

## Statement of Accounts 2025/26 Review of Accounting Policies

### Report of the Treasurer

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### 1 Purpose of Report

This report presents the accounting policies to be used in the production of the Fire and Rescue Authority's Statement of Accounts 2025/26, for consideration and approval. The report also states the areas of estimation uncertainty to the Committee, and what is done to mitigate the risks around this uncertainty.

### 2 Recommendations

The Committee is asked to:

- a) consider and approve the accounting policies, prior to the presentation of the Statement of Accounts 2025/26, and
- b) note the risks associated with estimation uncertainty within the financial statements, and how they are mitigated.

### 3 Background

The Fire Authority delegate authority the Audit and Standards Committee to consider and approve the annual Statement of Accounts. The Committee will also receive the Audit Findings Report and Auditor's Annual Report and will sign the Letter of Representation, as those charged with governance.

### 4 Approval of Accounting Policies

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 states that

“Accounting policies are the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.”

It is considered best practice for those charged with governance to review and approve the accounting policies to be applied when preparing the financial statements, prior to the meeting at which the Statement of Accounts will be approved.

The accounting policies currently adopted by the Fire Authority have been reviewed in readiness for the completion of the 2025/26 Statement of Accounts; these are attached as an appendix to this report. Proposed additions and changes to the policies are shown in bold italics, and deletions are struck through.

Apart from the changes to the existing policies that reflect the updating of financial years and codes of practice, there are two additions to the accounting policies:

- **Leases** – a policy has been added to the statement, following changes in the accounting treatment of leases introduced in 2024/25. There were no leases reported in 2024/25, however the policy has been added to reflect accounting treatment following identification of leases in future years.
- **Valuations of land and property** – HM Treasury undertook a Thematic Review of Non – investment Asset Valuation for financial reporting, to assess the current regime of valuation for non-investment assets across the public sector. Following a subsequent change in the Code, valuations of land and property will now be undertaken every five years and supported by indexation in intervening years. This negates the need for more regular revaluations.

## 5 Estimation Uncertainty

Estimation uncertainty disclosures deal with situations where an authority has incomplete or imperfect information which will only be enhanced as a result of future events.

The Code of Practice requires the disclosure of the assumptions that the Authority has made about the future and other major sources of estimation uncertainty. These are estimates that have a significant risk of resulting in a material adjustment within the next financial year.

The two major areas of estimation uncertainty for the Authority, detailed in the financial statements, are valuation of property, plant and equipment (PPE), and actuarial valuations of pensions liability.

In order to mitigate the risk of material adjustment in future financial years, the Authority engages the services of experts to produce these estimates:

The valuation of PPE is undertaken by a RICS qualified valuer. This will be carried out every five years and supported by indexation in intervening years, following a change in the Code from 2025/26. The valuers are provided with floor plans and land drawings, as well as details about any enhancements to buildings. For the financial year 2024/25, the valuers undertook inspections at half of the Authority's properties, and the remaining half will be reviewed in readiness for the 2025/26 accounts as part of the Authority's approach to valuation for the financial year.

The calculations of pension liability on the Local Government Pension Scheme and the Fire Pension Schemes are carried out by a team of actuaries, arranged by Shropshire Council (LGPS) and the Authority (Fire). Following engagement and agreement of the exercise to be completed, actual pay data is provided to the actuary, and this is used to calculate the total pension liability of the authority, based on a number of assumptions such as mortality rates, rates of pay, inflation and pension increases. The final reports include sensitivity analysis of marginal changes in the assumptions used. The report is checked against the information provided, and previous calculations.

## **6 Financial Implications**

There are no financial implications arising from this report.

## **7 Legal Comment**

There are no statutory accounting requirements in relation to the selection of accounting policies, or accounting for changes in accounting estimates and errors. An authority shall disclose information about its accounting policies, as required by section 3.3 of the Code.

## **8 Initial Impact Assessment**

This report contains merely statements of fact / historical data. An Initial Impact Assessment is not, therefore, required.

