

report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY	
date	29 July 2005	agenda item number

REPORT OF THE TREASURER

FINAL ACCOUNTS 2004/5

1 PURPOSE OF REPORT

The purpose of this report is to seek the approval of Members to the adoption of the final accounts for the Nottinghamshire and City of Nottingham Fire and Rescue Authority for the year ended 2004/2005 in accordance with the requirement that these be formally adopted by 31 July 2005.

2 BACKGROUND

- 2.1 The accounts presented at this meeting have not yet been audited as the Auditors are unable to sign off the accounts until the Authority have formally accepted them. The Auditors will then complete their audit and issue their Management Letter in due course.
- 2.2 The final accounts attached as Appendix A therefore, are the accounts as they have been presented to the Audit Commission for their audit which is almost completed. At this time there are no indications from the auditors that they will recommend any significant changes to these accounts.
- 2.3 The Revenue Account for 2004/05 shows a net surplus of some £1,266,000, however within this sum is the £900,000 that the Authority had budgeted to be transferred to balances. The remaining sum of £366,000 is made up of £20,000 carried forward from 2003/4 and £346,000 budget underspending during 2004/5.
- 2.4 This underspending was predicted at the time the 2005/6 budget was set and the Authority agreed to support the 2005/6 budget by transferring a further £300,000 to the general reserves.
- 2.5 This underspending has to be viewed against the total resources that the Authority had at its disposal during the 2004/5 financial year.

Total funds available were as follows :

	£ 000s
Initial Budget Allocation	39,186
Modernisation Grant	529
Brought Forward Balances	<u>20</u>
Total Available Funds	<u>39,735</u>

Funded by :

Brought Forward Balances	20
Modernisation Grant	529
Revenue Support Grant	11,158
National Non-Domestic Rates	9,909
Precept	<u>18,119</u>
	<u>39,735</u>

The Authority having spent, or reserved for earmarked projects, £38,469m, gives rise to a Revenue Reserve sum (or surplus) of £1,266,000 which is shown on the Balance Sheet. As mentioned earlier £900,000 of this sum was specifically set aside to create working balances and reserves for the Authority.

- 2.6 The true underspending of £366,000 represents the total of the Authority's net underspendings against planned budgets during 2004/5 and can be divided into two areas of activity:

	£000s
Pensions	852
Other Activity	<u>(1,218)</u>
Total	(366)

3. EXAMINATION OF VARIANCES FROM BUDGET

Pensions

- 3.1 The Firefighters Pension Scheme is an unfunded "pay as you go" scheme and as such it has no investment fund from which its liabilities are met. All transactions concerning the pension scheme are therefore met from within revenue budgets. These include pensions paid to retired employees, contributions from scheme members, transfer values for employees who move between Fire Authority employers and lump sum commutations.
- 3.2 Firefighters may retire voluntarily at different times, depending on their rank, and also have a compulsory retirement age (again dependent on rank). This extended "window of time" within which firefighters may retire causes significant volatility within the Pensions budget.
- 3.3 The Authority has created a Pensions Provision of £450,000 to cover the expected transfer value for the Ex-Deputy Chief Officer's move to South Yorkshire Fire and Rescue Service.
- 3.4 In 2003/4 an Earmarked Reserve of £727,000 was created of which £250,000 was used up during 2004/5. A further revenue contribution of £388,000 was made to this reserve in 2004/5 to raise the balance to £865,000.
- 3.5 These provisions, in addition to the general levels of spending on firefighter pensions, result in the overall overspend of £852,000 in this area.

General Budgets

- 3.6 The balancing underspend within the remainder of the budget of £1.218m is made up of a number of specific items which summarise as follows :

Heading	£000's
Whole Time Pay	-219
Part Time Pay	81
Control Room Pay	85
Administrative Pay	-102
Training	-120
Premises	-145
Operational Equipment	158
Other Supplies and Services	204
Transport	88
Capital Financing	-696
Capital Charges etc	-30
Revenue Contributions to Capital Outlay	860
External Interest Earned	-212
External Income	-61
Other Miscellaneous	-10
Contingencies	-1,099
Total	-1,218

3.7 Whole time pay shows an underspend of some £219,000 which is due to two reasons :

- i) Changes that have been put in place to support the Local Risk Management Plan, specifically the reductions in the establishment arising from the transfer of the Aerial Ladder Platforms to the Retained Service.
- ii) A generalised decline in establishment numbers due to increasing retirements which have yet to be taken up by new entrants.
- iii) The Authority is currently actively recruiting firefighters to both maintain full establishment and to effect the transfer of the ALP posts into Community Fire Safety.

3.8 An overspending in the Part Time operational pay budget of some £81,000 arises mainly from an increase in the number of hours being worked by these staff as a result of increased use of training hours. This sum should be offset to some extent by the Retained Training contingency item which is referred to later in this note.

3.9 The Control Room continues to be a challenging area for budgetary control, as there are a number of difficulties with long term and short term sickness, coupled with the uncertainties surrounding regionalism which have caused significant increases in overtime working and additional temporary staff. This budget has been under pressure throughout the year and an overspend of £85,000 was not unexpected.

3.10 Administrative pay on the other hand has underspent by £102,000. There are a number of practical reasons for this, such as the delay in recruiting to vacancies and a robust approach to temporary appointments. The bulk of this underspend however, arises from a gradual movement of new staff towards the bottom of their grades whilst those staff at the top of grades did not get increments. Some £70,000 was included within this budget for incremental drift which for the above reasons did not occur.

- 3.11 The Training budget was £120,000 underspent in 2004/5. The reasons for this underspend are essentially the same as in 2003/4, as the organisation remains poised for the outcomes of the IPDS process where it is known that there will be significant impact on training.
- 3.12 Premises is again showing a large underspend of some £145,000, which is virtually all due to the continuing process of seeking rating reductions which has been highly successful. This has resulted in significant base budget reductions in support of the 2005/6 annual budget.
- 3.13 There has been some controlled overspending within the Operational Equipment budget to allow some significant items of expenditure to be funded. Primarily these relate to issues which needed to be solved but for which there was no specific budget provision. Examples of this include the provision of a new type of “gas tight suit”, as the existing model no longer met Health and Safety requirements, the provision of new saw kits for use at Road Traffic Collisions and repairs to some crucial equipment..
- 3.14 Under the heading of “Other Supplies and Services” there has been significant overspending. to the extent of £204,000. This is primarily due to increases in travelling, subsistence, home to base mileages and staff detachments between stations. Although this budget has been increased for 2005/6 it is also being examined carefully to look at how these costs can be reduced.
- 3.15 Transport is also showing an overspend of some £88,000 which is unusual for a budget which has traditionally underspent. This is due to a number of reasons, but primarily :
- Increases in contract costs for which only general inflation has been provided ;
 - An increase in the amount of modification work required to cope with new stowage requirements ;
 - This latter area is one which traditionally has been charged directly to the transport account, but which will need to be specifically costed into projects in the future.
- 3.16 The Leasing Budget shows a significant underspend of £696,000 which arises from delays in the Capital Programme both planned and unplanned. The organisation continues to tactically delay further purchases of vehicles until the FSEC model can be used to inform this procurement. This budget has been used to finance other areas of the Capital Programme directly rather than using external funding and loans.
- 3.17 There is a minor underspend of £30,000 on capital charges, but this relates largely to technical items within the accounts, not least of which is the change to the calculation of Minimum Revenue Provision resulting from the reduction in expected levels of borrowing.
- 3.18 Revenue Contributions to Capital Outlay refers to the financing of capital assets from within the revenue account, thus saving the Authority the costs of future borrowing.
- 3.19 The large “underspending” on External Interest Earned in fact reflects an increase in income generated from the investment of surplus cash balances which comes about for two reasons :

- The availability of £900,000 of working balances during the year.
- A reduced requirement for both capital and revenue spending during the year.

As this was the first year that the Authority was a precepting body, it was difficult to estimate the effect that the creation of balances would have on the amount of cash available for investment. This estimate has been increased significantly for 2005/6.

3.20 The figure shown under the generalised heading of Miscellaneous is simply the aggregate of a number of other minor under and overspends throughout the budget to allow the summary to balance to the overall total.

Contingencies

3.21 The underspending on the contingencies budget line requires more detailed explanation, particularly of the headings that are included within this general description. The true nature of contingency is a sum which is set aside for an event which may or may not occur but for which the Authority may anticipate expenditure. Such items as pay awards would normally be included under this heading.

3.22 It has become common practice to allow items for which budget is specifically provided but for which there is no immediate demand, to remain within the contingency until they are allocated to budget holders. This is to prevent individual budgets being distorted and showing underspends when in fact these relate to new projects or items of specific expenditure which have not yet taken place.

