemes.

Comprehensive Income and Expenditure Statement	Local Government Pension Scheme	Firefighter's Pension Schemes
	2018/19 £'000	2018/19 £'000
<b>Cost of Services</b>		
Current Service cost	12,458	80,190
Past service costs/(gain)	268	-
Settlement prices paid	-	-
Financing and Investment Income and Expenditure		
Net Interest expense	5,995	156,500
Administrating expenses	434	
<b>Total post-employment benefit charged to the Surplus or Deficit on the Provision of Services</b>	<b>19,155</b>	<b>236,690</b>
Other post-employment benefits charged to the Surplus or Deficit on the Provision of Services		
Re-measurement of the net defined benefit liability comprising:		
• Return on plan assets (excluding the amount included in the net interest expense)	18,517	-
• Actuarial (gains) and losses arising on changes in demographic assumptions	-	-
• Actuarial (gains) and losses arising on changes in financial assumptions	19,646	178,930
Experience (gains) and losses on defined benefit obligation	-	11,020
Other	-	-
<b>Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>57,318</b>	<b>426,640</b>
<b>Movement in Reserves Statement</b>		
• Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(19,155)	(236,690)
Employers' contributions payable to scheme	9,866	164,020
Benefits paid directly to beneficiaries	1,065	
<b>Actual amount charged against the General Fund Balance for pensions in the year.</b>	<b>(8,224)</b>	<b>(72,670)</b>

## Note 28 Pensions (continued)

The service cost for firefighters and support staff has been allocated to the Comprehensive Income and Expenditure Statement based on individual levels of staff pensionable pay for the year. Details of the LFC's accrued liability in respect of both the firefighters' and the Local Government Pension Schemes are given below. Further information in respect of the Local Government Pension Scheme can be found in the Pension Fund's Annual Report, which is available upon request from:

**Local Pensions Partnership**  
**2<sup>nd</sup> Floor**  
**169 Union Street**  
**London SE1 0LL**

Membership of Schemes	LGPS	FPS
	Number 2018/19*	Number 2018/19
Actives	813	4,323
Deferred Pensioners	742	1,440
Pensioners	1,341	8,792
Unfunded Pensioners	309	-
Injury Pensioners	-	2,303

*\*2018/19 figures are the same as 2016/17 as these are only updated when an actuarial revaluation takes place.*

Membership of Schemes	LGPS	FPS
	Average Age 2018/19*	Average Age 2018/19
Actives	48	81
Deferred Pensioners	49	85
Pensioners	71	119
Unfunded Pensioners	73	-
Injury Pensioners	-	117

*\*2018/19 figures are the same as 2016/17 as these are only updated when an actuarial revaluation takes place.*



## Note 28 Pensions (continued)

### Retirement Benefits

In accordance with the requirements of IAS19 the LFC has to disclose its share of assets and liabilities related to pension schemes for its employees. As explained above the LFC participates in three firefighter schemes, which are unfunded, and the Local Government Pension Scheme for other employees, which is administered by the Local Pensions Partnership (LPP) on behalf of the LPFA. In addition the LFC has made arrangements for the payment of added years to certain retired employees outside the provisions of the schemes.

The amount included in the Balance Sheet arising from the LFC's obligation in respect of its defined benefit plans is as follows:

<b>Local Government Pension Scheme</b>	<b>Firefighter's Pension Schemes</b>	<b>LFC Pensions Obligations</b>		<b>Local Government Pension Scheme</b>	<b>Firefighter's Pension Schemes</b>
<b>As at 01 April 2018</b>	<b>As at 01 April 2018</b>			<b>As at 31 March 2019</b>	<b>As at 31 March 2019</b>
<b>£'000</b>	<b>£'000</b>			<b>£'000</b>	<b>£'000</b>
553,433	-	Present value of the defined benefit obligation		561,286	-
(334,227)	-	Fair Value of plan assets		(356,986)	-
<b>219,206</b>	<b>-</b>	<b>Net</b>		<b>204,300</b>	<b>-</b>
21,153	6,177,840	Present value of the unfunded obligation		20,544	6,442,840
<b>240,359</b>	<b>6,177,840</b>	<b>Net liability arising from defined benefit obligation</b>		<b>224,844</b>	<b>6,442,840</b>

**Note 28** Pensions (continued)**RECONCILIATION OF THE MOVEMENTS IN THE FAIR VALUE OF ASSETS SCHEME (PLAN)**

London Fire Commissioner Asset Scheme	Local Government Pension Scheme 2018/19 £'000
Opening fair value of scheme assets	334,227
Interest Income	8,475
<b>Re-measurement gain/(loss)</b>	
• The return on plan assets excluding the amount included in the net interest expense	18,517
• Other	-
Contributions from employer	10,931
Contributions from employees into the scheme	2,782
Benefits paid	(17,512)
Settlement prices received/(paid)	-
Other	(434)
<b>Closing fair value of scheme assets</b>	<b>356,986</b>

**Note 28** Pensions (continued)

**RECONCILIATION OF PRESENT VALUE OF THE SCHEME LIABILITIES (DEFINED BENEFIT OBLIGATION)**

	Funded Liabilities Local Government Pension Scheme	Unfunded Liabilities Firefighter's Pension Schemes
	2018/19	2018/19
	£'000	£'000
<b>Opening Balance at 1 April</b>	<b>574,586</b>	<b>6,177,840</b>
Current Service cost	12,458	80,200
Interest costs	14,470	156,500
Contributions from scheme participants	2,782	21,450
<b>Re-measurement (gains) and losses:</b>		
• Actuarial gains/losses arising from changes in demographic assumptions	(24,868)	-
• Actuarial gains/losses arising from changes in financial assumptions	19,646	178,930
• Experience loss/(gain) on defined benefit obligation	-	11,020
Unfunded pension payments	(1,065)	-
Past service cost	268	-
Benefits paid	(16,447)	(183,100)
Liabilities extinguished on settlements	-	-
<b>Closing balance at 31 March</b>	<b>581,830</b>	<b>6,442,840</b>

