

MERSEYSIDE FIRE AND RESCUE AUTHORITY

STATEMENT OF ACCOUNTS 2005-2006

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EXPLANATORY FOREWORD

1. INTRODUCTION

The Accounts, which are set out on the following pages, demonstrate the financial performance for the year and the financial position at the end of the year in respect of the Merseyside Fire and Rescue Authority. They comprise:

- **Statement of Accounting Policies** - this explains the basis of the figures in the accounts.
- **The Consolidated Revenue Account** - this summarises the expenditure financed by the council tax, government grants and redistributed national non-domestic rates.
- **The Consolidated Balance Sheet** - this shows the assets and liabilities of the Authority at 31st March 2006.
- **The Statement of Total Movements in Reserves** - this brings together all of the recognised gains and losses of the Authority during the year. The statement separates the movement between revenue and capital reserves and is compliant with Financial Reporting Standard 3 (FRS3).
- **The Cash Flow Statement** - this summarises the inflows and outflows of cash arising from both revenue and capital transactions.
- **The Statement of Responsibilities for the Statement of Accounts** - this sets out the responsibilities of the Authority and of the Executive Director of Finance as regards to the Statement of Accounts.
- **Statement on the System of Internal Control** – this sets out the Authority’s responsibility for setting in place a system of internal control and summarises that control framework

Additional information is provided in supporting notes to the Revenue Account, Balance Sheet, Statement of Movement in Reserves and Cash Flow Statement.

The Statement of Accounts meets the requirements of the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. REVIEW OF THE YEAR

2005/06 has been a tremendous year for Merseyside Fire and Rescue Authority with many successes and innovations.

The Fire Service has, for several years now, been going through a major programme of modernisation and improvement, and Merseyside has worked hard to remain at the forefront of this work. This put the Authority in the position where, in the Audit Commission's Comprehensive Performance Assessment (CPA) of Fire Services which was conducted during 2005/06, we had the distinction of being the highest performing fire service in the UK and one of only two nationally to be declared Excellent.

The Authority approved its second major Integrated Risk Management Plan in February 2005, which set the framework for performance for the Year. Part of the modernising agenda for change recommends moving away from traditional models for fire cover, where the level of resources set in place was based upon meeting targets for speed and weight of response to emergency incidents, to a risk based approach, where the fire cover set in place is based upon a risk assessment with a view to reducing the number of deaths and injuries arising from fire. This sets out a blue print for making Merseyside safer from fire. The full document is available on the Authority website www.merseyfire.gov.uk.

The Authority's IRMP was considered one of the best and most innovative in the country, most of the action points are now fully implemented.

In particular, the Authority continued to invest in its world-leading preventative Community Fire Safety work.

- Increasing the number of specialist Fire Safety Advocates and mainstreaming the currently successful programme within core budgets.
- The innovative firework programme (FIRST) that reduced firework misuse by 79% since 2003.
- Implementing a wide range of work programmes with younger people that allowed the Authority to win its second award of beacon council status.
- Investing in volunteering through Fire Support Network.
- Increasing services to include restorative help to the public and business.

The Authority has also expanded the range of services it offers to Merseyside.

- Creating a national leading Special Rescue Team with specialist rescue skills, including a specialist dog team. This team successfully assisted in the Cumbria floods.
- Continued a co-responding pilot with the Ambulance Service.
- Introducing a versatile quick response motorcycle unit.
- Increasing number of special vehicles for dealing with small nuisance fires.
- Taking on responsibility for the Mersey Inshore Rescue Service.

In order to further improve services the Authority has invested in:-

- A new City Centre fire station, due to open late 2006.
- Major improvement of its fleet, adopting a rescue pump/support pump concept.
- Invested in "Learning Zones" on fire stations using the latest technology.

The Authority has also contributed significantly to some of the national projects underway for the Fire Service:-

- Regional Control Room Project
- National Procurement Strategy
- Integrated Clothing Project.

The Authority has managed these investments, whilst at the same time keeping Council Tax increases low and its tax is now below the national average Council Tax for Fire Services.

The Service monitors its performance closely and key achievements include:-

- Carrying out more than 250,000 Home Fire Safety Checks.
- Reducing injuries in accidental dwelling fires from 369 in 2000/01 to an estimated 155 in 2005/06 (an in year reduction of 10%).
- Reduced the number of Malicious False Alarms by 9%.
- Reduced the number of false alarms due to automatic alarms by 32%.
- Reduced the number of property and vehicle fires by 13% to 6002.
- Increased the number of smoke alarms operating in accidental dwelling fires to 50% from 38% in 1999/2000.

Full details of service performance can be found in our Best Value Performance Plan. Copies can be obtained online at www.merseyfire.gov.uk or by calling free phone on 0800 731 5958.

3. FINANCIAL POSITION 2005-2006

Budget

The Authority set a budget of £74.785 million for 2005-2006, an increase of 1.8% on the previous year mainly due to pay inflation pressures and increasing pension costs. As a result, the Authority's Band D Council Tax was £53.88, which represented an increase in tax of 3.6%. The total level of external support (the amount the Authority receives in redistributed non-domestic rates and revenue support grant from central government) increased by 0.7% to £52.019 million. When contributions from balances and reserves are excluded, the level of total expenditure planned for the year was £77.423 million.

In particular, the Authority's budget plan assumed that pensions expenditure would be moderated by anticipated changes in the Government's arrangements for funding fire-fighters' pensions. In 2005/06 pensions were forecast to represent over 20% of expenditure compared to an average year which would be closer to 13%.

In fact, the new arrangements were not as beneficial as the Authority hoped and pensions expenditure surged yet higher as a large number of fire-fighters recruited in the 1970's became eligible for retirement.

This budget was amended during the year and by the time the budget for 2006-2007 was being considered, in 2006, the level of anticipated expenditure in 2005-2006 had been reduced by £3.778 million to £73.645 million. The most significant budgetary variances are summarised in the table below:

	<u>£ m</u>
• Increase in Exceptional Pensions Expenditure	4.8
• Final Accounts 2004-05 (net) Underspend	(0.3)
• Creation of World Fire-fighter Games Reserve	0.3
• Over achieved Staff Efficiency Target	(0.5)
• Other Efficiencies	(0.8)
• Capitalisation of Exceptional Pension Costs	(6.1)
• Review of accounting treatment of HFRA expenditure	(0.7)
• Additional grant	<u>(0.4)</u>
	<u>(3.7)</u>

Actual Expenditure

The actual level of expenditure in 2005-2006 totalled £72.9 million, which is £0.8 million less than the revised budget (a total movement of £4.5 million or 5.8% from the original budget). The table overleaf shows the variations from the original budget to the revised budget during the year and also the variance between actual expenditure and that revised budget.

	ORIGINAL BUDGET <i>Outturn</i> £'m	REVISED BUDGET £'m	VARIANCE		ACTUAL OUTTURN £'m	VARIANCE	
			<i>Original</i> To <i>Revised</i> £'m			<i>Revised</i> To <i>Outturn</i> £'m	
Net Expenditure on Services							
Fire Service operating costs	55.2	52.8	(2.4)		51.7	(1.1)	
Pension Costs	19.0	17.7	(1.3)		18.0	0.3	
Corporate Management	0.5	0.5	0		0.5	0	
Capital Financing Charges	3.0	3.0	0		3.0	0	
Interest on surplus balances	(0.3)	(0.3)	0		(0.3)	0	
Total Net Expenditure	77.4	73.7	(3.7)		72.9	(0.8)	
Financed By							
Council Tax Income	(22.8)	(22.8)	0		(22.8)	0	
Revenue Support Grant & Transition Fund	(36.2)	(36.2)	0		(36.2)	0	
National Non-Domestic Rates	(15.8)	(15.8)	0		(15.8)	0	
Total Financing	(74.8)	(74.8)	0		(74.8)	0	
Net Contribution (to)/from Reserves	2.6	(1.1)	(3.7)		(1.9)	(0.8)	
Breakdown of Reserves							
Net Contribution (to)/from Earmarked Reserves	0.1	(4.0)	(4.1)		(4.5)	(0.5)	
Net Contribution (to)/from General Reserves	2.5	2.9	0.4		2.6	(0.3)	
Total Movement on Reserves	2.6	(1.1)	(3.7)		(1.9)	(0.8)	

Savings shown in brackets

The main reasons for the variance between revised budget and actual expenditure in 2005-2006 were:

- Fire Service operating costs

These were £1.1 million lower than anticipated because of:

	<u>£ m</u>
Further over achievement on Staff Efficiency Target	(0.4)
Efficiencies in Training & Supplies	(0.3)
Additional Secondment Income	(0.1)
Additional Grant and Fee Income	(0.2)
Other Minor Variances (net)	<u>(0.1)</u>
	<u>(1.1)</u>

- Pensions

The further variation on pensions was due to :-

	<u>£'m</u>
Transfer Values (Fire-fighters moving to other services)	0.2
Other	<u>0.1</u>
	<u>0.3</u>

4. BALANCES AND RESERVES

The Authority had originally budgeted to have balances and reserves of £2.5 million at the 31 March 2006. This was subsequently increased to £9.0 million following the finalisation of the 2004-2005 financial position and because of further variations identified during the year. In particular, this was due to the capitalisation of exceptional pension's expenditure (£6.1m) and a review of the accounting treatment of smoke alarms and their installation (£0.7m). These savings were used to create a cost smoothing reserve and a modernisation reserve respectively. The reduction in spending since the revised budget and increased contributions to reserves has meant that the Authority's balances and reserves have increased to £9.8 million at 31 March 2006. Earmarked reserves have increased by £0.5 million and revenue reserves by £0.3 million compared to the revised budget. The movements are summarised in the table below:-

	Original Budget £'m	Revised Budget £'m	Actual £'m
Balance at 31 March 2006			
Pensions Reserve	0	0	0
Other Earmarked Reserves	0.5	7.0	7.5
General Revenue Reserve	2.0	2.0	2.3
	<u>2.5</u>	<u>9.0</u>	<u>9.8</u>

Following the introduction of new funding arrangements for fire-fighters pensions, the Authority is no longer required to budget for pensions from 1st April 2006 and therefore no longer requires a pension reserve. Details of other reserves are given in the notes to the consolidated balance sheet on page 22.

