



SCOTTISH  
FIRE AND RESCUE SERVICE

Working together for a safer Scotland

# Annual Report and Statement of Accounts 2012/13

# **SCOTTISH FIRE AND RESCUE SERVICE**

## **Statement of Accounts 2012/13**

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# SCOTTISH FIRE AND RESCUE SERVICE

## Statement of Accounts 2012/13

### Management commentary

#### 1. Introduction

The Scottish Fire and Rescue Service (SFRS) presents its annual accounts for the period from 7 August 2012 (date of commencement) to 31 March 2013. The accounts have been prepared in a form directed by the Scottish Ministers in accordance with Section 42A(1) of the Fire (Scotland) Act 2005 (inserted by section 118 of the Police and Fire Reform (Scotland) Act 2012), and in accordance with the Government Financial Reporting Manual (FReM).

#### 2. Statutory Background

The Police and Fire Reform (Scotland) Act received Royal Assent on 7 August 2012, with responsibility for Police and Fire and Rescue Services transferring from local government to new central government Other Significant Public Bodies on 1 April 2013.

The SFRS is governed by the Fire (Scotland) Act 2005, amended by the Police and Fire Reform (Scotland) Act 2012. It is responsible for fire safety, fire-fighting, attending road traffic collisions and dealing with other types of emergency. The SFRS also works with partner agencies to be prepared for major emergencies and disruptive challenges.

#### 3. Principal Activities

The main purpose of the SFRS is to work in partnership with communities, the public and private sectors and other agencies on fire safety, prevention, protection and emergency response to improve the safety and wellbeing of people throughout Scotland.

#### 4. Board Members

The Board Members for the period ended 31 March 2013 are shown in the table below:

<b>Name</b>	<b>Start Date</b>	<b>Period of appointment to</b>
Pat Watters	10 September 2012	9 September 2015
Bob Benson	24 October 2012	23 October 2016
James Campbell	24 October 2012	23 October 2016
Kirsty Darwent	24 October 2012	23 October 2016
Marieke Dwarshuis	24 October 2012	23 October 2016
Michael Foxley	24 October 2012	23 October 2016
Robin Iffla	24 October 2012	23 October 2016
Bill McQueen	24 October 2012	23 October 2016
Sid Patten	24 October 2012	23 October 2016
Neil Pirie	24 October 2012	23 October 2016
Martin Togneri	24 October 2012	23 October 2016
Grant Thoms	24 October 2012	23 October 2016

Details of Board Members' interests are available on the SFRS website.

Board Members attendance at meetings was as follows (the maximum number of meetings possible to attend is contained within brackets):

<b>Name</b>	<b>Number of meetings attended</b>
Pat Watters	3 (3)
Bob Benson	3 (3)
James Campbell	3 (3)
Kirsty Darwent	2 (3)
Marieke Dwarshuis	3 (3)
Michael Foxley	3 (3)
Robin Iffla	3 (3)
Bill McQueen	3 (3)
Sid Patten	3 (3)
Neil Pirie	3 (3)
Martin Togneri	3 (3)
Grant Thoms	3 (3)

## **5. Financial Performance**

The format of the accounts is set by the FReM. One of the reporting requirements is that Grant in Aid (GiA) provided by Scottish Government is included in the General Reserve of the Statement of Financial Position rather than in the Statement of Comprehensive Net Expenditure (SOCNE). All other income and expenditure is included in the SOCNE. The in period deficit is transferred to the General Reserve and is funded by GiA held there.

The cash GiA drawn down in financial period 2012/13 was £0.648 million. Net cash expenditure for the period was £0.312 million.

The attached accounts are prepared on an accruals basis, meaning transactions are matched to the period in which they occurred, not when physical cash transactions took place. This results in accounting adjustments, such as accruals and prepayments, and also in relation to pensions as required by *International Accounting Standards (IAS) 19 – Employment Benefits*. These are reflected in Total Comprehensive Expenditure of £7.589 million for financial period 2012/13, as per the statements below.

## **6. Risks**

Fire Reform has created a range of opportunities and challenges for the new service. The primary statutory duties of the new service have not changed and the service will remain focussed on protecting our communities through a strong fire prevention agenda, while at the same time being equipped and ready to respond to emergencies. The new service will also focus on delivering continuous improvement in line with Scottish Government's corporate expectations.

To support this continuous improvement across all service delivery areas, it is vital to understand the risk profile of Scotland. A comprehensive strategic assessment has been undertaken using a wide variety of information sources to provide a critical baseline of information on which to develop the strategic plan and fire and rescue plans for each of the 32 local authority areas. The Scottish Community Fire Safety Study “Scotland Together” published in 2009 identified a range of features which give Scotland a distinctive risk profile, including:

- **The built environment:** densely inhabited towns, major airports, nuclear power stations, petro-chemical complexes, large sea ports, major road and rail networks, and the home of the UK’s nuclear submarine fleet all offer specific risks.
- **Geography:** large expanses of open countryside demand preventative land management actions, and a long coastline demands a tailored approach to risk management and appropriate emergency response.
- **Industry:** major industries where the impact of fire can have immediate and long term consequences for both the local and national economies.
- **Communities:** the population is diverse and widely geographically spread. There are large and remote areas within Scotland, with locations that pose their own challenges in terms of risk and the provision of effective fire and rescue services. Using Government indicators alongside other information sources will allow us to assess the risk in areas to target the most vulnerable people.
- **Tourism:** Scotland is an important tourist destination, containing many significant buildings and hosting large sporting and cultural events. This leads to a significant transient population of visitors, particularly at peak times. Along with other agencies the SFRS plays a critical part in protecting our heritage and in preparing for large scale events, ensuring we can respond effectively to any emergency incident if required.

## 7. Trends

As this is the first set of accounts for the SFRS, there are no comparative figures available against which trends can be identified.

## 8. Future

On 1 April 2013, the eight Fire and Rescue Services from the previous Joint Boards and Unitary Authorities will combine to form the new Scottish Fire and Rescue Service. The assets and liabilities of the former Services will transfer to the new SFRS on this date, which will have a significant impact on the Statement of Financial Position for 2013/14, an indication of which is shown in Note 13 to the Accounts. In accounting terms this is being treated as a merger, and the closing 2012/13 balances for the previous services will be combined to form the opening 2013/14 Statement of Financial Position for the new SFRS.

Work was undertaken during 2012/13 to produce the Fire and Rescue Framework for Scotland 2013, and the draft Annual Operating Plan 2013/14. These documents will provide a platform upon which the SFRS will reorganise its structures and functions to deliver against the aims of reform during its first year.