**Note 28** Pensions (continued)

**LOCAL GOVERNMENT PENSION SCHEME ASSETS COMPRISED:**

As at 01 April 2018 £'000	Fair Value of Fund Assets	As at 31 March 2019 £'000
	<b>Equities - Segregated</b>	
5,216	Basic Materials	4,677
2,958	Communications	9,103
36,119	Consumer	37,876
5,387	Energy/Utilities	5,676
19,314	Financial	19,242
18,423	Industrial	18,313
27,166	Technology	21,955
3,927	Real Estate	5,034
9,845	Health Care	11,709
	<b>Equities - Unsegregated</b>	
11,858	Investment funds/unit trusts	7,925
-	Synthetic Equity (Futures)	2,142
16,926	Credit	28,380
8,209	Fixed Income	16,814
50,841	Investment/Hedge funds & unit trusts	49,977
34,562	Private Equity	35,913
29,535	LDI	18,385
24,909	Government	33,556
16,828	Infrastructure	21,491
10,785	Cash	7,925
1,389	Currency Hedge (Forward	857
30	BlackRock DDG	36
<b>334,227</b>	<b>Total</b>	<b>356,986</b>

## Note 28 Pensions (continued)

### RATE OF RETURN ON FUND ASSETS

Based on the above the LFC's share of Fund assets is approximately 6%

Based on a bid value to bid value basis the actuary has estimated that the return on the LGPS fund assets for the year to 31 March 2019 to be 8%. The expected return on assets has been replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.

### BASIS FOR ESTIMATING ASSETS AND LIABILITIES

The Firefighter pension schemes have been valued by the Government Actuary's Department and the LGPS fund liabilities have been valued by Barnett Waddingham.

### VALUATION METHOD

For both the LGPS and Firefighters' schemes liabilities have been assessed on an actuarial basis using the projected unit credit method, i.e. an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The main assumptions used in the calculations are as per the financial assumptions to follow.

Unaudited

## Note 28 Pensions (continued)

### FINANCIAL ASSUMPTIONS

The financial assumptions used for the purposes of the IAS19 calculations are as follows:

These assumptions are set with reference to market conditions as at 31 March 2019.

Assumptions as at	Local Government Pension Scheme	Firefighter Pension Scheme
	31/03/2019	31/03/2019
CPI increases	2.35%	2.30%
Salary increases	3.85%	4.30%
Pensions increase	2.35%	2.30%
Discount rate	2.55%	2.55%

## Note 28 Pensions (continued)

### ACTUAL AND FUTURE EMPLOYERS CONTRIBUTION RATES

In 2018/19 the LFC made an additional employer contribution payment of £1,016k to the LGPS fund to reduce the LGPS pension deficit. That payment in 2018/19 was in addition to a £908k payment in 2017/18 by LFEPA and a planned £1,131k payment in 2019/20. Together these payments are forecast to achieve ongoing savings of £1,481k from 2020/21 against the LFC's past service deficit payments.

Employers Contribution	2018/19	2019/20
	£'000	£'000
LGPS	10,931	10,854
Firefighters Schemes	25,672	53,468
<b>Total</b>	<b>36,603</b>	<b>64,322</b>

## Note 28 Pensions (continued)

### LOCAL GOVERNMENT PENSION SCHEME

The Administering Authority for the Fund is the LPFA. The LPFA Board oversees the management of the Fund whilst the day to day fund administration and investment management is undertaken by LPP. Where appropriate some functions are delegated to the Fund's professional advisers.

As Administering Authority to the Fund, the London Pensions Fund Authority, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Statement of Investment Principles. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every 3 years as a result of the actuarial valuation of the Fund required by the Regulations. An actuarial valuation of the Fund was carried out as at 31 March 2016 and set contributions for the period from 1 April 2017 to 31 March 2020. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

Should the LFC as an employer decide to withdraw from the scheme on withdrawal from the plan, a cessation valuation would be carried out in accordance with Regulation 64 of the

LGPS Regulations 2013 which would determine the termination contribution due by the Authority, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the LFC as an employer is exposed to a number of risks:

- Investment risk: The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk: The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk: All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- Longevity risk: In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the London Pension Fund Authority Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer i.e. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.



## Note 28 Pensions (continued)

### LGPS – ACTUARIAL ASSUMPTIONS

The actuary's estimate of the duration of the employer's liabilities is 18 years.

An estimate of the Employer's future cash flows is made using notional cash flows based on the estimated duration above. These estimated cash flows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cash flows, discounted at this single rate, equates to the net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The approach has changed from the "spot rate" approach adopted at the previous accounting date to reflect national auditor preferences.

Similarly to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cash flows described above. The single inflation rate derived is that which gives the same net present value of the cash flows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, a further assumption has been made about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.4% p.a. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts and is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, there is an allowance for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

## Note 28 Pensions (continued)

### FIREFIGHTER PENSION SCHEMES ASSUMPTIONS

The present value of liabilities has been determined using the Projected Unit Credit Method (PUCM). Under the PUCM, the actuarial liability represents the present value of future benefit payments arising in respect of service prior to the valuation date. In respect of active members, the actuarial liability includes allowance for expected future pay increases up to the assumed date of retirement or exit, and for subsequent pension increases. In respect of pensions in payment and deferred members, the actuarial liability includes allowance for future pension increases (and revaluation in deferment). The liability is calculated using the principal financial assumptions applying to the 2018/19 Pension Disclosures.

The cost of benefits accruing in the period from 1 April 2018 to 31 March 2019 was determined using the PUCM with a one year control period and based on the principal financial assumptions applying to the 2017/18 Pension Disclosures. This rate represents the present value of benefits accruing to active members over the year, with allowance for pay increases to the assumed date of retirement or exit, expressed as a level percentage of the expected pensionable payroll over the control period.

### DISCOUNT RATE

IAS19 requires the nominal discount rate to be set by the reference to market yields on high quality corporate bonds, or where there is no deep market in such bonds then by reference to Government bonds. The currency and terms of the corporate or Government bonds need to be consistent with the scheme liabilities.

The duration of the scheme's liabilities for most authorities is around 20 years. However, there are very few corporate bonds in the market with a sufficiently long duration. Therefore, we propose to set the nominal discount rate based on Government bond yields of appropriate duration plus an additional margin. Based on this methodology, the nominal discount rate at 31 March 2019 is assumed to be 2.45% a year.

### PENSION INCREASES

The pension increase assumption as at 31 March 2019 is based on the Consumer Price Index (CPI) expectation of inflation which is assumed to be 2.35%.

### EARNINGS INCREASES ASSUMPTIONS

It is assumed that there is a long term rate of salary growth of 2.00% above CPI.

