**report**

| meeting | **NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY** | |
|---|---|---|
| date | **9 June 2006** | agenda item number |

## REPORT OF THE TREASURER

## FINAL ACCOUNTS 2005/06

### 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 2005/2006 in accordance with the requirement that these be formally adopted by 31 July 2006.

### 2 BACKGROUND

2.1 The Statement of Accounts attached at Appendix A has been presented to the Audit Commission for auditing. The Auditors will shortly be undertaking their audit and will issue a Management Letter in due course. The Auditors are unable to sign off the accounts until they have been formally adopted by the Authority.

2.2 The Revenue Account for 2005/06 shows a net surplus of £160,000 after a contribution to Balances of £650,000. The contribution to Balances in 2005/06 was originally budgeted to be £300,000. At the Combined Fire Authority meeting on 24 February 2006 it was agreed that an additional contribution to Balances should be made from the anticipated year end underspend. At that time, a figure of £200,000 was recommended but the underspend has turned out to be higher than expected, allowing both the £200,000 and a further £150,000 to be transferred to Balances. The level of Balances now stands at £1,550,000 and the Authority is well on the way to achieving its target of £2,000,000 Balances by 31 March 2009, as approved by Members on 24 February 2006.

2.3 The total funds available for spending in 2005/06 were as follows:

| | **£000's** |
|---|---|
| Approved Budget | 40,285 |
| Brought Forward Revenue Reserve | 366 |
| Total Available Funds | 40,651 |

Funded by:

| | **£000's** |
|---|---|
| Revenue Support Grant | 9,808 |
| Precept | 18,585 |
| National Non Domestic Rates | 11,892 |
| Brought Forward Revenue Reserve | 366 |
| Total Funding | 40,651 |

2.4 The total underspend of £160,000 is a variance of less than 1% of the Original Budget. However, several significant overspends and underspends have contributed towards the net position. Members have received budget monitoring reports during the year, which have indicated likely outturn variances. Reasons for the most significant variances against the budget are given below.

2.5 The final accounts show that the Authority remains in a strong financial position with funds available to meet its liabilities and is managing within approved budgets. Some of the underspends during the year have been allocated to the build up of balances which lessens the pressure to make further contributions in future years, whilst others have been used to offset the ongoing effects of capital spending and to secure "one off" funding for specific projects. Members will recall from the Budget seminar that this process of applying underspends was part of the strategy to secure the financial base and to smooth out the effect on council tax of some of the more volatile issues.

## 3 EXAMINATION OF SIGNIFICANT VARIANCES FROM BUDGET

Pensions

3.1 The Firefighters' pension scheme is an unfunded scheme and therefore has no investment fund from which to meet its liabilities. All transactions relating to the pension scheme are met from within the revenue budget. Incoming funds include contributions from scheme members and transfer values for employees moving to this Authority from another. Outgoing funds included pensions paid to retired employees, lump sum commutations and transfer values for employers transferring out to another Authority.

3.2 Firefighters may retire voluntarily at different times and this can cause volatility in the pension budget.

3.3 The Authority brought forward an earmarked reserve of £865,000 from 2004/05 to help meet the cost of lump sum commutations in 2005/06. Nevertheless there has been a higher number of retirements and ill health retirements than the budget allowed for.

3.4 The total overspend on pensions for the year was £1,706,000 but partially offsetting this sum was the earmarked reserve of £865,000, resulting in a net overspend of £841,000.

3.5 From 2006/07, funding arrangements for firefighter pensions are changing. See paragraph 5.2 below for further information.

3.6 The provisions of the Local Government Pension Scheme changed just before the year end resulting in a "past service gain" of £305,000 relating to commutation of pensions. This credit reduced the net pensions liability by £305,000 and is shown in the Non Distributed Costs line of the revenue account. There was no effect on the net surplus for the year due to the way the accounts are adjusted for pension actuarial gains and losses. The gain has been reflected in the Authority's accounts in line with the actuary's statement of disclosures however the Audit Commission has indicated that it may not concur with this treatment. The Authority is currently awaiting further advice from the Audit Commission and the accounts may require adjustment as a result of this advice when it is received.

General Budgets

3.7 The underspend on the non-pensions element of the budget is -£1,866,000. The most significant variances which make up this underspend are summarised in the table below:

| Heading | £000's |
|---|---|
| Operational Pay – Wholetime | -701 |
| Operational Pay – Part Time | -118 |
| Operational Equipment | 145 |
| Computer Equipment Purchase | -105 |
| Consultancy Fees | 180 |
| Transport | 110 |
| Support Services | 199 |
| Capital Financing | -1,590 |
| Revenue Contributions to Capital Expenditure | 471 |
| Contribution to Balances above Budgeted Contribution | 350 |
| Increase in Earmarked Reserves | 313 |
| Integrated Risk Management Plan 1 and 2 | -810 |
| Integrated Personal Development System | -350 |
| | **-1,906** |

3.8 Wholetime operational pay is underspent by -£701,000 mainly due to vacancies in the establishment. Management has continued to take steps to bring the establishment up to the approved level and this action continues into the new year. Part time pay for retained duty staff is also underspent by -£118,000 although this figure is more volatile being, as it is, based on levels of turnouts. This variance is against an overall budget for retained duty personnel of over £2m.

3.9 Operational equipment is overspent by £145,000. There was a requirement to buy "gas tight" suits and other specialist equipment, which has led to the overspend.

3.10 Spending on computer equipment was lower than expected – an underspend of -£105,000. This is in line with the underspend in the capital programme, where the rolling replacement programme has been delayed pending the introduction of the new operating system for desktop products.

3.11 Consultancy fees have overspent by £180,000. Consultancy services have been used in a number of areas in 2005/06, in particular with regard to changes to the shift system, but additionally on Comprehensive Performance Assessment improvement, public relations and marketing and also Community Safety Plan consultation. The consultancy fees budget was acknowledged as being under considerable pressure and has been increased in 2006/07.

3.12 Transport has overspent by £110,000 in total, made up mainly of £58,000 on staff travelling costs and £36,000 on the renegotiated contract for tyres. Both of these areas have been addressed with increased budgets in 2006/07.

3.13 Support Service costs have overspent by £199,000. This is largely due to increase expenditure on legal costs in relation to various projects and issues. This budget has been increased in 2006/07.

3.14 Capital financing costs have underspent by -£1,590,000. This is directly related to the underspend on the 2005/06 Capital Programme.

3.15 The revenue contribution to capital expenditure was not budgeted for in 2005/06 but the year end underspend on capital financing costs has enabled IT capital expenditure to be funded from revenue budgets as opposed to borrowing or leasing. The Prudential Code for Capital Accounting allows Authorities to choose methods of financing capital expenditure, based on criteria such as affordability. The total revenue contribution to capital expenditure was £471,000.

3.16 The original budget for contributions to Balances was £300,000. The Authority approved an additional contribution from the anticipated revenue underspend at its meeting on 24 February 2006. At that time the funding likely to be available for this purpose was prudently estimated to be £200,000. At year end the sum to be transferred is £650,000 i.e. a further £350,000 above the original budget.

3.17 Projects within the Integrated Risk Management Plan (both 2004/05 and 2005/06 IRMP's) have underspent by -£810,000. Some of the IRMP projects are underway, with costs coded to other budgets such as pay or equipment. Where an IRMP budget is not required in 2006/07 it has been removed from the base budget. However ongoing projects remain in the base budget for next year to enable the IRMP objectives to be achieved.

3.18 Within the general contingency the £350,000 budget for the Integrated Personal Development Scheme remains unspent. This budget has been removed as part of the 2006/07 budget process as it is not required in this format and can be contained within existing resources.

## 4. EARMARKED RESERVES

4.1 Members will be aware that the approved budget for 2006/07 is lower than the budget for 2005/06. This was reported to the Fire Authority on 24 February 2006. The underspend position in 2005/06 has allowed several earmarked reserves to be created for specific projects. The effect of this is to allow certain non recurrent expenditure to be funded from these earmarked reserves rather than from the 2006/07 budget. The newly created earmarked reserves are as follows:

| | **£000's** |
|---|---|
| Ill Health Retirement Charges | 132 |
| Modernisation Reserve | 660 |
| Fire Safety reserve<br>(e.g. for Community Fire Safety projects) | 94 |
| FireLink Project | 200 |
| IT Projects | 92 |
| Total | 1,178 |

4.2 The reserve for pension lump sum payments has now been eliminated, due to the changes to the Firefighters' Pension Scheme with effect from April 2006. There is also an earmarked reserve of £600,000 for Personal Protective Equipment, which has been brought forward from 2004/05. This relates to the national Integrated Clothing Project, which is not yet complete.

