

MERSEYSIDE FIRE AND CIVIL DEFENCE AUTHORITY

STATEMENT OF ACCOUNTS 2004-2005

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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 Civil Defence 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.
- **Trading accounts** - the Authority formerly had a Direct Service Organisation (DSO) for building cleaning. The statutory requirement to maintain separate accounts is no longer in place, and the Authority no longer continues to maintain a trading account for this service for 2004/05.
- **The Consolidated Balance Sheet** - this shows the assets and liabilities of the Authority at 31st March 2005.
- **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

2004/05 has once again been a year of dramatic change for the Authority and one that has brought forward tremendous changes and exciting opportunities for the future.

The Fire Service is undergoing a major program of modernization and improvement and Merseyside remains at the forefront of developments. In April 2004 the Authority approved its first ever Integrated Risk Management Plan. 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. The Authority prepared its first Integrated Risk Management Plan in March 2004. This sets out a blue print for making Merseyside safer from fire. The full document is available on the Authority web site.

The Authority's IRMP was considered one of the best and most innovative in the country and had 61 action points of which the majority are now fully implemented.

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

- Increasing the number of specialist Fire Safety Advocates.
- The innovative firework program (FIRST) that reduced firework misuse by 79% in 2004.
- Establishing a program for firefighter Youth Advocates.
- Having innovative programs for working to make the elderly safe that led to the award of Beacon Council status.

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

- Creating a national leading Special Rescue Team with specialist rescue skills.
- Begun a co-responding pilot with the Ambulance Service.
- Introducing a versatile quick response motorcycle unit.
- Introducing special vehicles for dealing with small nuisance fires.

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

- A new state of the art Control Room system.
- Major improvement of its fleet adopting a rescue pump/support pump concept.
- A new ICT infrastructure for the Authority to allow it to maximize the use of new technologies.

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 :-

- Fitting more than 300,000 smoke alarms free since 1991.
- Reducing injuries in accidental dwelling fires from 369 in 2000/01 to an estimated 165 in 2004/05.
- Reduced deliberate property fires from 1,496 in 2001/02 to 1,361 in 2003/04 and an estimated 1,085 for 2004/05.
- Reduced anti-social behaviour small fires from 18,985 in 2002/03 to an estimated 11,616 in 2004/05.
- Reduced deliberate vehicle fires from 3,543 in 2002/03 to 2,827 in 2004/05.
- Reduced hoax calls from 3,629 in 1999/00 to 2,175 in 2003/04 and an estimated 1,420 in 2004/05.
- Increased the number of smoke alarms operating in accidental dwelling fires from 38% in 1999/00 to 47% in 2003/04 and 48% in 2004/05.

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 freephone on 0800 731 5958.

3. **FINANCIAL POSITION 2004-2005**

Budget

The Authority set a budget of £73.576 million for 2004-2005, an increase of 5.6% 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 £52.00, which represented an increase in tax of 4.86%. 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 3.5% to £50.712 million. When contributions from balances and reserves are excluded, the level of total expenditure planned for the year was £73.726 million.

This budget was amended during the year and by the time the budget for 2005-2006 was being considered, in 2005, the level of anticipated expenditure in 2004-2005 had been increased by £1.551 million to £75.277 million. The most significant budgetary variances are summarised in the table below:

	<u>£ m</u>
• Increase in pension commutations (lump sums)	3.0
• Net reduction in capital financing charges due to revenue contributions returned to general reserves	(0.6)
• Increase in grant income	(0.2)
• Forecast reduction in interest on surplus balances	0.1
• Savings on employee expenditure	(0.5)
• Savings on non employee expenditure	<u>(0.3)</u>
	<u>1.5</u>

Actual Expenditure

The actual level of expenditure in 2004-2005 totalled £74.8 million, which is £0.477 million less than the revised budget (a total movement of £1.074 million or 1.4% 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.

VARIANCE

VARIANCE

	ORIGINAL BUDGET <i>Outturn</i> £'m	REVISED BUDGET <i>Outturn</i> £'m	<i>Original</i> <i>To</i> <i>Revised</i> £'m	ACTUAL OUTTURN £'m	<i>Revised</i> <i>To</i> <i>Outturn</i> £'m
Net Expenditure on Services					
Fire Service operating costs	56.6	55.4	(1.2)	54.5	(0.9)
Pension Costs	13.6	16.8	3.2	17.2	0.4
Corporate Management	0.5	0.5	0	0.5	0
Emergency Planning	0.1	0.1	0	0.1	0
Capital Financing Charges	3.3	2.7	(0.6)	2.9	0.2
Interest on surplus balances	(0.4)	(0.3)	0.1	(0.4)	(0.1)
Total Net Expenditure	73.7	75.2	1.5	74.8	(0.4)
Financed By					
Council Tax Income	(21.9)	(21.9)	0	(21.9)	0
Revenue Support Grant & Transition Fund	(38.4)	(38.4)	0	(38.4)	0
National Non-Domestic Rates	(13.2)	(13.2)	0	(13.2)	0
Total Financing	(73.5)	(73.5)	0	(73.5)	0
Net Contribution (to)/from Reserves	0.2	1.7	1.5	1.3	(0.4)
<u>Breakdown of Reserves</u>					
Net Contribution (to)/from Earmarked Reserves	0	3.7	3.7	3.6	(0.1)
Net Contribution (to)/from General Reserves	0.2	(2.0)	(2.2)	(2.3)	(0.3)
Total Movement on Reserves	0.2	1.7	1.5	1.3	(0.4)
<i>Savings shown in brackets</i>					