3.23 In the 2004/5 budget a contingency sum of £3.2 million was provided to meet a range of expenditure items. £1.7 million of this contingency has been specifically allocated, however there is a remaining unallocated sum of £1.399 million which is made up of the following items :

Heading	Amount £000's	Comment
General Contingency	50	No Longer Required – removed 2005/6
Regional Working	40	Used in 2005/6 to fund Regional Management Board (RMB)
Parity For Retained	274	Allocated 2005/6 and removed from the base
Balance of Cash Released from Best Value Post	10	Retained to fund Fire Safety posts in 2005/6
Regional Control Study	20	Used in 2005/6 to fund RMB
Driving at Work	70	Unable to implement a scheme in 2004/5 but will be used in 2005/6
24/7 I.T Support	30	Post required in 2005/6 but no progress in 2004/5
IPDS Support	48	Balance of funding support to this project to be used in 2005/6
Co-Responder	20	To be allocated in 2005/6. Scheme late starting
Asset Manager	30	Post to be appointed in 2005/6
Risk Manager	30	Post currently out to advert
Retained IPDS provision	350	Unable to use this sum in 2004/5 due to the failure of the central Fire Service College team to deliver requirements for this training.
Community Safety	127	See note below
Total	1,099	

As can be seen from the comments, some of these items were withdrawn from the base budget for 2005/6 as being no longer required, whilst others remain within the base budget for use in 2005/6 and future years.

- 3.24 The £127,000 set aside for Community Safety would usually have been allocated to the purchase of smoke detectors, however the receipt of substantial central government funding for this expenditure has created a temporary problem with the organisation's capacity to fit them to premises. As the pace of home safety checks increases this money will certainly be used.
- 3.24 The Accounts for 2004/5 again show a strong position for the Authority, but reflect in the budget underspendings a year of some uncertainty with guidance still awaited from the Office of the Deputy Prime Minister on a number of issues, Local Risk Management Plan initiatives beginning to have effect and the cash position of the Authority beginning to stabilise to the point that planned medium and long term investments can be considered.

Earmarked Reserve

- 3.25 The Balance Sheet shows an earmarked reserve of £1,465,000, £865,000 which relates to pensions and £600,000 has been set aside for the replacement of Personal Protective Equipment. The Fire Authority are partners in the national Integrated Clothing Project and when this is delivered by the National Project Team this reserve will enable Nottinghamshire to participate fully. There are no further contributions required to this reserve.

4. PRIOR YEAR ADJUSTMENTS

- 4.1 The audit of the Authority's 2003/04 accounts was completed in 2004 and an unqualified opinion was given on those accounts in November 2004. Since that time however an issue has come to light with respect to these accounts. The issue, in brief, related to the way in which the pension liability had been disclosed within the Balance Sheet, resulting in the Balance Sheet indicating that the Authority had net assets at the year-end when in fact it should have indicated that the Authority had net liabilities. However, the nature and size of the pension liability giving rise to the overall net liabilities position was clearly identified throughout the detailed notes to the accounts.
- 4.2 It is unfortunate that this issue was not identified during the preparation and audit of the 2003/04 accounts, however discussions with the previous external auditors (PricewaterhouseCoopers), the current external auditors (The Audit Commission), the Head of Finance and Resources and the Treasurer have considered what action, if any, needs to be taken in response to the identification of this issue. The prior year comparative figures have therefore been restated to present the Balance Sheet in such a way that it correctly discloses that the Authority had net liabilities rather than net assets in 2003/04.
- 4.3 The letter received from Messrs PriceWaterhouseCoopers has been discussed in a previous item on this agenda and is attached to that item. The agreed adjustments made to the 2003/04 accounts are as follows :

	Original 2003/2004 £000's	Restated 2003/2004 £000's
Total Assets	28,062	28,062
Provision	(942)	(942)
Other Current Liabilities	(2,481)	(2,481)
Total Assets less Current Liabilities	24,639	24,639
Net Liability relating to defined benefit scheme	187,194	(187,194)
Other Long Term Liabilities	(2,124)	(2,124)
Net Assets	209,709	(164,679)
Earmarked Reserve	1,027	1,027
Other Reserves	21,488	21,488
	209,709	(164,679)

4.4 As can be seen above these adjustments have the effect of creating a large "negative Balance Sheet" which takes account of the large liability arising from the FRS17 adjustments.

5. FINANCIAL IMPLICATIONS

These accounts again indicate a sound financial position for the Authority. The final underspend figure of £1,266,000 is made up of the £900,000 which was budgeted for in the 2003/4 budget, £300,000 which was reported earlier in the year, £20,000 brought forward from 2002/3 and a previously unreported underspend of £46,000. Members are recommended to approve the transfers of this balance to the General Reserve.

6. PERSONNEL IMPLICATIONS

There are no specific Personnel implications arising from this report

7. EQUALITY IMPACT ASSESSMENT

An initial impact assessment has revealed there are no specific issues of equality arising from this report.

8. RECOMMENDATIONS

7.1 That Members approve the Statement of Accounts for 2004/2005 as presented.

7.2 That Members approve the transfer of the overall underspend of £1,266,000 to the General Reserves.

9. BACKGROUND PAPERS FOR INSPECTION

None.

Alan Sumbly
TREASURER TO THE FIRE & RESCUE AUTHORITY

Treasurer's Foreword

The Nottinghamshire and City of Nottingham Combined Fire Authority was formed as an independent body on 1st April 1998 following Local Government Reorganisation.

The accounting policies adopted by the Combined Fire Authority (CFA) are explained fully in the notes to the accounts and comply with current recommended accounting practice.

For the purpose of the Statement of Accounts the Authority's expenditure follows the standard classification recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounts have been prepared in accordance with the code of practice on local Authority accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The following are included in the Statement of Accounts:

Revenue Account

This summarises the expenditure incurred and the income received by the Authority during the financial year and shows how the net expenditure was financed from the Precept, Revenue Support Grant, National Non-Domestic Rates and the use of Revenue Reserves where appropriate.

Balance Sheet

The Balance Sheet sets out the financial position of the Authority as at the 31st March 2005.

Statement of Total Movement in Reserves

This brings together all gains and losses which have not been recognised in the Revenue Account.

Statement on the System of Internal Control

The Statement on the System of Internal Control sets out the Authority's responsibility for Internal Control, describes both the purpose of internal control and the internal control environment. The statement also summarises the Authority's review of the effectiveness of internal control and highlights significant internal control issues and the actions to be taken in order to address these.

Cash Flow Statement

This statement summarises all inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

The Statements of Accounts are supported by the Statement of Financial Responsibilities, the Statement on the System of Internal Control, the Statement of Accounting Principles, (which follow this foreword), and the notes which follow the Revenue Account, Balance Sheet and Cash Flow Statement.

The presentation of the Revenue Account on page 21 of this statement is required by the Best Value Accounting Code of Practice which reflects revenue expenditure in the main service areas of the Authority. A more traditional presentation of the Revenue account is provided as note 11 to the main Revenue Account

Summary of the Year

The Revenue Account for 2004/05 shows a net surplus of some £1,246,000 however this does not include the £900,000 that the Authority had budgeted to be transferred to balances. The remaining sum of £366,000 is made up of £20,000 carried forward from 2003/4 and £346,000 budget underspending during 2004/5. This underspending has to be viewed against the total resources that the Authority had at its disposal during the 2004/5 financial year.

Total funds available were as follows:

	£ 000's
Initial Budget Allocation	39,186
Modernisation Grant	529
Brought forward balances	<u>20</u>
Total available funds	<u>39,735</u>

Funded by:

Brought Forward Balances	20
Modernisation Grant	
529	
Revenue Support Grant	11,158
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Precept	<u>18,119</u>
	<u>39,735</u>

The Authority having spent, or reserved for earmarked projects, £38.469m gives rise to a Revenue Reserve sum (or surplus) of £1,266,000 which is shown on the Balance Sheet. As mentioned earlier £900,000 of this sum was specifically set aside to create working balances and reserves for the Authority.

The true underspending of £366,000 represents the total of the Authority's net underspendings against planned budgets during 2004/5 and can be divided into two areas of activity:

	£000's
Pensions	852
Other Activity	<u>(1,218)</u>
Total	<u>(366)</u>

The Fire-fighters Pension Scheme is an unfunded “pay as you go” scheme and as such it has no investment fund from which its liabilities are met. All transactions concerning the pension scheme are therefore met from within revenue budgets. These include pensions paid to retired employees, contributions from scheme members, transfer values for employees who move between fire Authority employers and lump sum commutations.

Fire fighters may retire voluntarily at different times, depending on their rank, and also have a compulsory retirement age (again dependent on rank). This extended “window of time” within which fire fighters may retire causes significant volatility within the Pensions budget.