## 5. DISCLOSURE OF PENSION LIABILITIES

5.1 Standard accounting practice requires the Authority to disclose its pension liabilities within the accounts. The Authority participates in both the Firefighters' and the Local Government Pension Schemes. An independent actuary has assessed that both pension schemes are in deficit and the extent of these deficits are included within the Authority's balance sheet. In the case of the Local Government Pension

Scheme, which is administered by the County Council, the balance sheet reflects this Authority's share of the deficit.
The balance sheet shows that both deficits are significant, although the Firefighters' Pension Scheme deficit is by far the larger sum:

| | £000's |
|---|---|
| Firefighters' Pension Scheme | (250,511) |
| Local Government Pension Scheme: | |
| Share of liability | (14,697) |
| Share of assets | 8,638 |

5.2 A new Firefighters' Pension Scheme is being introduced in 2006/07 and the funding arrangements for Firefighter pensions is changing with effect from April 2006. The Firefighters' Pension Scheme is unfunded and currently, the annual cost of benefits is funded by employee contributions and revenue budget in the year. In future, the Department for Communities and Local Government will fund any annual shortfall i.e. if the employee contributions do not meet the cost of pensions paid in the year. As a result the earmarked reserve for pension lump sum payments has been eliminated.

5.3 The Local Government Pension Scheme is due to have a full actuarial valuation in March 2007. At this time the actuary will determine whether employer contributions need to change in order to reduce the deficit.

## 6. FINANCIAL IMPLICATIONS

6.1 The overspend on pensions in excess of the earmarked reserve has been a significant issue this year and the Authority has been able to manage its under spending on general budgets to offset the pension deficit. In spite of these significant variances in the year, the overall financial position for the Authority remains sound for the following reasons:

6.1.1 Changes to the Firefighters' Pension Scheme will eliminate volatility and potential overspends outside the Authority's control.

6.1.2 A review of the base budget has started and is ongoing, with the purpose of ensuring that budgets are appropriate.

6.1.3 Certain areas of overspending in 2005/06, which are likely to continue, have has increased budgets in 2006/07.

6.1.4 Earmarked reserves have been created to help "smooth" the effect of set up expenditure in relation to key projects next year.

6.1.5 The capital programme has been increased significantly in 2006/07 to "catch up" with the slippage in 2005/06. Members have already approved the 2006/07 capital programme.

## 6. PERSONNEL IMPLICATIONS

There are no specific personnel implications arising from this report

## 7. RISK MANAGEMENT IMPLICATIONS

The production of Final Accounts is fundamental in demonstrating a sound financial position for any organisation. The "snapshot" provided by annual accounts which can be independently audited provides both stakeholders and elected Members with a significant level of assurance in this area.

## 8. EQUALITY IMPACT ASSESSMENT

There are no equality implications arising from this report.

## 9. RECOMMENDATIONS

9.1 That Members approve the Statement of Accounts for 2005/06, as attached at Appendix A.

9.2 That Members approve the transfer of £810,000 to reserves, that is £650,000 to Balances and £160,000 to the general reserve.

## 10. BACKGROUND PAPERS FOR INSPECTION

None.

Alan Sumby
**TREASURER TO THE FIRE & RESCUE AUTHORITY**

Appendix A

# NOTTINGHAMSHIRE & CITY OF NOTTINGHAM

# FIRE & RESCUE AUTHORITY

# STATEMENT OF ACCOUNTS 2005/2006

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**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY**
**STATEMENT OF ACCOUNTS 2005/06**

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## TREASURER'S FOREWORD

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

The accounting policies adopted by the Fire Authority 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**

The Revenue Account summarises the expenditure incurred and the income received by the Authority during the financial year 2005/06 and shows how the net expenditure was financed from the Precept, Revenue Support Grant, National Non-Domestic Rates and the use of Revenue Reserves.

**Balance Sheet**

The Balance Sheet sets out the financial position of the Authority as at the 31 March 2006**.** It shows the balances and reserves at the Authority's disposal and the Authority's long term indebtedness. It also shows the fixed and net current assets employed in operations.

**Statement of Total Movements in Reserves**

This brings together all recognised gains and losses during 2005/06 and identifies those which have and have not been recognised in the Revenue Account.

**Statement on Internal Control**

The Statement on 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 Statement of Accounts is supported by the Statement of Responsibilities, the Statement on Internal Control, the Statement on Corporate Governance, the Statement of Accounting Policies, 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 as 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 on page 26.

Summary of the Year

A summary of the Fire Authority's overall financial results is given in the following paragraphs:

Revenue Income and Expenditure

Revenue expenditure describes the day to day costs of running the Authority and includes items such as employees' pay, stationery and office consumables and transport running costs. The Authority set a revenue budget of £40,285,000 for 2005/06 and the year end position shows an underspend of £810,000 against this budget (a 2% variance from budget).

| | Budget 2005/06 | Actual 2005/06 | Variance from Budget 2005/06 |
|---|---|---|---|
| | £000's | £000's | £000's |
| Expenditure: | | | |
| Net expenditure | **40,285** | **39,568** | **(717)** |
| | | | |
| Financed By: | | | |
| Revenue Support Grant | (9,807) | (9,807) | 0 |
| Precept from Constituent Authorities | (18,586) | (18,679) | (93) |
| Non Domestic Rates | (11,892) | (11,892) | 0 |
| | **(40,285)** | **(40,378)** | **(93)** |
| | | | |
| Total | **0** | **(810)** | **(810)** |

The underspend of £810,000 is before a transfer of £650,000 has been made to Balances. The net underspend for the year is therefore £160,000.

Significant Variances

Variances against the budget have arisen in the following areas (only significant under and overspends are detailed):

| | Overspends £000's | Underspends £000's |
|---|---|---|
| Operational Pay | | (819) |
| Capital Financing | | (1,590) |
| Integrated Risk Management Plan Projects | | (810) |
| Contingencies | | (777) |
| | | |
| Pension Costs | 1,706 | |
| Supplies & Services – various | 431 | |
| Contribution to Balances in excess of Original Budget | 350 | |
| Revenue Financing of Capital Costs | 471 | |
| Premises Costs | 109 | |
| Support Services | 199 | |
| Creation of Earmarked Reserves | 313 | |

The underspend on operational pay is mainly due to vacancies in the establishment. The number of employees has increased over the course of the year and a recruitment campaign is underway to bring the establishment back to full capacity.

The underspend on capital financing costs is a direct result of the underspend on the capital programme (see below). Some of this underspend has been used to finance capital expenditure from the revenue budget. This was not planned within the budget and shows as an overspend of £471,000 on Revenue Financing of Capital.

Integrated Risk Management Plan projects show an underspend of -£810,000 although some of the expenditure relating to these projects has been coded elsewhere in the budget. The 2006/07 budget allows for the continuation of these projects as appropriate.

Various contingency budgets were held in the year for both items where the sum required was uncertain e.g. pay awards and items where the project start date was unknown. A significant underspend of -£350,000 relates the Integrated Personal Development Scheme for retained duty staff. This budget is no longer required, as the costs of the project can be contained within existing resources.

The pension budget overspent by £1,706,000 although this total was partially offset by the pensions earmarked reserve of £865,000 resulting in a net overspend of £841,000. The reason for the overspend is a higher number of retirements and ill health retirements than budgeted for.

Various budgets within Supplies and Services overspent e.g. insurances, where an additional provision was created to meet outstanding liabilities on claims, and consultancy fees, where there has been significant activity in the year on projects such as the change to the shift system.

Capital Expenditure

Capital expenditure describes the purchasing, upgrading and improvement of Fire Authority assets. These assets are known as “fixed assets” and they provide a benefit to the Authority over a longer period of time than the current financial year. There were no disposals of fixed assets in the year but the following major fixed assets were acquired / upgraded:

| | Cost £000’s |
|---|---|
| Building of new Fire Station at Harworth (not yet complete) | 388 |
| Replacement / Upgraded IT Equipment | 471 |
| Upgrading of Various Premises to comply with Health and Safety and Equalities legislation | 385 |

The Fire Authority had a Capital Programme for 2005/06, which detailed the capital expenditure projects to be undertaken in the year. A summary of the Capital Programme and actual expenditure for the year is shown below:

| | Capital Programme 2005/06 £000’s | Actual 2005/06 £000’s | Variance from Budget 2005/06 £000’s |
|---|---|---|---|
| Premises Programme | 1,500 | 1,077 | (423) |
| Transport Programme | 1,062 | 145 | (917) |
| IT and Communications Programme | 1,118 | 471 | (647) |

There are significant underspends in all areas of the Capital Programme. The Premises underspend is mainly due to delays in commencing the building of the new Fire Station at Harworth. The transport underspend is mainly due to delays in the specification of fire appliances pending the outcomes of reviews of services within the Authority. The underspend in IT and Communications is mainly due to delays on the FireLink project and the IT replacement programme. All of this slippage has been addressed in the Capital Programme for 2006/07. In 2005/06, the capital underspend has resulted in an underspend on the capital financing costs included in the revenue account.