During the early part of 2013/14, the Scottish Fire and Rescue Service Strategic Plan for 2013-16 will be drafted for Ministerial approval by the Autumn of 2013. This document will

set out the outcomes that the SFRS aims to deliver and how we will work to achieve these outcomes. Thereafter an Annual Operating Plan will be produced which will draw down from the overall 3 year strategic objectives.

The Strategic Plan and Annual Operating Plans will focus on the 3 Aims of Reform contained within the Fire and Rescue Framework:

1. To protect and improve local services, despite the financial cuts, by stopping duplication and not cutting front line outcomes,
2. Create more equal access to specialist support services and national capacity where and when they are needed,
3. Strengthen the connection between fire services and communities by creating a new formal relationship with all 32 local authorities, creating opportunities for many more locally-elected members to have a formal say in Fire and Rescue Services in their Areas, and better integration with community planning partnerships.

The Budget (Scotland) Bill, passed by the Scottish Parliament on 6 February 2013 set the Resource DEL (Departmental Expenditure Limit) funding for the SFRS at £277.238 million for 2013/14. The Capital DEL consists of £15.3 million funded by Scottish Government plus £2.64 million carried forward in committed reserves from previous services. This budget was approved by Board members on 28 February 2013.

Accounting for pension costs required by *IAS19 Employee Benefits* will continue to cause unpredictable movements on the net assets of the SFRS though fluctuations in market conditions and underlying assumptions. More information on IAS 19 can be found in Accounting Policy 1.4 and Note 10.

## **9. Research and Development**

No research and development activities took place during 2012/13.

## **10. Policy and Practice on Payment of Creditors**

SFRS policy is to pay suppliers within 10 days of the invoice date. Analysis of performance in 2012-13 shows that 19% of invoices were paid within the 10 day target.

## **11. Independent Auditors and Professional Advisers**

Under the Public Finance and Accountability (Scotland) Act 2000, auditors are appointed by the Auditor General. Grant Thornton UK LLP has been appointed to carry out this duty for the period ending 31 March 2013.

All relevant information has been provided to the auditors and the Accountable Officer has taken steps to ensure that they are aware of any relevant information.

The auditor's remuneration for providing statutory audit services for financial period ending 2012/13 is £18,500. No non-audit services were provided in this period.

### **Auditors**

Grant Thornton UK LLP  
95 Bothwell Street  
Glasgow  
G2 7JZ

### **Actuary**

Barnett Waddingham LLP  
163 West George Street  
Glasgow  
G2 2JJ

## 12. Banking

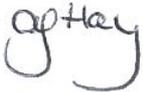
The SFRS operates within the Scottish Government banking contract with the Government Banking Service (GBS), which is a shared banking service for government departments. The main banks used by the SFRS within the GBS are Citibank and Royal Bank of Scotland.

### Bankers

Royal Bank of Scotland  
PO Box 51  
36 St Andrews Square  
Edinburgh  
EH2 2AD

Royal Bank of Scotland  
London Corporate SC  
PO Box 39952  
2 1/2 Devonshire Square  
London Corporate SC  
EC2M 4XJ

Citibank  
Citigroup Centre  
Canada Square  
Canary Wharf  
London  
E14 5LB



**Alasdair Hay**  
Chief Officer and Accountable Officer

# SCOTTISH FIRE AND RESCUE

## Statement of Accounts 2012/13

### REMUNERATION REPORT

The sections marked “\*” in this Remuneration Report have been audited by the SFRS’s external auditors, Grant Thornton. The other sections of the Remuneration Report are reviewed by Grant Thornton to ensure they are consistent with the financial statements.

#### \* Remuneration of Board Members

Fees for non-executive Board Members are determined in accordance with guidelines prescribed by the Scottish Government – Public Sector Pay Policy for Senior Appointments. The normal term of office for a member is a period not exceeding 4 years. The amount of time to be spent on SFRS business is not expected to exceed 120 days in the first period, which is expected to reduce in subsequent years, as the new body settles in. The amounts paid to each Board Member are shown in the following table. As all Board Members were appointed during 2012/13, there are no comparative figures.

<b>Board Member</b>	<b>2012/13 £000</b>
Pat Watters (Chair)	46
Bob Benson	9
James Campbell	9
Kirsty Darwent	6
Marieke Dwarshuis	10
Michael Foxley	7
Robin Iffla	7
Bill McQueen	9
Sid Patten	10
Neil Pirie	7
Martin Togneri	10
Grant Thoms	8
<b>TOTAL</b>	<b>138</b>

#### \* Remuneration of Senior Employees of the Board

The salary of senior uniformed employees is set by the National Joint Council for Brigade Managers. Other benefits received by senior employees include those relating to transport and other ancillary expenses.

As SFRS is a newly formed body, all employees started mid-year, and there are no comparative figures. The salary, allowances and benefits in kind of the Strategic Leadership Team (SLT) are shown by band in the following table. The figures in brackets show the full year equivalent payments.

Name	Pay Band	2012-13 Benefits In Kind to nearest £100 <sup>5</sup>
	£000s	£
Alasdair Hay, Chief Officer <sup>1</sup> (start date 15 October 2012)	80-85 (160-165)	1,700
Alex Clark, Deputy Chief Officer <sup>1</sup> (start date 1 January 2013)	30-35 (130-135)	300
David Goodhew, Assistant Chief Officer <sup>1</sup> (seconded from 1 January 2013)	30-35 (120-125)	600
Peter Murray, Assistant Chief Officer <sup>1,3</sup> (start date 1 January 2013)	35-40 (120-125)	400
Lewis Ramsay, Assistant Chief Officer <sup>1</sup> (seconded from 1 January 2013)	30-35 (120-125)	200
Robert Scott, Assistant Chief Officer <sup>1,4</sup> (seconded from 1 January 2013)	35-40 (120-125)	200
Sarah O'Donnell, Director of Finance and Contractual Services <sup>2</sup> (seconded from 14 January 2013)	20-25 (95-100)	1,200
Diane Vincent, Director of People and Organisational Development <sup>2</sup> (start date 14 January 2013)	20-25 (95-100)	100

- 1 denotes uniformed staff.  
2 denotes support staff.  
3 Peter Murray received approximately £8,000 in removal expenses during 2012/13.  
4 Robert Scott received a repayable loan of £1,000 in relation to removal expenses.  
5 Where known, Benefits in Kind figures have been included.

The employers of seconded staff remain responsible for paying and collecting pension contributions, which are recharged to SFRS.

Assistant Chief Officers David Goodhew, Lewis Ramsay and Robert Scott were also included in the Remuneration report of Strathclyde Fire and Rescue Service, an extract of which is shown below.