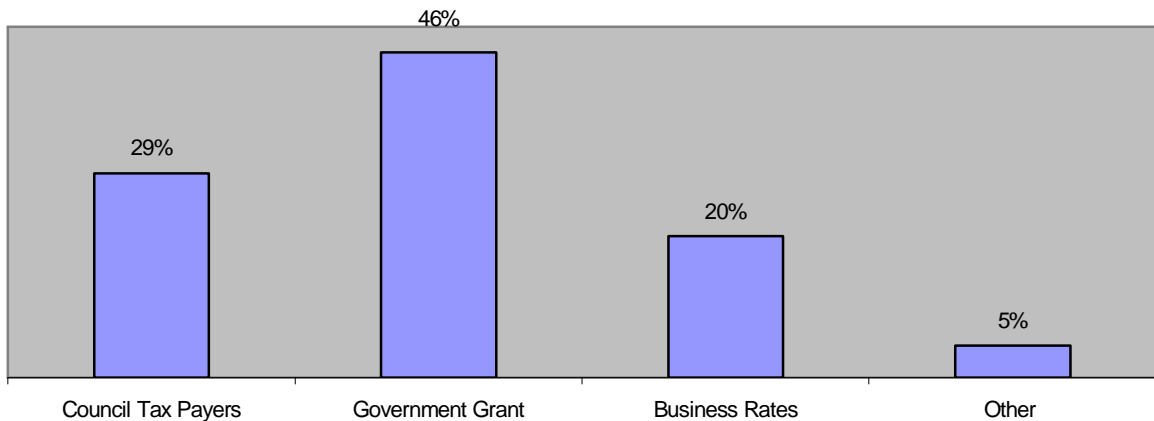
Impact on 2006/07

Adequate levels of balances and reserves are important for reasons of prudent financial management. When the Authority set its budget for 2006-2007, balances were not expected to support revenue spending but a contribution from other earmarked reserves of £2.8 million would be required. The Authority chose to set a budget that anticipated total reserves at 31 March 2007 of £6.1 million. As a result of the 2005-2006 accounts that has now increased to £6.9 million. It is intended that reserves will be utilised over the next few years as part of medium term financial plans.

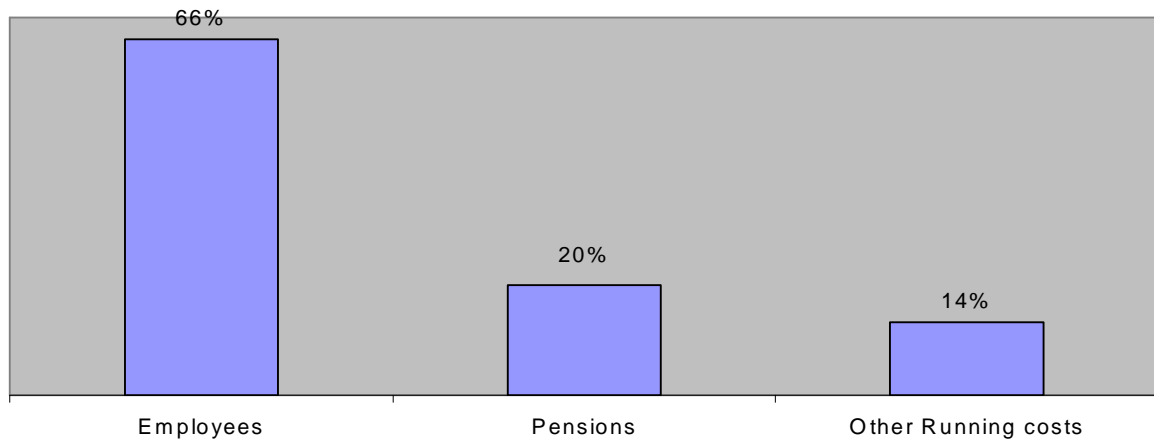
5. ALLOCATION OF RESOURCES

In broad terms where the Authority's money came from and what it was spent on during 2005- 2006 can be analysed as follows:

WHERE THE MONEY CAME FROM



WHERE THE MONEY WENT



Community Fire Safety

The Authority has ambitious targets for reducing deaths and injuries from fire in Merseyside and has therefore continued to focus its efforts on Community Fire Safety and fire prevention. It has a programme of delivering Home Fire Risk Assessments (HFRA) to all homes in Merseyside over a five-year period. A HFRA is a risk assessment of a dwelling carried out by fire fighters who will fit free smoke alarms and give fire prevention information to homeowners. The Authority has now completed over 250,000 HFRA's and devotes significant resources to Community Fire Safety.

If you are interested in getting an HFRA for your home please ring our World First Fire Service call centre – Fire Service Direct on

The detailed accounts of the Authority have been prepared in line with CIPFA's Best Value Accounting Code of Practice. This shows Community Fire Safety (preventative) and Operational Fire Safety (Rescue & Emergency Response work) separately. The Authority's expenditure on Community Fire Safety is now 10% (£7.2 million) of total 2005-2006 expenditure reflecting the Authority's concentration on fire prevention policies. Significant areas of expenditure include smoke alarms, HFRA's, Fire Service Direct and a large variety of community and education programmes.

6. CAPITAL SPENDING IN 2005-2006

The Authority originally approved a capital budget of £7.7 million. However, towards the end of the year this had been revised to £4.7 million. This was mainly because the project for a new City Centre fire station with a private sector partner was rephased into 2006/07.

Under the new prudential code on financing capital schemes, Authority's can borrow more freely. Emphasis is now placed on affordability to the Authority of each new scheme. At the start of the year the expected level of borrowing was £4.9 million. In the probable budget this was expected to decrease to £4.1 million. Actual borrowing was reduced to £3.6 million as expenditure reduced. The total actual level of borrowing at 31st March 2006 is £29.135 million. Details relating to capital expenditure and capital receipts can be found in the notes to the consolidated balance sheet. A summarised capital programme is shown below: -

	Original Budget £'m	Revised Budget £'m	Outturn £'m
Capital Expenditure	<u>7.7</u>	<u>4.7</u>	<u>3.9</u>
<u>Financed By</u>			
Supported Borrowing	2.6	2.6	2.6
Unsupported Borrowings	2.3	1.5	1.0
Capital Grant (Smoke Alarms)	0.2	0.2	0.2
Revenue Contribution to capital	0.1	0.4	0.1
Capital Receipts	2.5	0.0	0.0
	<u>7.7</u>	<u>4.7</u>	<u>3.9</u>

The actual capital expenditure was £3.9 million. The difference to revised budget was £0.8 million and related to a variation of £0.5 million regarding the capitalisation of smoke alarm installation costs and rephasing of schemes into 2006/2007 of £1.3 million. The rephasing was due to revised delivery dates and late commencement of various building schemes.

7. FINANCIAL OUTLOOK

The budget setting process for 2006/07 was particularly challenging because of the extreme financial pressures caused by :-

- Exceptional pensions expenditure in 2005/06 depleting reserves.
- The Authority hoped that new funding arrangements for fire-fighters pensions would eliminate the pensions problem altogether by returning expenditure to an “average” position. In fact, the proposals, whilst stopping the problem getting any worse, maintain the net revenue position at the “exceptional” 2005/06 position. Therefore, the Authority needs to repeat the one-off savings used to support the 2005/06 position.
- The significant imbalance between inflation and government grant increases.

Of this problem, approximately £2.5m might be regarded as one-off expenditure and the remaining £6m is a reflection of an underlying imbalance between Income and Expenditure levels.

The Authority set its budget for 2006-2007 at an expenditure level of £70.7 million. This budget relied upon utilising £2.8 million of earmarked reserve to finance it. It anticipated further increased investment into Community Fire Safety work. The budget estimated general revenue reserves of £2.0 million at 31 March 2007 and earmarked reserves of £4.1 million. As a result of the closure of these accounts it is now possible to anticipate that the general revenue reserve would be £2.3 million and earmarked reserves of £4.6 million at 31 March 2007.