The Authority has created a Pensions Provision of £450,000 to cover the expected transfer value for the Ex-Deputy Chief Officers move to South Yorkshire Fire and Rescue Service

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These provisions, in addition to the general levels of spending on Firefighter pensions result in the overall overspend of £852,000 in this area.

The balancing underspend within the remainder of the budget of £1.218m is made up of a number of specific items which summarise as follows:

Heading	£000's
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Part Time Pay	81
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Capital Charges etc	-30
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External Interest Earned	-212
External Income	-61
Other Miscellaneous	-10
Contingencies	-1,099
Total	-1,218

Significant Variances

Whole time pay shows an underspend of some £219,000 which is due to two reasons:

- iv) Changes that have been put in place to support the Local Risk Management Plan, specifically the reductions in the establishment arising from the transfer of the Aerial Ladder Platforms to the Retained Service.
- v) A generalised decline in establishment numbers due to increasing retirements which have yet to be taken up by new entrants.
- vi) The Authority is currently actively recruiting firefighters to both maintain full establishment and to effect the transfer of the ALP posts into Community Fire Safety.

An overspending in the Part Time operational pay budget of some £81,000 arises mainly from an increase in the number of hours being worked by these staff as a result of increased use of training hours. This sum should be offset to some extent by the retained Training contingency item which is referred to later in this note.

The Control Room continues to be a challenging area for budgetary control as there are a number of difficulties with long term and short term sickness coupled with the uncertainties surrounding regionalism which have caused significant increases in overtime working and additional temporary staff. This budget has been under pressure throughout the year and an overspend of £85,000 was not unexpected.

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Premises is again showing a large underspend of some £145,000, which is virtually all due to the continuing process of seeking rating reductions which has been highly successful. This has resulted in significant base budget reductions for 2005/6.

There has been some controlled overspending within the Operational Equipment budget to allow some significant items of expenditure to be funded. Primarily these relate to issues which needed to be solved but for which there was no specific budget provision. Examples of this include the provision of a new type of "gas tight suit" as the existing model no longer met Health and Safety requirements, the provision of new saw kits for use at Road Traffic Collisions and repairs to some crucial equipment..

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stations. Although this budget has been increased for 2005/6 it is also being examined carefully to look at how these costs can be reduced.

Transport is also showing an overspend of some £88,000 which is unusual for a budget which has traditionally underspent. This is due to a number of reasons but primarily:

Increases in contract costs for which only general inflation has been provided.

An increase in the amount of modification work required to cope with new stowage requirements.

This latter area is one which traditionally has been charged directly to the transport account but which will need to be specifically costed into projects in the future.

The Leasing Budget shows a significant underspend of £696,000 which arises from delays in the Capital Programme both planned and unplanned. The organisation continues to tactically delay further purchases of vehicles until the FSEC model can be used to inform this procurement. This budget has been used to finance other areas of the Capital Programme directly rather than using external funding and loans.

There is a minor underspend of £30,000 on capital charges but this relates largely to technical items within the accounts not least of which is the change to the calculation of Minimum Revenue Provision resulting from the reduction in expected levels of borrowing.

Revenue Contributions to Capital Outlay refers to the financing of capital assets from within the revenue account, thus saving the Authority the costs of future borrowing.

The large “underspending” on External Interest Earned in fact reflects an increase in income generated from the investment of surplus cash balances which comes about for two reasons:

The availability of £900,000 of working balances during the year.

A reduced requirement for both capital and revenue spending during the year.

As this was the first year that the Authority was a precepting body it was difficult to estimate the effect that the creation of balances would have on the amount of cash available for investment. This estimate has been increased significantly for 2005/6.

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Contingencies

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which may or may not occur but for which the Authority may anticipate expenditure. Such items as pay awards would normally be included under this heading.

It has become common practice to allow items for which budget is specifically provided but for which there is no immediate demand, to remain within the contingency until they are allocated to budget holders. This is to prevent individual budgets being distorted and showing underspends when in fact these relate to new projects or items of specific expenditure which have not yet taken place.

In the 2004/5 budget a contingency sum of £3.2 million was provided to meet a range of expenditure items. £1.7 million of this contingency has been specifically allocated however there is a remaining unallocated sum of £1.099 million which is made up of the following items:

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The Accounts for 2004/5 again show a strong position for the Authority but reflect in the budget underspendings a year of some uncertainty with guidance still awaited from the Office of the Deputy Prime Minister on a number of issues, Local Risk Management Plan initiatives beginning to have effect and the cash position of the Authority beginning to stabilise to the point that planned medium and long term investments can be considered.

Earmarked Reserve

The Balance Sheet shows an earmarked reserve of £1,465,000, £865,000 which relates to pensions and £600,000 has been set aside for the replacement of Personal Protective Equipment. The Fire Authority are partners in the national Integrated Clothing Project and when this is delivered by the National Project Team this reserve will enable Nottinghamshire to participate fully. There are no further contributions required to this reserve.

Pensions Liabilities and the Effects of FRS17

Financial Reporting Standard 17 (FRS17) "Retirement Benefits" has required Local Authorities to change the way that they account for pension costs. Rather than showing only the costs of employer contributions, they are now required to show the full costs of pensions provision on their Balance Sheets. This means in effect that provision has to be made for all future liabilities at the time they are "earned by employees" and not at the time they become due. The effect of this on the accounts is that the Authority now shows a "negative Balance Sheet" due to the large pensions liability of some £226m. This again reflects the uncertain nature of the Firefighters Pension Scheme which is to be specifically addressed by Government. Consultations have recently been carried out by the Office of the Deputy Prime Minister on a wholly new way of dealing with the financing of this scheme which may result in these liabilities transferring to Central Government. However, the results of this consultation have yet to be announced.

Capping

The Fire Authority was nominated for capping for 2005/06 by the Office of the Deputy Prime Minister (ODPM). Although an appeal was lodged, and representations made to the Minister by the Chairman and Senior Officers, this appeal was unsuccessful. The Authority has been notified formally that it has been nominated for capping in 2005/06 and a balanced budget has been prepared taking this fully into account.

Prior Year Adjustments

The audit of the Authority's 2003/04 accounts was completed in 2004 and an unqualified opinion was given on those accounts in November 2004. Since that time however an issue

has come to light with respect to these accounts. The issue, in brief, related to the way in which the pension liability had been disclosed within the Balance Sheet, resulting in the Balance Sheet indicating that the Authority had net assets at the year-end when in fact it should have indicated that the Authority had net liabilities. However, the nature and size of the pension liability giving rise to the overall net liabilities position was clearly identified throughout the detailed notes to the accounts.

It is unfortunate that this issue was not identified during the preparation and audit of the 2003/04 accounts, however discussions with the previous external auditors (PricewaterhouseCoopers), the current external auditors (The Audit Commission), the Head of Finance and Resources and the Treasurer have considered what action, if any, needs to be taken in response to the identification of this issue. The prior year comparative figures have therefore been restated to present the Balance Sheet in such a way that it correctly discloses that the Authority had net liabilities rather than net assets in 2003/04.

Again, for the purposes of clarity the 2003/4 accounts have also been adjusted for the effect of transferring some of the earmarked reserve for pensions to a pensions provision as it is considered that this better reflects its purpose. The adjustments therefore are as follows:

	Original 2003/4 £000's	Restated 2003/4 £000's
Total Assets	28,062	28,062
Provision	(942)	(942)
Other Current Liabilities	(2,481)	(2,481)
Total Assets Less Current Liabilities	24,639	24,639
Net Liability related To defined benefit Scheme	187,194	(187,194)
Other Long Term Liabilities	(2,124)	(2,124)
Net Assets	209,709	(164,679)
Earmarked Reserve		
1,027	1,027	
Other Reserves	21,488	21,488
Pension Reserve	<u>187,194</u>	<u>(187,194)</u>

209,709 (164,679)

As can be seen above these adjustments have the effect of creating a large “negative Balance Sheet“ which takes account of the large liability arising from the FRS17 adjustments.

**Mr A Sumby BSc (Econ) CPFA
Treasurer to the Nottinghamshire and City of Nottingham Fire Authority**

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve and publish the Statement of Accounts in accordance with the Accounts and Audit Regulations 2003.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice').

In preparing this statement of accounts the Treasurer has:

- i) Selected suitable accounting policies and then applied them consistently;
- ii) made judgements and estimates that are reasonable and prudent;
- iii) complied with the Code of Practice

The Treasurer has also:

- i) kept accounting records up to date;
- ii) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Treasurer to the Authority is Mr A Sumby BSc (Econ), CPFA.

This Statement of Accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Authority at 31st March 2005 and its income and expenditure for the year then ended.