The assumed nominal rate of salary growth is therefore 4.35% a year.

### RATE OF REVALUATION FOR CARE PENSIONS

A rate of revaluation for CARE pensions of 4.35% a year has been assumed, which is equal to our assumed long term rate of salary growth. The rate of revaluation does not take into account any allowance for short-term pay restraint in the public sector as the revaluation is based on Average Weekly Earnings for the economy as a whole.

### ALLOWANCE FOR INJURY PENSIONS

Under paragraph 157 of IAS 19 any obligation arising from other long-term employee benefits that depend on length of service need to be recognised when that service takes place. As injury awards under the scheme are dependent on service we have valued the liability expected to arise due to injury awards in respect of service prior to the valuation date. The gratuity lump sum paid on injury is not dependent on service and so is recognised as a past service cost when the payment is made.

**Note 28** Pensions (continued)

**DEMOGRAPHICAL/STATISTICAL ASSUMPTIONS**

<b>Mortality Assumptions 2018/19</b>	<b>LGPS</b>	<b>Fire Service Pension Schemes</b>
<b>Average Future Life expectancy as at</b>	Age 65	Age 65
	<b>Retiring today</b>	<b>Current pensioners</b>
<b>Male</b>	20.9 years	22.0 years
<b>Female</b>	23.1 years	22.0 years
	<b>Retiring in 20 years</b>	<b>Future Pensioners</b>
<b>Male</b>	22.6 years	23.9 years
<b>Female</b>	24.8 years	23.9 years

## Note 28 Pensions (continued)

### MORTALITY ASSUMPTIONS

The post retirement mortality for the LGPS scheme is based on Club Vita analysis. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The mortality assumption for the firefighter schemes is based on the S1NFA/S1NMA tables, published by the Continuous Mortality Investigation Board (CMIB) of the actuarial profession, with future improvement in line with the CMI 2014 model.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analyses 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 while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

## Note 28 Pensions (continued)

### SENSITIVITY ANALYSIS

The following table sets out the impact of a small change in the discount rates on the defined benefit obligation and projected service cost along with a +/- 1 year age rating adjustment to the mortality assumption.

Local Government Pension Scheme	£'000	£'000	£'000
<b>Adjustment to discount rate</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	571,761	581,830	592,087
Project service cost	12,000	12,269	12,545
<b>Adjustment to discount rate</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	582,774	581,830	580,892
Project service cost	12,269	12,269	12,269
<b>Adjustment to discount rate</b>	<b>+0.1%</b>	<b>0.0%</b>	<b>-0.1%</b>
Present value of total obligation	591,133	581,830	572,689
Project service cost	12,545	12,269	12,000
<b>Adjustment to discount rate</b>	<b>+1 year</b>	<b>None</b>	<b>-1 year</b>
Present value of total obligation	602,398	581,830	561,965
Project service cost	12,690	12,269	11,862

## Note 28 Pensions (continued)

### FIREFIGHTERS' PENSION SCHEMES

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out in the table;

<b>Change in financial assumption at year ended 31/03/2019</b>	<b>Approximate % increase to Employer liability</b>	<b>Approximate monetary amount (£'000)</b>
0.5% decrease in real discount rate	9.50%	(619,000)
1 year increase in member life expectancy	2.50%	167,000
0.5% increase in the salary increase rate	1.50%	100,000
0.5% increase in the salary increase rate (CPI)	7.50%	486,000

Unaudited

## Note 29 Contingent Liabilities and Assets

### CONTINGENT LIABILITIES

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

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

### PENSION – TRANSITIONAL PROTECTION

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in the pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age

discrimination, equal pay and indirect gender and race discrimination.

The cases were first heard separately in 2017 and 2018, before the Court of Appeal decided to combine the two cases as they were so closely linked. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. The Government is currently seeking permission to appeal this decision, the timeframe for this permission to be granted or denied is known.

If permission to appeal is denied, it would likely result in a requirement to compensate certain members for any discrimination suffered as a result of the transitional protections. If compensation is payable to employees who were transferred to the reformed 2015 schemes, it is expected to lead to an increase in pension scheme liabilities. GAD has estimated the potential increase in scheme liabilities as a result of this judgment to be approximately 5.0% of the authority's total pensions scheme accounting liabilities as at 1 April 2018, which would be equivalent to £309m for the LFC.

### FIREFIGHTERS' PENSIONABLE PAY

In early 2019 the High Court ruled that firefighters in Wales were entitled to have

additional pay they received for working extended hours, or taking on additional duties, to be considered pensionable. The Mid and West Wales Fire and Rescue Authority had argued that allowances for working extended hours, or additional duties, were not pensionable as they were not permanent. The Authority has not yet indicated if it will appeal against the ruling.

The implications for the LFC if all allowance payments made in 2018/19 are reclassified as pensionable this could result in an additional liability of £332k for the LFC.

### CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the LFC 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 LFC.

Contingent assets are not recognised within 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. As at 31 March 2019 the LFC had no contingent assets.

## Note 30 Self Insurance

The LFC generally insures against all material risks with policies to meet the cost of losses over and above predetermined limits, i.e. by policies subject to an excess or to a deductible. Significant excesses to be met from within the LFC's own resources for any one claim are:

Category insured	Amount (£)
Property (All Risks of Physical Loss or Damage)	10,000
Property – Terrorism	25,000
Combined Liabilities	850,000
Officials Indemnity	850,000
Professional Indemnity	500,000
Airside Liability	50,000
Fidelity Guarantee	250,000
Computer	10,000
Motor Operational Fleet	250,000
Motor Leased Vehicles	100
Marine Hull and Machinery – Lambeth River Station	6,500
Marine Hull and Machinery – Vessels	1,500
Marine Protection and Indemnity	500



## Note 31 Going Concern

The LFC's accounts have been prepared on the basis that it is a going concern.

The LFC's Balance Sheet shows a negative Long Term Liability figure of £6.7bn (£6.5bn 2017/18), as result of the full adoption of International Financial Reporting Standard IAS19. The accounting standard requires the recognition of the LFC's pension liabilities in the accounts. However this is purely an accounting entry and does not impact on the Council Taxpayer. It does not affect the LFC's future status or ability to fulfil its function and therefore the accounts have been prepared on a going concern basis.