The Authority has developed a medium term financial strategy that aims to:

- Minimise council tax increases
- Maximise investment in community fire safety
- Invest resources in line with the Integrated Risk Management Plan (IRMP).
- Delivers significant efficiencies in the medium term to tackle underlying budget deficits

Other major exciting projects for the Authority to look forward to include :-

PFI

The Authority has won in principle, agreement to lead a North West project building 20 new fire stations. The completed scheme will invest £35million in the North West.

World Fire-fighter Games

The Fire Authority has won the right to hold the World Fire-fighter Games in 2008. This will be a massive contribution to Liverpool’s Capital of Culture year. Over 5,000 fire-fighters and their families are expected to take part in these mini-olympics.

8. FURTHER INFORMATION

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STATEMENT OF ACCOUNTING CONCEPTS

The Authority's accounts have been prepared in accordance with the fundamental accounting concepts described below, and the accounting policies and standards as required by *The Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice*. This Code has been prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved as a Statement of Recommended Practice (SORP). Where a recommended accounting policy has not been adopted then a note to such effect has been provided.

1. RELEVANCE

The accounts are prepared so as to provide readers with information about the Authority's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.

2. RELIABILITY

The accounting statements have been prepared on the basis that the financial information contained within them is reliable, that is, they are free from material error, deliberate or systematic bias, complete within the bounds of materiality and represent faithfully what they intend to represent.

In addition, the accounting statements have been prepared so as to reflect the reality or substance of the transactions and activities underlying them, rather than their formal legal character. In determining the substance of a transaction, it has been necessary to identify all of its aspects and implications. Any group or series of transactions that achieves or is designed to achieve an overall economic effect has been viewed as a whole.

Where there was uncertainty in measuring or recognising the existence of assets, liabilities, income and expenditure then caution or prudence has been used as the basis to inform the selection and application of accounting policies and estimation techniques.

3. COMPARABILITY

The accounting statements have been prepared so as to enable comparison between financial periods. To aid comparability the Authority has applied accounting policies consistently within the accounts for a year and between years. No change to accounting policies have been made unless they could be justified on the grounds that the new policy is preferable to the old and would give a fairer view of the transactions and financial position of the Authority.

4. UNDERSTANDABILITY

All effort has been made to make the statements as easy to understand as possible. Nevertheless, they do assume that the reader will have a reasonable knowledge of accounting and local government. Where the use of technical terms has been unavoidable then an explanation has been provided in the glossary.

5. ACCRUALS

Other than the cash flow statement the accounts have been prepared on an accruals basis. The accruals basis of accounting requires the non-cash effects of transactions to be reflected

in the financial statements for the period in which those effects are experienced and not in the period in which cash is actually received or paid.

6. GOING CONCERN

The accounts have been prepared on a going concern basis. This means that the accounts have been prepared on the assumption that the Authority will continue to operate for the foreseeable future. The revenue account and balance sheet assume no intention to significantly curtail the Authority's operations.

7. PRIMACY OF LEGISLATIVE REQUIREMENTS

The Council's financial accounting framework is closely controlled by central government. It is a fundamental principle that where specific legislative requirements and accounting principles conflict then legislative requirements shall apply.

8. MATERIALITY

Strict compliance with the Accounting Code of Practice, both as to disclosure and accounting principles is not necessary where the amounts involved are not material to the fair presentation of the financial position and transactions of the Authority and to an understanding of the statement of accounts.

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Accounts have been compiled in accordance with the revised Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); Statements of Standard Accounting Practice (SSAP's), and Financial Reporting Standards (FRS's).

2. REVENUE TRANSACTIONS

All current income and expenditure is treated on an accruals basis and is accounted for in the period to which they relate.

3. FIXED ASSETS

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the Authority and the services it provides for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged to service revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the Code of Practice.

Revaluations of fixed assets are carried out every 5 years in line with best practice. Any loss or surplus arising from the revaluation of fixed assets is put to the Fixed Asset Restatement Reserve.

Income from the disposal of fixed assets is accounted for on an accruals basis. Income, which has not been set aside for the repayment of loans or used to finance the purchase of assets, is shown in the Balance Sheet as Usable Capital Receipts.

4. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a specified notional rate of interest of 3.5% for assets carried at current value and 4.625% for assets carried at historical cost.

The aggregate charge to individual services is determined on the basis of the capital employed in each service. Depreciation is provided for on all assets with a finite useful life and is calculated on a straight-line basis.

General depreciation rates applied are buildings 2%, fire appliances 10%, ancillary vehicles 20%, IT equipment 33%, Home Fire Risk Assessment (HFRA) equipment and fitting costs are capitalised and written off over 10 years (10%), and general equipment 20%.

External interest payable and the provision for depreciation are charged to the Asset Management Revenue Account, which is credited with capital charges made to services.

Capital charges therefore have a neutral impact on the amounts required to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans, are shown separately as appropriations on the face of the Consolidated Revenue Account, below net operating expenditure.

5. REDEMPTION OF DEBT

The Authority has taken out long-term loans, of variable duration, to finance the purchase of fixed assets. Provision for the redemption of debt is made on the basis of an annual amount equivalent to 4% of debt outstanding. This is the minimum revenue provision required by the Local Government and Housing Act 1989. Interest on external loans is accrued and appears as a charge to the Asset Management Revenue Account.

6. RESERVES

The Local Government and Housing Act 1989 requires local authorities to allow for an appropriate level of financial reserves. The Authority maintains a prudent revenue account reserve. It also holds a number of earmarked revenue reserves:

- Bellwin/Civil Emergency reserve
- Insurance reserve
- Contestable research fund reserve
- Reserves for externally funded Fire Safety Schemes
- Modernisation reserve
- Training & Development Academy (TDA) Refurbishment reserve
- Emergency reserve
- Fire boots/Clothing reserve
- Training reserve
- Energy reserve
- PFI reserve
- Fireworld reserve
- Regional reserve
- Smoothing reserve
- IT/Equipment reserve

In addition, there are capital reserves recorded in the consolidated balance sheet:

- The Fixed Asset Restatement Account
This represents the balance of the surplus or deficit on the revaluation of fixed assets.
- The Capital Financing Account
This represents amounts which are required by statute to be set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans. The balance on the reserve is not available to support capital or revenue spending.
- The Usable Capital Receipts Account
This represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

7. PROVISIONS

The Authority makes provision for any liability or loss, which is certain to be incurred, but which is uncertain as to the amount or the date on which it will arise. Provisions exist for meeting the cost of insurance settlements, bad debts and obsolete stock. The Authority has also created provision for claims under the Land Compensation Act following the opening of Queens Drive Fire Station in 1999-2000.

The values of debtors and stocks are shown in the Balance Sheet net of provisions for bad debts and obsolete stocks respectively. Details of the remaining provisions are included in the notes to the accounts.

8. STOCKS AND STORES

The Authority holds stocks of uniforms; smoke alarms, consumable items and vehicle parts. These are valued in the accounts at last unit price used – Last In First Out (LIFO).

9. LEASING

The Authority acquired in previous years a range of equipment and vehicles by means of finance leases. All of the agreements are now complete. This interest would be charged to the Asset Management Revenue Account.

The Authority also utilises assets employed through operating lease agreements. Rentals payable under operating leases are charged to services on an accruals basis.

10. FINANCIAL REPORTING STANDARD 17 (FRS17) – ACCOUNTING FOR PENSIONS

FRS17 is the accounting standard for pensions. The objectives of the standard are to ensure that:

- Financial statements reflect at fair value the assets and liabilities arising from the employers retirement benefit obligations and any unrelated funding
- The operating costs of providing retirement benefits to employees are recognised in the accounting periods in which the benefits are earned by the employees and the related finance costs and any other changes in the value of the assets and liabilities are recognised in the accounting periods in which they arise, and
- The financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

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

The Authority participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for civilian employees, administered by Wirral Borough Council through Merseyside Pension Fund. This is a funded scheme meaning that the Authority and eligible employees pay contributions into the Fund, calculated at a level intended to balance pension liabilities with the Authority's share of the Funds investment assets.

- The Fire Authority Pension Scheme for fire officers. This is an unfunded scheme meaning that there are no investment assets built up to meet pension liabilities. Cash has to be generated to meet actual pension payments as they fall due. The Government has changed the funding mechanism for this scheme from 2006-07 and this should alleviate future concerns on pension forecasting.

11. INVESTMENTS AND BORROWING

The Authority produces a Treasury Management Policy Statement and an annual strategy statement for each year. This is compiled in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities, and the 2003 Prudential Code for Capital Finance in Local Authorities. The strategy covers:

- treasury Limits;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- debt rescheduling.