Signed _____

Mr A Sumby BSc (Econ) CPFA
(Treasurer)

Dated _____

STATEMENT OF APPROVAL OF THE STATEMENT OF ACCOUNTS

I confirm that these accounts were approved by the Nottinghamshire and City of Nottingham Fire Authority at the meeting held on the 29th July 2005

Signed on behalf of the Nottinghamshire and City of Nottingham Fire Authority.

Signed _____

Councillor D Pulk
(Chairman of the Fire Authority)

Dated _____

STATEMENT ON INTERNAL CONTROL - 2004/5

1. SCOPE OF RESPONSIBILITY

The Nottinghamshire and City of Nottingham Fire 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. This does not imply that risk is to be eliminated but rather that it is to be effectively identified and managed. Risk in this context is the overall corporate risk that the Authority may not be able to achieve its policies, aims and objectives as set out in the Corporate Plan. This statement can therefore only provide reasonable and not absolute assurance of the effectiveness of internal control and risk management. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Fire and Rescue 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 the 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 CONTROL ENVIRONMENT

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

- a) establish and monitor the achievement of the Authority's objectives
- b) facilitate policy and decision making
- c) ensure compliance with established policies, procedures, laws and regulations

- d) identify, assess and manage the risks to the Authority's objectives including risk management
- e) 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, as required by the Best Value duty.
- f) provide appropriate financial management of the Authority and the reporting of financial management and,
- g) 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 the Corporate Risk Profile and risk register. It is also informed 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 Strategic Management Team have 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 Authority have received and/or adopted :-
 - Strategic Plan targets
 - Statement of Accounts 2003/4
 - External Auditors Management Letter
 - Budget Monitoring
 - Periodic Performance Reports
 - Medium Term Financial Strategy and Budget
 - External Audit Plans for the 2004/5 audit.
 - Pilot Comprehensive Performance Assessment and latterly the actual assessment (results to be published shortly).
 - Internal Audit Annual report 2003/4.
 - External Auditors SAS 610 report
- (c) The Improvement and Development Board has provided an additional level of scrutiny to a number of these plans and strategies.
- (d) The internal Performance Management 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 derived from the Risk Profile.

- (e) Internal Audit have 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 both to the Authority's Treasurer and to the External Auditors.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

The Authority faces another challenging year in 2005/6 and a full action plan to deal with all issues related to Internal Control has been produced and approved. However the following issues represent the key areas in relation to internal control:-

- (a) The final accounts must be completed in accordance with the revised timescale. A plan is in place, which will require careful monitoring to ensure that the accounts for 2005/6 can be approved by the Authority by June 2006.
- (b) The Performance Management Team are to receive copies of the Internal Audit Reports and follow up recommendations as part of their wider "audit" role.
- (c) Copies of the Internal Audit Reports are to be received by the Improvement and Development Board to provide a measure of scrutiny over both Internal Audit findings and subsequent management actions.
- (d) The Corporate Risk Profile must continue to be updated.
- (e) The financial system must be further developed to provide improved levels of budget monitoring at the budget manager level and improved purchasing and procurement controls.
- (f) The Authority must review compliance with the code of conduct and carry out training for both Members and Staff in relation to governance.
- (g) The Authority must develop a set of appropriate actions in response to the outcomes of the Comprehensive Performance assessment
- (h) The Authority must continue to develop the system of performance management which requires variances in performance to be monitored and appropriate actions initiated.
- (i) The Authority must seek to embed the Risk Management ethos throughout the organisation using a combination of training and awareness programmes.
- (j) The Authority must develop it's business continuity plans both for compliance with the Civil Contingencies Act and for good risk management.

(k) Proper assurances should be sought from Departmental Managers concerning the levels of risk.

Signed _____

P Woods MSc, MCGI, MIFireE. (Chief Fire Officer)

Dated _____

Signed _____

Cllr D Pulk (Chairman of the Fire Authority)

Dated _____

**AUDITOR'S REPORT TO THE NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE
AUTHORITY**

STATEMENT OF ACCOUNTING POLICIES

1. General Policies

The general policies adopted in compiling the accounts of the Fire Authority are in accordance with the recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA). They accord with the Code of Practice on Local Authority Accounting in the United Kingdom 2004 : A Statement of Recommended Practice.

2. Fixed Assets

i) Land and Buildings

These assets are classified as either operational or non operational and are shown in the Balance Sheet at the lower of net current replacement cost or net realisable value based on existing use. All assets are revalued every 5 years on a rolling basis by the District Valuer's Office.

ii) Furniture and Fittings

Furniture and fittings were transferred from the County Council on 1st April 1998. The initial valuation was based on a nominal £20 per square foot of the Operational Buildings. The value of these assets has subsequently been depreciated and in 2004/2005 any major refurbishment's have been capitalised in line with the capital accounting regulations.

iii) All other Assets

All other assets are shown in the Balance Sheet at a valuation which represents their current value less depreciation charged on a straight line basis over the length of their useful lives.

iii) De minimis level

The value of assets shown is subject to a £30,000 de minimis level.

3. Deferred Charges

Deferred charges represent the amounts of revenue expenditure incurred by the Authority in transitional costs arising from the formation of the Authority. Approval has been given for these costs to be treated as capital expenditure and amortised over 7 years.

Also shown as a deferred charge is the £70,000 capital expenditure for the purchase of smoke alarms, which were wholly funded by government capital grant. This has been written off to the Capital Finance Account during the year in order to properly reflect that these alarms do not remain as assets of the Authority.

4. Basis of Charging for Capital

i) Capital Charges

The revenue account is charged annually with a capital charge for all fixed assets used. The Code of Practice requires that these capital charges include a provision for depreciation of the assets during the year and a notional interest charge. This interest has been charged at 3.5% of capital value comparable with the interest which could be earned on an investment of equivalent value to the assets.

ii) Asset Management Revenue Account

In order for the depreciation and interest charges to have a neutral impact on the overall funding requirement of the Authority, all depreciation and interest is credited to an Asset Management Revenue Account (AMRA) to which any actual external interest paid is also charged.

iii) Depreciation

In accordance with FRS 15, depreciation is charged on operational buildings with a finite useful life.

Assets are depreciated over their useful life and the following assumptions have been used :

Buildings	remaining useful life as provided by the District Valuation Office
IT and Communications	5 years
Non Operational Buildings and leased vehicles	not depreciated
Furniture and Fittings	20% of opening balance

Part year depreciation is charged in the year of acquisition and disposal (calculated to the nearest 3 months).

5. Debtors and Creditors

The accounts for the Fire Authority are maintained on an accruals basis. In order to comply with FRS18, year end debtors and creditors are raised where goods and services are supplied or received by the Fire Authority in the financial year, but payment does not occur until the following financial year. Exceptions are made to this policy for recurring items that cover a specific period, e.g. quarterly energy bills. These items are brought into the accounts in the year they are paid and are not apportioned over the years to which they relate.

6. Stocks

In accordance with SSAP9, stocks are valued at the lower of cost and net realisable value. Stock Issues are charged to Revenue on a weighted average basis.

7. Allocation of Support Service Costs

Support services are provided primarily by the Authority itself although some are purchased directly from the constituent authorities. The provision of a Clerk to the Authority is purchased from Nottingham City Council and some limited financial services are provided by Nottinghamshire County Council. The services of the Authority Treasurer are also provided by the County Council. Those services purchased on a contract basis are shown in the Support Services heading within the Revenue Account whereas those provided "in house" are not separately analysed. No allocation below Authority level is considered appropriate for a single function organisation.

8. Provision for the Repayment of External Loans.

Under the Local Government Act 2003, the Authority is obliged to set sums aside as provisions for credit liabilities to be used to repay the principal element of outstanding external debt, meet the liabilities of any credit arrangements or finance expenditure covered by a credit approval. The sums set aside each year are mainly the reserved elements of capital receipts and a minimum revenue provision charged to the Revenue Account (equal to 4% of Capital Financing Requirement) for the repayment of external debt.

9. Provisions

The Fire Authority makes provisions for a number of items which are known liabilities arising from activities up to the Balance Sheet date, but which will fall to be paid in future years. The full detail of all provisions made is given as Note 8 to the Balance Sheet.

i) Pension Provision

A Pension Provision of £450,000 for a transfer value that relates to 2004-2005 but which has yet to be paid.

10. Reserves

Revenue Reserves

Two revenue reserves are shown on the face of the Balance Sheet. These are:

i) Earmarked Reserve

A contribution of £388,000 was made to the earmarked reserve in 2004/05 for anticipated lump sum pension payments.

A further contribution of £300,000 has been made to the earmarked reserve for Personal Protective Equipment during the year. This raises the value of this reserve to £600,000 which is considered to be an appropriate amount to finance this purchase when the national Integrated Clothing Project is completed.

ii) General Reserve

This reserve is the surplus of income over expenditure in the 2004/5 financial year and the cumulative effect of such surpluses carried forward from previous years.