Each year the Mayor allocates funding to the LFC for the next financial year from the resources within his control. He then also sets out proposed funding levels for a further three financial years for planning purposes. This information, along with other robust forecasting, is used to prepared the LFC's Medium Term Financial Plan over a four year period. This enables the LFC to plan effectively and properly consider its financial position when looking to the future. The LFC continues to pro-actively manage it's financial situation

though the preparation of a London Safety Plan (the Integrated Risk Management Plan), an Efficiency Plan and a Reserves Strategy which includes a review of the adequacy of its reserve levels.

### **POLICING AND CRIME ACT 2017**

The Policing and Crime Act was enacted on 31 January 2017. The Act abolished the London Fire and Emergency Planning Authority (LFEPA) on 31 March 2018, and provided for the Mayor of London to take responsibility for fire and rescue services in London. The functions sit within existing Greater London Authority structures, created a Deputy Mayor for Fire, a statutory "London Fire Commissioner" (LFC) and a new Committee of the London Assembly, which provides scrutiny and oversight. All Assets, Liabilities and Resources of the LFEPA transferred to the London Fire Commissioner under statute on 1 April 2018.

## Note 32 Cash flow statement Adjustments to Net Surplus or Deficit on the provision of services for Non Cash Movements

Adjustments to Net Surplus or Deficit on the provision of services for Non Cash Movements	2018/19 £'000
Depreciation of Non Current Assets	(16,518)
Impairment, Impairment Reversal and Revaluation of Non Current Assets	(4,071)
Assets de-recognised during year	(22,594)
Amortisation of Intangible assets	(2,084)
(Increase)/Decrease in impairment for provision of bad debts	545
Increase/(Decrease) in inventories	92
Increase/(Decrease) in debtors	(8,942)
(Increase)/Decrease in creditors	(5,367)
(Increase)/Decrease in provisions	(6,267)
Pension Fund costs adjustment	(83,274)
<b>Net cash (inflow)/outflow from operating activities</b>	<b>(148,480)</b>

## Note 33 Cash Flow Statement – Operating Activities

	2018/19
Operating Activities	£'000
Interest received	(840)
Interest paid	3,436
Interest element of finance leases	6,118
<b>Total</b>	<b>8,714</b>

**Note 34** Adjustments for items in the net surplus or deficit on the provision of services that are investing or financing activities

<b>Investing Activities</b>	<b>2018/19</b>
	<b>£'000</b>
Purchase of property, plant and equipment, investment property and intangible assets	12,097
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(42,600)
Capital grants received	(881)
<b>Net cash flows from investing activities</b>	<b>(31,384)</b>

<b>Financing Activities</b>	<b>2018/19</b>
	<b>£'000</b>
Cash Receipts of Short and Long term borrowing	-
Cash payments for the reduction of the outstanding liabilities relating to finance leases On-Balance sheet PFI contacts (Principal)	1,213
Repayments of Short and Long term borrowing	4,000
<b>Net cash flows from financing activities</b>	<b>5,213</b>

**FIREFIGHTERS' PENSION FUND  
ACCOUNT AND NOTES**

## Firefighters' Pension Fund Account and Net Assets Statement

Firefighters' Pension Schemes Fund Account	2018/19	
	£000	£000
<b>Contributions receivable</b>		
- from employer		
- normal	(25,702)	
- early retirements	(682)	
	<b>(26,384)</b>	
- from members	(21,449)	
		(47,833)
<b>Transfers in</b>		
- individual transfers in from other schemes		(896)
<b>Benefits payable</b>		
- pensions	142,414	
- commutations and lump sum retirement benefits	20,873	
- back dated commutations	-	
- lump sum death benefits	146	
		<b>163,432</b>
<b>Payments to and on account of leavers</b>		
- refunds of contributions	-	
- individual transfers out to the other schemes	69	
- other - interest due on back dated lump sums	533	
- interest due on back date commutations lump sums	-	
		<b>602</b>
Deficit/Surplus for the year before top up grant receivable/amount payable to central government		115,306
Top up grant receivable from/amount payable from central government		(115,306)
Grant received from central government for back dated commutations		-
<b>Net amount payable/receivable for the year</b>		<b>-</b>

As at 01/04/2018	Net Assets Statement		As at 31/03/2019
£000			£000
81	- Recoverable overpayments of pensions		41
26,377	- Top up receivable from/(payable to) Government		21,156
(26,458)	- other current liabilities		(21,197)
-			-

# Firefighters' Pension Fund Account Notes

## 1. THE FIRE FIGHTERS' PENSION SCHEME IN ENGLAND

There are three firefighter pension schemes the 1992, 2006 and 2015 schemes. The Firefighters Pension Scheme is a defined benefit occupational pension scheme which is guaranteed and backed by law. The Scheme changed on the 1st April 2015 from a Final Salary Scheme to a Career Average Revalued Earnings Scheme (CARE). Members starting after the 1st April 2015, and members of the 1992 and 2006 Final Salary Schemes moved into the new 2015 Scheme, unless protections applied.

The funding arrangements for the Firefighters' Pension Scheme in England were introduced on 1 April 2006 by regulation under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. Prior to 1 April 2006 the firefighter scheme did not have a percentage of pensionable pay type of employer's contribution, the LFC was responsible for paying pensions of its former employees on a pay-as-you-go basis.

Under new funding arrangements the schemes remain unfunded but will not be on a pay-as-you-go basis as far as the LFC is concerned. Apart from the costs of injury awards the LFC no longer meets pension outgoings directly, instead it will pay an employer's pension

contribution based on a percentage of pay into the Pension Fund.

The LFC is required by legislation to operate a Pension Fund and the amounts that must be paid into and paid out of the fund are specified by regulation. The Pension Fund is managed by the LFC and the day to day administration of the scheme is provided under contract by the London Pensions Fund Authority. The supplementary fund statement does not take account of any liabilities to pay pensions or any other benefits after the year end; it purely details pension transactions for the year. Note 28 to the accounts provides details of the assessed pension liabilities and the corresponding entries in the main statements.

### FIREFIGHTER PENSION BACK DATED REFUND OF CONTRIBUTIONS

It was confirmed that affected FFPS 1992 members would receive a refund of contributions following the challenge brought by the Fire Brigade Union against the Government regarding pension contributions paid by firefighters' employed before age 20 who have served for over 30 years before reaching the minimum retirement age of 50.

The Home Office issued guidance and provided funding for implementing the employee contributions holiday for members of the 1992 Scheme. The LFC made the majority

of payments to eligible members by the end of March 2017.