Name and Post Title	Total Remuneration 2011-12 £	Salary, fees & allowances £	Taxable Expenses £	Total Remuneration 2012-13 £
<b>David Goodhew: Assistant Chief Officer (Operations)</b>	<b>118,441</b>	117,385	3,009	<b>120,394</b>
<b>Lewis Ramsay: Assistant Chief Officer (Community Safety)</b>	<b>117,538</b>	117,385	1,686	<b>119,071</b>
<b>Robert Scott: Assistant Chief Officer (Training &amp; Operational Review)</b>	<b>117,833</b>	117,385	998	<b>118,383</b>

Assistant Chief Officer David Boyle did not take up his post with SFRS until 1 April 2013, and his details have therefore not been included.

#### \* Employees Remuneration by Pay Band

The employees of the Service receiving more than £50,000 remuneration for the period (including those named above, but excluding employer's pension contributions) were paid the following amounts:

Remuneration Band £s	2012/13 Number of employees
80,000 – 84,999	1
<b>TOTAL</b>	<b>1</b>

**\* Ratio of Median Remuneration of All Staff Compared to Chief Officer’s Remuneration**

There is a new requirement to disclose the median remuneration of the SFRS staff and the ratio between this and the mid-point of the highest paid director who is the Chief Officer including salary and benefits in kind.

The calculation is based on full time equivalent staff employed as at 31 March 2013 paid via the SFRS payroll and also includes the costs of staff recharged by other Fire Services.

	£000s
Chief officer's mid-point banded remuneration including benefits in kind	167
Median remuneration of staff for 2012/13	123
<b>Ratio</b>	<b>1.36</b>

The ratio is unusually low as the group of staff used in the calculation are all members of the SLT, and therefore relatively highly paid in comparison to the Chief Officer.

**\* Pension Benefits**

The pension entitlements of Senior Employees for the period to 31 March 2013 are shown in the table below, together with the contribution made by the Service to each Senior Employee’s pension during the period. Pension benefits for the Chief Officer and Assistant Chief Officers are provided through the Firemen’s Pension Scheme (FPS). This is an unfunded scheme, meaning there are no investment assets built up to meet pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The scheme’s normal retirement age is after 30 years of service or the age of 55.

Pension benefits for the Director of Finance and Contractual Services and Director of People and Organisational Development are provided through the Local Government Pension Scheme (LGPS). For local government employees this is a final salary pension scheme, meaning pension benefits are based on the final year’s pay and the number of years that person has been a member of the scheme. The scheme’s normal retirement age is 65.

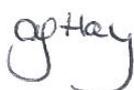
The pension figures shown in the following table relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment. The asterisk (\*) denotes members of the LGPS, the others are members of the Firemen’s Pension Scheme.

Name	Accrued Pension / Lump Sum at age 60 at 31 March 2013 (in bands of £2,500)	Real increase in Pension / Lump Sum as at 31 March 2013 (in bands of £2,500)	Cash Equivalent Transfer Value at 31 March 2013	Cash Equivalent Transfer Value at 31 March 2012	Real increase in Cash Equivalent Transfer Value
	£000s	£000s	£000s	£000s	£000s
Alasdair Hay, Chief Officer	88 / -	30 / -	2,075	1,402	600
Alexander Clark, Deputy Chief Officer	70 / -	15 / -	925	711	177
David Goodhew, Assistant Chief Officer	65 / -	5 / -	1,525	1,476	(28)
Peter Murray, Assistant Chief Officer	50 / -	5 / -	1,176	1,065	56
Lewis Ramsay, Assistant Chief Officer	65 / -	5 / -	848	807	(1)
Robert Scott, Assistant Chief Officer	69 / -	2.5 / -	784	714	32
* Sarah O'Donnell, Director of Finance and Procurement Services	25 / 60	2.5 / 2.5	350	307	27
* Diane Vincent, Director of People and Organisational Development	15 / 30	2.5 / 5	207	162	37

## Notes

- 1) The employers' contribution rate for the FPS is 21.8% of pensionable pay. The employer's contribution for those in the LGPS is 19.3% of pensionable pay in 2012/13 (19.3% in 2011/12).
- 2) The Firemen's Pension Scheme and LGPS have different contribution rates and different benefits. The uniformed officers' pension benefits are presented as unreduced pension benefits, i.e. there is no automatic lump sum, as members have the option not to commute an element of their annual pension until the point at which they retire. Benefits accrue on a 1/60<sup>th</sup> basis per year, which increases to 2/60ths per year when the employee reaches 20 years of service. An employee can elect to commute, or give up, up to 25% of their annual pension in order to receive a lump sum. For example, an officer aged 50 with 30 years of service would receive a lump sum of £22,400 for every £1,000 annual pension commuted. This figure is variable dependent on age and service.

The accrued pension benefits for the Director of Finance and Contractual Services and Director of People and Organisational Development, who are members of the LGPS, include elements for both lump sum and annual pension, having joined the LGPS before 1 April 2009. This guarantees a pension based on 1/80<sup>th</sup> accrual rate, and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service prior to this date. The conditions of the LGPS changed with effect from 1 April 2009, after which benefits are accrued on 1/60<sup>th</sup> basis with no automatic right to a lump sum. The employee may however, elect to reduce their annual pension to receive a lump sum in the same manner as members of the Firefighters Pension Schemes. For example, an employee would receive a lump sum of £12,000 for every £1,000 annual pension commuted, irrespective of age or service.



**Alasdair Hay**  
Chief Officer and Accountable Officer

# **SCOTTISH FIRE AND RESCUE SERVICE**

## **Statement of Accounts 2012/13**

### **Statement of Accountable Officer's Responsibilities**

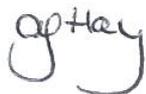
Under the Police and Fire Reform (Scotland) Act 2012, the SFRS is required to prepare financial statements for each financial period in the form and on the basis determined by the Scottish Ministers. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the SFRS and of its income and expenditure, recognised gains and losses and cash flows for the financial period.

In preparing the Accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

In addition, SFRS has general responsibility for taking such steps as are reasonably open to it to safeguard its assets and to prevent and detect fraud and other irregularities.

Scottish Ministers have appointed the Chief Officer as the Accountable Officer for the SFRS. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity for the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding SFRS' assets, are set out in the Memorandum to Accountable Officers for Other Public Bodies issued by the Scottish Government and published as part of the Scottish Public Finance Manual.