Financing of Capital Expenditure

The Authority borrowed £2,000,000 from the Public Works Loan Board (PWLB) during the year, and repaid £152,814 of debt to the PWLB. This borrowing was to help finance the Capital Programme and was timed to take advantage of favourable interest rates. The slippage on the Capital Programme meant that the funds were not fully utilised in the year and this is reflected in the £500,000 increase in short term investments as at 31 March 2006. The funding will be used for capital expenditure in 2006/07.

Change of Accounting Policy

Expenditure and income are charged and credited to the accounts in the year in which the consumption or benefit takes place. This is the accruals basis of accounting. The Authority makes an exception to this accounting policy where items recur regularly, for example utilities. Such items are charged to the accounts in the year in which they are paid and this has no material effect on the accounts as each year contains a year's worth of expenditure. I.T. software licences and maintenance contracts were previously treated in the same way as utilities however it has become apparent that payments for such items do not always occur regularly and the amounts paid can fluctuate. A decision was therefore made in 2005/06 to use the accruals basis of accounting for I.T. software licences and maintenance contracts. This has had a one-off effect on the accounts. Part of the cost of these items has been accounted for in 2006/07, which has resulted in a reduction in expenditure in the revenue account and a consequent increase in general debtors on the balance sheet. The sum is £51,000.

Movements in Debtors and Creditors

There has been an increase in debtors on the balance sheet of £410,000. This mainly relates to invoices sent to the Department for Communities and Local Government in respect of a capital grant of £210,000 and reimbursement of £207,000 for employees working on the New Dimensions project.

There has also been an increase in creditors on the balance sheet of £395,000. This is the result of an increase in general invoices of £190,000 awaiting payment at year end plus an outstanding invoice of £115,000 for the building work at the new Harworth Fire Station. Also there is an outstanding invoice of £40,000 for the refurbishment of the Commercial Training Unit and an outgoing pension transfer of £67,000.

Earmarked Reserves

Several earmarked reserves have been created for specific projects which will take place in 2006/07. The effect of this will be to allow certain non recurrent expenditure to be funded from these earmarked reserves rather than from the 2006/07 budget. The newly created earmarked reserves are as follows:

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| | £000's |
|---|---|
| Ill Health Retirement Charges | 132 |
| Modernisation Reserve | 660 |
| Fire Safety reserve (e.g. for Community Fire Safety projects) | 94 |
| FireLink Project | 200 |
| IT Projects | 92 |
| Total | **1,178** |

The reserve for pension lump sum payments has now been eliminated, due to the changes to the Firefighters' Pension Scheme with effect from April 2006. There is also an earmarked reserve of £600,000 for Personal Protective Equipment, which has been brought forward from 2004/05. This relates to the national Integrated Clothing Project, which is not yet complete. The total earmarked reserve is £1,778,000 at 31 March 2006.

Pension Funds

Standard accounting practice requires the Authority to show the full future pensions liabilities at the time that these liabilities are earned by employees. An independent actuary has assessed the liabilities for both pension schemes in which the Authority participates, namely the Firefighter's Pension Scheme and the Local Government Pension Scheme. Both schemes are currently in deficit, which shows as a total liability of £256,570,000 on the balance sheet. The largest element of this liability relates to the Firefighters' Pension Scheme and stands at £250,511,000. The increase in liabilities in 2005/06 was £30,689,000.

A new Firefighters' Pension Scheme is being introduced in 2006/07 and the funding arrangements for Firefighter pensions is changing with effect from April 2006. The Firefighters' Pension Scheme is unfunded and currently, the annual cost of benefits is funded by employee contributions and revenue budget in the year. In future, the Department for Communities and Local Government will fund any annual shortfall i.e. if the employee contributions do not meet the cost of pensions paid in the year. As a result the earmarked reserve for pension lump sum payments has been eliminated.

The Local Government Pension Scheme is due to have a full actuarial valuation in March 2007. At this time the actuary will determine whether employer contributions need to change in order to reduce the deficit. The provisions of the Scheme changed just before the end of the year as a result of the Local Government Pension Scheme (Amendment) Regulations 2006. Consequently there was a "past service gain" relating to commutation of pensions. This was a credit of £305,000 to the revenue account within the Non Distributed Costs line.

Plans for 2006/07

The Fire Authority will be undertaking various service developments over the forthcoming year, in line with proposals outlined in the Community Safety Plan 2006 to 2009. Continuing improvements will be sought in the areas of response, prevention and education. Regional projects will be progressing, in particular the move towards a Regional Control Centre. A new shift system will be introduced, resulting in the release of resources to significantly improve education and prevention activities. Demand Led Resourcing will allow operational resources to be directed towards the highest areas of risk. In addition two fire stations will be closed and resources merged and moved to a new station over the next two years.

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The 2006/07 revenue budget and capital programme provide the financial resources required for all of these initiatives as well as for the day to day running of the service. In addition, earmarked reserves have been created to fund the set up costs associated with some of the developments.

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

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## STATEMENT OF RESPONSIBILITIES

### The Authority's Responsibilities

The Authority is required to:

i) 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

ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

iii) approve and publish the Statement of Accounts in accordance with the Accounts and Audit Regulations 2006.

### 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 2006 and its income and expenditure for the year then ended.

This Statement of Accounts is authorised for issue on 9 June 2006 by the Treasurer to the Authority. This is the date up to which events have been considered for recognition in the Statement of Accounts.

Signed ______________________________

Mr A Sumby BSc (Econ) CPFA
(Treasurer)

Dated ______________________________

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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 9 June 2006

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

Signed ________________________________

Councillor D Pulk
(Chairman of the Fire Authority)

Dated ________________________________

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## STATEMENT ON INTERNAL CONTROL

### Scope Of Responsibility

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.

### 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 it's 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 Nottinghamshire and City of Nottingham Fire Authority for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues detailed below, accords with proper practice.

### 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 to secure 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.

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

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

(a) The Strategic Management 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 Authority has received and/or adopted :-

- Strategic Plan targets
- Statement of Accounts 2004/05
- External Auditors' Management Letter
- Budget Monitoring Reports
- Periodic Performance Reports
- Medium Term Financial Strategy and Budget
- External Audit Plans for the 2005/06 audit
- The results of the Comprehensive Performance Assessment
- Internal Audit Annual report 2004/05.
- Treasury Management Strategy
- Prudential Code Limits
- Prudential Code Monitoring Reports

(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 and Co-ordination 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. This activity has been further strengthened by the introduction of a Performance Management software system which is driving a new ethos of performance management throughout the organisation.

(e) Internal Audit 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 both to the Authority's Treasurer and to the External Auditors. Internal Audit's annual report to the Authority confirms that the overall level of management control is satisfactory and provides a good basis for effective financial and resource management.

(f) The Authority has recently adopted a new corporate governance model which brings elected members closer to the decision making process and serves to strengthen both scrutiny and internal control.

**Significant Internal Control Issues**

The Authority faces yet another challenging year in 2006/07 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) Copies of the Internal Audit Reports are to be received by the Finance and Resources Committee acting in its role as Audit Committee. This committee will provide proper scrutiny over internal audit and will ensure that appropriate actions are taken by managers.

(b) The Corporate Risk Profile must continue to be updated and developed into the performance management environment.

(c) 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.

(d) The Authority must review compliance with the code of conduct and carry out training for both Members and Staff in relation to governance.

(e) The Authority must develop a set of appropriate actions in response to the latest Fire Service performance framework which includes Service Delivery, Use of Resources and Value for Money assessments.

(f) The Authority must continue to develop the system of performance management which requires variances in performance to be monitored and appropriate actions initiated.

(g) The Authority must seek to embed the Risk Management ethos throughout the organisation using a combination of training and awareness programmes. Risk ownership must be devolved further into the organisation.