### ACCOUNTING POLICIES

The LFC's accounting policies apply to the fund and are prepared on an accruals basis, apart from transfer values which are accounted for on a cash basis. Transfer payments between English Fire Authorities were repealed by Regulation 36 of Statutory Instrument 1810/2006. Therefore any transfer payments which arise relate to firefighters transferring to/from Welsh and Scottish authorities or transferring out of the Firefighters Pension Scheme entirely.

The Pension Fund has no investment assets and is balanced to nil at the end of the financial year. This is achieved by either paying over to HO (Home Office) the amount by which the amounts receivable by the fund for the year exceeded the amounts payable, or by receiving cash in the form of pension top-up grant from HO equal to the amount by which the amounts payable from the fund exceeded the amounts receivable.

Details of the LFC's long term pension obligations can be found under notes to the core Accounting Statements Notes 29 and 30.

## Firefighters' Pension Fund Account Notes (continued)

### CONTRIBUTIONS

Employees and employers contribution levels are set nationally by CLG and are subject to triennial revaluation by the Government Actuary's Department. Under the firefighters pension regulations the employers contribution rates as a percentage of pensionable pay were 37.3% for the 1992 scheme, 27.4% for the 2006 scheme and 28.8 % for the 2015 scheme. Employee contributions, as a percentage of pensionable pay, depends on the level of earnings for the different schemes as shown in the tables.

Ill health contributions, for Firefighters who retired due to ill health, were also paid into the pension fund.

Firefighters' Pension Scheme employee contributions	2006 Scheme %	1992 Scheme %
More than £21,852 and up to and including £31,218	10.4	14.2
More than £31,218 and up to and including £41,624	10.9	14.7
More than £41,624 and up to and including £52,030	11.2	15.2
More than £52,030 and up to and including £62,436	11.3	15.5
More than £62,436 and up to and including £104,060	11.7	16.0
More than £104,060 and up to and including £124,872	12.1	16.5
More than £124,872	12.5	17.0

Firefighters' Pension Scheme employee contributions	2015 Scheme %
Up to and including £27,818	11.0
More than £27,819 and up to and including £51,515	12.9
More than £51,516 and up to and including £142,500	13.5
More than £142,501	14.5



**ANNUAL GOVERNANCE  
STATEMENT**

# Annual Governance Statement

## INTRODUCTION

Regulations 3 and 6 (1) of the Accounts and Audit Regulations 2015 require the London Fire Commissioner (LFC) to have sound systems of internal control and to demonstrate this by publishing an Annual Governance Statement.

The LFC is a corporation sole that came into being on 1 April 2018, replacing the London Fire and Emergency Planning Authority (LFEPA). The Mayor of London issued a London Fire Commissioner Governance Direction 2018 in March 2018 to set out those matters requiring Mayoral consent, those requiring the Deputy Mayor for Fire and Resilience's consent and those on which the Deputy Mayor for Fire and Resilience needs to be consulted. It also requires the LFC to follow the Greater London Authority (GLA) practice on staff political restrictions, based on those in the Local Government and Housing Act 1989.

This Annual Governance Statement for 2018/19 is the first statement to be produced under the LFC to reflect the new governance arrangements (the statement for the previous years reflected the arrangements under the former LFEPA).

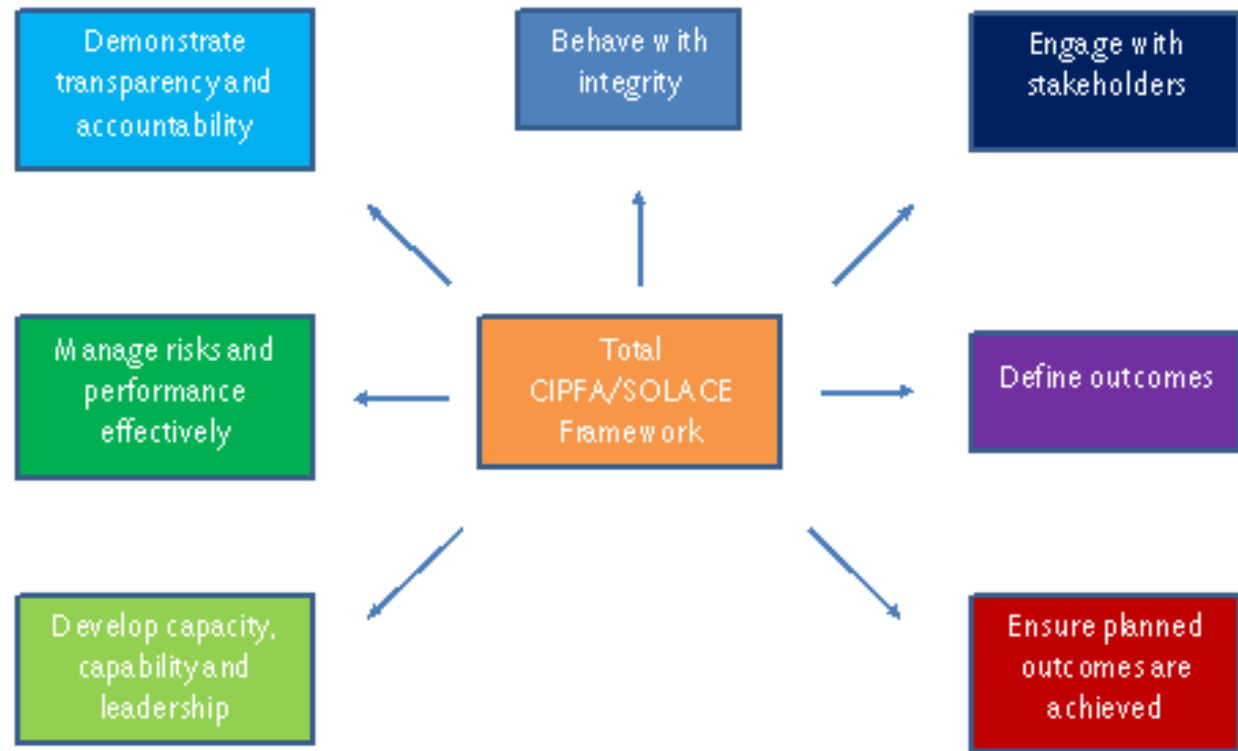
The LFC's governance framework is based on the CIPFA/SoLACE *Delivering Good Governance in Local Government Framework 2016* which requires the LFC to be responsible for ensuring that:

- business is conducted in accordance with all relevant laws and regulations
- public money is safeguarded and properly accounted for
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

The CIPFA 2016 review promotes writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style; striking a balance between providing the right amount of information to satisfy transparency while not being too onerous for users to understand. This 'new look' statement has been produced with those considerations in mind.

