

Statement of Accounts 2003 - 2004



MERSEYSIDE FIRE AND CIVIL DEFENCE AUTHORITY

STATEMENT OF ACCOUNTS 2003-2004

CONTENTS

	<u>PAGE</u>
Explanatory Foreword	1 - 8
Statement of Accounting Concepts	9 - 10
Statement of Accounting Policies	11 - 14
Consolidated Revenue Account	15
Notes to the Consolidated Revenue Account	16 - 21
Consolidated Balance Sheet	22
Notes to the Consolidated Balance Sheet	23 - 29
Statement of Total Movements in Reserves	30
Notes to the Statement of Total Movement in Reserves	31 - 35
Cash Flow Statement	36
Notes to Cash Flow Statement	37
Statement of Responsibilities for the Statement of Accounts	38
Statement on the System of Internal Control	39 - 41
Glossary of terms	42 - 43
Auditor's Report	44 - 45

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. Whilst the statutory requirement to maintain separate accounts is no longer in place, the Authority continues to maintain a trading account for this service for 2003/04.
- **The Consolidated Balance Sheet** - this shows the assets and liabilities of the Authority at 31st March 2004.
- **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 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

2003-2004 has been a year of dramatic change for the Authority and one that has brought forward tremendous challenges and exciting opportunities for the future.

Modernisation of the Service has continued with the development of a new legislative framework for the fire service and a focus on many new areas of work including

- an increased emphasis on preventative fire safety work
- an expanded rescue role
- work on New Dimensions (preparing for responses to a wide range of catastrophic events)
- increased emphasis on collaborative work especially, at a regional level

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 continues to excel in its fire safety activities. The Authority is significantly outperforming other Metropolitan Fire Authorities in reducing deaths and injuries from fires. This is due to our groundbreaking approaches to Community Fire Safety and our programme of Home Fire Safety Checks. We have carried out a total of 200,000 Home fire safety checks and fitted over 300,000 smoke alarms (free of charge). The Authority remains committed to its vision of making Merseyside a fire safe community.

Some of the key achievements for the Authority in 2003-2004 include:-

- Deaths from fire reduced to 9 (from 12 in 2002/03 and 16 in 2001/02)
- Serious injuries from dwelling fires reduced by 38.5%
- Since Merseyside Fire Service started its smoke alarm campaigns the cost of accidental fires in dwellings has fallen by £8.1 million.
- Smoke alarms which operated in homes affected by fires now at 58%, up from 43% (significantly higher than the national average)

The Authority also has started a number of innovative Fire Safety initiatives including:-

- An inclusive volunteering programme - Friends of Merseyside Fire Service
- Working with young people – The Fire Reduction through Engagement and Education (FREE) Project and Prince's Trust programmes
- Addressing the needs of hard to reach groups – A Bilingual Fire Safety Advocates scheme
- Focusing on providing services to vulnerable older people. The Authority has recently been awarded Beacon Council status for this groundbreaking work.

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 7315958.

At the start of the year, the Authority was subject to an ongoing national dispute about fire-fighter pay that had resulted in significant industrial action in 2002/2003. Agreement was reached in June 2003 based upon a three-stage pay agreement:

4.0%	November 2002
7.0%	November 2003
4.2%	July 2004

linked to a significant modernisation process that was to be verified by the Audit Commission. At the time of writing negotiations are ongoing about some elements of that pay agreement. The accounts have been prepared on the basis that the final agreement will result in the pay being agreed.

3. FINANCIAL POSITION 2003-2004

Budget

The Authority set a budget of £69.669 million for 2003-2004, an increase of 7.2% 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 £49.59, which represented an increase in tax of 18.41%. The total level of external support (the amount the Authority receives in redistributed non-domestic rates and revenue support grant) was up by 3% to £48.997 million. When contributions from balances and reserves are excluded, the level of total expenditure planned for the year was £69.625 million.

This budget was amended during the year and by the time the budget for 2004-2005 was being considered, in 2004, the level of anticipated expenditure in 2003-2004 had been increased by £0.221 million to £69.846 million. The most significant budgetary variances are summarised in the table below:

	<u>£ m</u>
• Increase in Corporate and Democratic Core Costs	0.1
• Capital Financing Costs	0.2
• Employee Insurance	(0.2)
• Costs related directly to IRMP	0.1
• Fire fighters pay award higher than budgeted 4%	0.5
• Staff savings and efficiencies identified	(0.3)
• Lower than forecast price inflation	<u>(0.2)</u>
	<u>0.2</u>