(h) The Authority must develop its business continuity plans both for compliance with the Civil Contingencies Act and for good risk management.

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

| | |
|---|---|
| Signed ____________________ | Signed ____________________ |
| P Woods MSc, MCGI, MIFireE. | Councillor D Pulk |
| (Chief Fire Officer) | (Chairman of the Fire Authority) |
| Dated ____________________ | Dated ____________________ |

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**STATEMENT ON CORPORATE GOVERNANCE**

The 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. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Authority's affairs and the stewardship of the resources at its disposal. To this end, the Authority approved and adopted a code of corporate governance in December 2005. This code is consistent with the principles and reflects the requirements of the CIPFA / SOLACE Framework "Corporate Governance in Local Government: A Keystone for Community Governance".

Following adoption of the code, the Authority has started to put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective. The Assistant Chief Fire Officer (Information Services) has been given responsibility for:

- overseeing the implementation and monitoring the operation of the code of corporate governance
- reviewing the operation of the code in practice
- reporting annually to the Policy and Strategy Committee on compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness.

A recent review of the implementation of the code of corporate governance shows that there have been significant improvements in governance arrangements since the code was formally approved by the Authority in 2005, notably in the representation of elected members on functional committees of the Authority. This representation presents increased opportunities for Members to be directly involved in the detail of policy making and also the scrutiny of decision making.

Consequently it is considered that the corporate governance arrangements currently in place comply with the CIPFA/SOLACE guidelines and are adequate and working effectively.

Signed ______________________________

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

Dated ______________________________

Signed ______________________________

Cllr D Pulk (Chairman of the Fire Authority)

Dated ______________________________

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

To be inserted pages 14 and 15

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## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The statement of accounts summarises the Fire Authority's transactions for the 2005/06 financial year and its position at the year end of 31 March 2006. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom : A Statement of Recommended Practice 2005.

### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. This is known as the accruals basis. In particular:

i) Supplies are recorded as expenditure when they are consumed.

ii) Where goods and services are supplied to or received by the Fire Authority in the financial year, but payment does not occur until the following financial year, a creditor or debtor for the relevant amount is shown on the balance sheet. Exceptions are made to this policy for certain 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. In 2005/06 I.T. software licences and maintenance contracts have been charged to the accounts over the periods covered by the contracts. This is a new treatment as in previous years such items were accounted for fully in the year of payment.

iii) Fees and charges due from customers are accounted for as income at the date the Fire Authority provides the relevant services.

### 3. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is paid to HM Revenue and Customs and all VAT paid is recoverable from them.

### 4 Tangible Fixed Assets

Tangible fixed assets are assets which have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits for more than one financial year. Expenditure on repairs and maintenance is charged to revenue as it is incurred.

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

Assets are initially measured at cost, comprising all expenditure directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

**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 1 April 1998. The initial valuation was based on a nominal £20 per square foot of the Operational Buildings. Major refurbishments are shown in the balance sheet at depreciated historical cost, which is a proxy for current value. Depreciation is on a straight line basis.

### iii) Vehicles and Plant

The Fire Authority's fire appliances were originally financed by operating leases. They have been retrospectively redefined as assets financed by finance leases, according to the requirements of Standard Statement of Accounting Practice (SSAP) 21. Their valuation in the Balance Sheet represents the capital value of the assets less depreciation charged on a straight line basis over the primary lease period.

### iv) All other Assets

All other assets are shown in the Balance Sheet at a valuation which represents their cost less depreciation charged on a straight line basis over the length of their useful lives.
Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains. Where impairment in an asset's value is identified, this is accounted for by:

- where attributable to the consumption of economic benefits, the loss is charged to the revenue account
- otherwise the loss is written off to the Fixed Asset Restatement Account.

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Fixed Asset Restatement Account. Amounts in excess of £30,000 received from disposals are credited to the Usable Capital Receipts Reserve, which will then be used for new capital investment or set aside to reduce the borrowing requirement.

## 5. Basis of Charging for Fixed Assets

### i) Capital Charges

The revenue account is charged annually with a capital charge for all fixed assets used. 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. The Fire Authority is not required to raise a Council Tax Precept to cover depreciation or impairment losses. Instead it is required to make an annual provision from revenue to contribute to a reduction in its overall borrowing requirement (equal to 4% of the Capital Financing Requirement). An adjusting transaction is made to the Capital Financing Account for the difference between the two amounts.

**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 other than Fire Appliances | not depreciated |
| Fire Appliances | 10 or 12 years |
| 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).

**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.**

Costs relating to the Fire Authority's status as a democratic organisation are charged to Democratic Core.

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Costs of discretionary benefits awarded to employees retiring early are charged to Non Distributed Costs.

## 8. Provisions

Provisions are made where an event has taken place which gives the Fire Authority an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the revenue account when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a transfer of economic benefits will not be required, the provision is reversed and credited back to the revenue account. The full detail of all provisions made is given as Note7 to the Balance Sheet on page 32.

## 9. Revenue Reserves

The Fire Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Revenue Account after the Net Operating Expenditure line. When expenditure to be financed from a reserve is incurred, it is charged to the revenue account in that year to score against the Net Cost of Services. The reserve is then appropriated back into the Revenue Account after Net Operating Expenditure so that there is no net charge against Council Tax for the expenditure.

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

**i) Earmarked Reserve**

This reserve contains funds built up to meet expected liabilities. The full detail of this reserve is shown in note 7 to the Statement of Total Movements on Reserves on page 36.

**ii) Revenue Reserve**

**<u>This reserve is the surplus of income over expenditure in the 2005/06 financial year and the cumulative effect of such surpluses carried forward from previous years. See note 1 to the Statement of Total Movements on Reserves on page 35.</u>**

## 10. 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.

e) Capital grant amortised during the year .

## 11. Finance Leases

The Fire Authority accounts for leases as finance leases when substantially all of the risks and rewards relating to the leased asset transfer to the Authority. Rentals payable are apportioned between:

i) A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable) and

ii) A finance charge (debited to the Asset Management Revenue Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies generally applied to tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

## 12. Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the revenue account on a straight line basis over the term of the lease.

## 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.

Smoke alarms funded by a Department for Communities and Local Government 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.

## 14. 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 the accounts at cost.

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## REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

| 2004/05 Net Cost £000's | | Note | 2005/06 Gross Expenditure £000's | 2005/06 Gross Income £000's | 2005/06 Net Cost £000's |
|---|---|---|---|---|---|
| | **Community Fire Safety** | | | | |
| 2,560 | Staff | **1** | 2,694 | (172) | 2,522 |
| 249 | Service | **7, 8, 9** | 1,135 | (487) | 648 |
| **2,809** | | | **3,829** | **(659)** | **3,170** |
| | **Fire Fighting and Rescue Operations** | | | | |
| 28,090 | Staff | **1** | 30,275 | (1,826) | 28,449 |
| 7,876 | Service | **7, 8, 9** | 9,217 | (618) | 8,599 |
| **35,966** | | | **39,492** | **(2,444)** | **37,048** |
| 119 | **Emergency Planning and Civil Defence** | | 156 | | 156 |
| | **Central Services** | | | | |
| 58 | Corporate Core | | 43 | | 43 |
| 18 | Democratic Core | | 4 | | 4 |
| 17 | Non-Distributed Costs | | (288) | | (288) |
| **38,987** | **Net Cost of Services** | | **43,236** | **(3,103)** | **40,133** |
| | **Other Operating Income and Expenditure** | | | | |
| (20) | Trading Account Deficit/(Surplus) | **5** | 351 | (352) | (1) |
| (726) | Asset Management Revenue Account | **6** | (849) | | (849) |
| (232) | Investment Income | | | (160) | (160) |
| 11,763 | Pension Interest Costs | | 12,086 | | 12,086 |
| **49,772** | **Net Operating Expenditure** | | **54,824** | **(3,615)** | **51,209** |
| (947) | Provision for Repayment of External Loans | **3** | (1,710) | | (1,710) |
| 300 | Contribution to Earmarked Reserve | **4** | 313 | | 313 |
| 873 | Revenue Contribution to Capital Costs | | 471 | | 471 |
| 70 | Appropriation Account | | (39) | | (39) |
| (11,599) | Movement on Pension Reserve (see page 35) | | (10,676) | | (10,676) |
| **38,469** | **Amount to be met From Government Grants and Local Taxation.** | | **43,183** | **(3,615)** | **39,568** |
| (529) | Government Grant | | | 0 | 0 |
| (18,119) | Precept from Constituent Authorities | | | (18,679) | (18,679) |
| (9,909) | Non-Domestic Rates | | | (11,892) | (11,892) |
| (11,158) | Revenue Support Grant | | | (9,807) | (9,807) |
| **(1,246)** | **Net (Surplus)/Deficit** | | **43,183** | **(43,993)** | **(810)** |
| 20 | **Balance on Fund Brought Forward** | | | | 366 |
| 346 | **Balance on Fund Carried Forward** | | | | 160 |
| 366 | | | | | 526 |
| 900 | **Contributions to Balances** | | | | 650 |
| **1,266** | **Balance on Funds Carried Forward** | | | | **1,176** |