## **9 Equality Impact Assessment**

There are no equality or diversity implications arising from this report. An Equality Impact Assessment is not, therefore, required.

## **10 Appendix**

Statement of Accounting Policies 2025/26

## **11 Background Papers**

There are no background papers associated with this report.

## STATEMENT OF ACCOUNTING POLICIES 2025/26

### Shropshire and Wrekin Fire and Rescue Authority

#### 1 General Principles

The Statement of Accounts summarises the Fire Authority's transactions for the ~~2024/25~~ **2025/26** financial year and its position at the year end of 31 March ~~2025~~ **2026**. The Fire Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the statements 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 ~~2024/25~~ **2025/26**, supported by International Financial **Reporting** Accounting Standards (IFRS).

The draft Statement of Accounts for ~~2024/25~~ **2025/26** must be available for approval by 30 June ~~2025~~ **2026**. ~~and~~ The audited accounts must be approved and published **in accordance with statutory timescales**. ~~by 27 February 2026~~ **For the 2025/26 Statement of Accounts the statutory backstop date is 31 January 2027, although due to the backstop date moving to 30 November for 2026/27 onwards, the 2025/26 Statement of Accounts are planned to be produced, approved and published by 30 November 2026.**

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

The Statement of Accounts have been produced on a going concern basis; this assumes that the Fire Authority's functions and services will continue in operational existence for the foreseeable future.

#### 2 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months 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 Fire Authority's cash management.

#### 3 Provisions

Provisions are made when an event has taken place that gives the Fire Authority an obligation that probably requires payment, but where the timing of the payment is uncertain. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Fire Authority becomes aware of the obligation, based on the best estimate of the likely payment. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of the financial year, and where it is likely that

payment does not need to be made, the provision is reversed and credited back to the relevant service.

#### **4 Council Tax and Non-Domestic Rates (NDR)**

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Council Tax Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

#### **5 Contingent Liabilities**

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

#### **Contingent Assets**

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

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

#### **6 Reserves**

The Fire Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in that year, to score against the Surplus or Deficit on the 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 there is no net charge against council tax for the expenditure.

The Authority holds the following reserves:

- **General Fund** – this is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. Any balance of funds at the end of the year is held as a General Fund balance.
- **General Reserve** – A risk assessment of the pressures likely to face the Authority is undertaken, and the current balance on this reserve represents those identified risks, in proportion to the probability of their occurrence.
- **Pensions and Other Staff Issues Reserve** – set up as a result of the introduction of the new Firefighters Pension Scheme on 1 April 2006, the original reserve was required to pay for unexpected sickness retirements and other payments, which remain the responsibility of the Authority's revenue account. **The reserve also covers other staff matters such as employment settlements.** ~~In 2008/09, the reserve was expanded to cover other staff matters, including the costs following the Retained Firefighters & Part Time Regulations Tribunal.~~
- **Extreme Weather Reserve** – costs for incidents attended by ~~retained~~ on-call firefighters have now been budgeted for at average levels in the revenue account; this reserve will cover the costs of increased activity incurred as a result of adverse weather conditions.
- **Major Projects Capital Reserve** – this reserve is made up of budgeted contributions and unspent balances from previous years. ~~It was used to part fund the Authority's refurbishment of the headquarters, workshop and fire station at Shrewsbury, with~~ **The balance remaining is to be used against future capital schemes, following approval by the Authority** notably ~~the Stafford Park site in Telford.~~
- **Earmarked Capital Reserve** – this reserve is was used to fund smaller capital projects, therefore reducing the need to borrow. It is currently depleted.
- **ICT Reserve** - ~~this reserve was established using unspent balances from 2010/11 and approved budgets for ICT projects.~~ It is intended that this reserve will be used to manage information technology and communications issues as they arise, and ensure a consistent and managed approach to ICT investment.
- **Capital Grants Unapplied Reserve** – this reserve holds grants and contributions paid to the Fire Authority, for which conditions for use have not been met, or expenditure has not been incurred
- **Service Transformation Programme (STP) Staff Reserve** – ~~the STP is a high level programme of activities, which will be completed to ensure that the Service is best placed to meet the challenges it is likely to face over the coming years.~~ **Funding for projects identified as strategic priorities for the Authority** ~~as part of the programme~~ have been taken into account in

the revenue budget and the capital programme. This reserve was set up to cover the staff elements of the projects.