Actual Expenditure

The actual level of expenditure in 2003-2004 totalled £69.1 million, which is £0.746 million less than the revised budget (a total movement of £0.525 million or 0.7% 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 <i>Outturn</i> £'m	VARIANCE		
			<i>Original To Revised</i> £'m	ACTUAL OUTTURN £'m	<i>Revised To Outturn</i> £'m
Net Expenditure on Services					
Fire Service operating costs	53.9	53.7	(0.2)	53.0	(0.7)
Pension Costs	12.9	13.1	0.2	13.3	0.2
Corporate Management	0.4	0.5	0.1	0.5	0
Emergency Planning	0.1	0.1	0	0.1	0
Capital Financing Charges	2.7	2.9	0.2	2.6	(0.3)
Interest on surplus balances	(0.4)	(0.4)	0	(0.4)	0
Total Net Expenditure	69.6	69.9	0.3	69.1	(0.8)
Financed By					
Council Tax Income	(20.7)	(20.7)	0	(20.7)	0
Revenue Support Grant	(35.2)	(35.2)	0	(35.2)	0
National Non-Domestic Rates	(13.8)	(13.8)	0	(13.8)	0
Total Financing	(69.7)	(69.7)	0	(69.7)	0
Net Contribution(to)/from Reserves	(0.1)	0.2	0.3	(0.6)	(0.8)

Savings shown in brackets

The main reasons for the variance between revised budget and actual expenditure in 2003-2004 were:

- Fire Service operating costs

These were £0.7 million lower than anticipated because of:

	£ m
• Savings on training expenses	(0.1)
• Rephased uniform expenditure	(0.2)
• Grant income	(0.2)
• Previous provisions for strike costs no longer required	(0.1)
• Other net variations	(0.1)
	<u>(0.7)</u>

- Pensions

There was an overspend of £0.4 million on pension transfer values – when fire fighters move to other fire services the Authority has to pay over their built up pension entitlement as a lump sum. This was offset by savings on payments of revenue pension of £0.1 million and lump sum payments of £0.1 million. In line with Authority policy the underspend on lump sums is transferred to the pensions reserve.

- Capital Financing Charges

The variation of £0.3 million relates to Revenue Contributions to Capital Outlay (RCCO) no longer required due to rephasing in the capital programme.

4. BALANCES AND RESERVES

The Authority had originally budgeted to have balances and reserves of £6.5 million at the 31 March 2004. This was subsequently increased to £8.1 million following the finalisation of the 2002-2003 financial position and further budgeted variations during the year. 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 £9.2 million at 31 March 2004. Earmarked reserves have increased by £0.9 million and revenue reserves by £0.2 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 2004			
Pensions Reserve	4.2	4.3	4.6
Other Earmarked Reserves	0.3	1.4	2.0
General Revenue Reserve	2.0	2.4	2.6
	<u>6.5</u>	<u>8.1</u>	<u>9.2</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 £4.6 million is reserved for future pension liabilities. Details of other earmarked reserves are given in the notes to the consolidated balance sheet on page 35.

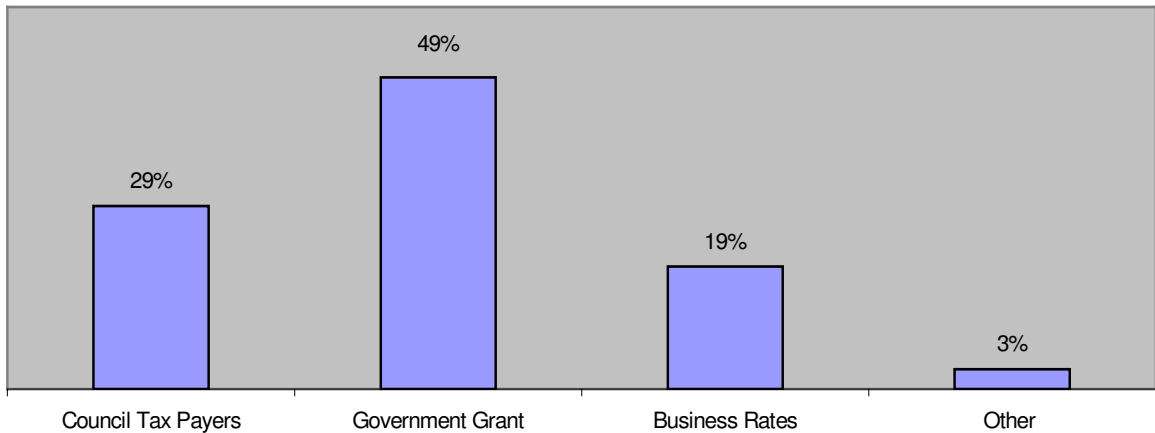
Impact on 2004/05

Adequate levels of balances and reserves are important for reasons of prudent financial management. When the Authority set its budget for 2004-2005, balances of £0.2 million were used to support revenue spending with a contribution to the pension reserve of £0.6 million and a contribution from other earmarked reserves of £0.6 million. The Authority chose to set a budget that anticipated total reserves at 31 March 2005 of £8million. As a result of the 2003-2004 accounts that has now increased to £9 million.