The main reasons for the variance between revised budget and actual expenditure in 2004-2005 were:

- **Fire Service operating costs**
These were £0.9 million lower than anticipated because of:

	£ m
○ Underspend on Employees Expenditure	(0.1)
○ ICT Efficiencies	(0.2)
○ Provision for PFI consultants not used	(0.2)
○ Additional Secondment Income	(0.1)
○ Additional Grant and Fee Income	(0.2)
○ Other Minor Variances (net)	(0.1)
	(0.9)
- **Pensions**
Pensions expenditure rose rapidly in the year as retirements surged reflecting a large number of staff retiring at around the same time after big recruitment drives in the 1970's. These had been anticipated and reserves set aside in the past. Total overspending was 3.4m of which 3.2m was funded by transfers from the pensions reserve.
- **Capital Financing Charges**
The Capital Programme was expanded because of the success in attracting additional grant income for Community Safety projects. The cost of financing increase reflects the additional capital expenditure.

4. BALANCES AND RESERVES

The Authority had originally budgeted to have balances and reserves of £7.9 million at the 31 March 2005. This was subsequently reduced to £7.5 million following the finalisation of the 2003-2004 financial position and further budgeted variations during the year, particularly the £3 million transferred from the pension reserve. 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 £7.9 million at 31 March 2005. Earmarked reserves have increased by £0.1 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 2005			
Pensions Reserve	4.9	2.2	2.0
Other Earmarked Reserves	0.8	0.7	1.0
General Revenue Reserve	2.2	4.6	4.9
	<u>7.9</u>	<u>7.5</u>	<u>7.9</u>

The Authority recognises the ongoing pressure on budgets because of the anticipated surge in retirements of fire fighters after large recruitment drives in the mid 1970's and £2 million is reserved for future pension liabilities. Details of other earmarked reserves are given in the notes to the consolidated balance sheet on page 34.

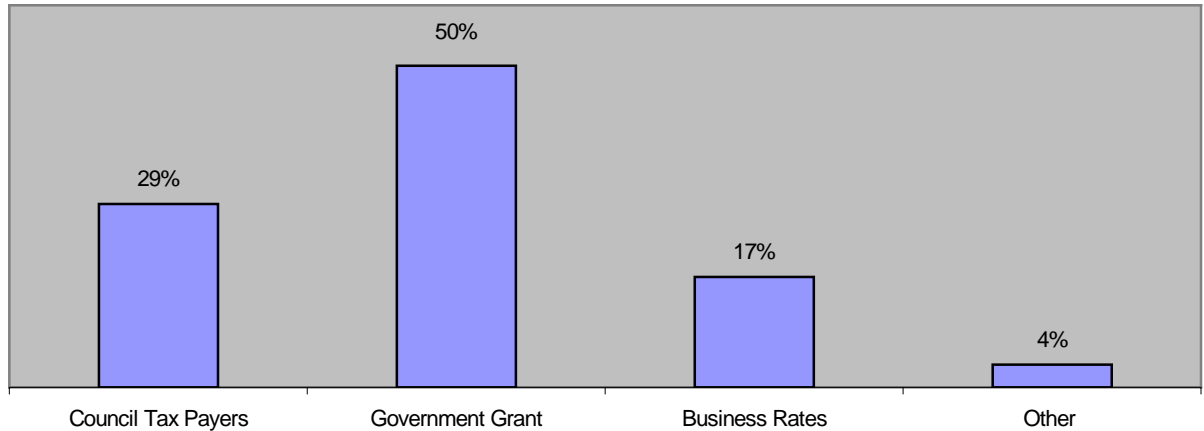
Impact on 2005/06

Adequate levels of balances and reserves are important for reasons of prudent financial management. When the Authority set its budget for 2005-2006, balances of £2.6 million were used to support revenue spending with a contribution from the pension reserve of £2.2 million and a contribution from other earmarked reserves of £0.1 million. The Authority chose to set a budget that anticipated total reserves at 31 March 2006 of £2.5 million. As a result of the 2004-2005 accounts that has now increased to £2.9 million.