- **Income Volatility Reserve** – ~~A number of changes were introduced in 2013/14 which affected the way in which the Fire Authority is funded, and the levels of funding that will be achieved.~~ This reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Service Plan.
- **Service Delivery Reserve** – this reserve was set up to fund initiatives in service delivery and prevention.
- **Training Reserve** - there have been, and will continue to be, movements and changes in the structure of the Service, which will inevitably require additional training and development of staff. This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.
- **Operational Equipment Reserve** - this reserve was established to help provide some stability in this area of the revenue budget. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established.
- **Building Maintenance Reserve** - The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan and also covers unexpected reactive maintenance. This reserve was created to deal with exceptional, unexpected repairs that do not require a regular revenue budget.

Certain reserves are kept to manage the accounting processes for Property, Plant and Equipment and other adjustments and do not represent usable resources for the Authority:

- **Revaluation Reserve** – this replaced the Fixed Asset Replacement Account (FARA) and represents net gains on assets that have been revalued after 1 April 2007.
- **Capital Adjustment Account** – the opening balance on this account was created from the balances on the FARA and the Capital Financing Account. It reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.
- **Collection Fund Adjustment Account** – This account manages the differences arising from the recognition of income in the Comprehensive Income and Expenditure Statement as it falls due from the council tax payers and business rates payers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Funds.

- **Accumulated Absences Account** – This account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not yet 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 and from the account.

## 7 **Employee Benefits**

### **Benefits Payable During Employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and non-monetary benefits such as cars, and are recognised as an expense for services in the year in which employees render service to the Fire Authority.

An accrual is made for the cost of the holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movements in Reserves Statement so that holiday benefits are charged to revenue in the year in which the holiday absence occurs.

The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

### **Termination Benefits**

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

### **Post Employment Benefits**

Employees of the Fire Authority are members of five separate pension schemes:

#### **Firefighters Pension Schemes**

**Firefighters Pension Scheme 1992** - this is a statutory un-funded defined benefit final salary scheme and has been closed to new entrants since 6 April 2006.

**New Firefighters' Pension Scheme 2006** – this is also a statutory un-funded defined benefit final salary scheme.

On 1 April 2006, new financial arrangements were introduced for both the 1992 and the 2006 Pension Firefighter Pension Schemes.

Both schemes are regulated by the Home Office. Contributions to the schemes are made by firefighters and employers, which are paid into a

separate Pension Fund Account, from which most commutations and pension payments are made. Any deficit on this account will be met by the Home Office, and any surplus at the end of the year must be paid back to the Home Office.

The introduction of the 2006 scheme enabled firefighters on the Retained Duty System to contribute to a pension scheme, although those who choose not to join will still be eligible to receive a payment following an injury whilst on duty.

**Retained Modified Scheme** - the exclusion of retained firefighters from the Firefighters Pension Scheme 1992 was challenged under the Part-Time Workers (Prevention of Less Favourable Treatment) Regulations 2000. As a result a settlement was reached allowing retained firefighters, with service between 1 July 2000 and 6 April 2006, to have “special” membership of Firefighters Pension Scheme 2006 based on their employment during this time period.

To implement this settlement the Modified Scheme was created providing retrospective benefits for those eligible to join who elect for special membership, and who pay the appropriate contributions.

**Firefighters Pension Scheme 2015** – this is a career average scheme, and is available to operational firefighters appointed on or after 1 April 2015. Serving firefighters will also have been transferred into the scheme, unless they have protected status under one of the existing schemes. The scheme is regulated by the Home Office.