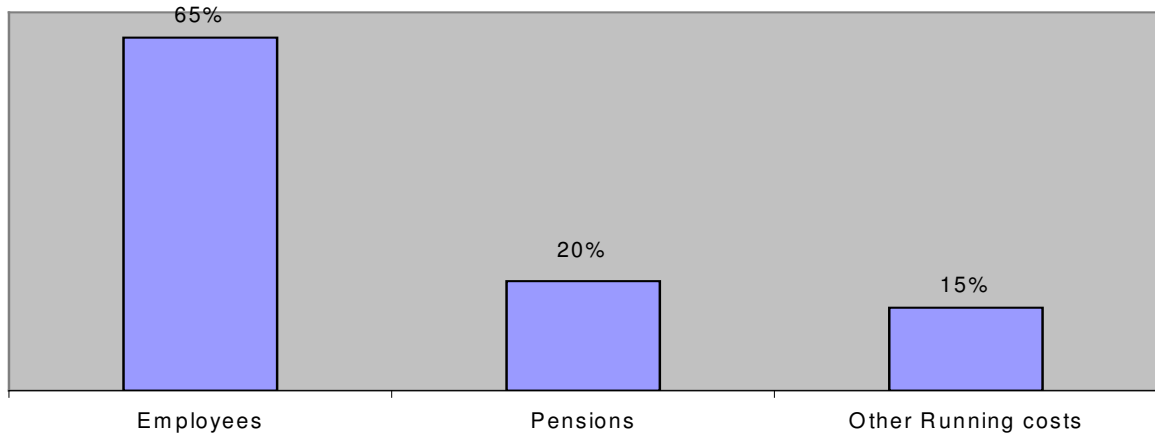
5. ALLOCATION OF RESOURCES

In broad terms where the Authority's money came from and what it was spent on during 2003-2004 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 200,000 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 9.85% (£6.3 million) of total 2003-2004 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 2003-2004

The Authority originally approved a capital budget of £4.2 million. However, this was later revised to £2.5 million due to the re-phasing of 3 main schemes:

- 1) Control room relocation £0.8 million. ¹
- 2) Special Vehicles purchase £0.5 million.
- 3) City Centre fire station relocation £0.5 million.

The major elements of the revised capital programme was the purchase of 4 fire appliances and the conversion and refurbishment of a stores and conference facility at it's Bridle Road Headquarters.

The Authority receives borrowing approvals from the Government, which limit the amount that can be borrowed to finance capital expenditure and which, without funding from revenue or capital receipts, act as a control over the level of expenditure. At the beginning of the year the expected level of borrowing approvals was £2.432 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>4.2</u>	<u>2.5</u>	<u>2.1</u>
<u>Financed By</u>			
Borrowing Approvals 2003-2004 (BCA)	2.4	2.4	2.4
BCA Loaned to Liverpool	0	(0.6)	(0.6)
BCA Returned from Liverpool	0.7	0.7	0.7
Unused BCA	0	0	(0.4)
Revenue Contribution	0.3	0	0
Capital Receipts	<u>0.8</u>	<u>0</u>	<u>0</u>
	<u>4.2</u>	<u>2.5</u>	<u>2.1</u>

The Authority "loaned" £0.7 million of its borrowing approval to Liverpool City Council in 2002-2003, returning it in 2003-2004. A further £0.6 million has been loaned to Liverpool City Council because of slippages in various schemes in 2003-2004. In 2004-2005 the rules on capital financing have dramatically changed under the new Prudential code and the financing of capital schemes is not now based on credit approvals available, but on affordability to the Authority of each scheme.

¹ The original concept for the Authority was to relocate its mobilising and control room with new systems. This concept has been considerably revised in the light of the Government decision to create regionalised control rooms.

7. FINANCIAL OUTLOOK

The Authority set its budget for 2004-2005 at an expenditure level of £73.6 million. This budget relied upon utilising £0.2 million of revenue balances to finance it. It anticipated further increased investment into Community Fire Safety work. The budget estimated general revenue reserves of £2.2 million at 31 March 2005 and earmarked reserves of £5.8 million. As a result of the closure of these accounts it is now possible to anticipate that the general revenue reserve would be £2.4 million and earmarked reserves of £6.6 million at 31 March 2005.

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
- 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 6% of net asset values.

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. In line with FRS15 depreciation is now charged on all buildings.

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
- Bellwin/Civil Emergency
- Insurance
- FMIS
- Devolved budgets
- Externally funded schemes
- Modernisation
- Capital Investment reserve
- Safety Training Centre (STC) reserve
- Stakeholder consultancy reserve
- Emergency reserve
- Fire boots/Clothing 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 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 a new accounting standard for pensions. The objectives of the new 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 application of FRS17 is now fully integrated into the accounts for 2003/04 with adjustments being made to the accounts for 2002/03 for comparative purposes.