**Alasdair Hay**  
Chief Officer and Accountable Officer

# **SCOTTISH FIRE AND RESCUE SERVICE**

## **Statement of Accounts 2012/13**

### **Annual Governance Statement**

#### **1. Scope of Responsibility**

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant public bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

As Accountable Officer for the SFRS, I have responsibility for maintaining sound systems of internal control that support the achievement of the organisation's policies, aims and objectives set by the Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

#### **2. Board Composition and Operation**

The Police and Fire Reform (Scotland) Act 2012 (the Act) received Royal Assent on 7 August 2012, and responsibility for Fire and Rescue Services transferred from local authorities to the new Scottish Fire and Rescue Service on 1 April 2013.

The Board of the SFRS currently comprises the Chair and 11 other members, who were appointed by the Scottish Government. The Act allows for the appointment of up to a total of 15 members. The normal term of office is four years.

The main purpose of the Scottish Fire and Rescue Service is to work in partnership with communities, the public and private sectors and other agencies on fire safety, prevention, protection and emergency response to improve the safety and wellbeing of people throughout Scotland.

The Board provides strategic direction, support and guidance to the SFRS ensuring that it operates effectively and that the Scottish Government's priorities are implemented. Board members are personally and corporately accountable for the Board's actions and decisions. They also scrutinise plans and proposals and hold the Chief Officer and Senior Leadership Team to account.

The Board is able to establish its own committee structure and delegate responsibilities to such committees as it considers fit. In addition to giving leadership and strategic direction, a very important role for the Board is the scrutiny of risk, financial management and performance.

#### **3. Board Committees**

The Board put in place the principle of establishing a number of standing committees to provide greater efficiency and more effective governance. Membership and Terms of Reference of these Committees is decided by the Board. Among these is the Audit and Risk Assurance Committee.

The Audit and Risk Assurance Committee will support the Board in their responsibilities for issues of risk control and governance, by reviewing the comprehensiveness of assurances in meeting the Board and Accountable Officer's relevant needs, as well as reviewing their

reliability and integrity. The Committee will consist of 6 members, who will appoint a Chair, and may invite other Board members to attend as necessary.

The Audit Committee will advise the Board and Accountable Officer on:

- The strategic processes for risk, control and governance and the Statement on Internal Control;
- The accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- The planned level of activity and results of both internal and external audit;
- Adequacy of management response to issues identified by audit activity, including external audit's management letter;
- Assurances relating to the corporate governance requirements of the organisation;
- (Where appropriate) proposals for tendering for Internal Audit services or for purchase of non-audit services from contractors who provide audit services;
- Anti-fraud policies, whistle-blowing processes, and arrangements for special investigations;
- The Audit Committee will also periodically review its own effectiveness and report the results of that review to the Board.

#### **4. The System of Internal Control**

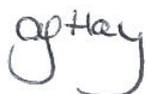
As the SFRS did not assume full responsibilities until 1 April 2013, systems of internal control were not fully in place for the period covered by this Annual Report. However, as SFRS's Accountable Officer, I will ensure that a complete system of internal control which supports the achievement of the organisations policies, aims and objectives is put in place.

#### **5. The Risk and Control Framework**

As the SFRS is a new body, the risk management process is similarly not fully in place yet, however, I will take steps to ensure that a framework is implemented in accordance with the requirements of the SPFM and relevant guidance issued by the Scottish Ministers.

#### **6. Review of Effectiveness**

A review of effectiveness will be carried out once the organisation is fully operational and policies and procedures are implemented.



**Alasdair Hay**  
Chief Officer and Accountable Officer  
26 September 2013

# **SCOTTISH FIRE AND RESCUE SERVICE**

## **Statement of Accounts 2012/13**

### **Independent auditor's report to the members of the Scottish Fire and Rescue Service, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the Scottish Fire and Rescue Service for the period ended 31 March 2013 under the Police and Fire Reform (Scotland) Act 2012. The financial statements comprise the Statement of Financial Position, the Statement of Comprehensive Net Expenditure, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (the 2012/13 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2013 and of its net operating cost for the period then ended;

- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 FReM; and
- have been prepared in accordance with the requirements of the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers.

### **Opinion on regularity**

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

### **Opinion on other prescribed matters**

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Police and Fire Reform (Scotland) Act 2012 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Grant Thornton UK LLP  
95 Bothwell Street  
Glasgow  
G2 7JZ

26 September 2013

**SCOTTISH FIRE AND RESCUE SERVICE**  
**Statements of Account 2012/13**

**Statement of Comprehensive Net Expenditure for Period Ended 31 March 2013**

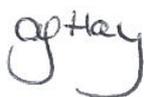
<b>Expenditure</b>	<b>Note</b>	<b>2012/13</b> <b>£000s</b>
Staff costs	4	683
Other Operating Charges	2	167
Pension Liabilities assumed in a business combination	10	6,265
<b>Net Expenditure</b>		<b>7,115</b>
Interest payable / (receivable)	6	95
<b>Net Expenditure after Interest</b>		<b>7,210</b>
<b>Total Expenditure for the period ending 31 March 2013</b>		<b>7,210</b>
<b>Other Comprehensive Income and Expenditure</b>		
Actuarial loss on pension schemes	10	379
<b>Total Comprehensive Expenditure before Grant from Justice Department</b>		<b>7,589</b>

# SCOTTISH FIRE AND RESCUE SERVICE

## Statements of Account 2012/13

### Statement of Financial Position as at 31 March 2013

	Note	2013 £000s
<b>Current assets</b>		
Trade and other receivables	7	15
Cash and cash equivalents	9	336
<b>Total current assets</b>		<b>351</b>
<b>Total assets</b>		<b>351</b>
<b>Current liabilities:</b>		
Trade and other payables	8	(426)
<b>Total current liabilities</b>		<b>(426)</b>
<b>Total assets less current liabilities</b>		<b>(75)</b>
<b>Non-current liabilities:</b>		
Pension liabilities	10	(6,866)
<b>Total non-current liabilities</b>		<b>(6,866)</b>
<b>Assets less liabilities</b>		<b>(6,941)</b>
<b>Taxpayers equity</b>		
General Reserve		2
Pensions Reserve		(6,943)
		<b>(6,941)</b>



#### **Alasdair Hay**

Chief Officer and Accountable Officer

These accounts were authorised for issue on 26 September 2013.

The notes on pages 20 to 34 form part of these accounts.