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## 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.

| | 2005/06 | 2004/05 |
|---|---|---|
| £50,000 - £59,999 | 8 | 8 |
| £60,000 - £69,999 | 2 | 1 |
| £70,000 - £79,999 | 3 | 3 |
| £80,000 - £89,999 | 0 | 2 |
| £90,000 - £99,999 | 2 | 3 |
| £100,000- £109,999 | 1 | 0 |
| £110,000- £119,999 | 0 | 1 |
| £120,000- £129,999 | 1 | 0 |
| | **17** | **18** |

### 2. 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 :

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| Accounts and Governance | 38 | 27 |
| Performance | 13 | 21 |
| Health & Safety Audit | 4 | 0 |
| **Total** | **55** | **48** |

### 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 capital financing requirement. 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:

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| **Minimum Revenue Provision** | 263 | 851 |
| **Amount Charged as Depreciation** | (1,973) | (1,798) |
| **Credit to Revenue Account** | **(1,710)** | **(947)** |

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## 4. Earmarked Reserves

Earmarked reserves for various projects have been created. These are listed in the notes to the Statement of Movements on Reserves on page 36. At the same time the pensions earmarked reserve has been reduced, as a result of the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The new pensions legislation will be implemented in 2006/07 and the effect will be that the Authority will no longer have to fund any deficit resulting from pensions expenditure exceeding pensions contributions in the year. Part of the earmarked reserve has been retained to fund possible ill health retirement costs which may exceed the budgeted amount in 2006/07.

## 5. Trading Accounts

The Authority runs Fire Extinguisher Maintenance under a single manager who is required to meet the costs of the activity by charging customers for services provided.

On the 1 November 2005, the Authority entered into a partnership with a private company called natfire to provide training to organisations via a Commercial Training Unit. During this first period there were set up costs for the Unit, in particular the refurbishment of the premises occupied by the staff working for the Authority and natfire. In addition, the refurbishment work meant that there was a period of time when courses could not take place. As a result of these factors the Unit made a deficit for the 5 month period.

Now that the set up of the Commercial Training Unit is complete it is fully anticipated that the Unit will return a surplus in 2006/07.

At the year end, the trading accounts, prior to the Best Value allocations had the following financial results:-

| | Expenditure 2005/06 | Income 2005/06 | (Surplus)/ Deficit 2005/06 |
|---|---|---|---|
| | £000's | £000's | £000's |
| **Commercial Training Unit pre 1/11/05** | 56 | (29) | 27 |
| **Commercial Training Unit post 1/11/05** | 85 | (54) | 31 |
| **Fire Extinguisher Maintenance** | 200 | (268) | (68) |
| **Total** | **341** | **(351)** | **(10)** |

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## 6. 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.

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| **Income** | | |
| Capital Charges | (3,002) | (2,785) |
| **Expenditure** | | |
| Amortisation of Government Grants | (309) | (69) |
| Provision for Depreciation | 1,973 | 1,798 |
| External Interest Charges | 489 | 330 |
| **Balance Transferred to Revenue Account** | **(849)** | **(726)** |

## 7. Leases

The Authority uses vehicles (fire appliances) financed under the terms of finance leases. The rentals paid under these arrangements in 2005/06 were £964,000. This sum has been charged to the Consolidated Revenue Account as £348,000 finance costs (debited to the Asset Management Revenue Account) and £616,000 relating to the write-down of obligations to the lessor (debited to the appropriation to capital Financing Account). There were no commitments in respect of finance leases entered into before the year end with terms yet to commence.

The Authority uses vehicles, equipment and IT equipment financed under the terms of an operating lease. The rentals paid under these arrangements in 2005/06 were £32,000 for vehicles and £72,000 for equipment. The amounts the Authority is committed to pay under operating leases in the next financial year are as follows:

| | Vehicles £000's | Plant & Equipment £000's |
|---|---|---|
| Leases expiring in 2006/07 | 33 | 10 |
| Leases expiring between 2007/08 and 2010/11 | 9 | 0 |
| Leases expiring in 2012/13 and onwards | 0 | 0 |
| Total commitment for 2006/07 | **42** | **10** |

## 8. 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.

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| Staff Advertising | 56 | 47 |
| Public Education | 35 | 64 |

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| | | |
|---|---|---|
| **Total** | **91** | **111** |

**9. 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 31 March 2006 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 and provision of a public relations service.

There have been transactions between the Fire Authority and the Regional Management Board during the year, both receipts and payments.

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

| | 2005/06 **£000's** | 2004/05 **£000's** |
|---|---|---|
| ury and Payroll | 100 | 97 |
| iittee Services | 19 | 19 |
| Relations | 43 | 42 |
| ects | 0 | 10 |
| nal Management Board | | |
| ntributions towards costs | 39 | 9 |
| mbursement of costs | -45 | 0 |

**10. Member's Allowances**

Allowances paid to Members of the Authority were as follows:

| | **2005/06 £000's** | **2004/05 £000's** |
|---|---|---|
| Members' Allowances | 36 | 29 |

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**11. Alternative Revenue Account for the year ended 31 March 2006**

| 2004/05 £000's | | 4 | 2005/06 £000's |
|---|---|---|---|
| | **Expenditure** | 5 | |
| | Employees | | |
| 24,136 | Direct | | 23,872 |
| 521 | Indirect | | 559 |
| 130 | Arrears due on salaries | | 0 |
| 6,671 | Fire Pensions (Net) | | 7,443 |
| 1,439 | Premises | | 1,633 |
| 1,216 | Transport | | 1,288 |
| 3,135 | Supplies and Services | | 3,710 |
| 222 | Support Services | | 371 |
| 2,785 | Capital Charges | | 3,002 |
| 17 | Unapportionable overheads | | (288) |
| **40,272** | **Gross Expenditure** | | **41,590** |
| (1,305) | Income | | (1,458) |
| **38,967** | **Net Cost of Service** | | **40,132** |
| (726) | Asset Management Revenue Account | | (849) |
| (232) | External Interest Receivable | | (160) |
| 11,763 | Pension Interest Costs | | 12,086 |
| **49,772** | **Total Net Expenditure** | | **51,209** |
| (947) | Provision for the Repayment of External Loans | | (1,710) |
| 873 | Capital Expenditure financed from Revenue | | 471 |
| 300 | Contribution to Earmarked Reserves | | 313 |
| 70 | Appropriation Account | | (39) |
| (11,599) | Movement on Pension Reserve | | (10,676) |
| **38,469** | **Amount to be met by Constituent Authorities** | | **39,568** |
| | Financed by: | | |
| (529) | Government Grant | | (0) |
| (18,119) | Precept from Constituent Authorities | | (18,679) |
| (9,909) | Non-Domestic Rates | | (11,892) |
| (11,158) | Revenue Support Grant | | (9,807) |
| **(39,715)** | | | **(40,378)** |
| **(1,246)** | **Net (Surplus)/Deficit** | | **(810)** |
| **20** | **Balance on Fund Brought Forward** | | **366** |
| **346** | **Balance on Fund Carried Forward** | | **160** |
| **366** | | | **526** |
| **900** | **Contribution to Balances** | | **650** |
| **1,266** | | | **1,176** |