11. DISCLOSURE OF EFFECT OF PRIOR PERIOD ADJUSTMENT

These accounting policies represent a change to those applied in prior years. Previous policy was to recognize liabilities in relation to retirement benefits only when employer's contribution became payable to the pension fund or payments fell due to the pensioners for which we were directly responsible. The new policies better reflect our commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

The change has had the following effects on the results of the prior and current periods:

- the overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 2% lower after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 30% higher than it would otherwise have been.
- the requirement to recognize the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 1,231%

CONSOLIDATED REVENUE ACCOUNT

CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDING 31 MARCH 2004

<u>Gross</u> <u>Expenditure</u>	<u>Income</u>	<u>Net</u> <u>Expenditure</u> <u>2002-2003</u>		<u>Gross</u> <u>Expenditure</u>	<u>Income</u>	<u>Net</u> <u>Expenditure</u> <u>2003-2004</u>	<u>Notes</u>
£'000	£'000	£'000		£'000	£'000	£'000	
Continuing Services							
7,206	835	6,371	Community Fire Safety	7,531	1,216	6,315	
63,537	4,911	58,626	Fire Fighting & Rescue Operations	61,104	4,413	56,691	
513	490	23	Emergency Planning	557	492	65	
734	0	734	Corporate & Democratic Core	901	0	901	
0	0	0	Non Distributable Costs (NDC)	104	0	104	
<u>71,990</u>	<u>6,236</u>	<u>65,754</u>	Net Cost of Services	<u>70,197</u>	<u>6,121</u>	<u>64,076</u>	1 to 6
		(479)	Interest and investment income			(421)	
		25	Net (surplus)/deficit on Trading Account			51	9
		(1,089)	Asset management revenue account			(42)	7
		<u>21,005</u>	Pensions interest cost & expected return on pension assets			<u>22,554</u>	8
		<u>85,216</u>	Net operating expenditure			<u>86,218</u>	
		(152)	Contribution to (from) Pensions reserve			530	
		5	Contribution to (from) Bellwin reserve			8	
		700	Contribution to (from) Capital Investment reserve			87	
		16	Contribution to (from) Devolved Budget reserve			(38)	
		78	Contribution to (from) Friends Expenditure reserve			(106)	
		500	Contribution to (from) Modernisation reserve			(101)	
		12	Contribution to (from) Vauxhall Initiative reserve			(12)	
		29	Contribution to (from) Bilingual Advocates reserve			55	
		36	Contribution to (from) FREE/Princes Trust reserve			21	
		95	Contribution to (from) Fire boots/Clothing reserve			47	
		25	Contribution to (from) STC refurbishment reserve			0	
		50	Contribution to (from) Communications reserve			(50)	
		75	Contribution to (from) EPU reserve			0	
		0	Contribution to (from) IT/Equipment reserve			48	
		(1,447)	Contribution to (from) Capital Financing account			(1,356)	
		<u>(19,603)</u>	Contribution to/(from) Pension Account FRS17			<u>(15,735)</u>	8
		<u>65,635</u>	Amount to be met from government grants and local tax payers			<u>69,616</u>	
		(17,379)	Income from the Council Tax			(20,636)	
		(68)	Transfers from the Collection Funds			(37)	
		(14,887)	Distribution from non domestic rate pool			(13,821)	
		<u>(32,650)</u>	Revenue Support Grant			<u>(35,175)</u>	
		<u>651</u>	DEFICIT (SURPLUS) FOR THE YEAR			<u>(53)</u>	
		3,193	Revenue Account Balance at start of year			2,542	
		<u>(651)</u>	(Deficit) Surplus for the year			<u>53</u>	
		<u>2,542</u>	Revenue Account Balance at end of year			<u>2,595</u>	

The application of FRS17 is now fully integrated into the accounts for 2003/04 with adjustments being made to the accounts for 2002/03 for comparative purposes.

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:

	2002-2003	2003-2004
	Lease £'000	Lease £'000
Finance Leases	2	2
Operating Leases	176	194
Outstanding undischarged operating lease obligations		
2004-2005	179	
2005-2006	175	
2006-2007	127	

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	
	2002-2003	2003-2004
£50,000-£59,999	2	3
£60,000-£69,999	1	2
£70,000-£79,999	0	0
£80,000-£89,999	1	2
£90,000-£99,999	1	1
£100,000-£109,999	0	0
£110,000-£119,999	1	1
Total	<u>6</u>	<u>9</u>

Members

The total allowances paid to members within the year

	2002-2003	2003-2004
	£000	£000
Members Allowances	<u>106</u>	<u>161</u>

3. AUDIT EXPENDITURE

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

	2002-2003 £000	2003-2004 £000
Audit Fee	42	60
Pay Verification	0	21
Total	<u>42</u>	<u>81</u>

The Audit Commission undertook significant additional work assessing progress on "modernising" the Service including an assessment of the IRMP and work verifying progress on the pay deal for the employers.

4. PUBLICITY EXPENDITURE

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

	2002-2003 £'000	2003-2004 £'000
Advertising		
Recruitment	24	47
Fire Safety Advertising	3	9
Tender Invitations	1	6
Legal Advertising	0	0
Printing of Fire Safety Posters and Leaflets	37	120
	<u>65</u>	<u>182</u>

5. MINIMUM REVENUE PROVISION

The Authority is required by statute to set aside a minimum revenue provision for the redemption of debt. For 2003-2004 the amount is £1,004,000 compared to £957,000 in 2002-2003. 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.