In 2004/5 the figure for general reserves is given as £363,000 which includes £20,000 brought forward from 2003/4 and all relates to general expenditure.

Capital Reserves

In accordance with standard accounting practice, two non cash backed capital reserves exist as part of the system of capital accounting. These are:

i) The Fixed Assets Restatement Account

This represents the balance of surpluses or deficits arising from the periodic revaluation of fixed assets.

ii) The Capital Financing Account

This account contains :-

- a) the part of capital receipts required by statute to be set aside for the repayment of external loans.
- b) the amount of capital expenditure financed from revenue and capital receipts.
- c) the difference between the amount of depreciation charged in the year and the amount required to be charged to revenue to repay the principal element of external loans, the minimum revenue provision.
- d) the deferred charge relating to Government Grants and the set up costs of the Combined Fire Authority.
- e) Capital grant amortised during the year .

11. Usable Capital Receipts

Capital Receipts arising from the sale of land and buildings in the excess of £6,000 are applied to finance capital expenditure. There have been no such receipts during 2004/5.

12. Operating Leases

In accordance with SSAP21, where expenditure is financed by means of an operating lease , the annual lease payment is charged on a straight line basis to the revenue account.

13. Capital Grants

Capital Grants are credited to the Government Grant Deferred account and amounts are released to AMRA over the useful economic life of the associated asset.

A Government Grant was received in 2001/2002 and relates to Capital Expenditure on Notts Link.. A government grant deferred balance of £4,000 remains at 31 March 2005. This is amortised as it is used.

Smoke alarms funded by an ODPM capital grant have been capitalised as a deferred charge in accordance with guidance issued by the Audit Commission. The Fire Authority does not control the economic benefits arising from this expenditure and therefore the deferred charge has been fully amortised to revenue during the year.

Investments

Investments shown in the accounts are short term deposits made to banks and other financial institutions, in accordance with the terms of the Fire Authority's Treasury Management Policy, and are recorded in these accounts at cost.

14. Provision for Bad and Doubtful Debts

The policy adopted for the treatment of bad and doubtful debts is that all debts over 6 months old are considered bad or doubtful unless there is specific reason for believing that a payment will be forthcoming.

**REVENUE ACCOUNT FOR THE YEAR ENDED
31ST MARCH 2005**

Restated 2003/04 Net Costs £000	<u>Best Value Statement</u>	Note	2004/05 Gross Expenditure £000	2004/05 Gross Income £000	2004/05 Net Cost £000
	Community Fire Safety				
2,018	Staff	1	2,721	(161)	2,560
396	Service		<u>634</u>	<u>(385)</u>	<u>249</u>
2,414			3,355	(546)	2,809
	Fire Fighting and Rescue Operations				
24,646	Staff	1	30,048	(1,958)	28,090
7,521	Service		<u>8,572</u>	<u>(590)</u>	<u>7,982</u>
32,167			38,620	(2,548)	36,072
105	Emergency Planning and Civil Defence		119		119
	Central Services				
95	Corporate Core		58		58
17	Democratic Core		18		18
17	Non-Distributed Costs		17		17
	Other Operating Income and Expenditure				
(85)	Trading Account Deficit/(Surplus)	5	310	(330)	(20)
(631)	Asset Management Revenue Account	2	(832)		(832)
(108)	Investment Income			(232)	(232)
10,282	Pension Interest Costs		<u>11,763</u>		<u>11,763</u>
44,273	Total Net Expenditure		53,428	(3,656)	49,772
(731)	Provision for Repayment External Loan	3	(947)		(947)
1,027	Contribution to Earmarked Reserve	4	300		300
320	Revenue Contribution to Capital Costs		873		873
	Appropriation Account		70		70
(9,884)	Movement on Pension Reserve (see page 35)		<u>(11,599)</u>		<u>(11,599)</u>
35,005	Amount to be met From Government Grants and Local Taxation.		42,125	(3,656)	38,469
	Government grant			(529)	(529)
	Precept from Constituent Authorities			(18,119)	(18,119)
	Non-Domestic Rates			(9,909)	(9,909)
	Revenue Support Grant			(11,158)	(11,158)
(26,713)	Nottinghamshire County Council				
(8,040)	Nottingham City Council				
252	Net (Surplus)/Deficit		42,125	(43,371)	(1,246)
272	Balance on Fund Brought Forward				20

<u>(252)</u>	Balance on Fund Carried Forward	<u>346</u>
20		366
0	Contributions to Balances	900
<u>20</u>	Balance on Funds Carried Forward	<u>1,266</u>

NOTES TO THE REVENUE ACCOUNT

1. Officer's Emoluments

The Authority is required, under Regulation 7 (2) of the Accounts and Audit Regulations 2003, to report the numbers of staff with salaries and allowances in excess of £50,000 per annum, in multiples of £10,000. In 2003/04 the Principal Officers were awarded a pay award backdated to 2002/03 the back pay element of which is reflected in the figures for 2003/04. The figures are further distorted between years due to the inclusion of a second Deputy Chief Officer who was fully funded for a secondment to South Yorkshire Fire and Rescue Service and also the Head of Technology who is seconded to the ODPM and similarly funded.

	2004/05	2003/04
£50,000 - £59,999	8	2
£60,000 - £69,999	1	3
£70,000 - £79,999	3	2
£80,000 - £89,999	2	1
£90,000 - £99,999	3	1
£100,000-£109,999	0	0
£110,000-£119,999	1	0
£120,000-£129,999	<u>0</u>	<u>1</u>
	18	10

2. The Asset Management Revenue Account

The net income on this account represents the difference between the amounts charged to the cost of services through the capital charges and the interest actually paid by the Authority.

The 2004/05 Account is detailed below:

	2004/05 £000's	2003/04 £000's

Income		
- Capital Charges	(1,975)	(1,602)
Expenditure		
Amortisation of Government Grants	(69)	(15)
Provision for Depreciation	1,098	852
External Interest Charges	114	134
Balance Transferred to Revenue Account	(832)	(631)

3. Provision for the Repayment of External Loans

The Authority is required by statute to set aside a Minimum Revenue Provision for the redemption of debt equal to 4% of the credit ceiling. The extent to which this amount is not covered by depreciation charges is represented in the revenue account by a transfer from the Capital Financing Account as detailed below:

	2004/05 £000's	2003/04 £000's
Minimum Revenue Provision	151	121
Amount Charged as Depreciation	(1,098)	(852)
Credit to Revenue Account	(947)	(731)

4. Earmarked Reserve

A reserve has been created for £300,000, which has been set aside for the replacement of PPE. This had originally been planned to take place in 2003/4 however this has been delayed. It is considered prudent to earmark this sum as a reserve to be used to purchase new PPE should the Integrated Clothing Project fail to meet Nottinghamshire's requirements. The ICP itself will also require to be funded.

5. Trading Accounts

The Authority runs Fire Equipment Maintenance and Commercial Training under single managers who are required to meet the costs of activity by charging customers for services provided. At the year end, the trading Accounts has the following financial results:-

Expenditure 2004/05	Income 2004/05	(Surplus)/deficit 2004/05
--------------------------------	---------------------------	--------------------------------------

Commercial Training	98	(90)	8
Fire Extinguisher Maintenance	<u>212</u>	<u>(240)</u>	<u>(28)</u>
Total	310	(330)	(20)

6. Operating Leases

The Authority has the use of certain assets under the terms of operating leases. The amount paid under these leases in 2004/05 was £1,240,000 and the amounts required in future years are as follows: -

Year	<u>£000's</u>
2005 - 2006	1,415
2006 - 2007	1,701
2007 - 2008	1,552
2008 - 2009	1,506
2009 - 2010	<u>1,407</u>
Costs for future years	<u>7,581</u>

7. Expenditure on Publicity

Section 5 of the Local Government Act 1986 requires the Authority to keep a separate account of expenditure incurred on publicity. The definition of publicity includes most advertising expenditure.

	2004/05	2003/04
	£000's	£000's
Staff Advertising	47	25
Public Education	<u>64</u>	<u>25</u>
Total	<u>111</u>	<u>50</u>

8. Financial Reporting Standard 8 – Related Party Transactions

All Officers and Members of the Fire Authority have been required to submit a return in respect of related party transactions. These returns revealed there were no

Related Party Transactions during the financial year ended 31st March 2005 other than those detailed below.

The Fire Authority buys in a number of support services from both the City and the County Councils. These relate largely to the provision of payroll, the services of a Treasurer and those of a Clerk.

	2004/05
	£
Treasury and Payroll	97,000
Committee services	19,000
Architects	10,000
Regional Management Board	9,220

As the Fire Authority is made up of 12 Members from the Nottinghamshire County Council and 6 Members from the Nottingham City Council these transactions are considered to be with related parties.