**SCOTTISH FIRE AND RESCUE SERVICE**  
**Statements of Account 2012/13**

**Statement of Cash Flows**

	Note	2012/13 £000s
<b>Cash flows from operating activities</b>		
Net (deficit) / surplus		(7,210)
Adjustments for non-cash transactions		6,487
(Increase) / decrease in trade and other receivables	7	(15)
Increase / (decrease) in trade and other payables	8	426
<b><i>Net cash (outflow) / inflow from operating activities</i></b>		<b><u>(312)</u></b>
<b>Cash flows from investing activities</b>		
<b><i>Net cash (outflow) / inflow from investing activities</i></b>		<b><u>0</u></b>
<b>Cash flows from financing activities</b>		
Grant in Aid from Scottish Government	14	648
Bank interest received		0
<b><i>Net cash (outflow) / inflow from financing activities</i></b>		<b><u>648</u></b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b><u><u>336</u></u></b>
Cash and cash equivalents at beginning of the period		0
Cash and cash equivalents at end of the period	9	336
<b>Increase / (decrease) in cash for the period</b>		<b><u><u>336</u></u></b>

# SCOTTISH FIRE AND RESCUE SERVICE

## Statements of Account 2012/13

### Statement of Changes in Taxpayers Equity for period ended 31 March 2013

	Note	General Fund £000s	Pensions Reserve £000s	Total £000s
<b>Balance at 31 March 2012</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Changes in Taxpayers Equity 2012-13</b>				
Grant in Aid from Scottish Government	14	648		648
Comprehensive Net Expenditure surplus / (deficit) for the period		(646)	(6,564)	(7,210)
IAS19 actuarial gain / (loss)	10		(379)	(379)
<b>Balance at 31 March 2013</b>		<b>2</b>	<b>(6,943)</b>	<b>(6,941)</b>

# SCOTTISH FIRE AND RESCUE

Statement of Accounts 2012/13

## NOTES TO THE STATEMENT OF ACCOUNTS

### Index

Note	Description
1	Statement of Accounting Policies
2	Other Operating Charges
3	Assumptions made about the future and other major sources of estimation uncertainty
4	Staff Numbers and Related Costs
5	Statement of Costs by Operating Segment
6	Interest Payable
7	Trade and Other Receivables
8	Trade and Other Payables
9	Cash and Cash Equivalents
10	Pensions
11	Related Party Transactions
12	Operating Leases
13	Non-adjusting post balance sheet event – Fire Reform
14	Grant in Aid

## **SCOTTISH FIRE AND RESCUE SERVICE**

Statement of Accounts 2012/13

### **NOTES TO THE STATEMENT OF ACCOUNTS**

#### **1. Statement of Accounting Policies**

These financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS as adapted or interpreted for the public sector context). Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the SFRS for the purpose of giving a true and fair view has been selected. The particular policies adopted by the SFRS in preparing these financial statements are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The Statement of Accounts has been prepared with reference to the following objectives:

- to provide information about the financial position, performance and cash flows in a way that meets the “common need of most users”, and
- to show the results of the stewardship and accountability of elected members and management for the resources entrusted to them.

The following underlying assumptions have also been adhered to:

- Accruals – with the exception of cash flow information, the statements have been prepared using the accrual basis of accounting, where the non-cash effects of transactions are included in the financial statements in the year in which they occur, not the year in which cash is paid or received, and
- Going concern – the accounts have been prepared on the basis that the SFRS will continue to function for the foreseeable future.

The following qualitative characteristics are incorporated into the Statement of Accounts:

- Understandability – while users of the accounts are assumed to have a reasonable knowledge of accounting and central government, the statements have been prepared to assist users to understand them.
- Relevance – information is provided about the SFRS financial position, performance and cash flows which may be of use in assessing the stewardship of public funds and making economic decisions.
- Materiality – information is included where it is considered to be significant, in that omission of items could either individually or collectively influence the decisions or assessments of users based on the Statement of Accounts.
- Reliability – the information incorporated into the statements is free from bias and material error, is prudent, complete within the boundaries of materiality and cost, and can be depended upon to represent the substance of transactions.

#### **1.1 Going Concern**

The accounts have been prepared incorporating the requirements of international accounting standards and include actuarial valuations of the pension scheme liabilities as explained in the relevant notes to the accounts. These reflect the inclusion of liabilities falling due in future years in respect of pension liabilities arising from the application of IAS19 to SFRS. Barnett Waddingham, the actuary to the schemes, has calculated the liabilities as at 31 March 2013. The actuary conducts a triennial review of the funding basis of the pension

schemes and in the intervening years rolls forward the scheme assets and liabilities in a desk top review. The next formal valuations are due as at 31 March 2014. In preparing the projected pension expense for the period to 31 March 2013, the actuary has assumed employees continue to earn new benefits in line with the regulations as they currently stand and that the pensionable payroll remains stable. The other main assumptions are set out in Note 10.

Under the Police and Fire Reform (Scotland) Act 2012, staff from the previous eight Services plus the Scottish Fire Service Training College will transfer to the SFRS. The future effect of their pension liabilities have been reflected in their respective financial statements, which will be transferred to the SFRS and reflected in the 2013/14 financial statements.

To the extent that the pension deficits are not met from SFRS sources of income it may only be met by future Grant in Aid from the sponsoring department, the Scottish Government Justice Department. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need.

## **1.2 Revenue Recognition**

Revenue is recognised net of VAT to the extent that it is probable that the economic benefits will flow to the SFRS and the revenue can be reliably measured. No revenue has been recognised in the period ended 31 March 2013.

### **Sale of Goods**

Revenue from the sale of goods is recognised when the SFRS 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 SFRS.

### **Provision of Services**

Revenue from the provision of services is recognised when the SFRS 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 SFRS.

## **1.3 Expenditure Recognition**

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 Statement of Financial Position.

Expenses in relation to services received (including those rendered by the SFRS officers) are recorded as expenditure when the services are received, rather than when payments are made.

Interest payable on borrowings and receivable on investments is accounted for 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 revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Statement of Financial Position. Where there is evidence that debts are unlikely to be settled, the balance of

debtors is written down and a charge made to revenue for the income that might not be collected.

## **1.4 Employee Benefits**

### **Benefits Payable During Employment**

Short-term employee benefits (those that fall due wholly within 12 months of the year end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, are recognised as an expense in the year in which employees render service to the SFRS. An accrual is made in the SOCNE for the year for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward to the next financial year. The accrual is made at the remuneration rates applicable in the following financial year.

### **Post Employment Benefits**

As at 31 March 2013, the SFRS participates in two pension schemes, the Local Government Pension Scheme (Scotland) for support staff, and the Firemen's Pension Scheme 1992 for whole-time uniformed personnel.

- **Local Government Pension Scheme (Scotland)**  
The SFRS subscribes to the Strathclyde Pension Fund for which Glasgow City Council is the administering authority for relevant staff employed as at 31 March 2013. The Scheme provides members with defined benefits related to pay and service. It is supported by contributions from both employer and employee.
- **Firemen's Pension Scheme 1992**  
The Firemen's Pension Scheme 1992 (FPS) is an unfunded defined benefit scheme where payments are made on a "pay as you go" basis. This scheme is administered by Dundee City Council, Edinburgh City Council and Aberdeen City Council for uniformed staff employed by the SFRS as at 31 March 2013.