## Annual Governance Statement (continued)

The "core principles" underpinning the CIPFA/SoLACE Framework are set out in the diagram:



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## Annual Governance Statement (continued)

### HOW THE LFC MEETS THE PRINCIPLES UNDER THE CIPFA FRAMEWORK

The key elements of the LFC's governance framework at the London Fire Brigade (LFB) are set out below against these core principles:

CIPFA Principle	How the LFC meets the principle
<p>Principle 1 - Behaving with integrity, with commitment to ethical values, and respect for the rule of law</p>	<ul style="list-style-type: none"> <li>• Behaving with integrity through leadership is provided by the LFC, the Commissioner's Board (CB), Directorate Boards (DB), the Top Management Group and senior officers</li> <li>• Staff codes for officers re-inforce a public service ethos and high standards of behaviour. These are supported by a scheme of governance, anti-fraud measures, and whistleblowing procedures</li> <li>• Director of Corporate Services is the Head of Paid Service and is responsible for all LFC staff</li> <li>• Director of Corporate Services is the LFC's Section 127 Officer and is responsible for safeguarding the LFC's financial position and ensuring value for money</li> <li>• General Counsel to the Commissioner is the Monitoring Officer who is responsible for ensuring legality and promoting high standards of conduct</li> <li>• Decision making framework and scrutiny and review arrangements (see para 8 below)</li> </ul>
<p>Principle 2 – Ensuring openness and comprehensive stakeholder engagement</p>	<ul style="list-style-type: none"> <li>• Public consultation on London Safety Plan, which is the Brigade's integrated risk management Plan detailing how the Brigade will address risk in the community</li> <li>• Joint working arrangements on the incident ground and through day to day business with partners to improve community safety</li> <li>• Community safety youth programmes including Education Team, Fire Cadets, Crossfire, Local Intervention Fire Education (LIFE) and Juvenile Fire setters Intervention Scheme (JFIS) and community engagement programmes such as Crossfire working with local/emergency service partners</li> <li>• Borough Commander liaison and local engagement with stakeholders</li> <li>• Resilience partnership working with NFCC, London Resilience Group and the Government</li> <li>• Utilising online communication channels such as Twitter, Facebook and YouTube on a daily basis to promote engagement with the service</li> </ul>

## Annual Governance Statement (continued)

CIPFA Principle	How the LFC meets the principle
<p>Principle 3 – Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<ul style="list-style-type: none"> <li>• London Safety Plan with specific commitments and performance indicators for key service areas</li> <li>• LFC's Sustainable Development Strategy and Inclusion Strategy which are specific strategies focussing on social impacts, sustainability and the environment</li> <li>• Delivery of Brigade services supporting London's diverse communities and distinctive neighbourhoods in improving community safety</li> <li>• Equality analyses and sustainable development impact assessment procedures</li> <li>• Operational Improvement Panel Oversight Panel, Operations Professionalism Board and Grenfell Improvement Board</li> </ul>
<p>Principle 4 – Determining the intervention necessary to achieve intended outcomes</p>	<ul style="list-style-type: none"> <li>• Quarterly corporate performance report tracks the performance of all the Brigade's activities in terms of key performance indicators and commitments. The report also highlights remedial actions being taken where slippage does occur</li> <li>• The LFC, via the Commissioner's Board, the Deputy Mayor, and the London Assembly (via the Fire Resilience and Emergency Planning Committee) ensures that the Brigade remains focussed on achieving its agreed objectives and priorities.</li> </ul>
<p>Principle 5 – Developing capacity, including the capability of leadership and individuals within the Brigade</p>	<ul style="list-style-type: none"> <li>• Investment in training, apprentice schemes and Big Learning (an online learning portal) is used to develop staff at all levels</li> <li>• Training partnership with Babcock Training Limited</li> <li>• Maintenance of skills through development and maintenance of operational professional (DaMOP)</li> <li>• Operational Improvement Process (Policy 825), overseen by the Operations Professionalism Board and agreed interventions such as Ops News, new/amended policy, Big Learning training packages, DaMOP, and evaluation of training solutions</li> <li>• The Brigade also works across a broad set of partnerships and collaborative arrangements to maximise capacity by delivering services in the most effective and efficient way.</li> </ul>
<p>Principle 6 – Managing risks and performance through strong internal control and financial management</p>	<ul style="list-style-type: none"> <li>• Corporate risk register identifies strategic risks</li> <li>• Key risks are considered by Directorate Boards and Commissioner's Board every quarter</li> <li>• Budgetary control systems and monthly budget reporting to Commissioner's Board and approval by LFC</li> <li>• Scheme of delegation</li> <li>• Monitoring financial spend and outcomes/profiling of departments and key suppliers</li> </ul>

## Annual Governance Statement (continued)

CIPFA Principle	How the LFC meets the principle
Principle 7 – Implementing good practices in transparency, reporting and audit to deliver effective accountability	<ul style="list-style-type: none"><li>• Meeting the mandatory data publication as set out in the DCLG Transparency Code (February 2015)</li><li>• Senior Risk Information Officer and Data Protection Officer roles</li><li>• Dedicated transparency page on the Brigade website and all LFC decisions are published on the website</li><li>• Mayor's Office for Policing and Crime (MOPAC) internal audit of key governance processes</li><li>• Scrutiny by Deputy Mayor</li><li>• Fire, Resilience and Emergency Planning Committee review of LFC decisions and can challenge policy</li></ul>