From 1 April 2022, all remaining members of the 1992 scheme and the 2006 scheme were transferred to the 2015 career average scheme.

**Local Government Pension Scheme** – non-operational staff are eligible for membership of the Shropshire County Pension Fund, which is administered by Shropshire Council. The pension costs charged to the Authority’s accounts in respect of support staff are equal to the contributions paid to the funded scheme for those employees. The amount of these contributions is determined by regular actuarial valuations. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

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

- Liabilities are discounted to their value at current prices, using a discount rate detailed in a note to the accounts (based on the indicative rate of return on high quality corporate bonds).
- The assets of Shropshire County Pension Fund attributable to the Authority 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.

### **Accounting for Pensions**

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

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributable Costs.
- **Net Interest on the defined liability (asset)** – i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- **Remeasurements** comprising:
  - The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve.
  - 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 – charged to the Pensions Reserve.
- **Contributions paid to the pension funds** – cash paid as employer's contributions to the pension schemes.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension schemes in the year, not the amount calculated according to the

relevant accounting standard. In the Movement in Reserves Statement, this means 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 schemes and any amounts payable to schemes but unpaid at the year end.

The negative balances that arise on the Pension Reserves thereby measure 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 earned by employees.

## **8 Property, Plant and Equipment**

Assets that have physical substance are held for use in the production or supply of goods or services, for rental to others, or administration 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 and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Fire Authority 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.

The de minimis level for Property, Plant and Equipment is £10,000.

### **Measurement**

Property Plant and Equipment is valued on the bases recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS).

Operational properties and other operational assets are carried in the Balance Sheet using the following measurement bases:

- Depreciated Replacement Cost (DRC) for specialised properties
- Open Market Value (OMV) for non-specialised properties.
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There are no holdings of non-operational assets or community assets, with all fire stations and Service Headquarters and workshops being classified as operational assets.

### **Valuation**

~~Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end. All land and buildings are currently valued every year. Items within a class of Property Plant and Equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of~~

~~amounts in the financial statements that are a mixture of costs and values as at different dates.~~

***From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom requirements changed in respect of revaluations of property, plant and equipment.***

***Valuations of land and property will be valued every five years and supported by indexation in intervening years.***

***In the event that no indices can be obtained without undue cost or effort, a desktop valuation may be undertaken in year three.***

***This change in policy will be applied prospectively, with no restatement of prior year figures.***

***A full valuation should not be a default process to demonstrate that there has not been a material impairment of an asset.***

Where buildings are being revalued following a renovation to modern standards, it may be appropriate to increase the useful economic life to longer than 30 years.

The current value of land and buildings is determined by appraisal of appropriate evidence, that is normally undertaken by professionally qualified valuers, who:

- Hold a recognised and relevant professional qualification
- Have sufficient current local and national knowledge of the market, and
- Have the skills and understanding to undertake the valuations competently.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- 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 revaluation gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines 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.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

### **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 as follows:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines 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.

### **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 assets that are not yet available for use (i.e. assets under construction).

Depreciation is provided on the following bases:

- Fire stations and other buildings – straight line allocation over the life of the property as estimated by the valuer.
- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer.

Where an item of Property, Plant and Equipment has major components whose value makes up more than 25% of the total asset value, the components are depreciated separately.

Currently there are no components of any asset that are depreciated separately.

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.

## **Disposal**

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet 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.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts must be credited to the Capital Receipts Reserve and can only be used for new capital investment. Receipts are appropriated to the Reserve from the General Funds Balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## **Charges to Revenue for Non-Current Assets**

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

The Fire Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Fire Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution of MRP (Minimum Revenue Provision) 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.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into effect on 31 March 2008. These regulations updated the requirement to make provision for the repayment of debt (MRP).

From 2008/09, the following policy has been adopted:

- For all borrowing incurred during or before 2006/07, the MRP applied is calculated on the basis of 4% of the Capital Financing Requirement

(CFR). A further voluntary provision of 4% is made for all assets other than land and buildings.