9. Audit Fees

The fees payable to the Audit Commission in England and Wales with regard to the external audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with section 5 of the Audit Commission Act 1998 are as follows :

	2004/05	2003/04
	£000's	£000's
Accounts and Governance	27	25
Performance	<u>21</u>	<u>22</u>
Total	48	47

10. Member's Allowances

Allowances paid to Members of the Authority in 2004/05 are as follows:

	2004/05
	£000's
Members' Allowances	29

Prior to 1st April 2004 members allowances were paid directly by the constituent authorities and are shown within the accounts of those authorities.

11. Alternative Revenue Account for the year ended 31st March 2005

	4		<u>Restated</u>
	5	<u>2004/05</u>	<u>2003/04</u>
	6	<u>£000's</u>	<u>£000's</u>
Expenditure			
Employees			
Direct		24,136	21,959
Indirect		521	534
Arrears due on salaries		130	325
Fire Pensions (Net)		6,671	4,642
Premises		1,439	1,218
Transport		1,216	1,104
Supplies and Services		4,051	3,930
Support Services		222	169
Capital Charges		1,975	1,602
		17	17
Unapportionable overheads			
Gross Expenditure		40,378	35,500
		(1,305)	(770)
Income			
Net Cost of Service		39,073	34,730
Asset Management Revenue Account		(832)	(631)
External Interest Receivable		(232)	(108)
Pension Interest Costs		11,763	10,282
Total Net Expenditure		49,772	44,273
Provision for the Repayment of External Loans		(947)	(731)
Capital Expenditure financed from Revenue		873	320
Contribution to Earmarked Reserves		300	1,027
Appropriation Account		70	0
		(11,599)	(9,884)
Movement on Pension Reserve			
Amount to be met by Constituent Authorities		38,469	35,005
Financed by:			
Government Grant		(529)	0
Precept from Constituent Authorities		(18,119)	0
Non-Domestic Rates		(9,909)	0
Revenue Support Grant		(11,158)	0
Nottinghamshire County Council			(26,713)
Nottingham City Council			(8,040)
		(39,715)	(34,753)
Net (Surplus)/Deficit		(1,246)	252
Balance on Fund Brought Forward		20	
Balance on Fund Carried Forward		346	
		366	
Budgeted Contributions to Balances		900	
		1,266	

BALANCE SHEET AS AT 31ST MARCH 2005

	Note	2004/05 £000's	2003/04 £000's Restated
Fixed Assets			
Operational	1		
Land and Buildings		23,762	23,343
Vehicles and Plant		75	0
Equip/Furniture And Fittings		855	604
Non- Operational			
Land and Buildings		0	245
Deferred Charges	2	0	9
Total Long Term Assets		24,692	24,201
Current Assets			
Stocks and Work in Progress	3	250	183
General Debtors	4	978	1,180
Payments in Advance	4	1,221	1,253
Bank Balance		170	244
Short Term Investments		3,200	1,000
Cash in Hand		1	1
		5,820	3,861
Current Liabilities			
Short Term Loan		(84)	(80)
Creditors	5	(2,822)	(2,401)
Provision	8	(725)	(942)
		(3,631)	(3,423)
Total Assets Less Current Liabilities		<u>26,881</u>	<u>24,639</u>
Long Term Liabilities	6	(2,036)	(2,120)
Government Grants Deferred	7	(4)	(4)
Net Liability related to defined benefit scheme		(225,881)	(187,194)
Net Assets		<u>(201,040)</u>	<u>(164,679)</u>
Fixed Assets Restatement Account	9	24,583	23,928
Usable Capital Receipts Reserve	9	0	0
Earmarked Reserve	9	1,465	1,027
Revenue Contribution to Balances	9	900	0
Revenue Reserve	9	366	20
Pension Reserve	9/10	(225,881)	(187,194)

Capital Financing Account	9	(2,473)	(2,460)
		(201,040)	(164,679)

NOTES TO THE BALANCE SHEET

1. Fixed Assets

i) Movements in Fixed Assets

The movement in Fixed Assets during the year were as follows:-

	Land & Buildings Operational	Land & Buildings Non Operational	Vehicle s	Plant and Equipmen t	Total
	£000's	£000's	£000's	£000's	£000's
Gross Value as at 1 April 2004	25,628	245	27	1,592	27,492
Acquisitions	306	0	78	489	873
Disposal	0	0	0	0	0
Revaluation's	660	0	0	-4	656
Impairments	0	0	0	0	0
Reclassification	245	-245	0	0	0
Gross Book Value as at 31 March 2005	26,839	0	105	2,077	29,021
Depreciation to 31 March 2004	(2,285)	0	(27)	(988)	(3,300)
Depreciation for the period	(792)	0	(3)	(234)	(1,029)
Net Book Value as at 31 March 2005	<u>23,762</u>	<u>0</u>	<u>75</u>	<u>855</u>	<u>24,692</u>

ii) Financing of Fixed Assets

In accordance with the Local Government and Housing Act 1989 the Fire Authority's Basic Credit Approvals have been applied to expenditure on fixed assets in order that no charge is required to be made to the Revenue Account. The actual expenditure on fixed assets of £943,000 was financed by means of external borrowing, capital receipts and revenue. The actual breakdown is detailed below.

	2004/05 £000's	2003/04 £000's
Basic Credit Approval	0	88
Usable Capital Receipts	0	0
Capital Expenditure financed from Revenue	860	320
Revenue Grant	13	0
Capital Grant	<u>70</u>	<u>0</u>
	943	408

The Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure. The breakdown is detailed below.

Opening Capital Financing Requirement	£000's 3,766
Capital Investment:	
Operational Assets	873
Non operational Assets	0
Deferred charges	70
Sources of Finance:	
Government Grants and contributions	83
Direct Revenue Financing	860

Minimum Revenue Provision	151
Closing Capital Financing Requirement	3,615

iii) Major Capital Schemes

The major capital schemes undertaken during the period were:

	2004/05
	£000's
BTC Fire House	159
Replacement Equipment	127
Central Fire Station Refurbishment	60
Harworth Fire Station	32

iv) Capital Commitments

There are no commitments for capital expenditure in future years for which the Authority had contractual commitments at 31st March 2005 .

v) Analysis of Fixed Assets

The list below gives an indication of the significant fixed assets of the Authority. Items financed by operating leases, such as fire appliances, are not included in the table. Houses which are situated on or adjacent to Fire Stations have been separately identified, and in 2004/05 have been reclassified as operational, as these assets are occupied on behalf of the authority or consumed by the authority in the direct delivery of the services.

Analysis of Fixed Assets at 31 March 2005

	31.3.2005	31.3.2004
Fire Stations	25	25
Training School	1	1
Administrative Buildings	1	1
Houses	3	3
Vehicles	29	0

v) Revaluation of Fixed Assets

The Nottingham Valuation Office carry out valuations of all properties over a five year rolling programme. The last valuation was carried out on the 31st March 2005 by K. Skirving MRICS.

All properties that have a useful life of over 50 years are valued at the end of each reporting period for impairment.

The basis for the valuations is as follows :-

Operational property - Depreciated Replacement Cost
Non operational assets – open market value

2. Intangible Fixed Assets

When the Authority was originally constituted it was allowed to capitalise some of the Revenue costs associated with transition and amortise these over a period of 7 years. Supplementary Credit Approval (SCA) was given for this specific purpose. As of 2004/05 the SCA has been fully amortised.

Smoke alarms funded by an ODPM capital grant have been capitalised as a deferred charge in accordance with guidance issued by the Audit Commission. The Fire Authority does not control the economic benefits arising from the expenditure and therefore the deferred charge has been fully amortised to revenue.

	2004/05	2003/04
	£000's	£000's
Deferred Charges at 1 st April 2004	9	17
Additions during Year	<u>70</u>	<u>15</u>
Gross Value 31st March 2005	79	32
Amortisation charged to CFA	<u>(79)</u>	<u>(23)</u>
Net Balance at 31st March 2005	<u>0</u>	<u>9</u>

The opening balance of deferred charges reflects those transitional costs which were incurred in the period 19th November 1997 to 31st March 1998.

3. Stocks

The Authority maintains a Stores where items of equipment and uniform are stored prior to issue. The following represents a list of the major items of stock held at the year end

	2004/05	2003/04
	£000's	£000's
Uniforms and Protective Clothing	159	95
Operational Equipment	68	70
Other Operational Equipment	5	5
Consumables	8	10
	<u>10</u>	<u>3</u>
Other		
Total Stock Held	250	183

4. Debtors

These represent sums owed to the Fire Authority for supplies and services provided before 31 March 2005, but not received at that date.