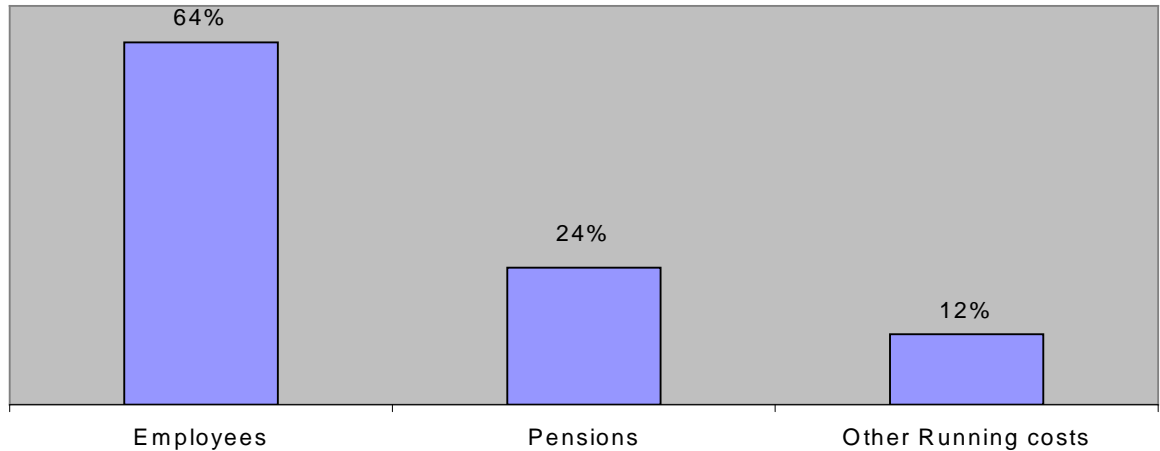
5. ALLOCATION OF RESOURCES

In broad terms where the Authority's money came from and what it was spent on during 2004- 2005 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 210,000 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 FREEPHONE 0800 731 5958.

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% (£6.9 million) of total 2004-2005 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 2004-2005

The Authority originally approved a capital budget of £7.3 million. However, towards the end of the year this had been revised to £5.7 million. This was mainly because the project for a new City Centre fire station with a private sector partner was rephased into 2005/06.

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 £2.9 million. In the probable budget this was expected to increase to £3.2million. Actual borrowing was reduced to £2.9m as expenditure reduced. The actual level of borrowing is 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	7.3	5.7	4.4
<u>Financed By</u>			
Supported Borrowing	2.6	2.6	2.6
Unsupported Borrowings	0.3	1.7	0.3
Capital Grant (Smoke Alarms)	0	0.2	0.2
Revenue Contribution to capital	0.9	0.2	0.3
Capital Receipts	3.5	1.0	1.0
	7.3	5.7	4.4

The actual capital expenditure was £4.4 million. The difference to revised budget was £1.3 million and related to variations of £0.2 million and slippage into 2005/06 of £1.1 million. The slippage was due to revised delivery dates for new fire appliances and late commencement of various building schemes.

7. FINANCIAL OUTLOOK

The Authority set its budget for 2005-2006 at an expenditure level of £77.4 million. This budget relied upon utilising £2.6 million of revenue balances to finance it. It anticipated further increased investment into Community Fire Safety work. The budget estimated general revenue reserves of £2 million at 31 March 2006 and earmarked reserves of £0.5 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 £0.8 million at 31 March 2006.

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).

The main constraints facing the Authority in achieving its financial aims are:

- The ongoing pressure of pension costs. However, new financial arrangements for accounting for firefighters pensions have been proposed in a government consultation paper.
- Uncertainties about the future levels of grant funding

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 2003: 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%, smoke alarms 100% 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:

- Pensions reserve
- Bellwin/Civil Emergency reserve
- Insurance reserve
- Contestable research fund reserve
- Devolved budgets reserve
- Externally funded schemes reserve
- Modernisation reserve
- Safety Training Centre (STC) reserve
- Emergency reserve
- Fire boots/Clothing reserve
- Training reserve
- Energy 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 lease. All of the agreements are in a secondary period with minimal rentals equivalent to an interest charge. This interest is 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 have released a consultation paper about changing the funding

mechanism for this scheme from 2005/06 but no changes have been implemented yet.