CONSOLIDATED REVENUE ACCOUNT

CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDING 31 MARCH 2006

<u>Gross</u> <u>Expenditure</u>	<u>Income</u>	<u>Net</u> <u>Expenditure</u> <u>2004-2005</u>		<u>Gross</u> <u>Expenditure</u>	<u>Income</u>	<u>Net</u> <u>Expenditure</u> <u>2005-2006</u>	<u>Notes</u>
£'000	£'000	£'000		£'000	£'000	£'000	
			Continuing Services				
8,327	1,383	6,944	Community Fire Safety	8,467	1,243	7,224	
66,218	4,902	61,316	Fire Fighting & Rescue Operations	71,498	5,694	65,804	
534	492	42	Emergency Planning	0	0	0	
958	0	958	Corporate & Democratic Core	989	0	989	
160	0	160	Non Distributable Costs (NDC)	(568)	0	(568)	
<u>76,197</u>	<u>6,777</u>	69,420	Net Cost of Services	<u>80,386</u>	<u>6,937</u>	73,449	1 to 6
		(395)	Interest and investment income			(279)	
		(149)	Asset management revenue account			352	7
			Net pensions interest cost & expected return on pension assets			<u>33,102</u>	8
		<u>29,279</u>	Net operating expenditure			<u>106,624</u>	
		98,155					
		(2,600)	Contribution to/(from) Pensions reserve			(1,998)	
		(787)	Contribution to/(from) Capital Investment reserve			0	
		(5)	Contribution to/(from) Devolved Budget reserve			(6)	
		(251)	Contribution to/(from) Modernisation reserve			667	
		3	Contribution to/(from) Bilingual Advocates reserve			(25)	
		(38)	Contribution to/(from) FREE/EARLY/Princes Trust reserve			53	
		(18)	Contribution to/(from) Fire boots/Clothing reserve			73	
		(7)	Contribution to/(from) TDA refurbishment reserve			7	
		(48)	Contribution to/(from) IT/Equipment reserve			4	
		7	Contribution to/(from) Energy reserve			(3)	
		13	Contribution to/(from) Beacon Dissemination reserve			(13)	
		2	Contribution to/(from) Community Youth Team reserve			8	
		97	Contribution to/(from) Innovation Fund reserve			39	
		82	Contribution to/(from) Beacon Peer Project reserve			(58)	
		23	Contribution to/(from) Contestable Research Fund reserve			4	
		26	Contribution to/(from) Training reserve			49	
		(50)	Contribution to/(from) FMIS reserve			42	
		0	Contribution to/(from) World Firefighter Games reserve			200	
		0	Contribution to/(from) Smoothing reserve			5,273	
		0	Contribution to/(from) PFI reserve			72	
		0	Contribution to/(from) Fireworld reserve			21	
		0	Contribution to/(from) Regional reserve			120	
		0	Deferred charge			(6,100)	9
		(1,170)	Contribution to/(from) Capital Financing account			(1,882)	
		<u>(22,114)</u>	Contribution to/(from) Pension Account FRS17			<u>(25,813)</u>	8
		71,320	Amount to be met from government grants and local tax payers			77,358	
		(21,826)	Income from the Council Tax			(22,772)	
		(111)	Transfers from the Collection Funds			(7)	
		(13,182)	Distribution from non domestic rate pool			(15,761)	
		(37,530)	Revenue Support Grant			(36,258)	
		(948)	Transitional Funding			0	
		<u>(2,277)</u>	DEFICIT (SURPLUS) FOR THE YEAR			<u>2,560</u>	
		2,595	Revenue Account Balance at start of year			4,872	
		<u>2,277</u>	(Deficit) Surplus for the year			<u>(2,560)</u>	
		<u>4,872</u>	Revenue Account Balance at end of year			<u>2,312</u>	

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. LEASE RENTALS

The amounts paid in respect of finance and operating lease rentals and the estimated outstanding undischarged obligations in respect of operating leases are as follows:

	2004-2005	2005-2006
	Lease £'000	Lease £'000
Finance Leases	1	0
Operating Leases	199	198
Outstanding undischarged operating lease obligations		
2006-2007		168
2007-2008		149
2008-2009		133

2. REMUNERATION

Officers

The Accounts and Audit Regulations 2003 require local authorities to disclose details of employees' remuneration. The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was as follows:

	No. Of Employees	
	2004-2005	2005-2006
£50,000-£59,999	10	10
£60,000-£69,999	0	3
£70,000-£79,999	1	0
£80,000-£89,999	1	0
£90,000-£99,999	1	2
£100,000-£109,999	1	0
£110,000-£119,999	0	1
£120,000-£129,999	1	1
£130,000-£139,999	0	0
£140,000-£149,999	0	1
Total	<u>15</u>	<u>18</u>

Members

The total allowances paid to members within the year

	2004-2005	2005-2006
	£000	£000
Members Allowances	<u>171</u>	<u>198</u>

3. AUDIT EXPENDITURE

The Authority's external auditors are the Audit Commission, fees payable to them within the year:

	2004-2005 £000	2005-2006 £000
Audit Fee	57	54
Pay Verification	21	0
Total	<u>78</u>	<u>54</u>

4. **PUBLICITY EXPENDITURE**

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of publicity expenditure.

	2004-2005 £'000	2005-2006 £'000
Advertising		
Recruitment	71	62
Fire Safety Advertising	3	4
Tender Invitations	0	5
Legal Advertising	1	1
Printing of Fire Safety Posters and Leaflets	33	7
Promotional Advertising: World Firefighter Games*	0	93
	<u>108</u>	<u>172</u>

* The Authority has currently accounted for this expenditure but it is intended that it will be recharged to the company set up to run the games.

5. **MINIMUM REVENUE PROVISION**

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. For 2005-2006 the amount is £1,124,000 compared to £1,049,000 in 2004-2005. The provision has been charged to services as a depreciation charge for fixed assets used by each service. The balance has been transferred to the Capital Financing Account.

	2004-2005 £'000	2005-2006 £'000
Amount charged as depreciation	2,551	3,123
Excess transferred to capital financing reserve	(1,502)	(1,999)
Minimum Revenue Provision	<u>1,049</u>	<u>1,124</u>

6. RELATED PARTIES TRANSACTIONS

The Authority is required to disclose all related party transactions. These are transactions between the Authority and other organisations where there is some element of control or influence by one party over the other.

	2004-2005		2005-2006	
	Receipt £'000	Payment £'000	Receipt £'000	Payment £'000
Central Government				
Redistributed National Non-Domestic rate	13,182		15,761	
Revenue Support Grant	37,530		36,258	
Home Office Civil Defence Grant	492		0	
Supported Credit Approvals	2,609		2,611	
Employers National Insurance		3,446		3,441
Transitional Funding	948		0	
Local Authority Precept				
Knowsley	2,133		2,269	
Liverpool	6,695		6,838	
St. Helens	2,814		2,929	
Sefton	4,840		5,046	
Wirral	5,455		5,697	
Pensions				
Merseyside Superannuation Fund				
- Employers Contribution		879		1,112

The Authority's membership comprises of councillors from each of the five local authorities shown above. From examining existing available sources of information for 2005-2006 in respect of officers and Members, there are no apparent related party transactions.

7. ASSET MANAGEMENT REVENUE ACCOUNT

The asset management revenue account records the charges made to services for the use of assets and the actual cost to the Authority of external interest and finance lease payments. The resulting surplus is shown in the consolidated revenue account.

	2004-2005 £'000	2005-2006 £'000
INCOME		
Capital Charges to Revenue Account	(4,197)	(4,463)
EXPENDITURE		
Provision for Depreciation	2,551	3,123
External Interest Charges	1,496	1,692
Finance Lease Rental	1	0
Surplus to Consolidated Revenue Account	<u>(149)</u>	<u>352</u>

8. PENSIONS

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

The authority participates in two pension schemes:

- The Local Government Pension Scheme for civilian employees, administered by Merseyside Pension Fund – this is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- The Fire Pension Scheme for Fire officers – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	Merseyside Pension Fund Scheme		Firefighters Pension Scheme	
	2004/05 £000s	2005/06 £000s	2004/05 £000s	2005/06 £000s
Net Cost of Services				
Current Service Cost	(961)	(1,230)	(13,740)	(17,140)
Past Service Costs	0	678	(160)	(110)
Net Operating Expenditure				
Interest Cost	(1,671)	(1,912)	(28,940)	(32,670)
Expected Return on Assets in the Scheme	1,332	1,480	0	0
Amounts to be met from Government Grants and Local Taxation				
Movement on Pension Reserve	394	(167)	21,720	25,980
Actual Amount charged against council tax for pensions in year				
Employers Contributions Payable to the Scheme	906	1,151		
Retirements benefits payable to pensioners			21,120	23,940

Note 13 to the Consolidated Balance Sheet contains details of assumptions made in estimating the figures included in this note. Note 1 to the Statement of Total Movements in Reserves details the costs that have arisen through the year.

APT&C and Manual Employees

In 2005-2006 the Authority paid an employer's superannuation contribution of £1,111,615 into the Merseyside Superannuation Fund. This represented 15.1% of employee's pensionable pay. This rate was set by the Fund's actuaries William M. Mercer in the valuation of the Fund as at 31st March 2004.

The Authority has made discretionary payments of £48,344 under the provisions of the Local Government Superannuation Scheme towards the ongoing pension cost of added years awarded by the Authority to employees retiring in previous years.

Fire-fighters

Of the fire-fighters employed at 31 March 2005 22 staff were in a position where they qualified for retirement but had decided to continue working. These staff could leave at short notice and qualify for pension lump sum payments. The Authority does not make specific provision for this future liability. As from 1st April 2006 the new pension regulations commence and Government will top up any shortfall on a new separate pension account that is to be established. More details of the new arrangements are available on the Department for Communities and Local Government (DCLG) website www.odpm.gov.uk.