	2002-2003 £'000	2003-2004 £'000
Amount charged as depreciation	2,454	2,401
Excess transferred to capital financing reserve	(1,497)	(1,397)
Minimum Revenue Provision	<u>957</u>	<u>1,004</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.

	2002-2003		2003-2004	
	Receipt £'000	Payment £'000	Receipt £'000	Payment £'000
Central Government				
Redistributed National Non-Domestic rate	14,887		13,821	
Revenue Support Grant	32,650		35,175	
Home Office Civil Defence Grant	490		492	
Capital Borrowing Approvals	2,574		2,432	
Employers National Insurance		2,548		3,193
Loan of Borrowing Approvals				
Liverpool City Council	300	743	743	600
Local Authority Precept				
Knowsley	1,726		2,044	
Liverpool	5,283		6,232	
St. Helens	2,210		2,650	
Sefton	3,865		4,590	
Wirral	4,363		5,157	
Pensions				
Merseyside Superannuation Fund - Employers Contribution		645		750

The Authority's membership comprises of councillors from each of the five local authorities shown above. From examining existing available sources of information for 2003-2004 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.

	2002-2003 £'000	2003-2004 £'000
INCOME		
Capital Charges to Revenue Account	(5,120)	(4,004)
EXPENDITURE		
Provision for Depreciation	2,454	2,401
External Interest Charges	1,575	1,559
Finance Lease Rental	2	2
Surplus to Consolidated Revenue Account	<u>(1,089)</u>	<u>(42)</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	
	2002/03 £000s	2003/04 £000s	2002/03 £000s	2003/04 £000s
Net Cost of Services				
Current Service Cost	(638)	(813)	(11,550)	(10,240)
Past Service Costs	0	0	0	0
Net Operating Expenditure				
Interest Cost	(1,397)	(1,485)	(21,050)	(22,150)
Expected Return on Assets in the Scheme	1,442	1,081	0	0
Amounts to be met from Government Grants and Local Taxation				
Movement on Pension Reserve	(77)	435	19,680	15,300
Actual Amount charged against council tax for pensions in year				
Employers Contributions Payable to the Scheme	670	782		
Retirements benefits payable to pensioners			12,920	17,090

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 2003-2004 the Authority paid an employer's superannuation contribution of £749,576 into the Merseyside Superannuation Fund. This represented 13.3% 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 £34,219 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 33 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. BUILDING CLEANING TRADING ACCOUNT FOR YEAR ENDED 31 MARCH 2004

<u>2002-2003</u> £'000		<u>2003-2004</u> £'000
	<u>EXPENDITURE</u>	
313	Labour	347
4	Materials	5
27	Overheads	25
<u>344</u>	Total Expenditure	<u>377</u>
	<u>LESS INCOME</u>	
(319)	Charges to other accounts of the Authority	(326)
<u>25</u>	Surplus for the year transferred to Appropriation Account	<u>51</u>
	<u>APPROPRIATION ACCOUNT</u>	
(25)	Surplus/(deficit) for the Year	(51)
25	Contribution to the Consolidated revenue Account	51
<u>0</u>		<u>0</u>

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. Expenditure is to include a capital financing charge of 6% of the value of fixed assets employed by the DSO in carrying out the work. 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 maintained a trading account for the former Building Cleaning DSO for the full financial year.

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. FIXED ASSETS

Details of the value of assets held at 31 March 2004 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 2003	41,172	13,718	54,890
Gains on Revaluation	0	0	0
Impairments on Revaluation	0	0	0
Additions	876	1,239	2,115
Disposals	0	(108)	(108)
Gross Book Value at 31 March 2004	<u>42,048</u>	<u>14,849</u>	<u>56,897</u>
Accumulated depreciation at 31 March 2003	(2,775)	(9,073)	(11,848)
Depreciation for the year	(1,410)	(994)	(2,404)
Depreciation on assets sold	0	108	108
Accumulated depreciation at 31 March 2004	<u>(4,185)</u>	<u>(9,959)</u>	<u>(14,144)</u>
Net Book Value at 31 March 2004	<u>37,863</u>	<u>4,890</u>	<u>42,753</u>

2. SOURCES OF FINANCE FOR FIXED ASSETS ACQUIRED

The acquisition of fixed assets was financed as follows:

	2002-2003 £'000	2003-2004 £'000
Loan Finance (Credit Approvals)	2,131	2,115
Usable Capital Receipts	0	0
Revenue Contribution	10	0
Other Contribution (Grants)	0	0
Movement in Capital Creditors	0	0
Total Expenditure on Fixed Assets	<u>2,141</u>	<u>2,115</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 2003-2004.