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## BALANCE SHEET AS AT 31 MARCH 2006

| 2004/05 £000's | | Note | 2005/06 £000's |
|---|---|---|---|
| | **Fixed Assets** | **1** | |
| | Operational | | |
| 23,762 | Land and Buildings | | 23,902 |
| 3,223 | Vehicles and Plant | | 2,612 |
| 855 | Equip/Furniture And Fittings | | 1,044 |
| | Non- Operational | | |
| 0 | Land and Buildings | | 0 |
| 0 | Intangible Fixed Assets | **2** | 0 |
| **27,840** | Total Long Term Assets | | **27,558** |
| | **Current Assets** | | |
| 250 | Stocks and Work in Progress | **3** | 248 |
| 978 | General Debtors | **4** | 1,414 |
| 1,221 | Payments in Advance | **4** | 1,283 |
| 170 | Bank Balance | | 169 |
| 3,200 | Short Term Investments | **5** | 3,700 |
| 1 | Cash in Hand | | 2 |
| **5,820** | | | **6,816** |
| | **Current Liabilities** | | |
| (84) | Short Term Loan | | (160) |
| (2,822) | Creditors | **6** | (3,218) |
| (725) | Provisions | **7** | (160) |
| **(3,631)** | | | **(3,538)** |
| **30,029** | **Total Assets Less Current Liabilities** | | **30,836** |
| (2,036) | Borrowing Repayable within a Period in excess of 12 Months | **8** | (3,807) |
| (3,148) | Deferred Liabilities | **1, 9** | (2,533) |
| (4) | Government Grants Deferred | **10** | (0) |
| (225,881) | Net Liability related to defined benefit scheme | **13** | (256,570) |
| **(201,040)** | **Net Assets** | | **(232,074)** |
| 24,583 | Fixed Assets Restatement Account | | 24,393 |
| 0 | Usable Capital Receipts Reserve | | 0 |
| 1,465 | Earmarked Reserve | **12** | 1,778 |
| 900 | Revenue Contribution to Balances | **12** | 1,550 |
| 366 | Revenue Reserve | **12** | 526 |
| (225,881) | Pension Reserve | **13** | (256,570) |
| (2,473) | Capital Financing Account | | (3,751) |
| **(201,040)** | **Total Net Worth** | | **(232,074)** |

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## NOTES TO THE BALANCE SHEET

### 1. Fixed Assets

#### i) Movements in Fixed Assets

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

| | Land & Buildings Operational | Land & Buildings Non Operational | Vehicles | Plant and Equipment | Total |
|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | £000's |
| **Gross Value as at 1 April 2005** | 26,839 | 0 | 8,007 | 2,077 | 36,923 |
| **Acquisitions** | 1,079 | 0 | 22 | 471 | 1,572 |
| **Disposals** | 0 | 0 | 0 | 0 | 0 |
| **Revaluations** | (191) | 0 | 0 | 0 | (191) |
| **Impairments** | 0 | 0 | 0 | 0 | 0 |
| **Reclassification** | 0 | 0 | 0 | 0 | 0 |
| **Gross Book Value as at 31 March 2006** | 27,727 | 0 | 8,029 | 2,548 | 38,304 |
| **Depreciation to 31 March 2005** | (3,077) | 0 | (4,784) | (1,222) | (9,083) |
| **Depreciation for the period** | (748) | 0 | (633) | (282) | (1,663) |
| **Net Book Value as at 31 March 2006** | 23,902 | 0 | 2,612 | 1,044 | 27,558 |

#### ii) Financing of Fixed Assets

The expenditure on fixed assets of £1,101,000 in 2005/06 was financed by external borrowing, and £471,000 from Revenue Contributions to Capital Outlay.

Under the Prudential Code for Capital Accounting, the Capital Financing Requirement is the sum of money required from external sources to fund Capital Expenditure. The breakdown is detailed below.

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| | 2005/06 £000's | 2004/05 £000's Restated |
|---|---|---|
| Opening Capital Financing Requirement | **5,700** | **2,658** |
| | | |
| Capital Investment: | | |
| Operational Assets | 1,572 | 873 |
| Adjustment for Assets financed by finance leases | 0 | 3,148 |
| Deferred charges | 309 | 70 |
| | | |
| Sources of Finance: | | |
| | | |
| Government Grants and contributions | (309) | (83) |
| Revenue Contributions to Capital Costs | (471) | (860) |
| Minimum Revenue Provision | (1,710) | (106) |
| | | |
| Closing Capital Financing Requirement | **5,091** | **5,700** |

**iii) Major Capital Schemes**

The major capital schemes undertaken during the period were:

| | 2005/06 £000's |
|---|---|
| **SDC Equalities Compliance** | **114** |
| **Bingham Fire Station Equalities Compliance** | **92** |
| **Replacement Equipment** | **471** |
| **Health & Safety Compliance – all Stations** | **179** |
| **Harworth Fire Station** | **388** |

iv) Capital Commitments

**There was a commitment for capital expenditure in 2006/07 for which the Authority had contractual obligations at 31 March 2006. The sum is £231,670 and relates to the new Fire Station at Harworth.**

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 small vehicles, 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.

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**Analysis of Fixed Assets at 31 March 2006**

| | 31.3.2006 | 31.3.2005 |
|---|---|---|
| Fire Stations | 25 | 25 |
| Training School | 1 | 1 |
| Administrative Building | 1 | 1 |
| Houses | 3 | 3 |
| Vehicles, including Fire Appliances | 81 | 80 |

The following values of assets are financed by finance leases and are accounted for as tangible fixed assets:

| | Vehicles £000's |
|---|---|
| Value at 1 April 2005 | 7,902 |
| Additions | 0 |
| Accumulated depreciation to 31 March 2005 | -4,754 |
| Depreciation in the year 2005/06 | -615 |
| Disposals | 0 |
| Value at 31 March 2006 | **2,533** |

**v) Revaluation of Fixed Assets**

The Nottingham Valuation Office carries out valuations of all properties over a five year rolling programme. The last valuation was carried out on the 20th March 2006 by K. Skirving MRICS.

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

The basis for valuation is as follows :-

Operational Property - Depreciated Replacement Cost

**2. Intangible Fixed Assets**

Smoke alarms funded by a Department for Communities and Local Government 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.

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| Deferred Charges at 1 April 2005 | 0 | 9 |
| Additions during Year | 309 | 70 |
| Gross Value 31 March 2006 | 309 | 79 |
| Amortisation charged to CFA | (309) | (79) |
| Net Balance at 31 March 2006 | **0** | **0** |

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## 3. Stocks

The Authority maintains a Store 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

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| Uniforms and Protective Clothing | 153 | 159 |
| Operational Equipment | 68 | 68 |
| Other Operational Equipment | 5 | 5 |
| Consumables | 8 | 8 |
| Other | 14 | 10 |
| **Total Stock Held** | **248** | **250** |

## 4. Debtors

These represent sums owed to the Fire Authority for supplies and services provided before 31 March 2006, but not received at that date.

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| General Debtors | 1,414 | 978 |
| Payments in Advance | 1,283 | 1,221 |
| **Total Debtors** | **2,697** | **2,199** |

General Debtors relate to debts owing to the Authority at March 31 2006 whereas Payments in Advance relate to prepayments of bills such as lease 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 as follows:

| | 2005/06 £000's |
|---|---|
| Opening Value of Provision | 21 |
| Less Payments Received / Debts Written Off | (20) |
| Add new doubtful debts | 3 |
| Closing Value of Provision | **4** |

## 5. Short Term Investments

The sum invested at 31 March 2006 related to lending of cashflow surpluses to counterparties on the Authority's approved lending list. All sums were lent for a period of less than one year, at fixed interest rates.

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## 6. Creditors

These represent sums owed by the Fire Authority for supplies and services received before 31 March 2006, but not paid for at that date.

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| General Creditors | (1,936) | (2,048) |
| Employee Accruals | (216) | (245) |
| Other Accruals | (1,066) | (529) |
| **Total Creditors** | **(3,218)** | **(2,822)** |

## 7. Provisions

No new provisions have been created in the year. Two existing provisions have been increased:

a) The insurance provision has been increased following a review of liabilities in respect of employees and public liability claims, which are on file and expected to be received and settled in the forthcoming financial year.
b) The provision for pensions consists of an outgoing pension transfer value relating to 2005/06

| Provision | Balance 2004/2005 £000's | Increase in provision 2005/2006 £000's | Provision used 2005/2006 £000's | Balance 2005/2006 £000's |
|---|---|---|---|---|
| Industrial Action | (55) | 0 | 55 | **0** |
| Insurance | (66) | (87) | 10 | **(143)** |
| Job Evaluation | (145) | 0 | 145 | **0** |
| Pension | (450) | (17) | 450 | **(17)** |
| Axis Database | (9) | 0 | 9 | **0** |
| **Total** | **(725)** | **(104)** | **669** | **(160)** |

## 8. 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 31 March 2006.

| Analysis of Loans by Maturity | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| Between 1 – 2 years | (168) | (89) |
| Between 2 – 5 years | (553) | (294) |
| Between 5 – 10 years | (822) | (602) |
| Between 10 – 15 years | (861) | (776) |
| Over 15 years | (1,403) | (275) |
| | **(3,807)** | **(2,036)** |