9. DEFERRED CHARGES

The Authority received permission from the secretary of state in 2005-06 to capitalise expenditure which would normally have been chargeable to the revenue account. This expenditure related to exceptional expenditure on fire-fighters pensions in 2005-06. Approval was given under the Local Government Act 2003 sections 16(2)(b) and 20: Treatment of costs as capital expenditure.

The total expenditure was £6.1 million and this should be amortised on the basis of benefit obtained by the service from the expenditure. The Authority is of the understanding that the benefit is for the current year 2005-06 only and therefore the writing out will take place in the year of expenditure.

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. FIXED ASSETS

Details of the value of assets held at 31 March 2006 are shown below together with details of movements in the year:

	Land & Buildings £'000	Vehicles & Equipment £'000	Total £'000
Gross book value at 31 March 2005	43,198	17,804	61,002
Losses on Revaluation	(17,648)	0	(17,648)
Impairments on Revaluation	0	0	0
Additions	292	3,598	3,890
Disposals	0	(661)	(661)
Gross Book Value at 31 March 2006	<u>25,842</u>	<u>20,741</u>	<u>46,583</u>
Accumulated depreciation at 31 March 2005	(5,595)	(11,011)	(16,606)
Revaluation write out	6,834	0	6,834
Depreciation for the year	(1,734)	(1,408)	(3,142)
Depreciation on assets sold	0	661	661
Accumulated depreciation at 31 March 2006	<u>(495)</u>	<u>(11,758)</u>	<u>(12,253)</u>
Net Book Value at 31 March 2006	<u>25,347</u>	<u>8,983</u>	<u>34,330</u>

2. SOURCES OF FINANCE FOR FIXED ASSETS ACQUIRED

The acquisition of fixed assets was financed as follows:

	2004-2005 £'000	2005-2006 £'000
Supported Borrowing	2,609	2,611
Unsupported Borrowing	308	1,034
Usable Capital Receipts	990	0
Revenue Contribution	291	76
Other Contribution (Grants)	169	169
Movement in Capital Creditors	0	0
Total Expenditure on Fixed Assets	<u>4,367</u>	<u>3,890</u>

3. FIXED ASSET VALUATION

The freehold and leasehold properties, which comprise the Authority's property portfolio, were valued on 31 March 2006 by an external valuer (Mason Owen Property Consultants) on the under mentioned basis in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors and the International Valuation Guidance note number 8, revised 2005.

Properties regarded by the Authority as operational were valued on the basis of open market value for their existing use or, where this could not be assessed because there was no market for the subject asset (e.g. fire stations), the depreciated replacement cost. As a result of this the properties have been significantly reduced in book value.

It is a requirement of FRS15 (Tangible Fixed Assets) to have fixed assets revalued every 5 years. An impairment review undertaken by the in-house Estates department has highlighted no material changes to assets in 2005-2006.

4. ASSETS HELD UNDER FINANCE LEASES

The Authority has not acquired assets by means of finance leases during the year. However the Authority has acquired vehicles and equipment by means of finance leases in previous years. The value of such assets are now fully written off.

5. INFORMATION ON ASSETS HELD

Fixed Assets owned by the Authority include the following:

	No. As at 31 March	
	2005	2006
Land and Buildings		
Fire Stations	26	26
Fire Service HQ	1	1
Command and Control Centre	1	1
Training Establishments	1	1
Vehicle Workshops	1	1
Stores	1	1
Vehicles and Equipment		
Operational Vehicles	76	85
Ancillary Vehicles	122	122
Special Appliances	29	29

6. CAPITAL COMMITMENTS

The Authority was contractually committed to make the following payments as at the 31 March.

	2005	2006
	£000	£000
Purchase of Plant & Equipment	797	1,250
Purchase of service vehicles	283	37
	<u>1,080</u>	<u>1,287</u>

7. ANALYSIS OF CREDITORS AND DEBTORS

An analysis of the Authority's Creditors and Debtors is shown below.

	2004-2005	2005-2006
	£'000	£'000
<u>Analysis of Debtors</u>		
Pension & Salaries Prepayments	2,384	2,378
Grants	99	0
Other prepayments	1,247	1,272
Debtors	316	413
Less Provision for Bad Debts	(43)	(56)
Pension Transfer Values Receivable	29	0
VAT Debtors	363	239
Pension Debtors	3	2
Total Debtors	<u>4,398</u>	<u>4,248</u>

	2004-2005	2005-2006
	£'000	£'000
<u>Analysis of Creditors</u>		
Pension Contributions	0	89
Tax, NI & Pensions	1,281	1,197
Other Accruals	875	944
Pension Transfer Value Payable	49	84
Loan Interest Payable	250	333
Total Creditors	<u>2,455</u>	<u>2,647</u>

8. ANALYSIS OF BORROWING

The loans outstanding have been raised through the Public Works Loans Board. Loans payable within twelve months of the year-end appear in the balance sheet as short-term borrowing. As regards the dates of maturity, long-term loans are analysed as follows:

	As at 31 March	
	2005	2006
Between 1 and 2 years	1,060	2,500
Between 2 and 5 years	2,500	0
Between 5 and 10 years	1,225	4,225
Over 10 years	21,350	21,350
Total Long Term Borrowing	<u>26,135</u>	<u>28,075</u>

9. INSURANCE PROVISION

The Authority has an insurance provision to meet the 'excess' cost of the first £585,000 of each individual public liability claim and £1,080,000 of each individual employers liability claim. Amounts above this excess are met by insurance arrangements for which the Authority pays a premium. As claims may not be settled for a considerable length of time after they occur, the level of the insurance provision reflects the estimated liability of the Authority based on previous claims experience. As claims are settled they are charged to this provision. The movement on this provision is as follows:

	2004-2005	2005-2006
	£'000	£'000
Amount brought forward at 1 April	753	569
Claims paid in the year	(158)	(147)
Addition/(Reduction) in the year	<u>(26)</u>	<u>147</u>
Balance at 31 March	<u>569</u>	<u>569</u>

A provision of £70,000 has been included for 10 claims against the Authority, which have arisen under the Land Compensation Act following the opening of the Queens Drive Fire Station in May 1999.

10. FIRE SUPPORT NETWORK (Formerly FRIENDS OF MERSEYSIDE FIRE SERVICE)

The Merseyside Fire Authority established the Fire Support Network (Formerly Friends of the Fire Service) – “the FSN” organisation (“the FSN”) during 2001-2002. The purpose of this voluntary organisation was to advance the education and preserve and protect the health of the public within Merseyside by promoting the issues relating to fire safety and to offer support to any person in need involved in or affected by fire or other emergency.

The Home Office agreed to fund the Authority in working to establish the Friends of the Fire Service and its activities and provided some grant support between 2001-2002 and 2003-2004 totalling £571,000

In establishing the “Friends of the Merseyside Fire Service” which became the FSN the Fire Authority felt that the best formal structure for the organisation would be that of a company limited by guarantee. At the time it was felt that this form of organisation would enable the FSN to better secure external funding from the private sector. However, at the same time the Fire Authority was concerned to ensure that the activities of the FSN were properly controlled and were wholly consistent with the strategy and activities of the Merseyside Fire Authority itself. Therefore, the FSN company operates with a board of four; one of them is the Chief Fire Officer.

Due to (a) this Board structure, and (b) the fact that the FSN activities are so closely related to the activities of the Fire Service, the FSN is a “regulated company” as defined by the Local Government and Housing Act 1989, and Orders under that Act. This means that the financial transactions of the Company must be treated as though they were the financial transactions of the Merseyside Fire & Rescue Authority, and that those transactions should be consolidated into the Authority’s financial accounts. The FSN did maintain an independent bank account in 2005-2006 but the total net transactions, apart from the SLA below, were minimal and not material. Therefore, the accounts have not been consolidated for this year.

As part of this separation in 2004/05 the Authority agreed a service level agreement with the FSN whereby in return for work against strict performance criteria the Authority would pay over £70,000 a year for a three years period. The Authority paid an additional £24,000 in relation to work on specific projects in 2005-06.

11. WORLD FIREFIGHTER GAMES 2008

The Authority has been lucky enough to win the rights to hold the World Fire-fighter Games in 2008. This will be a fantastic contribution to the Liverpool Capital of Culture celebrations as well as an opportunity to spread our fire safety message.

It was originally envisaged that a standalone company would be the best vehicle for delivering the games but that position is currently being reviewed. The Authority has set up a company for that purpose but the company has not yet made any transactions – all expenditure and income has been within the Authority’s accounts. Expenditure to date has been funded by the Authority and some sponsorship. It is anticipated that future expenditure will be fully supported by private and public sector partners.