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	
	2003	2004
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	68
Ancillary Vehicles	93	89
Special Appliances	27	29

6. CAPITAL COMMITMENTS

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

	2003 £000	2004 £000
Purchase of Plant & Equipment	0	326
Purchase of service vehicles	0	174
Stores refurbishment at HQ building	229	0
	<u>229</u>	<u>500</u>

7. ANALYSIS OF CREDITORS AND DEBTORS

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

	2002-2003 £'000	2003-2004 £'000
<u>Analysis of Debtors</u>		
Pension & Salaries Prepayments	2,385	2,356
Grants	78	98
Insurance Prepaid	0	442
Other prepayments	1,144	1,092
Debtors	185	286
Less Provision for Bad Debts	(77)	(46)
Pension Transfer Values Receivable	406	48
VAT Debtors	247	357
Car Loans	47	19
Pension Debtors	4	3
Total Debtors	<u>4,419</u>	<u>4,655</u>
	2002-2003 £'000	2003-2004 £'000
<u>Analysis of Creditors</u>		
Salaries & Wages Accrual	637	544
Tax, NI & Pensions	998	1,082
Other Accruals	803	927
Pension Transfer Value Payable	6	61
Loan Interest Payable	318	283
Strike Costs of Alternative Fire Cover	1,545	0
Total Creditors	<u>4,307</u>	<u>2,897</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	
	2003	2004
Between 1 and 2 years	1,000	0
Between 2 and 5 years	3,560	3,560
Between 5 and 10 years	0	0
Over 10 years	19,575	19,575
Total Long Term Borrowing	<u>24,135</u>	<u>23,135</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 million 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:

	2002-2003	2003-2004
	£'000	£'000
Amount brought forward at 1 April	930	644
Claims paid in the year	(197)	(68)
Addition/(Reduction) in the year	<u>(89)</u>	<u>177</u>
Balance at 31 March	<u>644</u>	<u>753</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.

	2002-2003	2003-2004
	£'000	£'000
Amount brought forward at 1 April	6,668	7,625
Reserved proportion of Capital Receipts	0	0
Minimum Revenue Provision	<u>957</u>	<u>1,004</u>
Balance at 31 March	<u>7,625</u>	<u>8,629</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 is being 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.

There was no significant expenditure in the early stages of the committee's work. Lead authorities have been identified for each work area and more significant expenditure will be undertaken in future years as work proceeds.

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	
	31/03/03 £000s	31/03/04 £000s	31/03/03 £000s	31/03/04 £000s	31/03/03 £000s	31/03/04 £000s
Estimated Liabilities in the Scheme	(24,772)	(26,307)	(319,780)	(448,780)	(344,552)	(475,087)
Estimated Assets in the Scheme	16,969	20,433	0	0	16,969	20,433
Net Assets/(Liability)	(7,803)	(5,874)	(319,780)	(448,780)	(327,583)	(454,654)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £455m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £429m. 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 2004. 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 2004, 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 2001.

The main assumptions used in their calculations have been:

	Local Government Pension Scheme		Fire Pension Scheme	
	2002-2003	2003-2004	2002-2003	2003-2004
Rate of inflation	2.5%	2.8%	3.4%	2.9%
Rate of increase in salaries	3.5%	3.8%	4.9%	4.4%
Rate of increase in pensions	2.5%	2.8%	3.4%	2.9%
Rate for discounting scheme liabilities	6.0%	6.3%	7.0%	6.5%

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 2003		31 March 2004	
	%	£000s	%	£000s	%
Equity investments	7.5	9,655	57	11,974	59
Bonds	4.7	3,631	21	3,392	16
Other Bonds	5.5	288	2	838	4
Property	6.5	1,816	11	1,982	10
Other	4.0	1,579	9	2,247	11
		16,969	100	20,433	100

THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2002-2003	2003-2004
	£000s	£000s
Surplus/(deficit) for the year		
- Revenue Account	(651)	53
- Earmarked Reserves (note 6)	1,470	489
- Appropriate from Pension Account	(19,603)	(15,735)
- Actuarial gains & losses relating to pensions	(3,000)	(111,336)
Total increase/(decrease) in revenue resources (note 1)	(21,784)	(126,529)
Increase/(decrease) in useable capital receipts	6	0
Increase/(decrease) in unapplied capital grants and Contributions	0	0
Total increase/(decrease) in realised capital Resources (note 2)	6	0
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	0
Capital receipts set aside	0	0
Revenue resources set aside	(1,447)	(1,357)
Movement on Government Grants Deferred	0	0
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	(1,447)	(1,357)
Total recognised gains and (losses)	(23,225)	(127,886)

The statement for 2002/03 has been recast to reflect the full implementation of pensions standard FRS17. The impact is an increase in the total recognised loss for 2002/03 of £22.603 million.

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 2003/04	53	-	-
Appropriations to/(from) revenue	-	489	(15,735)
Actuarial gains & losses relating to pensions	-	-	(111,336)
	53	489	(127,071)
Balance brought forward at 1 April 2003	2,542	6,085	(327,583)
Balance carried forward at 31 March 2004	2,595	6,574	(454,654)

Actuarial gains/(losses) identified as movement on the pension reserve in 2003/04 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets and liabilities at 31 March 2004.