CONSOLIDATED REVENUE ACCOUNT

CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDING 31 MARCH 2005

<u>Gross</u> <u>Expenditure</u>	<u>Income</u>	<u>Net</u> <u>Expenditure</u> <u>2003-2004</u>		<u>Gross</u> <u>Expenditure</u>	<u>Income</u>	<u>Net</u> <u>Expenditure</u> <u>2004-2005</u>	<u>Notes</u>
£'000	£'000	£'000		£'000	£'000	£'000	
			Continuing Services				
7,531	1,216	6,315	Community Fire Safety	8,327	1,383	6,944	
61,104	4,413	56,691	Fire Fighting & Rescue Operations	66,218	4,902	61,316	
557	492	65	Emergency Planning	534	492	42	
901	0	901	Corporate & Democratic Core	958	0	958	
104	0	104	Non Distributable Costs (NDC)	160	0	160	
<u>70,197</u>	<u>6,121</u>	<u>64,076</u>	Net Cost of Services	<u>76,197</u>	<u>6,777</u>	<u>69,420</u>	1 to 6
		(421)	Interest and investment income			(395)	
		51	Net (surplus)/deficit on Trading Account			0	9
		(42)	Asset management revenue account			(149)	7
		<u>22,554</u>	Net pensions interest cost & expected return on pension assets			<u>29,279</u>	8
		<u>86,218</u>	Net operating expenditure			<u>98,155</u>	
		530	Contribution to/(from) Pensions reserve			(2,600)	
		8	Contribution to/(from) Bellwin reserve			0	
		87	Contribution to/(from) Capital Investment reserve			(787)	
		(38)	Contribution to/(from) Devolved Budget reserve			(5)	
		(106)	Contribution to/(from) Friends Expenditure reserve			0	
		(101)	Contribution to/(from) Modernisation reserve			(251)	
		(12)	Contribution to/(from) Vauxhall Initiative reserve			0	
		55	Contribution to/(from) Bilingual Advocates reserve			3	
		21	Contribution to/(from) FREE/Princes Trust reserve			(38)	
		47	Contribution to/(from) Fire boots/Clothing reserve			(18)	
		0	Contribution to/(from) STC refurbishment reserve			(7)	
		(50)	Contribution to/(from) Communications reserve			0	
		48	Contribution to/(from) IT/Equipment reserve			(48)	
		0	Contribution to/(from) Energy reserve			7	
		0	Contribution to/(from) Beacon Dissemination reserve			13	
		0	Contribution to/(from) Community Youth Team reserve			2	
		0	Contribution to/(from) Innovation Fund reserve			97	
		0	Contribution to/(from) Beacon Peer Project reserve			82	
		0	Contribution to/(from) Contestable Research Fund reserve			23	
		0	Contribution to/(from) Training reserve			26	
		0	Contribution to/(from) FMIS reserve			(50)	
		(1,356)	Contribution to/(from) Capital Financing account			(1,170)	
		<u>(15,735)</u>	Contribution to/(from) Pension Account FRS17			<u>(22,114)</u>	8
		<u>69,616</u>	Amount to be met from government grants and local tax payers			<u>71,320</u>	
		(20,636)	Income from the Council Tax			(21,826)	
		(37)	Transfers from the Collection Funds			(111)	
		(13,821)	Distribution from non domestic rate pool			(13,182)	
		(35,175)	Revenue Support Grant			(37,530)	
		0	Transitional Funding			(948)	9
		<u>(53)</u>	DEFICIT (SURPLUS) FOR THE YEAR			<u>(2,277)</u>	
		2,542	Revenue Account Balance at start of year			2,595	
		53	(Deficit) Surplus for the year			<u>2,277</u>	
		<u>2,595</u>	Revenue Account Balance at end of year			<u>4,872</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:

	2003-2004	2004-2005
	Lease £'000	Lease £'000
Finance Leases	2	1
Operating Leases	194	199
Outstanding undischarged operating lease obligations		
2005-2006		190
2006-2007		150
2007-2008		135

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	
	2003-2004	2004-2005
£50,000-£59,999	3	10
£60,000-£69,999	2	0
£70,000-£79,999	0	1
£80,000-£89,999	2	1
£90,000-£99,999	1	1
£100,000-£109,999	0	1
£110,000-£119,999	1	0
£120,000-£129,999	0	1
Total	<u>9</u>	<u>15</u>

Members

The total allowances paid to members within the year

	2003-2004	2004-2005
	£000	£000
Members Allowances	<u>161</u>	<u>171</u>

3. AUDIT EXPENDITURE

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

	2003-2004 £000	2004-2005 £000
Audit Fee	60	57
Pay Verification	21	21
Total	<u>81</u>	<u>78</u>

4. PUBLICITY EXPENDITURE

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

	2003-2004 £'000	2004-2005 £'000
Advertising		
Recruitment	47	71
Fire Safety Advertising	9	3
Tender Invitations	6	0
Legal Advertising	0	1
Printing of Fire Safety Posters and Leaflets	120	33
	<u>182</u>	<u>108</u>

5. MINIMUM REVENUE PROVISION

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. For 2004-2005 the amount is £1,049,000 compared to £1,004,000 in 2003-2004. 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.

	2003-2004 £'000	2004-2005 £'000
Amount charged as depreciation	2,401	2,551
Excess transferred to capital financing reserve	(1,397)	(1,502)
Minimum Revenue Provision	<u>1,004</u>	<u>(1,049)</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.

	2003-2004		2004-2005	
	Receipt £'000	Payment £'000	Receipt £'000	Payment £'000
Central Government				
Redistributed National Non-Domestic rate	13,821		13,182	
Revenue Support Grant	35,175		37,530	
Home Office Civil Defence Grant	492		492	
Supported Credit Approvals	2,432		2,609	
Employers National Insurance		3,193		3,446
Transitional Funding	0		948	
Loan of Borrowing Approvals				
Liverpool City Council	743	600	0	0
Local Authority Precept				
Knowsley	2,044		2,133	
Liverpool	6,232		6,695	
St. Helens	2,650		2,814	
Sefton	4,590		4,840	
Wirral	5,157		5,455	
Pensions				
Merseyside Superannuation Fund				
- Employers Contribution		750		879

The Authority's membership comprises of councillors from each of the five local authorities shown above. From examining existing available sources of information for 2004-2005 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.