12. NORTHWEST FIRE AND RESCUE MANAGEMENT BOARD

The Government issued a white paper "Our Fire & Rescue Service" during 2003/04. This required fire authorities to establish before 1st April 2004 Regional Management Boards (RMB's), the intention being to increase efficiency and effectiveness for all fire authorities by delivering shared services and reducing duplication of effort. In particular, RMB's are expected to deliver: -

- Resilience to emergencies, especially potential chemical, biological, radiological or nuclear attack.
- Specialist or common services where appropriate (i.e. fire investigation)
- Regional Control Rooms
- Procurement
- Training
- Personnel Management and Human Resources Management

The five fire authorities in the North West (Cheshire, Cumbria, Greater Manchester, Lancashire, and Merseyside) formed a joint committee (The North West Fire & Rescue Management Board), in February 2004. The committee is comprised of councilors from the five constituent authorities.

The region has conducted significant work in 2005/06 in working collaboratively although most expenditure was contained within the five constituent authorities. Expenditure was incurred on:

	2004-2005 £'000	2005-2006 £'000
Regional Training	0	61
Regional Control Room Project	68	99
Secretariat	13	30
Audit of Accounts	3	5
Grant for Control Room Work	(68)	(244)
Net Expenditure	<u>16</u>	<u>(49)</u>

A full set of the Regional Management Board accounts are available from Ged Murphy, Treasurer to the Board, Greater Manchester Fire & Rescue Authority HQ, 146 Bolton Road, Swinton, Manchester M27 8US: Tel: 0161 608 4001.

13. PENSIONS - RETIREMENT BENEFITS

Note 8 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pensions Scheme (administered by Wirral Borough Council (Merseyside Pension Fund - MPF) and the Fire Pension Scheme in providing uniformed officers with retirement benefits.

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31st March are as follows:

	Merseyside Pension Fund Scheme		Firefighters Pension Scheme		Total Pension Scheme	
	31/03/05 £000s	31/03/06 £000s	31/03/05 £000s	31/03/06 £000s	31/03/05 £000s	31/03/06 £000s
Estimated Liabilities in the Scheme	(35,025)	(41,544)	(608,350)	(746,310)	(643,375)	(787,854)
Estimated Assets in the Scheme	22,568	28,458	0	0	22,568	28,458
Net Assets/(Liability)	(12,457)	(13,086)	(608,350)	(746,310)	(620,807)	(759,396)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £759 million has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £753 million. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- The deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- Finance is only required to be raised to cover Fire pensions when the pensioners are actually paid.

The Firemen's Pension Scheme is a defined benefit pension scheme, governed by the Firemen's Pension Scheme Order 1992 and related regulations. An actuarial valuation has not been carried out as at 31 March 2006. The Authority has followed the approach set out in the joint GAD/CIPFA paper "Assessment of Pension Liabilities for Disclosures for the Year 2003-2004", as realised in the Government Actuary's Department (GAD) model, in order to satisfy the disclosure requirements of the SORP. The accuracy of the outcome can only be assessed against the results of a full actuarial valuation as at 31 March 2006, and may be materially different from those results.

The Local Government Pension Scheme is a funded, defined budget scheme, governed by the Local Government Pension Scheme Regulations 1997 (as amended). The assessment of the MPF scheme has been carried out on behalf of the Metropolitan Borough of Wirral by the Fund's actuaries William M. Mercer. The last actuarial valuation of the Fund was at 31st March 2004.

The main assumptions used in their calculations have been:

Local Government Pension Scheme		Fire Pension Scheme	
2004-2005	2005-2006	2004-2005	2005-2006

Rate of inflation	2.9%	2.9%	2.9%	3.2%
Rate of increase in salaries	4.2%	4.2%	4.4%	4.7%
Rate of increase in pensions	2.9%	2.9%	2.9%	3.2%
Rate for discounting scheme liabilities	5.4%	4.9%	5.4%	4.9%

The Fire Pension Scheme has no assets to cover its liabilities. Assets in the Merseyside Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term Return %	31 March 2005		31 March 2006	
		£000s	%	£000s	%
Equity investments	7.5	12,999	58	17,359	61
Bonds	4.7	4,265	19	4,781	17
Other Bonds	5.4	1,106	5	1,366	5
Property	6.5	2,234	10	1,423	5
Cash/Liquidity	4.7	903	4	2,419	8
Other	7.5	1,061	4	1,110	4
		22,568	100	28,458	100

14. CONTINGENT LIABILITIES

This liability is not recognised within the accounts as an item of expenditure. It is however disclosed in a note. It is an obligation that arises from past events and where existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the organisations control.

The Authority recognises the liability of ill health retirement penalty charges (1 x pensionable pay) for 13 employees who retired on ill health grounds in 2005-06. The liability has been calculated at £367,000 and is payable into the new pension scheme for fire-fighters in 2006-07. This charge was introduced as part of the new arrangements for funding fire-fighters pensions.

THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2004-2005 £000s	2005-2006 £000s
Surplus/(deficit) for the year		
- Revenue Account	2,277	(2,560)
- Earmarked Reserves (note 6)	(3,552)	4,530
- Appropriate from Pension Account	(22,114)	(25,813)
- Actuarial gains & losses relating to pensions	(144,039)	(112,776)
Total increase/(decrease) in revenue resources (note 1)	(167,428)	(136,619)
Increase/(decrease) in useable capital receipts	(990)	0
Increase/(decrease) in unapplied capital grants and Contributions	0	0
Total increase/(decrease) in realised capital Resources (note 2)	(990)	0
Gains/(losses) on revaluation of fixed assets	0	(10,814)
Impairment losses on fixed assets due to general changes in prices	0	0
Total increase/(decrease) in unrealised value of fixed assets (note 3)	0	(10,814)
Value of assets sold, disposed of or decommissioned (note 4)	(2)	0
Capital receipts set aside	0	0
Revenue resources set aside	(180)	(7,982)
Movement on Government Grants Deferred	(2)	150
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	(182)	(7,832)
Total recognised gains and (losses)	(168,602)	(155,265)

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

1. MOVEMENTS IN REVENUE RESOURCES

	General Fund Balances £000s	Earmarked Revenue Reserves £000s	Pension Reserve £000s
Surplus/(deficit) for 2005/06	(2,560)		
Appropriations to/(from) revenue		4,530	(25,813)
Actuarial gains & losses relating to pensions			(112,776)
	(2,560)	4,530	(138,589)
Balance brought forward at 1 April 2005	4,872	3,022	(620,807)
Balance carried forward at 31 March 2006	2,312	7,552	(759,396)

Actuarial gains/(losses) identified as movement on the pension reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets and liabilities at 31 March 2006.

	Merseyside Pension Fund Scheme		Fire Pension Scheme	
	£000s	%	£000s	%
Difference between actual & expected return on assets	3,722	13	0	0
Difference between actuarial assumptions about liabilities & actual experience	(1,019)	(3)	(8,730)	(1)
Changes in assumptions underlying the present value of the pension liabilities	(3,499)	(8)	(103,250)	(14)
	(796)	(2)	(111,980)	(15)
Comparative Totals 2004/05	(6,189)	(18)	(137,850)	(23)
Comparative Totals 2003/04	2,364	9	(113,700)	(25)

2. MOVEMENTS IN REALISED CAPITAL RESOURCES

	Useable capital Receipts (£000s)
Amounts receivable in 2005-2006	0
Amounts applied to finance new capital investment in 2005-2006	0
Total increase/(decrease) in realised capital resources in 2005-2006	0
Balance brought forward at 1 April 2005	0
Balance carried forward at 31 March 2006	0

The Usable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans. The Reserve can be used to meet expenditure designated as expenditure for capital purposes.

3. MOVEMENTS IN UNREALISED VALUE OF FIXED ASSETS

	Fixed Asset Restatement Account £000s
Gains/(losses) on revaluation of fixed assets in 2005-2006	(10,814)
Impairment losses on fixed assets due to general changes in prices in 2005-2006	0
Total increase/(decrease) in unrealised capital resources in 2005-2006	(10,814)

4. VALUE OF ASSETS SOLD, DISPOSED OF OR DECOMMISSIONED

	Fixed Asset Restatement Account £000s
Amounts written off fixed assets balances for disposals in 2005-2006	0
Total movement on reserve in 2005-2006	(10,814)
Balance brought forward as 1 April 2005	22,721
Balance carried forward as 31 March 2006	(11,907)

The Fixed Asset Restatement Account represents the balance of surpluses and deficits arising from the revaluation of fixed assets. This balance is written down by the net book value of assets that are disposed of. The Account is not available to support capital or revenue spending.

5. MOVEMENTS IN AMOUNTS SET ASIDE TO FINANCE CAPITAL INVESTMENT

	Capital Financing Account £000s	Gov't Grants Deferred £000s	Total £000s
Capital receipts set aside in 2005-2006			
- reserved receipts	0	-	
- useable receipts applied	0	-	
Total capital receipts set aside in 2005-2006	0		
Revenue resources set aside in 2005-2006			
- capital expenditure financed from revenue	76		
- reconciling amount for provisions of loan repayment	(8,058)		
Total revenue resources set aside in 2005-2006	(7,982)		(7,982)
Grants applied to capital investment in 2005-2006		169	
Amounts credited to the asset management revenue account in 2005-2006		(19)	
Movement on Government Grants Deferred		150	150
Total increase/(decrease) in amounts set aside to finance capital investment			(7,832)
Total movement on reserve in 2005-2006	(7,982)	150	
Balance brought forward at 1 April 2005	(7,274)	8	
Balance carried forward at 31 March 2006	(15,256)	158	

The Capital Financing Account contains the amounts, which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The balance on the reserve is reduced as loan debt is repaid. The Reserve is not available to support capital or revenue spending.