## 9. Deferred Liabilities

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Outstanding obligations to make payments under finance leases are as follows (the amounts shown include interest):

| | Vehicles £000's |
|---|---|
| 2006/07 | (716) |
| 2007/08 | (576) |
| 2008/09 | (472) |
| 2009/10 | (362) |
| 2010/11 | (358) |
| 2011/12 onwards | (944) |
| **Total costs for future years** | **(3,428)** |

**10. Government Grants Deferred.**

The opening balance refers to a grant relating to the Nottslink Data Warehousing Initiative, which has been amortised during 2005/06. The amounts received and released to AMRA during the year relate to a capital grant for smoke alarms from the Department for Communities and Local Government and a capital grant for improvement works to West Bridgford fire station also from the Department for Communities and Local Government.

| | **2005/06** £000's | **2004/05** £000's |
|---|---|---|
| Balance as at 1st April 2005 | (4) | (4) |
| Grants received in the year | (309) | (70) |
| Written down to Revenue Account | 4 | 0 |
| Released to AMRA in year | 309 | 70 |
| Balance as at 31st March 2006 | **0** | **(4)** |

**11. Contingent Liability**

The Fire Authority has entered into legal proceedings to establish whether co-responding is part of a firefighter's duties. This is currently being disputed by the Fire Brigades Union. There is a potential liability to pay withheld salary and oncosts, contingent upon the outcome of the court case. If the Authority wins the case then no payments will be due. However if the Authority loses the case then a sum of approximately £30,000 will be payable. The date of conclusion of the proceedings is unknown but is likely to be in 2006/07.

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## 12. Statement of Total Movement in Reserves

| | 2005/06 £000's | 2004/05 £000's |
|---|---|---|
| **Surplus/(deficit) for the Year** | 160 | 346 |
| Contribution to Balances | 650 | 900 |
| Movement on Earmarked Reserves | 313 | 438 |
| Appropriations from Pension Reserve | (10,676) | (11,599) |
| Actuarial Gains and Losses relating to Pensions | (20,013) | (27,088) |
| **Total Increase/(Decrease) in Revenue Resources (note 1)** | **(29,566)** | **(37,003)** |
| | | |
| 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 | (191) | 656 |
| Impairment Losses on Fixed Assets due to General changes in Prices | (0) | (0) |
| **Total Increase/(Decrease) in unrealised value of Fixed Assets (note 2)** | **(191)** | **656** |
| | | |
| **Value of Assets sold, disposed of or decommissioned (note 3)** | | |
| Capital Receipts set aside | 0 | 0 |
| Revenue Resources set Aside | (1,278) | (13) |
| Movement on Government Grants Deferred. | 4 | (0) |
| **Total Increase/(Decrease) in amounts set aside to Finance Capital Investment (note 4)** | **(1,274)** | **(13)** |
| | | |
| **Total Recognised Gains and Losses** | **(31,031)** | **(36,360)** |

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**Notes to the Statement of Total Movements in Reserves.**

| | Contribution to Balances £000's | Revenue Reserves £000's | Earmarked Reserve £000's | Pensions Reserve £000's |
|---|---|---|---|---|
| **(1.) Movements in Revenue and Pension Reserves.** | | | | |
| Contribution for 2005/2006 | 650 | | | |
| Surplus/(Deficit) for 2005/2006 | | 160 | | |
| Appropriations to/from Revenue | | | 313 | (10,676) |
| Actuarial Gains and Losses relating to Pensions | | | | (20,013) |
| Balance Brought Forward at 1st April 2005 | 900 | 366 | 1,465 | (225,881) |
| **Balance Carried Forward 31st March 2006** | **1,550** | **526** | **1,778** | **(256,570)** |

| | Fixed Assets Restatement Account |
|---|---|
| **(2.) Movements in Unrealised Fixed Assets.** | |
| Gains/losses on revaluation on Fixed Assets in 2005-2006 | (191) |
| Impairment Losses on Fixed Assets due to General changes in prices in 2005-2006 | 0 |
| **Total Increase/(Decrease) in Unrealised Capital Resources in 2005-2006** | **(191)** |

| | Capital Financing Account | Government Grants Deferred |
|---|---|---|
| **(3.) Movements in amounts set aside to Finance Capital Investment.** | | |
| Capital Expenditure Financed From Revenue | 1,278 | 4 |
| | **1,278** | **4** |
| **(4.) Total Revenue Resources Set Aside in 2005-2006** | | |
| Grants Applied to Capital investment in 2005-2006 | | 309 |
| Amounts Credited to Asset Management Revenue Account | | (309) |
| **Movements on Government Grants Deferred** | | **0** |
| **(5.) Total Increase/Decrease in amounts set aside to finance Capital Investments** | | |
| Total Movement on Reserves in 2005-2006 | (1,278) | 4 |
| Balance Brought Forward as at 1st April 2005 | (2,473) | (4) |
| **Balance Carried Forward 31st March 2006** | **(3,751)** | **0** |

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(6.) Capital Financing Account

| | |
|---|---|
| **Balance Brought Forward as at 1 April 2004** | **(2,460)** |
| Depreciation for the Year | (1,807) |
| Minimum Revenue Provision | 851 |
| Revenue Contributions to Capital Outlay | 860 |
| Government Grants Deferred | 83 |
| **Balance as at 31 March 2005** | **(2,473)** |

| | |
|---|---|
| **Balance Brought Forward as at 1 April 2005** | **(2,473)** |
| Depreciation for the Year | (1,664) |
| Interest on Finance Leases | (348) |
| Minimum Revenue Provision | 263 |
| Revenue Contributions to Capital Outlay | 471 |
| **Balance as at 31 March 2006** | **(3,751)** |

**(7.) Earmarked Reserve**

| | |
|---|---|
| **Balance Brought Forward as at 1 April 2005** | **1,465** |
| Pension Lump Sum Payments paid in 2005-06 | (752) |
| Reduction in Pension reserve re non-retiree | (113) |
| Increase re Ill Health Retirements | 132 |
| Modernisation reserve | 660 |
| Fire Safety reserve | 94 |
| FireLink Project reserve | 200 |
| IT Systems reserve | 92 |
| **Balance as at 31 March 2006** | **1,778** |

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## 13. Pensions – Financial Reporting Standard 17 (FRS17)

Under the requirements of Financial Reporting Standard 17 – Retirement Benefits, the Authority has an obligation to set out its funding position relating to its pension scheme for 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.

An independent firm of actuaries, Mercer Human Resource Consulting Ltd (Mercers), was employed to carry out an interim valuation of pension fund liabilities as at 31 March 2006.

In summary, the following set of financial assumptions has been adopted to calculate FRS17 liabilities as at 31 March 2006.

| | |
|---|---|
| Rate of discount | 4.9% |
| Rate of Pensionable Pay inflation* | 4.4% |
| Rate of Price inflation | 2.9% |

* plus a salary scale to allow for promotional effects.

The Authority's assets and liabilities are:

| | 31.3.2006 £000's | 1.4.2005 £000's |
|---|---|---|
| Accrued liabilities in respect of Wholetime Firefighters Scheme | (250,511) | (221,585) |
| Share of liabilities in the County Council Fund | (14,697) | (11,006) |
| **Total Liabilities** | **(265,208)** | **(232,591)** |
| Share of Assets in the County Council Fund | 8,638 | 6,710 |
| **Net Pension Deficit** | **(256,570)** | **(225,881)** |

The main assumptions used in the calculations are

| | Firefighters | | Local Government | |
|---|---|---|---|---|
| | 31.3.2006 % | 1.4.2005 % | 31.3.2006 % | 1.4.2005 % |
| Rate of Inflation | 2.9 | 2.9 | 2.9 | 2.9 |
| Rate of Increase in Salaries | 4.4 | 4.4 | 4.65 | 4.65 |
| Rate of Increase in Pensions | 2.9 | 2.9 | 2.9 | 2.9 |
| **Discount Rate** | 4.9 | 5.4 | 4.9 | 5.4 |
| Rate of Return from Equities | N/A | N/A | 7.0 | 7.5 |
| Rate of Return from other bonds | N/A | N/A | 4.9 | 5.4 |
| Rate of Return from Government bonds | N/A | N/A | 4.3 | 4.7 |
| Rate of Return from Property | N/A | N/A | 6.0 | 6.5 |
| Rate of Return on Cash/ Liquidity | N/A | N/A | 4.5 | 4.75 |
| Rate of Return from Other Investments | N/A | N/A | N/A | 7.5 |