	2003-2004 £'000	2004-2005 £'000
INCOME		
Capital Charges to Revenue Account	(4,004)	(4,197)
EXPENDITURE		
Provision for Depreciation	2,401	2,551
External Interest Charges	1,559	1,496
Finance Lease Rental	2	1
Surplus to Consolidated Revenue Account	<u>(42)</u>	<u>(149)</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 needs 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	
	2003/04 £000s	2004/05 £000s	2003/04 £000s	2004/05 £000s
Net Cost of Services				
Current Service Cost	(813)	(961)	(10,240)	(13,740)
Past Service Costs	0	0	0	(160)
Net Operating Expenditure				
Interest Cost	(1,485)	(1,671)	(22,150)	(28,940)
Expected Return on Assets in the Scheme	1,081	1,332	0	0
Amounts to be met from Government Grants and Local Taxation				
Movement on Pension Reserve	435	394	15,300	21,720
Actual Amount charged against council tax for pensions in year				
Employers Contributions Payable to the Scheme	782	906		
Retirements benefits payable to pensioners			17,090	21,120

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 2004-2005 the Authority paid an employer's superannuation contribution of £878,769 into the Merseyside Superannuation Fund. This represented 13.9% 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 2001.

The Authority has made discretionary payments of £37,648 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 2004 30 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 but maintains a pensions commutation reserve, which is sufficient to meet any liability.

9. TRANSITIONAL FUNDING

In 2004/05 the Authority received additional transitional grant funding from central government to cope with the short-term effects of funding a large national pay award for Firefighters before anticipated savings from modernisation of the Service were delivered. The Government have indicated that they will recover the grant in future years but the timing and mechanism remain uncertain. The grant was not recovered in 2005/06.

10. BUILDING CLEANING TRADING ACCOUNT FOR YEAR ENDED 31 MARCH 2005

Direct Service Organisations (DSO's) were required by the Local Government Act 1988 to meet the financial objective that income shall not be less than expenditure. The legislation relating to DSO's was repealed in January 2000 because of the introduction of Best Value - it was left to individual Authorities whether to cease the use of trading accounts at this time or to continue with them for existing DSO's. The Authority has ceased the use of a trading account for the financial year 2004 – 2005.

CONSOLIDATED BALANCE SHEET

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2005

Details of the value of assets held at 31 March 2005 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 2004	42,048	14,849	56,897
Gains on Revaluation	0	0	0
Impairments on Revaluation	0	0	0
Additions	1,150	3,217	4,367
Disposals	0	(262)	(262)
Gross Book Value at 31 March 2005	<u>43,198</u>	<u>17,804</u>	<u>61,002</u>
Accumulated depreciation at 31 March 2004	(4,185)	(9,959)	(14,144)
Depreciation for the year	(1,410)	(1,312)	(2,722)
Depreciation on assets sold	0	260	260
Accumulated depreciation at 31 March 2005	<u>(5,595)</u>	<u>(11,011)</u>	<u>(16,606)</u>
Net Book Value at 31 March 2005	<u>37,603</u>	<u>6,793</u>	<u>44,396</u>

2. SOURCES OF FINANCE FOR FIXED ASSETS ACQUIRED

The acquisition of fixed assets was financed as follows:

	2003-2004 £'000	2004-2005 £'000
Supported Borrowing	2,115	2,609
Unsupported Borrowing	0	308
Usable Capital Receipts	0	990
Revenue Contribution	0	291
Other Contribution (Grants)	0	169
Movement in Capital Creditors	0	0
Total Expenditure on Fixed Assets	<u>2,115</u>	<u>4,367</u>

3. FIXED ASSET VALUATION

The freehold and leasehold properties, which comprise the Authority's property portfolio, were last valued at 31 March 2002 by an external valuer (Head of Land & Development Services, Liverpool City Council) on the under mentioned basis in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

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.

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 asset valuations in 2004-2005.

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	
	2004	2005
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	68	76
Ancillary Vehicles	89	122
Special Appliances	29	29

6. CAPITAL COMMITMENTS

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

	2004	2005
	£000	£000
Purchase of Plant & Equipment	326	797
Purchase of service vehicles	174	283
	<u>500</u>	<u>1,080</u>

7. ANALYSIS OF CREDITORS AND DEBTORS

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

	2003-2004	2004-2005
	£'000	£'000
<u>Analysis of Debtors</u>		
Pension & Salaries Prepayments	2,356	2,384
Grants	98	99
Insurance Prepaid	442	0
Other prepayments	1,092	1,247
Debtors	286	316
Less Provision for Bad Debts	(46)	(43)
Pension Transfer Values Receivable	48	29
VAT Debtors	357	363
Car Loans	19	0
Pension Debtors	3	3
Total Debtors	<u>4,655</u>	<u>4,398</u>

	2003-2004	2004-2005
	£'000	£'000
<u>Analysis of Creditors</u>		
Salaries & Wages Accrual	544	0
Tax, NI & Pensions	1,082	1,281
Other Accruals	927	875
Pension Transfer Value Payable	61	49
Loan Interest Payable	283	250
Total Creditors	<u>2,897</u>	<u>2,455</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	
	2004	2005
Between 1 and 2 years	0	1,060
Between 2 and 5 years	3,560	2,500
Between 5 and 10 years	0	1,225
Over 10 years	19,575	21,350
Total Long Term Borrowing	<u>23,135</u>	<u>26,135</u>

9. INSURANCE PROVISION

The Authority has an insurance provision to meet the 'excess' cost of the first £560,735 of each individual public liability claim and £1,036,000 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:

	2003-2004	2004-2005
	£'000	£'000
Amount brought forward at 1 April	644	753
Claims paid in the year	(68)	(158)
Addition/(Reduction) in the year	<u>177</u>	<u>(26)</u>
Balance at 31 March	<u>753</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. PROVISIONS FOR CREDIT LIABILITIES (Memorandum Account)

In accordance with legislative requirements, the Authority sets aside an amount for the repayment of loans. The Authority is not required to record these transactions in the accounting records but instead maintains a memorandum account, which is shown below.