Following the transfer of the eight Fire Boards on 1 April 2013, the number of schemes and administering bodies will increase.

### **Pension Scheme Assets**

The FPS, being unfunded, has no assets built up to meet pension liabilities. The attributable assets of the Local Government Pension Scheme (LGPS) have been measured at fair value and are identified in the Notes to the Statement of Accounts.

### **Pension Scheme Liabilities**

The attributable liabilities of each scheme are measured 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.

Scheme liabilities are discounted using the yield available on long-dated, high quality corporate bonds at 31 March 2013. Allowing for inflation, this rate is 4.7% for LGPS and 4.7% for Fire Pension Schemes.

### **Current Service Cost**

The current service cost of each scheme is based on the most recent actuarial valuation with the financial assumptions being updated to reflect economic conditions at 31 March 2013.

As the FPS is now a closed scheme, the age profile of the active membership is rising significantly. Under the projected unit method, the current service cost will therefore increase as the members of the scheme approach retirement.

### **Interest Cost**

The interest cost of each scheme is based on the discount rate and the present value of the scheme liabilities at 31 March 2013.

### **Expected Return on Assets**

The expected return on assets for the LGPS is based on long-term expectations at 31 March 2013.

### **Past Service Costs**

Past service costs of each scheme are disclosed on a straight-line basis over the period in which benefits become an unconditional entitlement.

### **Gains/Losses on Settlements and Curtailments**

The result of actions to relieve the SFRS of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited/credited to the SOCNE.

### **Actuarial Gains and Losses**

Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – credited (for a gain) or debited (for a loss) to the Pensions Reserve.

### **Contributions Paid to the LGPS Pension Fund**

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

### **Discretionary Benefits**

The SFRS also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award, and accounted for using the same policies as those applied to the relevant pension schemes.

### **Injury Awards**

The SFRS also has powers to make awards of injury benefits in the event of firefighters leaving through injury. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as those applied to the relevant compensation schemes.

## **1.5 Cash and Cash Equivalents**

Cash is cash in hand and deposits held with banks. There are no cash equivalents.

## **1.6 Changes in Accounting Policies and Estimates and Errors**

Changes in accounting policies are only made when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the financial position or financial performance of the SFRS. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

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

## 1.7 Leases

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

Where a lease covers both land and buildings, the land and building 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.

### Operating Leases

Rentals payable under operating leases are charged to the SOCNE on a straight-line basis, over the term of the lease.

## 1.8 Reserves

The General Reserve represents the excess of expenditure over income on Grant in Aid funded operations.

## 1.9 VAT

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

## 1.10 Government Grant-in-Aid (GiA)

GiA received to finance general operating activities is shown as financing income and credited directly to the General Reserve.

## 1.11 Financial Instruments

As the cash requirements of the Scottish Fire and Rescue Service are met through Grant-in-Aid provided by the Justice Department, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the SFRS's expected purchase and usage requirements and SFRS is therefore exposed to little credit, liquidity or market risk. The main financial asset at 31 March 2013 is the cash held in our Government Banking Service account.

## 2. Other Operating Charges

	<b>Period to 31 March 2013 £000s</b>
Supplies and Services	75
Property Costs	49
Transport Costs - Members	17
Transport Costs	7
External Auditors	19
<b>Total</b>	<b>167</b>

### 3. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the SFRS about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The SFRS Statement of Financial Position contains the following item for which there is a significant risk of material adjustment in the forthcoming year:

Item	Uncertainty	Effect if actual result differs from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement age, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Board with expert advice about the assumptions to be applied.	Estimations have been made in calculating the Pensions Liability, and if assumptions were to change, this would impact on the figures provided by the actuary. These figures therefore may be subject to change in the future.

### 4. Staff Numbers and Related Costs

Staff costs comprise:

	2012/13		
	Permanent £000s	Others £000s	Total £000s
Wages and Salaries	334		334
Social Security Costs	35		35
Other Pension Costs	56		56
Secondments		131	131
<b>Sub-total</b>	<b>425</b>	<b>131</b>	<b>556</b>
IAS19 pension costs charged to net expenditure	127		127
<b>Total net costs</b>	<b>552</b>	<b>131</b>	<b>683</b>

Average number of persons employed:

	2012/13		
	Permanent	Others	Total
Permanent	4		4
Secondments		4	4
<b>Total</b>	<b>4</b>	<b>4</b>	<b>8</b>

## 5. Statement of Operating Costs by Operating Segment

This note is required to identify reportable segments, however, these were not fully operational when the SFRS came into being on 1 April 2013. As such, no information will be reported in the financial statements for 2012/13, although disclosure will be made in future years.

## 6. Interest Payable

	Period to 31 March 2013 £000s
IAS19 Interest on Pensions Obligation	95
<b>Total</b>	<b>95</b>

## 7. Trade and Other Receivables

### (a) Analysis by Type

Amounts falling due within one year	Period to 31 March 2013 £000s
Prepayments and Accrued Income	15
<b>Total</b>	<b>15</b>

### (b) Analysis by Organisation

Amounts falling due within one year	Period to 31 March 2013 £000s
Other Local Authorities	13
Other Entities and Individuals	2
<b>Total</b>	<b>15</b>

## 8. Trade and Other Payables

### (a) Analysis by Type

Amounts falling due within one year	Period to 31 March 2013 £000s
Other Taxation and Social Security	(46)
Trade Payables	(20)
Other Payables	(305)
Accruals and deferred income	(55)
<b>Total</b>	<b>(426)</b>

## (b) Analysis by Organisation

Amounts falling due within one year	Period to 31 March 2013 £000s
Other Central Government Bodies	(46)
Local Authorities	(316)
<i>Sub-total Intra-government balances</i>	(362)
Bodies External to Government	(64)
<b>Total</b>	<b>(426)</b>

## 9. Cash and Cash Equivalents

	Period to 31 March 2013 £000s
Government Banking System bank account	336
	<b>336</b>

## 10. Pensions

As part of the terms and conditions of employment of its employees, the SFRS offers retirement benefits. Although these benefits will not actually be payable until employees retire, the SFRS has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The SFRS currently participates in the two defined benefits pension schemes set out below:

- The LGPS for current support staff, administered by Glasgow City Council (Strathclyde Pension Fund). This is a funded scheme, meaning that the SFRS and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The employer contribution rate in 2012/13 was 19.3% of the employees' pensionable pay, and is expected to remain at 19.3% in 2013/14. From 1 April 2009, employee contribution rates changed from a flat rate of 6% to tiered contributions dependent on salary.
- The Firefighters' Pension Scheme 1992 (FPS) for wholetime uniformed personnel. This is an unfunded scheme, meaning there is no investment assets built up to meet pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. As at 5 April 2006 this scheme was closed to new members, however all uniformed staff employed at 31 March 2013 were members of the FPS.