6. EARMARKED REVENUE RESERVES

The Authority has set up various earmarked Revenue Reserves to cover unexpected variations in expenditure.

Pension Reserve

This is to cover fluctuations in pension lump sum payments to fire-fighters and anticipated future lump sum payments. Any revenue underspends on pension commutations are transferred in. The reserve has been fully utilised in 2005-06 as new pension regulations come into force for 2006-07.

Bellwin/Civil Emergency Reserve

This reserve is set aside for expenditure in exceptional circumstances, which is below the threshold for central government assistance under the Bellwin scheme.

Insurance Reserve

Due to an Authority decision to increase self insurance particularly vehicle insurance a reserve has been set up to hedge against the risk of unidentified future claims. A specific provision is made for claims that have already been lodged.

Devolved Budget Reserve

A devolved budget scheme became operational in 2001-2002 covering all Fire Stations. This scheme has an incentive to allow savings in the year to be re-invested in the Fire Stations which have made those revenue savings. The monies have now been spent in 2005-06.

Training & Development Academy (TDA) Refurbishment Reserve

This reserve was created to ring fence additional income earned above income targets set by the STC to allow investment in buildings and equipment in 2006-2007 in order to protect future revenue streams.

Fire Boots/Clothing Reserve

This reserve has been created as an investment in Health and Safety for the purchase of protective clothing for all fire-fighters.

Emergency Planning Reserve

This reserve has been created due to the increased threat of terrorism and would give the Authority an immediate budget to spend in an emergency.

Contestable Research Fund Reserve

This reserve has been created as an investment in various organisations doing research into various fire safety initiatives.

Training Reserve

This reserve has been created as an investment in equipment and training for various schemes in 2006-2007.

Modernisation Reserve

A reserve has been created to cater for one off costs required as a result of modernising the Fire Service and issues arising from implementing the Government White Paper and integrated risk management planning.

World Fire-fighter Games Reserve

A reserve has been created to help fund the initial expenditure for the games in 2008. Sponsorship monies will be obtained in later years.

Smoothing Reserve

This reserve was set up from the exceptional pensions expenditure in 2005-06 being capitalised. This will be utilised over the next 2 years in implementing the modernisation agenda.

PFI (Private Finance Initiative) Reserve

This reserve has been created to carry forward monies to be spent in 2006-07. The Authority has been successful in obtaining PFI credits from the Government and is working in conjunction with Cumbria and Lancashire Fire Services for building new or modernising old fire stations.

Fireworld Reserve

This reserve has been created to carry forward monies to be spent in 2006-07. The Authority is looking into ways of having interactive fire safety training and awareness facilities.

Regional Reserve

This reserve has been created to allow for investment in various regionalisation issues.

The Authority has a number of innovative community fire safety projects

- Fire Reduction through Engagement and Education (FREE)
- Princes Trust
- Bilingual/Arson Advocates
- Beacon Dissemination and Peer Project reserves
- Community Youth Team reserve
- EARLY Team

All have been funded by grants obtained. Reserves have been created to carry forward unspent grant monies. More information can be found on these projects at www.merseyfire.gov.uk.

A summary of earmarked reserve balances and movement in the year can be seen below:

	Balance brought forward at 01/04/05 £000s	Contribution from/(to) revenue account £000s	Balance carried forward at 31/03/06 £000s
Pension Commutation Reserve	1,998	(1,998)	0
FMIS Reserve	0	42	42
Bellwin Reserve	147	0	147
Insurance Reserve	150	0	150
Devolved Budget Reserve	6	(6)	0
TDA Refurbishment Reserve	18	7	25
Fire boots/Clothing Reserve	124	73	197
Emergency Planning Reserve	75	0	75
F.R.E.E./EARLY/Princes Trust Reserve	20	53	73
Bilingual/Arson Advocates Reserve	87	(25)	62
Modernisation Reserve	148	667	815
IT/Equipment Reserve	0	4	4
Energy Reserve	7	(3)	4
Beacon Dissemination Reserve	13	(13)	0
Community Youth Team Reserve	2	8	10
Innovation Fund Reserve	97	39	136
Beacon Peer Project Reserve	82	(58)	24
Contestable Research Fund Reserve	23	4	27
Training Reserve	26	49	75
World Fire Fighter Games Reserve	0	200	200
Smoothing Reserve	0	5,273	5,273
PFI Reserve	0	72	72
Fireworld Reserve	0	21	21
Regional Reserve	0	120	120
Total of Earmarked Reserves	3,023	4,529	7,552

CASH FLOW STATEMENT

<u>2004-2005</u>		<u>2005-2006</u>	
£'000		£'000	<u>Notes</u>
	Revenue Activities		
	Expenditure		
66,397	Cash paid to and on behalf of employees	63,323	
8,472	Other Operating Costs	9,507	
<u>74,869</u>		<u>72,830</u>	
(21,826)	Council Tax Income	(22,772)	
(111)	Disbursements from the Collection Funds	(7)	
(13,182)	Non Domestic Rate Income	(15,761)	
(37,530)	Revenue Support Grant	(36,258)	
(948)	Transitional Funding	0	
(492)	Other Government Grants	(99)	1
<u>(1,714)</u>	Cash received for goods and services	<u>(2,759)</u>	
(934)		(4,826)	2
1,528	Interest paid	1,610	
1	Interest element of finance lease rental payments	0	
(370)	Interest received	(359)	
4,367	Purchase of Fixed Assets	3,890	
0	Other Capital Payments	6,100	
(170)	Capital Grant	(169)	
<u>(8)</u>	Sale of Fixed Assets	<u>(16)</u>	
4,414		6,230	
1,041	Repayments of amounts borrowed	41	
(3,000)	New loans raised	(3,000)	
<u>2,455</u>	Net (increase)/decrease in cash	<u>3,271</u>	3

NOTES TO THE CASHFLOW STATEMENT

1. OTHER GOVERNMENT GRANTS

The Authority no longer receives Government grant in respect of the civil defence function, this function is now carried out at district councils. The amount received in 2005-2006 was £98,509 relating to prior year settlements.

2. RECONCILIATION TO CONSOLIDATED REVENUE ACCOUNT

	2004-2005 £'000	2005-2006 £'000
Revenue Activities Net Cash Inflow	(934)	(4,826)
Non Cash Movements on Revenue Account		
Decrease (Increase) in stock	45	40
Decrease (Increase) in debtors	257	149
Increase (decrease) in creditors	(442)	191
Increase (decrease) in insurance provision	(184)	0
Contribution to (from) reserve	(3,551)	4,530
Minimum revenue provision	1,049	1,124
Repayment of MRB debt	41	41
Revenue contribution to capital outlay	291	76
Items classified separately on Cashflow Statement		
Interest Paid	1,528	1,610
Interest element of finance leases	1	0
Capital disposals	(8)	(16)
Interest received	(370)	(359)
Deficit (surplus) on revenue account	<u>(2,277)</u>	<u>2,560</u>

3. RECONCILIATION OF MOVEMENT IN CASH

	31 March 2005 £'000	31 March 2006 £'000
Investments	4,800	1,500
Cash Overdrawn	(637)	(610)
Cash held in Imprest Accounts	11	13
	<u>4,174</u>	<u>903</u>
Decrease in Cash and Equivalents		<u>3,271</u>

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

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

THE DIRECTOR OF FINANCE'S RESPONSIBILITIES

The Director of Finance is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain, is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

In preparing this statement of accounts, the Director of Finance has:

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

The Director of Finance has also:

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

Kieran Timmins
Director of Finance

Chair of Authority meeting
approving accounts

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL 2005/06

1. SCOPE OF RESPONSIBILITY

Merseyside Fire & Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A system of internal control has been in place at Merseyside Fire & Rescue Authority for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

3. THE INTERNAL CONTROL ENVIRONMENT

The Authority's internal control environment comprises the many systems, policies, procedures and operations in place to:-

- establish and monitor the achievement of the Authority's objectives
- facilitate policy and decision making
- ensure compliance with established policies, procedures, laws and regulations
- identify, assess and manage the risks to the Authority's objectives including risk management
- ensure the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which the Authority's functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty
- provide appropriate financial management of the Authority and the reporting of financial management and
- ensure adequate performance management of the Authority and the reporting of performance management

4. REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the External Auditors and other review agencies and inspectorates in their Annual Audit Letter and other reports.