	2003-2004	2004-2005
	£'000	£'000
Amount brought forward at 1 April	7,625	8,629
Reserved proportion of Capital Receipts	0	0
Minimum Revenue Provision	<u>1,004</u>	<u>1,049</u>
Balance at 31 March	<u>8,629</u>	<u>9,678</u>

11. FRIENDS OF MERSEYSIDE FIRE SERVICE

The Merseyside Fire Authority established the Friends of the Fire Service organisation 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. The money provided amounted to £571,000 over three years (2001-2002 to 2003-2004) and is payable to the Authority itself. It is the Authority, which is responsible for administering and paying out these monies and accounting for them to the Home Office. These monies have been consolidated within the accounts

In establishing the "Friends of the Merseyside Fire Service" the Fire Authority felt that the best formal structure for the Friends organisation would be that of a company limited by guarantee. At the time it was felt that this form of organisation would enable the Friends of the Merseyside Fire Service 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 Friends were properly controlled and were wholly consistent with the strategy and activities of the Merseyside Fire Authority itself. Therefore, the Friends of the Merseyside Fire Service Company was established with a Board of three. The Board Members were the Chief Fire Officer, the Chair of the Fire Authority and a representative from Sefton CVS.

Due to (a) this Board structure, and (b) the fact that the Friends Company activities are so closely related to the activities of the Fire Service, the Friends of the Merseyside Fire Service Company 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 Friends Company must be treated as though they were the financial transactions of the Merseyside Fire & Civil Defence Authority, and that those transactions should be consolidated into the Authority's financial accounts. The Friends Company did maintain an independent bank account in 2003-2004 but the total net transactions were minimal and not material. Therefore, the accounts have not been consolidated for this year.

The relationship between the Company and the Authority has been under review including the make up of the board during the year with a view to increasing the Company's independence since it is felt that this will allow it to access wider funding streams in the future. As part of this separation the Authority has agreed a process by which it pays the grant monies directly to Friends who provide services under an agreed service level agreement. This commenced in February 2004 and from that date the accounts are no longer being consolidated.

The Friends of the Fire Service have reviewed their working arrangements and have renamed themselves the Fire Support Network. This new title was officially launched on the 5th August 2004.

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, Merseyside) formed a joint committee (The North West Fire & Rescue Management Board), in February 2004. The committee comprises of councilors from the five constituent authorities.

The region has conducted significant work in 2004/05 in working collaboratively although most expenditure was contained within the five constituent authorities. Expenditure was incurred on :

	£,000
Regional Control Room Project	68
Secretariat	13
Audit of Accounts	3
Grant for Control Room Work	<u>(68)</u>
Net Expenditure	16

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	
	31/03/04 £000s	31/03/05 £000s	31/03/04 £000s	31/03/05 £000s	31/03/04 £000s	31/03/05 £000s
Estimated Liabilities in the Scheme	(26,307)	(35,025)	(448,780)	(608,350)	(475,087)	(643,375)
Estimated Assets in the Scheme	20,433	22,568	0	0	20,433	22,568
Net Assets/(Liability)	(5,874)	(12,457)	(448,780)	(608,350)	(454,654)	(620,807)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £621million has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £597million. 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 2005. 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 2005, 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	
	2003-2004	2004-2005	2003-2004	2004-2005
Rate of inflation	2.8%	2.9%	2.9%	2.9%
Rate of increase in salaries	3.8%	4.2%	4.4%	4.4%
Rate of increase in pensions	2.8%	2.9%	2.9%	2.9%
Rate for discounting scheme liabilities	6.3%	5.4%	6.5%	5.4%

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 2004		31 March 2005	
		£000s	%	£000s	%
Equity investments	7.5	11,974	59	12,999	58
Bonds	4.7	3,392	16	4,265	19
Other Bonds	5.4	838	4	1,106	5
Property	6.5	1,982	10	2,234	10
Cash/Liquidity	4.7	2,247	11	903	4
Other	7.5	0	0	1,061	4
		20,433	100	22,568	100

THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2003-2004	2004-2005
	£000s	£000s
Surplus/(deficit) for the year		
- Revenue Account	53	2,277
- Earmarked Reserves (note 6)	489	(3,552)
- Appropriate from Pension Account	(15,735)	(22,114)
- Actuarial gains & losses relating to pensions	(111,336)	(144,039)
Total increase/(decrease) in revenue resources (note 1)	(126,529)	(167,428)
Increase/(decrease) in useable capital receipts	0	(990)
Increase/(decrease) in unapplied capital grants and Contributions	0	0
Total increase/(decrease) in realised capital Resources (note 2)	0	(990)
Gains/(losses) on revaluation of fixed assets	0	0
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	0
Value of assets sold, disposed of or decommissioned (note 4)	0	(2)
Capital receipts set aside	0	0
Revenue resources set aside	(1,357)	(180)
Movement on Government Grants Deferred	0	(2)
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	(1,357)	(182)
Total recognised gains and (losses)	(127,886)	(168,602)

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 2004/05	2,277		
Appropriations to/(from) revenue		(3,552)	(22,114)
Actuarial gains & losses relating to pensions			(144,039)
	2,277	(3,552)	(166,153)
Balance brought forward at 1 April 2004	2,595	6,574	(454,654)
Balance carried forward at 31 March 2005	4,872	3,022	(620,807)

Actuarial gains/(losses) identified as movement on the pension reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets and liabilities at 31 March 2005.