Unaudited

## Annual Governance Statement (continued)

### DECISION MAKING FRAMEWORK AND SCRUTINY

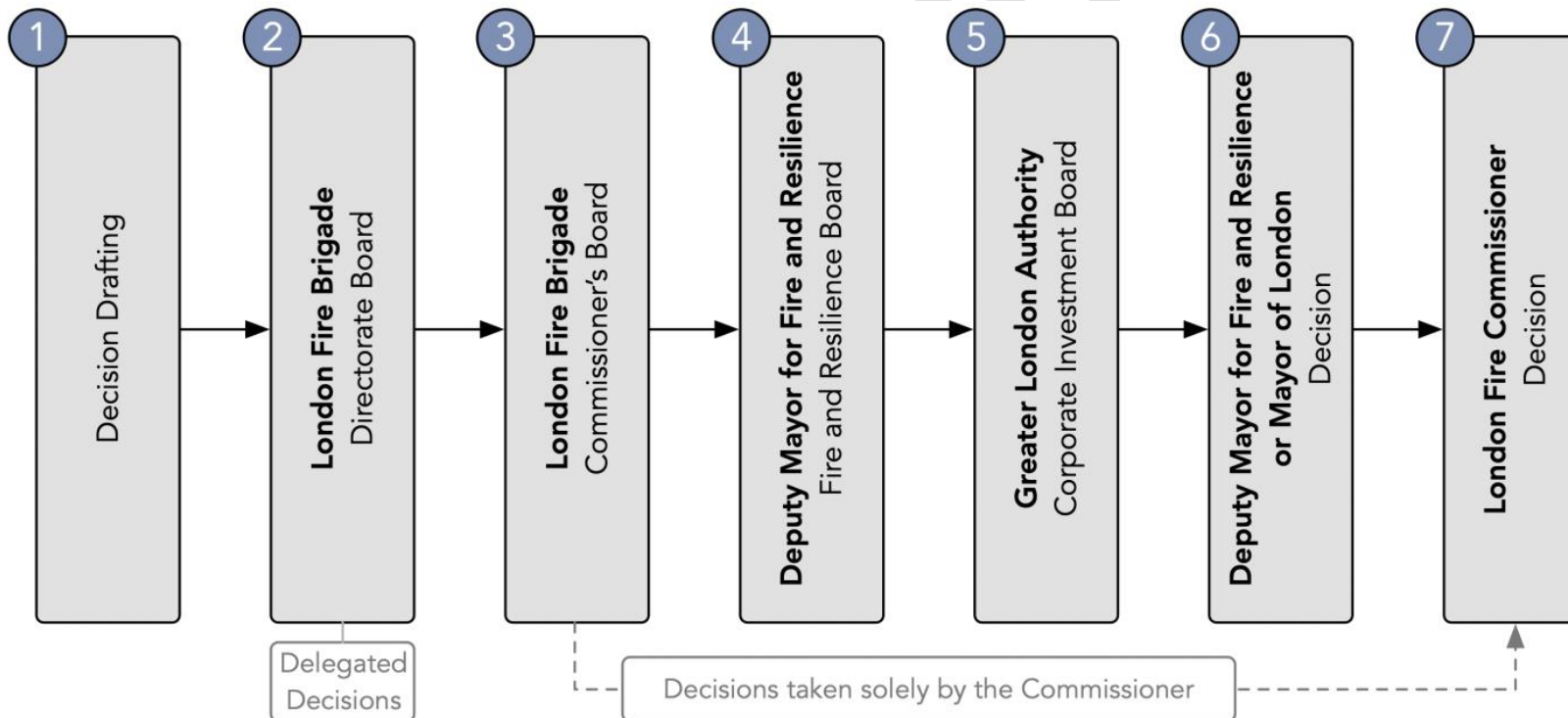
The London Fire Commissioner has seven distinct stages of decision-making:

Steps five and six are part of the Greater London Authority (GLA) stages, required for a formal decision of the Mayor or Deputy Mayor for Fire and Resilience (DMFR) where the London Fire Commissioner has been required to consult or seek prior consent by the Mayor's London Fire Commissioner Governance Direction 2018. These steps are not needed in

matters that require prior consultation, as opposed to prior approval.

Step four is required by the DMFR to ensure that only approved business decisions proceed to the GLA for consideration.

Scrutiny of the decision making framework is exercised through the LFC's Commissioner's Board, the Deputy Mayor's Fire and Resilience Board, the London Assembly via the Fire, Resilience and Emergency Planning Committee.



## Annual Governance Statement (continued)

### REVIEW OF EFFECTIVENESS

The LFC uses a number of ways to review the effectiveness of governance arrangements. One of the key assurance statements, in reviewing effectiveness, is the annual report and opinion of the external auditors. Another significant element is the internal audit function conducted on behalf of the LFC by the Mayor's Office for Policing and Crime (MOPAC). MOPAC is fully compliant with Public Sector Internal Audit Standards (PSIAS). During 2018/19, MOPAC reported on a number of areas, including all key financial systems. The internal auditors' opinion for 2018/19 was that, based on the areas audited, the LFC's internal control environment and systems of internal control were adequate.

Corporate governance processes have been operating as intended throughout the year. A summary of the governance outcomes are shown in the table:

Issues identified	Performance in 2018/19
Formal reports by Section 127 or Monitoring Officer	None issued.
Issues identified by the LFC as the Fire Authority or Monitoring Officer recommendations	No significant issues or breaches of officer conduct have occurred.
Proven frauds carried out by members of staff	No fraud cases have been identified in 2018/19.
Use of Regulation of Investigatory Powers Act	There were no applications for any RIPA authorisations in 2018/19, nor were there any previous authorisations that continued into 2018/19.
Complaints/compliments received by members of the public	A total of 105 complaints were received. These have been actioned accordingly. In addition, a total of 357 compliments were received during 2018/19.
Number of whistleblowing cases	A number of complaints were raised (see above) however none of these qualified as whistleblowing cases.



## Annual Governance Statement (continued)

Last year's Annual Governance Statement highlighted one key area of improvement, namely securing a successful transition to the new governance arrangements under the LFC implementation. The new governance arrangements have now been in place for one year and are effectively 'in place'.

Follow up advisory work by internal audit noted that the governance arrangements are continuing to develop and made some recommendations to further improve these. These items feature as the key areas of improvement for the following year (2019/20).