Throughout 2005/06 the Authority has maintained and reviewed its system of internal control in a number of ways. In particular: -

- a. The overall management arrangements of the Authority where a Corporate Leadership Team (C.L.T.) has been established to ensure that the work of the Fire & Rescue Service is better able to implement the policy decisions of the Authority. The C.L.T. consists of the Chief Fire Officer (C.F.O.), Deputy and Assistant Chief Fire Officers and the two Executive Directors (the Executive Leadership Team) together with the Directors from each of the main areas of the Service. The C.L.T. meets on a fortnightly basis, and more frequently if required, to provide impetus for continual improvement and to ensure that corporate management arrangements and the internal control environment described above are maintained.
- b. The C.L.T. has reviewed the operation of the Authority's Corporate Risk Profile to ensure that all risks to the Authority's strategic objectives and corporate plans are appropriately managed. This was formalised during the course of 2004/05 with the approval, by the Authority, of the Corporate Risk Management policy. This was then followed by the adoption by the Authority, of the Corporate Risk Register in April 2005. Corporate management and financial risks are included in this Register. This is reviewed as a standing item at CLT meetings.
- c. The Fire Service (nationally) is undergoing a process of major change. The "modernisation" agenda as set out in the Government's White Paper "Our Fire and Rescue Service", the Fire Services Act and the National Framework will ensure that, in consultation with local residents and communities, we can build upon our previous successes by focusing on:
 - Preventing fires from occurring in the first place
 - Improving the allocation of resources to meet risk, and
 - Providing a more effective response to new challenges e.g. terrorism and major environmental incidents such as flooding.

Even though major change is becoming a way of life in the Fire & Rescue Service, the basic business systems in use are stable and efficient and able to deliver the management information needs of the organisation.

- d. The Authority has received and/or adopted:-
1. Comprehensive Performance Assessment
 2. Integrated Risk Management Plan and regular monitoring reports
 3. Corporate Risk Management Policy and Register
 4. Code of Corporate Governance
 5. Service Plan and regular monitoring reports
 6. Medium Term Financial Strategy, 5 year Capital Programme and Budget Planning documents.
 7. Statement of Accounts
 8. External Audit Plans for Audit
 9. External Auditors Annual Letter
 10. Staffing Model
 11. Best Value Performance Plan (& audit on this)
 12. Treasury Management Strategy
 13. Procurement Strategy
 14. Anti Fraud & Corruption Policy & Strategy
- e. The C.L.T. carries out a continuous assessment of the implementation of policies and procedures throughout the organisation, including following up on progress against the action plans.
- f. Internal Audit Services were provided during 2005/06 by Liverpool City Council. Internal Audit operate to C.I.P.F.A.'s Code of Internal Audit Practice 2003 and give an independent opinion on the adequacy and effectiveness of the internal control system. The Internal Audit service provides a risk based Plan for areas of review at the start of each year which is agreed with the Executive Director of Finance, I.C.T. & Procurement and submitted to the Authority for approval. Internal Audit then undertake a number of planned reviews of systems and internal control procedures across a range of functions in the Authority. Each review contains an opinion on the internal controls in place and any unsatisfactory audit opinions result in recommendations for improvement, which are implemented by Management. Implementation of recommendations is monitored by officers. Copies of these reviews are sent to the External Auditors. The Authority receives an annual review of internal audit and updates on progress through the financial monitors. During 2004/05 a competitive tendering exercise was undertaken in which each of the five District Councils, and others, were invited to bid to provide Internal Audit Services for the Authority. Liverpool City Council won the new contract which commenced on 1st April, 2005 for a two-year period. See also comment under h. below.
- g. Internal financial control is exercised through regular financial management reports, financial regulations, financial procedures and a system of delegation and accountability. These rules and procedures include:-
- A written Scheme of Delegation (from the Authority) to Officers
 - A Scheme of Financial Management which includes Financial Regulations governing how officers conduct financial affairs and Contract Standing Orders which detail fully the responsibilities of officers in ensuring that contract procedures comply with legal

requirements, achieve value for money, promote public accountability and deter corruption

- A comprehensive budgeting system, and
- The submission of quarterly financial monitoring reports to the Authority.

h. The Authority was subject to a Comprehensive Performance Assessment (C.P.A.) in April, 2005. This C.P.A. covered all corporate functions of the Authority. The CPA process scored the Authority as one of only two “Excellent” fire authorities in the country. The report says that “sound financial management and corporate governance arrangements are in place”, and the Authority scored a maximum 4 for Governance and Management. The Authority developed an improvement plan arising from the CPA inspection and monitors progress against improvement aims.

i. External audit services are carried out by the District Auditor on behalf of the Audit Commission. Under the revised Code of Audit Practice, the District Auditor is required to focus on corporate performance management and financial management arrangements, as these form a key part of the system of internal control and comprise the arrangements for

- establishing strategic and operational objectives, determining policy and making decisions;
- ensuring that services meet the needs of service users and taxpayers, and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations including the general duty of best value, where applicable;
- identify, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the Authority;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the Authority’s affairs are managed in accordance with proper standards of conduct and to prevent and detect fraud and corruption.

The District Auditor will comment upon whether the Authority is carrying out these arrangements satisfactorily during the 2006/07 financial year. In the last District Audit Annual Letter (covering 2004/05) it was stated that “your overall Corporate Governance arrangements are satisfactory in most key areas” and “we have not identified any significant weaknesses in the overall control environment”.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

The Authority faces significant challenges in 2006/07 and the future as it modernises and implements its IRMP. Whilst no significant weaknesses have been identified in control systems at present, the following have been identified as critical internal control issues for the forthcoming year.

- a. Whilst the culture of risk management is embedded in the Service, work is ongoing to improve the corporate risk management systems and the formally documented processes that are now in place. This will build upon work undertaken on financial risk management. This work will continue to evolve in 2006/07.

b. The Authority will be subject to the new Performance Framework arrangements for fire authorities, including

- A service assessment
- A use of resources judgement
- A direction of travel assessment

Improvement Plans will need to be developed in each area as appropriate.

c. The Authority has major plans to tackle its relatively high costs, and to deliver a balanced medium-term financial plan. This involves introducing a number of new and innovative ways of working. The Authority will need to ensure its control frameworks make sure that these deliver the efficiencies and improvements expected.

d. The Authority has procured a new financial system during 2005/06 and has implemented that new system. During 2006/07 this system will be fully utilised to make many more processes electronic and working arrangements will be changed significantly to increase efficiency. It is important the strong control framework is maintained.

e. The Authority has a number of innovative major projects underway, including the World Firefighter Games and Fireworld. It is important that project management and risk managements are robust.

f. The Authority is leading a North West PFI Project to replace fire stations in Merseyside, Lancashire and Cumbria. It has set in place strong management arrangements for this £35m project, but needs to make sure this large scheme continues to be developed effectively.

A. NEWMAN
CHAIRMAN

A. J. McGUIRK
CHIEF FIRE OFFICER

K. TIMMINS
EXECUTIVE DIRECTOR OF
FINANCE, I.C.T. &
PROCUREMENT

GLOSSARY OF TERMS USED IN STATEMENT OF ACCOUNTS

ASSET MANAGEMENT REVENUE ACCOUNT

An account maintained to record the costs of the Authority's Fixed Assets. It is credited with rentals charged to individual services for the use of those assets.

BALANCE SHEET

A statement of assets, liabilities and other balances at the end of an accounting period. The Consolidated Balance Sheet combines all the accounts of the Authority

CAPITAL FINANCING ACCOUNT

An account maintained to hold the transactions relating to the financing of capital expenditure. The amounts appropriated to it from the Revenue Account surplus were formerly charged directly to the consolidated Revenue Account.

CREDITOR

An amount owed for work done, goods received or services rendered but for which payment has not been made.

CURRENT ASSETS

Items from which the Authority derives a benefit but which will be consumed or realised during the next accounting period e.g. stocks, debtors, cash.

CURRENT LIABILITIES

Amounts falling due for payment in the next accounting period.

DEBTOR

A sum due but not received at the financial year-end.

DEFERRED CHARGES

These represent capitalised assets where no tangible asset exists but where the cost is to be written off to revenue over an appropriate period.

DEFERRED DEBTORS

Amounts due to the Authority to be paid in predetermined instalments over more than one accounting period.

DEFERRED LIABILITY

Amounts owed to outside bodies to be paid in predetermined instalments over more than one accounting -period e.g. leasing charges

FIXED ASSET

An item from which the Authority will derive benefit over several accounting periods.

FIXED ASSET RESTATEMENT ACCOUNT

An account that holds the adjustments arising from the revaluation of Fixed Assets.

MINIMUM REVENUE PROVISION

An amount set aside from revenue towards the repayment of loan debt. This is currently 4% of the initial credit ceiling (outstanding loan debt less reserved capital receipts).

PROVISIONS

Amounts set aside to meet potential future liabilities.

RESERVES

Amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account. This is a crucial distinction between provisions and reserves.

REVENUE CONTRIBUTION TO CAPITAL OUTLAY (RCCO)

The purchase of fixed assets direct from revenue, rather than by means of loan or lease.

REVENUE EXPENDITURE

This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.

REVENUE SUPPORT GRANT

This is Government grant in aid of Local authority services generally. It is based upon the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

UNSUPPORTED BORROWING

Each year, in setting the levels of revenue grant for local authorities, it assumes a level of borrowing for each authority and provides grant to support the costs of financing that borrowing. Authorities can borrow any amount of money, subject to it being prudent, affordable and sustainable. Unsupported borrowing is the amount of borrowing undertaken above that assumed in grant calculations.