	Merseyside Pension Fund Scheme		Fire Pension Scheme	
	£000s	%	£000s	%
Difference between actual & expected return on assets	1,133	5	0	0
Difference between actuarial assumptions about liabilities & actual experience	(1,074)	(3)	(10,380)	(2)
Changes in assumptions underlying the present value of the pension liabilities	(6,248)	(18)	(127,470)	(21)
	(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 2004-2005	0
Amounts applied to finance new capital investment in 2004-2005	(990)
Total increase/(decrease) in realised capital resources in 2004-2005	(990)
Balance brought forward at 1 April 2004	990
Balance carried forward at 31 March 2005	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 Reserve £000s
Gains/(losses) on revaluation of fixed assets in 2004-2005	0
Impairment losses on fixed assets due to general changes in prices in 2004-2005	0
Total increase/(decrease) in unrealised capital resources in 2004-2005	0

4. VALUE OF ASSETS SOLD, DISPOSED OF OR DECOMMISSIONED

	Fixed asset Restatement Reserve £000s
Amounts written off fixed assets balances for disposals in 2004-2005	(2)
Total movement on reserve in 2004-2005	0
Balance brought forward as 1 April 2004	22,723
Balance carried forward as 31 March 2005	22,721

The Fixed Asset Restatement Reserve 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 Reserve is not available to support capital or revenue spending.

5. MOVEMENTS IN AMOUNTS SET ASIDE TO FINANCE CAPITAL INVESTMENT

	Capital financing reserve £000s	Gov't grants deferred £000s	Total £000s
Capital receipts set aside in 2004-2005			
- reserved receipts	0	-	
- useable receipts applied	990	-	
Total capital receipts set aside in 2004-2005	990	-	990
Revenue resources set aside in 2004-2005			
- capital expenditure financed from revenue	291		
- reconciling amount for provisions of loan repayment	(1,461)		
Total revenue resources set aside in 2004-2005	(1,170)	-	(1,170)
Grants applied to capital investment in 2004-2005	-	169	
Amounts credited to the asset management revenue account in 2004-2005	-	(171)	
Movement on Government Grants Deferred	-	(2)	(2)
Total increase/(decrease) in amounts set aside to finance capital investment			(182)
Total movement on reserve in 2004-2005	(180)	(2)	
Balance brought forward at 1 April 2004	(7,094)	10	
Balance carried forward at 31 March 2005	(7,274)	8	

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 reduced significantly in 2005/06 as planned, as monies are used to fund surges in Firefighter retirements.

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 be re-invested in the Fire Stations which have made those revenue savings. The monies will be spent in 2005-2006.

Safety Training Centre (STC) 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 2004-2005 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 2005-2006.

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.

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

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 the movement in the year can be seen below:

	Balance brought forward at 01/04/04 £000s	Contribution from/(to) revenue account £000s	Balance Carried forward at 31/03/05 £000s
Pension Commutation Reserve	4,598	(2,600)	1,998
FMIS Reserve	50	(50)	0
Capital Investment Reserve	787	(787)	0
Bellwin Reserve	147	0	147
Insurance Reserve	150	0	150
Devolved Budget Reserve	11	(5)	6
STC Refurbishment Reserve	25	(7)	18
Fire boots/Clothing Reserve	142	(18)	124
Emergency Planning Reserve	75	0	75
F.R.E.E./Princes Trust Reserve	58	(38)	20
Bilingual/Arson Advocates Reserve	84	3	87
Modernisation Reserve	399	(251)	148
IT/Equipment Reserve	48	(48)	0
Energy Reserve	0	7	7
Beacon Dissemination Reserve	0	13	13
Community Youth Team Reserve	0	2	2
Innovation Fund Reserve	0	97	97
Beacon Peer Project Reserve	0	82	82
Contestable Research Fund Reserve	0	23	23
Training Reserve (Climbing/Asset)	0	26	26
Total of Earmarked Reserves	6,574	(3,551)	3,023