	2004/05	2003/04
	£000's	£000's
General Debtors	978	1,180
Payments in Advance	<u>1,221</u>	<u>1,253</u>
Total Debtors	2,199	2,433

General Debtors are those which relate to debts actually owing to the Authority at March 31st 2005 whereas Payments in Advance relate to prepayments of bills such as lease rentals and telephone rentals as well as payments made to employees before the year end. The figures shown are net of provision for bad and doubtful debts which were provided for within the years as follows:

	2004/05
	£000's
Opening Value of Provision	17
Less Payments Received	(11)

Add new doubtful debts	<u>15</u>
Closing Value of Provision	21

5. Creditors

These represent sums owed by the Fire Authority for supplies and services received before 31 March 2005, but not paid for at that date.

	2004/05	2003/04
	£000's	£000's
General Creditors	2,048	1,869
Employee Accruals	245	249
Other Accruals	<u>529</u>	<u>283</u>
Total Creditors	<u>2,822</u>	<u>2,401</u>

6. Analysis of Borrowing repayable over a period in excess of 12 months

The following long term borrowings from the Public Work Loans Board were outstanding as at 31st March 2005.

Analysis of Loans by Maturity	2004/05	2003/04
	£000's	£000's
Between 1 – 2 years	89	84
Between 2 – 5 years	294	280
Between 5 – 10 years	602	572
Between 10 – 15 years	776	738
Over 15 years	<u>275</u>	<u>446</u>
	<u>2,036</u>	<u>2,120</u>

7. Government Grants Deferred.

The opening balance refers to grants applied to the financing of fixed assets, for the Nottslink Data Warehousing Initiative, awaiting amortisation. The amounts received and released to AMRA during the year relate to a capital grant for smoke alarms from the ODPM.

	2004/05	2003/04
	£000's	£000's
Balance as at 1 st April 2004	4	19
Grants received in the year	70	0
Released to AMRA in year	<u>(70)</u>	<u>(15)</u>
Balance as at 31 st March 2005	<u>4</u>	<u>4</u>

8. Provisions

Provisions have been created for:

- a) Costs that are owing for the Job Evaluation of the non uniformed staff.
- b) A Transfer value relating to 2004-2005.
- c) Cost that relate to the purchase of the AXIS Database, for the Pensions records of Fire-fighters, of which the Authority have a legal obligation to deliver.

Provision	Balance 2003/2004	Increase in provision 2004/2005	Provision used 2004/2005	Balance 2004/2005
	£000's	£000's	£000's	£000's
Industrial Action	524	0	(469)	55
Pay Awards	300	0	(300)	0
Insurance Job Evaluation	88	0	(22)	66
Pension	30	130	(15)	145
Axis Database	0	450	0	450
	0	9	0	9
Total	<u>942</u>	<u>589</u>	<u>(806)</u>	<u>725</u>

9. Statement of Total Movement in Reserves

	2004/05	2003/04
Surplus/deficit for the Year	346	20
Contribution to Balances	900	0
Movement on Earmarked Reserves	438	1,027
Appropriations from Pension Reserve	(11,599)	(9,884)
Actuarial Gains and Losses relating to Pensions	(27,088)	(5,355)
Total Increase/(Decrease) in Revenue Resources (note 1)	(37,003)	(14,192)
Increase/(Decrease) in Useable Capital Receipts	0	0
Increase/(Decrease) in Unapplied Capital Grants and Contributions.	0	0
Total Increase/(Decrease) in Realised Capital Resources.	0	0
Gains/Losses on revaluation of Fixed Assets	656	3,780
Impairment Losses on Fixed Assets due to General changes in Prices	0	(176)
Total Increase/(Decrease) in unrealised value of Fixed Assets (note 2)	656	3,604
Value of Assets sold, Disposed of or decommissioned (note 3)		
Capital Receipts set aside	0	0
Revenue Resources set Aside	(13)	(419)
Movement on Government Grants Deferred.	0	(15)
Total Increase/(Decrease) in amounts set aside to Finance Capital Investment (note 4)	(13)	(434)
Total Recognised gains ad Losses	(36,360)	(11,002)

Notes to the Statement of Total Movements in Reserves.

	Contribution to Balances	Revenue Reserves	Earmarked Reserve	Pensions Reserve
1.Movements in Revenue and Pension Reserves.				
Contribution for 2004/2005	900			
Surplus/(Deficit) for 2004/2005		346		
Appropriations to/from Revenue			438	(11,599)
Actuarial Gains and Losses relating to Pensions				(27,088)
	900	346	438	(38,687)
Balance Brought Forward at 1 st April 2004	0	20	1,027	(187,194)
Balance Carried Forward 31st March 2005	900	366	1,465	(225,881)

2.Movements in Unrealised Fixed Assets.

	Fixed Assets Restatement Account
Gains/losses on revaluation on Fixed Assets in 2004-2005	660
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	660

3.Movements in amounts set aside to Finance Capital Investment.

	Capital Financing Account	Government Grants Deferred
Capital Expenditure Finance From Revenue	(13)	0
4.Total Revenue Resources Set Aside in 2004-2005	(13)	0
Grants Applied to Capital investment in 2004-2005		70
Amounts Credited to Asset		(70)

Management Revenue Account		
Movements on Government Grants Deferred		0
Total Increase/Decrease in amounts set aside to finance Capital Investments		
Total Movement on Reserves in 2004-2005	(13)	0
Balance Brought Forward as at 1 st April 2004	(2,460)	4
Balance Carried Forward 31st March 2005	(2,473)	4
<u>Capital Financing Account</u>		

Balance Brought Forward as at 1st April 2003	(2,041)
Depreciation for the Year	(875)
Minimum Revenue Provision	121
Revenue Contributions to Capital Outlay	320
Government Grants Deferred	<u>15</u>
Balance as at 31st March 2004	(2,460)

Balance Brought Forward as at 1st April 2004	(2,460)
Depreciation for the Year	(1,107)
Minimum Revenue Provision	151
Revenue Contributions to Capital Outlay	860
Government Grants Deferred	<u>83</u>
Balance as at 31st March 2005	(2,473)

Earmarked Reserve

Balance Brought Forward as at 1st April 2004	1,027
Additional contribution for Purchase of Protective Clothing (2004-05)	300
Lump Sum Payments paid in 2004-05	(250)
Additional Lump sum Payments relating to 2004-05	<u>388</u>
Balance as at 31st March 2005	1,465

10. Pensions – Financial Reporting Standard 17 (FRS17)

Under the requirements of Financial Reporting Standard Number 17 – Retirement Benefits, the Authority has an obligation to set out its funding position related to its pension scheme for its employees. The Authority participates in two schemes, the wholetime Firefighters pension scheme which is unfunded, and the Local Government Pension Scheme for non uniformed staff. The latter scheme is administered by Nottinghamshire County Council.

The accrued liabilities have been calculated in accordance with the guidance issued by CIPFA. In previous years, CIPFA have specified that the discount rate to be applied to the valuation of accrued liabilities should be 3.5% in excess of price inflation (this 3.5% excess over price inflation is known as the “real discount rate”). However, there has been a change in the CIPFA guidance for 2004/05, and the discount rate is now based on the redemption yield available on AA rated corporate bonds. This is a substantial change from previous years, and the effect is that the real discount rate as at 31 March 2005 becomes 2.5% p.a., rather than the previous 3.5% p.a. (for comparison purposes, the real discount rate as at 31 March 2004 on the corporate bond basis would have been 2.7% p.a.). The effect of the move to the corporate bond-based discount rate as at 1 April 2004 (i.e. the move to a real discount rate of 2.7% p.a.) is shown as a separate item on the bottom right of the schedule which sets out the results. This figure is different from the “change in assumptions” item shown on the schedule, as the change in assumptions shows the effect of the change in real discount rate from 3.5% p.a. to 2.5% p.a., and also the effect of allowing for improved longevity, as described under “demographic assumptions” below.

The expected rate of Pensionable Pay increase above price inflation has been assumed to be 1.5% per annum, which is consistent with the assumption adopted for the calculation of last year’s FRS17 liabilities.

In summary, the following set of financial assumptions has been adopted to calculate FRS17 liabilities as at 31 March 2005.

Rate of discount	5.4%
Rate of Pensionable Pay inflation*	4.4%
Rate of Price inflation	2.9%

* plus a salary scale to allow for promotional effects.