- For all borrowing incurred during and after 2007/08, the MRP applied from 2008/09 is calculated on the basis of the Asset Life Method. This method has been selected because it charges the financing costs of assets over the lives of those assets in equal instalments each year, and follows the same principles made by the Authority from 2006/07.

## **9 Financial Assets**

The Authority has financial assets which are classified in the Code as loans and receivables, which are assets that have fixed or determinable payments but are not quoted in an active market. They are initially measured at fair value and carried at their amortised cost in the Balance Sheet. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the Authority's loans, this means the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

## **10 Financial Liabilities**

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

For all of the borrowings the Fire Authority has, this means the amount presented in the Balance Sheet is the outstanding principal repayable, and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### **Fair Value Measurement**

The Authority measures some of its financial instruments such as borrowings at fair value at each reporting date. Fair value is the price that would be received to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to transfer the liability takes place either:

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

The Authority measures the fair value of the liability using the assumptions that market participants would use when pricing the liability, assuming that the market participants act in their economic best interest.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable outputs.

Inputs to the valuation techniques in respect of liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

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

## **11 Leases**

### ***The authority as lessee***

***The authority classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.***

### ***Initial measurement***

***Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or the IFRS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.***

***The authority initially recognises lease liabilities measured at the present value of lease payments, discounting by applying the authority's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined.***

***Lease payments included in the measurement of the lease liability include:***

- ***fixed payments***
- ***variable lease payments***
- ***amounts expected to be payable under a residual value guarantee***
- ***the exercise price under a purchase option that the authority is reasonably certain to exercise***
- ***lease payments in an optional renewal period if the authority is reasonably certain to exercise an extension option***
- ***penalties for early termination of a lease.***

***The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.***

#### ***Subsequent measurement***

***The right-of-use asset is subsequently measured using the fair value model. It is depreciated straight-line over the shorter period of remaining lease term and useful life of the underlying asset as at the date of adoption. The lease liability is subsequently measured at amortised cost, using the effective interest method.***

***The liability is remeasured when:***

- ***there is a change in future lease payments arising from a change in index or rate***
- ***the authority changes its assessment of whether it will exercise a purchase, extension or termination option, or***
- ***there is a revised in-substance fixed lease payment.***

***When such a remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.***

#### ***Low value and short lease exemption***

***As permitted by the Code, the authority excludes leases:***

- ***for low-value items that cost less than £5,000 when new, provided they are not highly dependent on or integrated with other items, and***
- ***with a term shorter than 12 months***

## **12 Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value, on a first in first out basis. Obsolescent inventory is written off during the year.

## **13 Investments**

The CIPFA Code of Practice for Treasury Management in Local Authorities, which governs the way in which surplus cash is invested, has been adopted. The Authority's surplus cash is invested with other local authorities, approved banks and building societies, as authorised in the Authority's Treasury Policy Statement.

Investments that mature in no more than three months from the date of acquisition, and that are readily convertible to known amounts with insignificant risk of a change in value, are categorised as cash equivalents in the financial statements.

#### **14 Government Grants**

Whether paid on account, by instalments or in arrears, government grants are recognised as due to the Fire Authority when there is reasonable assurance that:

- The Fire Authority will comply with the conditions attached to the payments, and
- The grant will be received.

Amounts recognised as due to the Fire Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant have been satisfied. Conditions are stipulations that specify the future economic benefits or service potential embodied in the asset acquired using the grant 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 for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant is credited to the relevant service line (attributable revenue grants), or Taxation and Non-Specific Grants Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where revenue grants and contributions have been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant recognised as income is transferred to an earmarked reserve. This transfer is recognised in the Movement in Reserves 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 Adjustments Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

#### **15 Events after the Reporting Period**

Events may occur between the financial year end and the date that the Statement of Accounts is authorised for issue. Any such events that existed on the balance sheet date that have a financial impact on the financial statements would be adjusted. Those that did not exist at the balance sheet date may require disclosure in the financial statements.