The movement in net pension liability for the year to 31 March 2006 is as follows

| | Firefighters | Local Government |
|---|---|---|
| | £000's | £000's |
| **Net pensions liability at 1 April 2005** | **(221,585)** | **(4,296)** |
| Current Service Cost | (5,481) | (624) |
| Payments by Employer | 6,745 | 465 |
| Past Service Cost/Curtailment Cost | 0 | 305 |
| Interest on Liabilities | (11,931) | 0 |
| Net Interest/Return on Assets | 0 | (155) |
| Actuarial Gain / (Loss) | (18,259) | (1,754) |
| **Net Pension Deficit** | **(250,511)** | **(6,059)** |

The actuarial gains/(losses) can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006

| | Firefighters | | Local Government | |
|---|---|---|---|---|
| | £000's | % | £000's | % |
| Difference between the expected and actual return on the assets | 0 | 0 | 1,094 | (12.7%) |
| Difference between the actuarial assumptions about liabilities and actual expenditure | 2,626 | (1.0%) | (1,464) | (10.0%) |
| Changes in the demographic and financial assumptions used to estimate liabilities | (20,885) | (8.4%) | (1,384) | (9.4%) |
| | **(18,259)** | **(7.3%)** | **(1,754)** | **(11.9)** |

**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 employee's contributions and revenue money provided by the Authority.

Liabilities identified by Mercers show that the Authority has a pensions deficit of £256,570,000 of which £250,511,000 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**

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 on 31 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. The provisions of the Local Government Pension Scheme were changed just before the end of the year, by the introduction of the Local Government Pension Scheme (Amendment) Regulations 2006. The main change relates to commutation of pensions and an estimate of the effect of this change has been reflected in the Net Pension Deficit shown above as a "past service gain".

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

| | **31.3.2006** | | **1.4.2005** | |
|---|---|---|---|---|
| | **£000's** | **%** | **£000's** | **%** |
| Equities | 5,995 | 69.4 | 4,247 | 63.3 |
| Government Bonds | 691 | 8.0 | 926 | 13.8 |
| Other Bonds | 544 | 6.3 | 309 | 4.6 |
| Property | 1,235 | 14.3 | 960 | 14.3 |
| Cash Liquidity | 173 | 2.0 | 134 | 2.0 |
| Other | 0 | 0 | 134 | 2.0 |
| | **8,638** | **100** | **6,710** | **100** |

The current valuation undertaken by Mercers indicates a deficit on this fund of £6.059m however this will be taken into account at the next full valuation and employer contributions adjusted accordingly.

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

| 2004/05 £000's | | 2005/06 £000's | 2005/06 £000's |
|---|---|---|---|
| | REVENUE ACTIVITIES | | |
| | **Cash Outflows** | | |
| 31,775 | Employees Costs | 33,660 | |
| 6,545 | Other Operating Costs | 6,371 | |
| 38,320 | | | **40,031** |
| | **Cash Inflows** | | |
| (39,715) | Income From Precept | (40,378) | |
| (1,523) | Other Income | (1,144) | |
| **(41,238)** | | | **(41,522)** |
| **(2,918)** | **Net Cash Inflow from Revenue Activities** | | **(1,491)** |
| | SERVICING OF FINANCE | | |
| | **Cash Outflows** | | |
| 0 | Interest element of finance | 349 | |
| 114 | Interest Paid | 141 | |
| | | | **490** |
| | **Cash Inflows** | | |
| (232) | Interest Earned | (160) | **(160)** |
| (3,036) | | | **(1,161)** |
| | CAPITAL ACTIVITIES | | |
| | **Cash Outflows** | | |
| 786 | Net Movement of Fixed Assets | 1,888 | |
| | Financing of Deferred Charges from Cash | 4 | |
| 44 | Assets to be Leased | 0 | |
| **830** | **Capital Activities net Cashflow** | | **1,892** |
| **(2,206)** | **Total Net Cashflow before financing** | | **731** |
| | **Management of Liquid Resources** | | |
| 2,200 | Net increase of short term deposits | 500 | |
| | **FINANCING** | | |
| | **Cash Outflows** | | |
| 80 | Loans Repaid | 237 | |
| | **Capital element of finance leases** | 616 | |
| | **Cash Inflows** | | |
| 0 | Loans Raised | (2,084) | |
| **74** | **Net cash outflow from financing and management of liquid Assets** | | **(731)** |
| **(74)** | **BANK ACCOUNT AND CASH BALANCES** | | **0** |

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## NOTES TO CASHFLOW STATEMENT

### 1. Reconciliation to the Revenue Account

| 2004/2005 £000's | | | 2005/2006 £000's |
|---|---|---|---|
| **(346)** | **(Surplus)/deficit on Revenue Account** | | **(160)** |
| | **Items on Accruals Basis** | | |
| (234) | Movement in Debtors | | 497 |
| (335) | Movement in Creditors | (396) | |
| | less Capital Creditors | 32 | (364) |
| 68 | Stocks | | (2) |
| | **Items classified separately** | | |
| 232 | Interest Earned | | 160 |
| (114) | Interest Paid | | (490) |
| (151) | MRP and Deferred Charges | | (263) |
| (873) | RCCO | | (471) |
| (438) | Earmarked reserve | | (313) |
| (900) | Contribution to Balances | | (650) |
| 217 | Provision | | 565 |
| | **Items not shown elsewhere in statement** | | |
| (44) | Items to be Leased | | 0 |
| **(2,918)** | **Net Cash Inflow From Revenue Activities** | | **(1,491)** |

2. Movement in Cash

| | Balance 1 April 2005 £000's | Balance 31 March 2006 £000's | Movement 2005/06 £000's |
|---|---|---|---|
| **Bank Balance** | 170 | 169 | 1 |
| **Cash In Hand** | 1 | 2 | (1) |
| | **171** | **171** | **0** |

### 3. Reconciliation of Movement in Net Cash to Net Debt

| | 2005/06 £000's |
|---|---|
| Increase / Decrease in Cash | 0 |

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| | |
|---|---|
| Short Term Investments | (500) |
| Cash outflow from loan repayments | (237) |
| Cash inflow from increase in debt | 2,084 |
| **Change in Net Debt resulting from cash flows** | **1,347** |
| | |
| Net Debt as at 1st April 2005 | (1,251) |
| Net Debt as at 31st March 2006 | (96) |
| **Movement in net debt in period** | **(1,347)** |

**4. Reconciliation of Financing and Management of Liquid Resources**

| | **Balance 1 April 2005 £000's** | **Balance 31 March 2006 £000's** | **Movement 2005/06 £000's** |
|---|---|---|---|
| Financing | | | |
| **Increase of Amount Borrowed** | | | |
| Borrowing repayable within 12 months | (84) | (160) | 76 |
| Long Term Borrowing | (2,036) | (3,807) | 1,771 |
| | **(2,120)** | **(3,967)** | **1,847** |
| **Management of Liquid Resources** | | | |
| Temporary Investments | 3,200 | 3,700 | (500) |
| **Net Cash Outflow from Financing and Management of Liquid Resources** | **1,080** | **(267)** | **1,347** |

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# GLOSSARY OF TERMS

**1. Accruals**

The concept that income and expenditure are recognised as they as 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. Contingent Liability**

A possible obligation arising from past events whose existence will be confirmed by the occurrence of an uncertain future event not wholly within the Authority's control. It can also be a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or where the amount of the obligation is uncertain.

**7. Creditors**

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

**8. Debtors**

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

**9. 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.

**10. Depreciation**

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

**10. Finance Leasing**

A method of financing the acquisition of assets. Legally the assets are owned by the lessor, although the risks and rewards of ownership of the asset pass to the lessee. The assets are shown on the Balance Sheet of the Authority.

**11. 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 vehicles and equipment.

**12. Impairment**

A reduction in the value of an asset, which is additional to the expected depreciation of that asset. Impairment may be a result of, for example, physical damage or reducing prices.

**13. Non-Distributed Costs**

These are defined in the Best value Accounting Code of Practice as the costs of sharing unused assets or facilities and the non current service pension costs of defined benefit pension schemes.

**14. 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.

**15. Provision**

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

**16. 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.

**17. Revenue Contribution to Capital Outlay**

A fixed asset purchased directly from revenue contributions.

**18. Revenue Expenditure and Income**

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