	Merseyside Pension Fund Scheme		Fire Pension Scheme	
	£000s	%	£000s	%
Difference between actual & expected return on assets	2,364	11.57%	0	0.00%
Difference between actuarial assumptions about liabilities & actual experience	0	0.00%	(44,030)	(9.81)%
Changes in assumptions underlying the present value of the pension liabilities	0	0.00%	(69,670)	(15.52)%
	2,364		(113,700)	
Comparative Totals 2002/03	(4,280)		1,280	

2. MOVEMENTS IN REALISED CAPITAL RESOURCES

	Useable capital Receipts (£000s)
Amounts receivable in 2003-2004	0
Amounts applied to finance new capital investment in 2003-2004	0
Total increase/(decrease) in realised capital resources in 2003-2004	0
Balance brought forward at 1 April 2003	990
Balance carried forward at 31 March 2004	990

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 2003-2004	0
Impairment losses on fixed assets due to general changes in prices in 20023-2004	0
Total increase/(decrease) in unrealised capital resources in 2003-2004	0

4. VALUE OF ASSETS SOLD, DISPOSED OF OR DECOMMISSIONED

	Fixed asset Restatement Reserve £000s
Amounts written off fixed assets balances for disposals in 2003-2004	0
Total movement on reserve in 2003-2004	0
Balance brought forward as 1 April 2003	22,723
Balance carried forward as 31 March 2004	22,723

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 2003-2004			
- reserved receipts	0	-	
- useable receipts applied	0	-	
Total capital receipts set aside in 2003-2004	0	-	0
Revenue resources set aside in 2003-2004			
- capital expenditure financed from revenue	0		
- reconciling amount for provisions of loan repayment	(1,357)		
Total revenue resources set aside in 2003-2004	(1,357)		(1,357)
Grants applied to capital investment in 2003-2004	-	0	
Amounts credited to the asset management revenue account in 2003-2004	-	0	
Movement on Government Grants Deferred	-	0	0
Total increase/(decrease) in amounts set aside to finance capital investment			(1,357)
Total movement on reserve in 2003-2004	(1,357)		
Balance brought forward at 1 April 2003	(5,737)		
Balance carried forward at 31 March 2004	(7,094)	0	

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.

Capital Investment Reserve

This reserve has been created to fund a number of potential "invest to save" capital projects that will help modernise the Fire Service.

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 2004-2005.

Friends of The Fire Service Expenditure Reserve

The Authority has set up a volunteer organisation, Friends of the Fire Service, and has received grant funding from the Active Communities Unit to develop this programme. Due to the expansion of the organisation it is now run as a separate entity and all grants and reserves have been transferred over to Friends of the Fire Service.

Financial Management Information System (FMIS) Reserve

During 2001-2002 the Authority's financial system supplier CSC transferred its contract to FOX IT. As part of the agreement FOX IT are reviewing and recommending improvements to the Authorities business process. A reserve has been created in order to pay for the implementation of any recommendations arising. No spending has yet taken place.

Stakeholder Consultancy Reserve

This reserve is set aside to consult formally with the public on a number of issues facing the Fire Service and Community Fire Safety. This reserve was fully utilised in 2003/2004 in consulting on the IRMP.

Safety Training Centre (STC) Refurbishment Reserve

This reserve was created to ring fence additional income earned in 2003-2004 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.

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.

IT/Equipment Reserve

This reserve has been created as an investment in equipment for various schemes in 2004-2005.

The Authority has a number of innovative community safety projects

- Fire Reduction through Engagement and Education (FREE)
- Princes Trust
- Bilingual/Arson Advocates
- Vauxhall Initiative

which 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 01/04/03 £000s	Contribution from/(to) revenue account £000s	Balance Carried forward at 31/03/04 £000s
Pension Commutation Reserve	4,068	530	4,598
FMIS Reserve	50	0	50
Capital Investment Reserve	700	87	787
Bellwin Reserve	139	8	147
Insurance Reserve	150	0	150
Devolved Budget Reserve	49	(38)	11
Friends Expenditure Reserve	106	(106)	0
Stakeholder Consultancy Reserve	50	(50)	0
STC Refurbishment Reserve	25	0	25
Fire boots/Clothing Reserve	95	47	142
Emergency Planning Reserve	75	0	75
F.R.E.E./Princes Trust Reserve	37	21	58
Bilingual/Arson Advocates Reserve	29	55	84
Vauxhall Initiative Reserve	12	(12)	0
Modernisation Reserve	500	(101)	399
IT/Equipment Reserve	0	48	48
Total of Earmarked Reserves	6,085	489	6,574