The Authorities assets and liabilities are:

	31.3.2005	1.4.2004
	£000's	£000's
Accrued liabilities in respect of Wholetime Firefighters Scheme	221,585	185,534
Share of liabilities in the County Council Fund	<u>11,006</u>	<u>6,482</u>
Total Liabilities	232,591	192,016
Share of Assets in the County Council Fund	<u>(6,710)</u>	<u>(4,822)</u>
Net Pension Deficit	<u>225,881</u>	<u>187,194</u>

The main assumptions used in the calculations are

	Firefighters		Non Uniformed	
	31.3.2005	1.4.2004	31.3.2005	1.4.2004
	5%	5%	5%	5%
Rate of Inflation	2.9	2.8	2.9	2.8
Rate of Increase in Salaries	4.4	4.3	4.65	4.3
Rate of Increase in Pensions	2.9	2.8	2.9	2.8
Discount Rate	5.4	6.3	5.4	6.3
Rate of Return from Equities			7.5	7.5
Rate of Return from other bonds			5.4	5.5
Rate of Return from Government bonds			4.7	4.7
Rate of Return from Property			6.5	6.5
Rate of Return on Cash/ Liquidity			4.75	4.0

Rate of Return from
Other Investments

7.5

7.75

The movement in net pension liability for the year to 31st March 2005 is as follows

	Firefighters	Non Uniformed
	£000's	£000's
Net pensions liability at 1 April 2004	(185,534)	(1,660)
Current Service Cost	(6,453)	(455)
Payments by Employer	6,688	384
Past Service Cost/Curtailment Cost	0	0
Interest on Liabilities	(11,661)	
Net Interest/Return on Assets		(102)
Actuarial Gain / (Loss)	(24,625)	(2,463)
Net Pension Deficit	(221,585)	(4,296)

The actuarial gains/(losses) can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2005

	Firefighters		Non Uniformed	
	£000's		£000's	
Difference between the expected and actual return on the assets			239	(3.6%)
Difference between the actuarial assumptions about liabilities and actual expenditure	12,604	(5.7%)	(331)	(3%)

Changes in the demographic and financial assumptions used to estimate liabilities	(37,229)	(16.8%)	(2,371)	<u>(21.5%)</u>
	(24,625)	(11.1%)	(2,463)	(22.4%)

i) Wholetime Firefighters Pension Scheme

The wholetime firefighters pension scheme is an unfunded, defined benefit, scheme. This means it provides pensions and other retirement benefits for employees based on final salaries, but owns no assets. As a result the annual cost of the benefits paid out is met by using employees contributions and revenue money provided by the Authority.

Liabilities identified by Mercers show that the Authority has a pensions deficit of some £225.8814m of which £221.585m is in respect of uniformed employees. There is currently no specific balance sheet provision for this sum and the extent to which it can be managed therefore is contingent upon future retirement trends, future payment of contributions by officers and continued revenue support.

ii) Local Government Pension Scheme

The non uniformed staff are eligible for membership of the Nottinghamshire Pension Fund which is administered by Nottinghamshire County Council. The scheme is a defined benefit scheme and the Authority pays all contributions over to the Fund. The contributions to the Fund are based on rates determined by the Fund's qualified actuaries. The last full valuation occurred in March 2004 with the next one due in March 2007. This will take a longer term view of the fund than that required by FRS17 and the Authority's contributions may be changed at that date.

Assets held by the Authority in the Nottinghamshire County Councils Pension Fund consist of

	31.3.2005		1.4.2004	
	£000's	%	£000's	%
Equities	4,247	62.9	3,033	62.9
Government Bonds	926	12.1	583	12.1
Other Bonds	309	7.9	381	7.9

Property	960	11.2	540	11.2
Cash Liquidity	134	5.9	285	5.9
Other	<u>134</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>6,710</u>	<u>100</u>	<u>4,822</u>	<u>100</u>

The current valuation undertaken by Mercers indicates a deficit on this fund of some £4.296m however this will be taken into account at the next full valuation and employer contributions adjusted accordingly.

CASH FLOW STATEMENT

2003/04		2004/05	
£000's		£000's	£000's
	REVENUE ACTIVITIES		
	Cash Outflows		
27,439	Employees Costs	31,775	
<u>6,945</u>	Other Operating Costs	<u>6,545</u>	
34,383			38,320
	Cash Inflows		
(34,753)	Income From Precept	(39,715)	
<u>(1,168)</u>	Other Income	(1,523)	
(35,921)			(41,238)
(1,537)	Net Cash Inflow from Revenue Activities		(2,918)
	SERVICING OF FINANCE		
	Cash Outflows		
134	Interest Paid	114	
	Cash Inflows		
<u>(108)</u>	Interest Earned	<u>(232)</u>	
(1,511)			(3036)
	CAPITAL ACTIVITIES		

	Cash Outflows	
408	Net Movement of Fixed Assets	786
15	Financing of Deferred Charges from Cash	
0	Assets to be Leased	44
423	Capital Activities net Cashflow	830
(1,088)	Total Net Cashflow before financing	(2,206)
	<u>Management of liquid Resources</u>	
1,000	Net increase of short term deposits	2,200
	<u>FINANCING</u>	
	Cash Outflows	
76	Loans Repaid	80
	Cash Inflows	
0	Loans Raised	0
	Net cash outflow from financing and management of liquid Assets	
(12)	<u>BANK ACCOUNT AND CASH BALANCES</u>	74

NOTES TO CASHFLOW STATEMENT

1. Reconciliation to the Revenue Account

2003/2004		2004/2005
4		£000's
£000's		
252	(Surplus)/deficit on Revenue Account	(346)
	Items on Accruals Basis	
115	Movement in Debtors	(234)
(358)	Movement in Creditors (421)	(335)
	Capital Creditors 86	
10	Stocks	68
	Items classified separately	
108	Interest Earned	232
(134)	Interest Paid	(114)

(122)	MRP and Deferred Charges	(151)
(320)	RCCO	(873)
(1,027)	Earmarked reserve	(438)
	Contribution to Balances	(900)
(61)	Provision	217
	Items not shown elsewhere in statement	
0	Items to be Leased	(44)
(1,537)	Net Cash Inflow From Revenue Activities	<u>(2,918)</u>

2. Movement in Cash

	Balance 1 April 2004	Balance 31 March 2005	Movement 2004/05
	£000's	£000's	£000's
Bank Balance	244	170	(74)
Cash In Hand	1	1	0
	<u>244</u>	<u>171</u>	<u>(74)</u>

3. Reconciliation of Movement in Net Cash to Net Debt

	2004/05 £000's
Decrease in Cash	74
Short Term Investments	(2,200)
Cash outflow from loan repayments	(80)
Cash inflow from increase in debt	0
Change in Net Debt resulting from cash flows	<u>(2,206)</u>
Net Debt as at 1 st April 2003	955
Net Debt as at 31 st March 2004	<u>1,251</u>
Movement in net debt in period	<u>(2,206)</u>

4. Reconciliation of Financing and Management of Liquid Resources

	Balance 1 April 2004 £000's	Balance 31 March 2005 £000's	Movement 2004/05 £000's
Financing			
Increase of Amount Borrowed			
Borrowing repayable within 12 months	(80)	(84)	4
Long Term Borrowing	<u>(2,120)</u>	<u>(2,036)</u>	<u>(84)</u>
	(2,200)	(2,120)	(80)
Management of Liquid Resources			
Temporary Investments	<u>1,000</u>	<u>3,200</u>	<u>(2,200)</u>
Net Cash Outflow from Financing and Management of Liquid Resources	<u>(1,200)</u>	<u>(1,080)</u>	<u>(2,280)</u>

5. GLOSSARY OF TERMS

1. Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

2. Budget

A statement of the policy of the Authority expressed in financial terms. The budget is the financial element of a range of plans adopted by the Authority which include the budget, the Integrated Risk Management Plan and the corporate plan.

3. Capital Expenditure

Expenditure on the acquisition of assets or expenditure which adds to, and not merely maintains, the value of existing assets.

4. Capital Receipts

Income derived from the sale of capital assets.

5. Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with Local Authority and Public Sector finance.

6. Creditors

Amounts owed by the Authority for which no payment has been made at the end of the financial year.

7. Debtors

Amounts due to the Authority for which no payment has been received at the end of the financial year.

8. Deferred Charges

Deferred charges relate to expenditure which would normally have been charged to a particular year of account but for which approval has been given to charge them over a number of years. In the case of the Authority these relate to the set up costs of the organisation.

9. Depreciation

The measure of the wearing out, consumption or other reduction in the useful economic life of an asset during an accounting period.

10. Fixed Assets

Tangible assets which yield benefits to the Authority for a period of more than one year. Such assets would include land and buildings and certain specialist equipment.

11. Operating Leasing

A method of financing the acquisition of assets, notably vehicles, plant and equipment which involves the payment of an annual rental for a period which is usually less than the useful life of the asset. In the case of a fire appliance for example the useful life is expected to be 15 years and these are leased for 12 years.

12. Provision

A liability or loss which is likely or certain to be incurred but where the date and precise amount are uncertain.

13. Reserve

An amount set aside for purposes outside the definition of provisions. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for general contingencies.

14. Revenue Contribution to Capital Outlay

A fixed asset purchased directly from revenue contributions.

15. Revenue Expenditure and Income

That expenditure and income which relates to the day to day activities of the Authority.