Key areas of improvement for 2019/20	Planned action
<p>A review of governance after the first year of its implementation, regarding capacity, process and procedures and the refinement of the Scheme of Governance, taking into account the MOPAC advisory review of governance arrangements.</p>	<ol style="list-style-type: none"> <li>1) Supporting framework for Annual Governance Statement approval</li> <li>2) The establishment and recruitment to a new and permanent governance function with the approved 2019/20 funding within the General Counsel's Department</li> <li>3) The improvement of procedures and the publication of decision-making guidance</li> <li>4) Improvements to the Scheme of Governance, principally to improve procurement standing orders and officer delegations</li> <li>5) Detailed consideration to the advisory review action plan, and consider implementation of the recommendations, including:               <ol style="list-style-type: none"> <li>a. Agreed terms of references for boards</li> <li>b. Consideration regarding the approval of audit matters</li> <li>c. Search functionality for Decisions on LFC website</li> </ol> </li> </ol>

## Annual Governance Statement (continued)

### EQUALITIES CONSIDERATIONS

The Public Sector Equality Duty applies to the LFC when making decisions. The duty requires the LFC to have regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Equality Act 2010. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

The Brigade, under the leadership of the LFC, takes its duties under the Public Sector Equality Duty very seriously. As part of the Brigade's Inclusion Strategy, it was acknowledged that diversity of experience, skill and thought creates stronger teams and the strongest are those where that diversity is valued and contributes to the success of the team. That means diversity in terms of protected characteristics, but extends beyond that: every one of our staff should expect to be treated with respect and feel able to contribute effectively to their role, and they should treat others in the same way. Detailed below are some examples of how the brigade is working to promote equality for all staff and for the people of London we provide services to.

### EQUALITY IN THE COMMUNITY

LFB carries out around 84,000 Home Fire Safety Visits annually and in addition to reducing fire risk, crews also ensure that referrals are made to specialist services such as safeguarding and to the Metropolitan Police (MPS) and/or London Ambulance Service (LAS) depending on the issue. Fire Safe and Well Visits are being carried out in five pilot boroughs in London and are focused on supporting the most vulnerable people in London and information has been distributed on behalf of the Met and LAS as part of these visits to raise awareness of specific issues e.g. bogus calling, cyber crime and flu jabs.

The LFB, LAS and MPS work together to support vulnerable young people through joint delivery at a borough and pan London level through cadets, junior citizens, "prison me no way", and youth boards.

## Annual Governance Statement (continued)

### EQUALITY FOR OUR STAFF

The Brigade's Counselling and Trauma Service provides input into planning and implementing interventions to improve workforce mental wellbeing to supplement pre-existing interventions on physical wellbeing. Work is progressing with our training providers towards providing a desktop computer based training programme available to all employees to raise awareness and understanding of all mental health conditions. A training package aimed at assisting managers to recognise and manage stress, anxiety and depression is also progressing.

The Brigade also has approximately 140 MIND Blue Light Champions promoting mental wellbeing in the workforce.

### EQUALITY IN RECRUITMENT

One of the Brigade's key priorities is to increase the number of women and BAME members of the community joining the Brigade as trainee firefighters. The Brigade has undertaken research to understand the barriers that exist for people joining the service. We have an Outreach Team who are engaging with BAME communities, particularly BAME females to create a talent pipeline into the firefighter role.

The Brigade is also developing a new Talent Management Framework to identify, recruit and retain new talent from diverse backgrounds. Work is also underway to explore new talent schemes and opportunities, such as creating a bridge from the Fire Cadet programme, tapping into the rich diversity of the cadet force. Firefighter development has now become an apprenticeship scheme and trainee firefighters now complete an 18 month apprenticeship managed by the Talent Team. We are working with a number of internal and external stakeholders to improve and shape our talent, recruitment and assessment processes for the future and draw from a wider and more diverse talent pool.

### CONCLUSION

I am satisfied that the appropriate internal systems of control were in place with regards to the LFC's governance arrangements, and that adequate processes were in place to ensure that body's compliance with its Corporate Code of Governance.

*Dany Cotton QFSM  
London Fire Commissioner*

# Glossary of Terms

## **ACCRUALS**

Amounts included in the accounts to cover income and expenditure attributable to the financial year, but for which payment had not been received or made as at 31 March.

## **ACT/365**

is a day count convention which calculates the actual days in a time period, over the actual number of days in a calendar year. Used to determine how interest accrues over time.

## **BUDGET**

A statement defining the Authority's policies over a specified time in terms of finance.

## **CAPITAL EXPENDITURE**

Spending on the acquisition or construction of assets. This would normally be assets of land, buildings or equipment that have a long term value to the Authority.

## **CAPITAL RECEIPTS**

Proceeds from the disposal of land or other capital assets. Capital receipts can be used to finance new capital expenditure, but cannot be used to finance revenue expenditure.

## **CONTINGENCY**

Sums set aside to meet the cost of unforeseen items of expenditure, or shortfalls in income.

## **CONTINGENT ASSET/LIABILITY**

A possible source of future income (asset) or liability to future expenditure (liability) at the balance sheet date dependant upon the outcome of uncertain events.

## **CORPORATE AND DEMOCRATIC CORE (CDC)**

The costs attributable to CDC are those costs associated with corporate policy making and member based activities.

## **CREDITORS**

Sums owed by the Authority for goods and/or services received, but for which payment has not been made by the end of the accounting period.

## **DEBTORS**

Sums due to the Authority but not received by the end of the accounting period.

## **DEPRECIATION**

An accounting adjustment to reflect the loss in value of an asset due to age, wear and tear, deterioration or obsolescence. This forms a charge to service departments, for use of assets, in the Comprehensive Income and Expenditure Statement.

## **EARMARKED RESERVES**

Amounts set aside for a specific purpose to meet future potential liabilities, for which it is not appropriate to establish a provision.

## **IMPAIRMENT**

An accounting adjustment to reflect loss in value of a fixed asset caused either by a consumption of economic benefits or by a general fall in price. The loss is a charge to the Comprehensive Income and Expenditure Statement when a consumption of economic benefits or, if due to revaluation, where there is insufficient balance held in the Revaluation Reserve against the particular asset.

## **MINIMUM REVENUE PROVISION**

The minimum amount that must be set aside from the Authority's Revenue account each year for principal repayments of loans and credit liabilities.

## **PROVISIONS**

Sums set aside to meet future expenditure. Provisions are for liabilities or losses which are likely or certain to be incurred, but for which the sum is not known.

## **PUBLIC WORKS LOANS BOARD**

A Government controlled agency that provides a source of borrowing for public authorities.

**REVENUE EXPENDITURE**

The day to day costs incurred by the Authority in providing services.

**INVENTORIES**

The amount of unused or unconsumed goods held for future use within one year. Stocks of goods held by the Authority are valued at the end of each financial year and carried forward to be matched to use when required.

Unaudited