CASH FLOW STATEMENT

2002-2003

2003-2004

<u>£'000</u>		<u>£'000</u>	<u>Notes</u>
	Revenue Activities		
	Expenditure		
55,073	Cash paid to and on behalf of employees	59,502	
8,875	Other Operating Costs	11,024	
<u>63,948</u>		<u>70,526</u>	
(17,379)	Council Tax Income	(20,636)	
(68)	Disbursements from the Collection Funds	(36)	
(14,887)	Non Domestic Rate Income	(13,821)	
(32,650)	Revenue Support Grant	(35,175)	
(368)	Other Government Grants	(473)	1
(1,173)	Cash received for goods and services	(1,563)	
<u>(2,577)</u>		<u>(1,178)</u>	2
1,616	Interest paid	1,593	
2	Interest element of finance lease rental payments	2	
(457)	Interest received	(491)	
2,141	Purchase of Fixed Assets	2,115	
(21)	Sale of Fixed Assets	(1)	
<u>704</u>		<u>2,040</u>	
1,521	Repayments of amounts borrowed	1,290	
(2,500)	New loans raised	0	
<u>(275)</u>	Net (increase)/decrease in cash	<u>3,330</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 2003-2004 was £492,548 compared to £490,232 received in 2002-2003.

2. RECONCILIATION TO CONSOLIDATED REVENUE ACCOUNT

	2002-2003 £'000	2003-2004 £'000
Revenue Activities Net Cash Inflow	(2,577)	(1,178)
Non Cash Movements on Revenue Account		
Decrease (Increase) in stock	(21)	26
Decrease (Increase) in debtors	(257)	(236)
Increase (decrease) in creditors	167	(1,410)
Increase (decrease) in insurance provision	(286)	108
Contribution to (from) reserve	1,470	489
Minimum revenue provision	957	1,004
Repayment of MRB debt	41	41
Revenue contribution to capital outlay	10	0
Items classified separately on Cashflow Statement		
Interest Paid	1,616	1,593
Interest element of finance leases	2	2
Capital disposals	(15)	(1)
Interest received	(456)	(491)
Deficit (surplus) on revenue account	<u>651</u>	<u>(53)</u>

3. RECONCILIATION OF MOVEMENT IN CASH

	31 March 2003 £'000	31 March 2004 £'000
Investments	10,900	6,900
Cash Overdrawn	(947)	(280)
Cash held in Imprest Accounts	6	9
	<u>9,959</u>	<u>6,629</u>
Decrease in Cash and Equivalents		<u>3,330</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 2004.

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

1. SCOPE OF RESPONSIBILITY

Merseyside Fire & Civil Defence 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 Fire 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 2004 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 Fire 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 2003/4 the Authority has maintained and reviewed its system of internal control in a number of ways. In particular: -

- a. The Corporate Leadership Team 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.
- b. The Fire Service (nationally) has begun 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 Bill 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 Service, the basic business systems in use are stable and efficient and able to deliver the management information needs of the organisation.

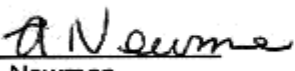
- c. The Fire Authority has received and/or adopted:-
 1. Strategic Plan targets
 2. Procurement Strategy
 3. Statement of Accounts 2002/3
 4. Treasury Management Policy
 5. External Auditors Letter
 6. External Inspections
 7. Periodic Performance Reports
 8. Medium Term Financial Strategy and Budget
 9. External Audit Plans for the 2003/4 audit.
 10. Pilot Comprehensive Performance Assessment
- d. Internal Audit Plans and an annual review of Internal Audit.
- e. The Corporate Leadership Team 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. The Internal Audit service (provided by Liverpool City Council under one contract) has undertaken 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. Copies of these reviews are sent to the External Auditors. The Authority receives an annual review of internal audit and updates through the financial monitors.

- 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 Regulations 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 budgetary control reports to the Authority.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

The Authority faces significant challenges in 2004/05 and the future as it modernises and implements its IRMP. The following have been identified as critical internal control issues.

- a. Conducting market testing for provision of the Internal Audit service in a manner to ensure continuity of effective system scrutiny.
- b. Whilst the culture of risk management is embedded in the Service, work is ongoing to improve the corporate risk management systems and to formally document processes that are in place. This will build upon work undertaken on financial risk management. The Authority will introduce a formal corporate risk management process in 2004/05.


A. Newman
Chair


A. J. McGuirk
Chief Fire Officer


K. Timmins
Director of Finance

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.

Auditor's Report to Merseyside Fire and Civil Defence Authority

I have audited the statement of accounts on pages 15 to 37 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 11-14.

This report is made solely to Merseyside Fire and Civil Defence Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Director of Finance and Auditor

As described on page 38 the Director of Finance is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts presents fairly the financial position of the Authority and its income and expenditure for the year.

I review whether the statement on internal control on pages 39 to 41 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion the statement of accounts present fairly the financial position of Merseyside Fire and Civil Defence Authority as at 31 March 2004 and its income and expenditure for the year then ended.

Certificate.

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature 

Date 22 November 2004

Judith Tench
District Auditor
Audit Commission
The Heath Business & Technical Park
Runcorn
WA7 4ZY