## (a) Actuarial Methods and Assumptions

To assess the value of the SFRS' liability as at 31 March 2013, the actuary, Barnett Waddingham, calculated the liability of the members transferring to the SFRS at their respective transfer dates and then rolled forward the value of the employer's liabilities allowing for the financial assumptions required under IAS19.

The full actuarial valuation involved projecting future cashflows to be paid and placing a value on them. These cashflows include pensions that may be payable in future to members of both schemes or their dependents. While it is not possible to assess the accuracy of the liability at 31 March 2013 without completing a full valuation, the actuary is satisfied that the

approach of rolling forward the previous valuation data to 31 March 2013 will not materially distort results, providing actual experience is in line with the underlying assumptions.

The projected unit method of valuation has been used to calculate the service cost, as required by IAS19.

The main assumptions used in their calculations are shown in the following table:

Assumption	Local Government Pension Scheme	Firemen's Pension Scheme
	2012/13	2012/13
Long-term expected rate of return on assets in the scheme		
Equity Investments	4.7%	-
Bonds	4.7%	-
Property	4.7%	-
Cash	4.7%	-
Mortality assumptions:		
Longevity at 60 for current pensioners		
Men	-	27.3
Women	-	29.6
Longevity at 60 for future pensioners		
Men	-	29.8
Women	-	32.1
Longevity at 65 for current pensioners		
Men	21.6	-
Women	23.8	-
Longevity at 65 for future pensioners		
Men	23.5	-
Women	25.3	-
Rate of inflation (RPI)	3.4%	3.4%
Rate of inflation (CPI)	2.6%	2.6%
Rate of increase in salaries	4.9%	4.8%
Rate of increase in pensions	2.6%	2.6%
Rate for discounting scheme liabilities	4.7%	4.4%

IAS19 requires that the discount rate used should be the return on a “high quality corporate bond of equivalent term and currency to the liability”. The discount rate applied is the annualised yield at the 25 year point on the Merrill Lynch AA rated corporate bond curve.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 25 year point on the Bank of England spot inflation curve.

### **(b) Expected Return on Assets**

The FPS is unfunded and therefore there are no assets backing the scheme.

For the LGPS, for accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS19 discount rate. There is therefore no requirement to disclose an expected return assumption for the year to 31 March 2014. For the period to 31 March 2013, the expected return was 6.6% per annum, which has been used to determine the profit and loss charge for the period ended 31 March 2013.

### (c) Statement of Financial Position

IAS19 requires the SFRS to account for pension liabilities of £6.866 million for the financial period ended 31 March 2013, as valued by Barnett Waddingham.

	<b>2012/13</b> <b>£000s</b>
Present value of liabilities:	
- Local Government Pension Scheme	(177)
- Firemen's/Firefighters Pension Schemes	(6,791)
Fair value of assets in the Local Government Pension Scheme	102
<b>Total</b>	<b><u>(6,866)</u></b>
Surplus/(deficit) in the scheme:	
- Local Government Pension Scheme	75
- Firemen's/Firefighters Pension Schemes	<u>6,791</u>
<b>Total</b>	<b><u><u>6,866</u></u></b>

The liabilities show the underlying commitments that the SFRS has in the long-run to pay retirement benefits. The total liability of £6.866 million has a substantial impact on the net worth of the SFRS as recorded in the Statement of Financial Position, resulting in a negative overall balance of £6.941 million. However, statutory arrangements for funding the deficit mean that the financial position of the SFRS remains healthy:

- The deficit on the local government scheme will be made good by increased contributions from the SFRS over the remaining working life of employees, as assessed by the scheme actuary, to ensure that accrued benefits can be paid,
- Finance is only required to be raised to cover firefighters' pensions when the pensions are actually paid.
- The total contributions expected to be made to the Local Government Pension Scheme by the SFRS based on current membership in the year to 31 March 2014 is £0.019 million. Expected contributions for the Firefighters Pension Schemes based on current membership in the year to 31 March 2014 are £0.89 million. Contributions for both schemes will however be significantly higher as staff transfer from the previous Services on 1 April 2013, estimated to be approximately £5.000 million for the LGPS and approximately £67 million for the Firefighters' schemes. Also, under new arrangements, Firefighters' Pensions will be funded by the Scottish Government, as well as the SFRS.

#### (d) Statement of Net Comprehensive Expenditure

Narrative	Local Government Pension Scheme	Firefighters Pension Scheme
	2012/13 £000s	2012/13 £000s
Current service costs / (gains)	4	109
Interest on obligation	2	94
Expected return on scheme assets	(1)	0
Past service costs / (gains)	0	0
Losses / (gains) on curtailments and settlements	77	0
<b>Total</b>	<b>82</b>	<b>203</b>
Actual Return / (Deficit) on Scheme assets	<b>3</b>	<b>0</b>

The above figures are based on the current version of IAS 19. Changes to IAS 19 come into effect for the financial year to 31 March 2014 and will be adopted retrospectively for the prior year, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The effect of the change on the income statement for the LGPS to 31 March 2013 will be a decrease of £1,000 and will be disclosed in the statement for the year to 31 March 2014. There will be no effect on the FPS as it is unfunded.

#### (e) Asset and Defined Benefit Obligation Reconciliation

Reconciliation of opening and closing balances of the present value of the defined benefit obligation	LGPS Period to 31 March 2013 £000s	FPS Period to 31 March 2013 £000s
<b>Opening Defined Benefit Obligation</b>	<b>0</b>	<b>0</b>
Service cost	4	109
Interest Cost	2	94
Actuarial losses / (gains)	(1)	382
Liabilities transferred in	170	6,188
Contributions by Scheme participants	2	18
<b>Closing Defined Benefit Obligation</b>	<b>177</b>	<b>6,791</b>

Reconciliation of opening and closing balances of the fair value of Scheme assets	LGPS Period to 31 March 2013 £000s	FPS Period to 31 March 2013 £000s
<b>Opening fair value of Scheme assets</b>	<b>0</b>	<b>0</b>
Expected return on Scheme assets	1	-
Actuarial gains / (losses)	2	-
Contributions by employer	4	-
Contributions by Scheme participants	2	-
Assets transferred in	93	-
<b>Fair value of Scheme assets at end of period</b>	<b>102</b>	<b>0</b>

<b>Reconciliation of opening and closing surplus / (deficit)</b>	<b>LGPS Year to 31 March 2013 £000s</b>	<b>FPS Year to 31 March 2013 £000s</b>
<b>Surplus / (Deficit) at beginning of year</b>	<b>0</b>	<b>0</b>
Current Service Cost	(4)	(109)
Employer Contributions	4	(51)
Other Finance Income	(1)	(61)
Net liabilities transferred in	(77)	(6,188)
Actuarial gains / (losses)	3	(382)
<b>Surplus / (Deficit) at end of period</b>	<b>(75)</b>	<b>(6,791)</b>

As the SFRS is a new body, information for previous years is not available.