CASH FLOW STATEMENT

<u>2003-2004</u>		<u>2004-2005</u>	
£'000		£'000	<u>Notes</u>
	Revenue Activities		
	Expenditure		
59,502	Cash paid to and on behalf of employees	66,397	
11,024	Other Operating Costs	8,472	
<u>70,526</u>		<u>74,869</u>	
(20,636)	Council Tax Income	(21,826)	
(36)	Disbursements from the Collection Funds	(111)	
(13,821)	Non Domestic Rate Income	(13,182)	
(35,175)	Revenue Support Grant	(37,530)	
0	Transitional Funding	(948)	
(473)	Other Government Grants	(492)	1
(1,563)	Cash received for goods and services	(1,714)	
<u>(1,178)</u>		<u>(934)</u>	2
1,593	Interest paid	1,528	
2	Interest element of finance lease rental payments	1	
(491)	Interest received	(370)	
2,115	Purchase of Fixed Assets	4,367	
0	Capital Grant	(170)	
(1)	Sale of Fixed Assets	(8)	
<u>2,040</u>		<u>4,414</u>	
1,290	Repayments of amounts borrowed	1,041	
0	New loans raised	(3,000)	
<u>3,330</u>	Net (increase)/decrease in cash	<u>2,455</u>	3

NOTES TO THE CASHFLOW STATEMENT

1. OTHER GOVERNMENT GRANTS

The Authority receives Government grant in respect of its civil defence function. The amount received in 2004-2005 was £492,548.

2. RECONCILIATION TO CONSOLIDATED REVENUE ACCOUNT

	2003-2004 £'000	2004-2005 £'000
Revenue Activities Net Cash Inflow	(1,178)	(934)
Non Cash Movements on Revenue Account		
Decrease (Increase) in stock	26	45
Decrease (Increase) in debtors	(236)	257
Increase (decrease) in creditors	(1,410)	(442)
Increase (decrease) in insurance provision	108	(184)
Contribution to (from) reserve	489	(3,551)
Minimum revenue provision	1,004	1,049
Repayment of MRB debt	41	41
Revenue contribution to capital outlay	0	291
Items classified separately on Cashflow Statement		
Interest Paid	1,593	1,528
Interest element of finance leases	2	1
Capital disposals	(1)	(8)
Interest received	(491)	(370)
Deficit (surplus) on revenue account	(53)	(2,277)

3. RECONCILIATION OF MOVEMENT IN CASH

	31 March 2004 £'000	31 March 2005 £'000
Investments	6,900	4,800
Cash Overdrawn	(280)	(637)
Cash held in Imprest Accounts	9	11
	6,629	4,174
Decrease in Cash and Equivalents		2,455

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 2005.

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 2004/05

1. SCOPE OF RESPONSIBILITY

Merseyside Fire & Civil Defence Authority (now 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 & Civil Defence Authority for the year ended 31 March 2005 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 FINANCIAL 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. THE INTERNAL FINANCIAL CONTROL ENVIRONMENT

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 2004/5 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 were reviewed during the course of the year and a new 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 Corporate Risk Register in April 2005. Corporate management and financial risks are included in this Register.
- 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 2004/5
 8. External Audit Plans for the 2004/05 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 2004/05 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. It is unfortunately, not possible, at the current time (July 2005) to publish any of the C.P.A. findings to support this Statement of Internal Financial Control. However, as part of the pre-C.P.A. process, the District Auditor carried out an assessment, based on the Code of Audit Practice, which included comment on systems of internal financial control. This assessment is reproduced below:-

Monitoring financial systems	Authority has controls and procedures to manage and monitor financial systems in place. Internal Audit review high risk systems annually and medium risk systems on a cyclical basis.
An adequate internal audit function is maintained.	There is an adequate Internal Audit function which reports to members. Fundamental systems are reviewed annually and other financial systems are reviewed on a cyclical basis. Authority has a new system in place to follow up recommendations by I.A.
Risk identification and management	The Authority has arrangements in place for risk identification assessment and management through the I.R.M.P. and financial risk assessment. A new risk register has been developed following a workshop in November, 2004. To date members have been involved in risk management through the approval of the corporate risk policy and a nominated risk champion. The risk register is due to be approved by members in March 2005. Formalised risk management arrangements are new and still need become embedded.

- 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 an 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 2005/06 financial year. In the last District Audit Annual Letter (covering 2003/04) 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 2005/06 and the future as it modernises and implements its IRMP. Whilst no significant weaknesses have been identified in central 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 2005/06.
- b. Whilst, as stated above, it is not possible at this stage to publish any of the C.P.A. findings it is not anticipated that there will be any significant areas of concern in terms of internal control. An improvement plan will be produced shortly, which will highlight how all areas in need of improvement will be tackled.
- c. The Authority will be seeking tenders during the year for a replacement Financial Management Information System (F.M.I.S.) and implementation is scheduled for the latter part of the financial year. It is essential that the whole process is carried out efficiently and effectively to ensure there is minimum disruption to the payroll and other financial systems operated by the Authority.
- d. Employee costs account for 65% of the Authority's annual revenue budget and thus represent a significant investment. It is proposed to invest in a computerised attendance management system during the year to ensure that the Authority is gaining maximum benefit from its employee.

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 RESERVE

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 RESERVE

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.

PROVISION FOR CREDIT LIABILITIES

This represents the sums set aside for the repayment of debt established under the Local Government and Housing Act 1989, and includes amounts set aside from revenue, the minimum revenue provision and the required portion of capital receipts. It may be used for the repayment of loans or leasing agreements or for Capital expenditure where credit approvals exist. This account is included as a note and the Capital Financing Reserve has to a certain extent superseded it with effect from 1 April 1994.

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.