The FPS has no assets to cover its liabilities. Strathclyde Pension Fund assets are valued at fair value, principally market value for investments. The expected return on assets in Strathclyde Pension Fund is based on the long-term future expected investment return for each asset class. These assets consist of the following categories, by proportion of the total assets held by the Fund:

<b>Asset</b>	<b>31 March 2013 %</b>
Equity investments	46
Bonds	44
Property	6
Cash	4
<b>Total</b>	<b>100</b>

#### **(f) Actuarial Gains and Losses**

The actuarial gains and losses identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities and amounts at 31 March 2013:

	<b>Period to 31 March 2013</b>	
	<b>LGPS £000s</b>	<b>FPS £000s</b>
Actual return less expected return on pension scheme assets	2	0
Experience gains and losses	0	0
Changes in assumptions underlying the present value of the scheme liabilities	1	(382)
<b>Actuarial gains / (losses) in pension scheme</b>	<b>3</b>	<b>(382)</b>
Increase / (decrease) in irrecoverable surplus	0	0
<b>Actuarial gains / (losses) recognised in Statement of Changes in Taxpayers Equity</b>	<b>3</b>	<b>(382)</b>

## 11. Related Party Transactions

SFRS is an Other Significant Public Body sponsored by the Scottish Government Justice Department. The Scottish Government is regarded as a related party. During the year, SFRS had various material transactions with the Scottish Government and in addition had a number of material transactions with other government bodies (HMRC and LGPS offices). During the year, apart from their service contracts, no Board member or key manager or related parties have undertaken any material transactions with the SFRS.

## 12. Operating Leases

The SFRS leases one property at Whitefriars Crescent, Perth, since 12 November 2012. The sum payable is based on a cost sharing agreement until 27 March 2016, or an earlier date if agreed upon. Payments are charged to the SOCNE on an accruals basis over the term of the lease. The total charged to the SOCNE during 2012/13 is £15,000 (£0 in 2011/12).

The following table assumes that future minimum payments committed to by the SFRS will be in line with charges paid in 2012/13.

Land and Buildings	2012/13 £000s
Not later than one year	39
Later than one year but not later than 5 years	78

## 13. Non-Adjusting Events After the Reporting Period – Fire Reform

On 1 April 2013, the previous eight fire authorities merged to form a single national Scottish Fire and Rescue Service. The FReM follows *IAS10 – Events after the reporting period*, which requires that material non-adjusting events occurring after the end of the accounting period must be disclosed. The following table contains details of figures for each of the previous eight services plus the Training College at Gullane, which was part of the Scottish Government prior to 1 April 2013. This is the best estimate of the impact of the post balance sheet event based on information available at this time. It has been compiled from the unaudited accounts of the antecedent bodies.

	Assets £000s	Liabilities £000s	Reserves £000s
<b>Balance at 31 March 2013</b>	<b>351</b>	<b>(7,292)</b>	<b>6,941</b>
Balances expected to be transferred from previous Services with effect from 1 April 2013:			
Central	21,633	(168,592)	146,959
Dumfries and Galloway	14,918	(84,000)	69,082
Fife	19,742	(248,907)	229,165
Grampian	61,812	(215,357)	153,545
Gullane	10,015	(358)	(9,657)
Highlands and Islands	50,179	(115,860)	65,681
Lothian and Borders	53,922	(453,316)	399,394
Strathclyde	252,054	(1,430,581)	1,178,527
Tayside	40,655	(248,596)	207,941
<b>Sub-total</b>	<b>524,930</b>	<b>(2,965,567)</b>	<b>2,440,637</b>
<b>Total estimated balances to be transferred at 1 April 2013</b>	<b>525,281</b>	<b>(2,972,859)</b>	<b>2,447,578</b>

#### **14. Grant In Aid Income**

Grant in Aid income received from Scottish Government for the financial period ending 2012/13 was £0.648 million compared to a budget of £0.744 million.

# SCOTTISH FIRE AND RESCUE SERVICE

Statement of Accounts 2012/13

## FIREFIGHTERS' PENSION ACCOUNT – SCOTLAND

### Introduction

As from 1 April 2010, the Scottish Government introduced a requirement for each Scottish Fire and Rescue authority to maintain a Firefighters' Pension Account in respect of its firefighters' pension schemes. The requirements are specified in the Firefighters' Pension Scheme Amendment (Scotland) (No.2) Order 2010 (SSI 332/2010; see also SSI 333/2010).

Although the Firefighters' Pension Account operates on an accruals basis, provisions for potential retirement (e.g. commuted sums) are not included as a charge against the Firefighters' Pension Account.

The table below illustrates the transactions on the fire pension account.

	2012/13 £000s
<b>Contributions receivable:</b>	
<b>Fire &amp; Rescue authority:</b>	
Contributions based on pensionable pay	(51)
Early retirements	0
Transfer Values	0
Officers' contributions	(18)
	<hr/>
	(69)
Transfers in from other fire & rescue authorities	0
<b>Benefits payable:</b>	
Pensions	0
Commutations and lump sum retirement benefits	0
Lump sum death benefits	0
	<hr/>
	0
<b>Payments to and on account of leavers:</b>	
Transfer values paid	0
Refund of contributions to employees	0
	<hr/>
	0
	<hr/>
<b>Sub-total for the period before transfer to the Firefighters' Operating Account of an amount equal to the (surplus) / deficit</b>	(69)
<b>Additional funding payable by the Firefighters' Operating Account to meet the surplus / (deficit) included as a liability at the period end</b>	69
<b>Net amount payable/receivable for the period</b>	0



## **THE SCOTTISH FIRE AND RESCUE SERVICE**

### **DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in pursuance of section 42A(1) of the Fire (Scotland) Act 2005 (inserted by section 118 of the Police and Fire Reform (Scotland) Act 2012) hereby give the following direction.
  
2. The statement of accounts for the financial year ending 31 March 2013, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
  
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses and cash flows for the financial period and of the state of affairs at the end of the financial period.
  
4. This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated 5<sup>th</sup> March 2013