report

meeting	**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY**	
date	**29 June 2007**	agenda item number

REPORT OF THE TREASURER

FINAL ACCOUNTS 2006/07

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 2006/2007 in accordance with the statutory requirement that these be formally adopted by 30 June 2007.

2 BACKGROUND

2.1 The Statement of Accounts attached to this report will be presented to the Audit Commission for auditing once the Fire and Rescue Authority has adopted it. The Auditors will be commencing their audit on 30 July 2007 and will issue their report in due course.

2.2 The Statement of Movement on the General Fund Balance shows an increase in the General Fund Balance (net surplus) for the year 2006/07 of £564k. This is £239k more than was forecast to the Fire Authority in February 2007.

2.3 The total funds available for revenue spending in 2006/07 were as follows:

	£000's
Approved Budget	39,847
Funded by:	**£000's**
Revenue Support Grant	3,277
Precept	19,595
National Non Domestic Rates	16,975
Total Funding	39,847

2.4 The additional underspend of £239,000 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 and proposed management actions. Reasons for the most significant variances against the budget are given in section 5 of this report.

2.5 Members of the Fire and Rescue Authority received a report on 23 February 2007 detailing a projected outturn underspend of £1.708m. This was mainly due to an expected underspend on capital charges arising from the changed accounting treatment of leased fire appliances and underspends in previous years' capital programmes. Members approved the plan to utilise the underspend and details of this are referred to in this report.

2.6 The capital programme for 2006/07 was £8.049m. There was an original capital programme of £6.698m plus slippage of £0.751m from 2005/06 and an approved variation of £0.600m. The underspend against this programme is £3.972m and the reasons for the most significant variances are given in section 5.14 of this report.

2.7 There have been two areas of significant change in the Statement of Accounts this year. These are:

2.7.1 Statutory changes to the format of the accounts
2.7.2 Statutory changes to the funding arrangements for firefighter pensions

Both of these issues are explained in more detail below.

3 CHANGES TO THE FORMAT OF THE ACCOUNTS

3.1 The accounts have been prepared in accordance with the CIPFA Statement of Recommended Practice 2006 (the SORP), which sets out the principles and practices of accounting required to "present fairly" the financial position of local government organisations.

3.2 The provisions of the SORP 2006 are that the Revenue Account and Statement of Total Movement on Reserves are no longer prepared but are replaced with an Income and Expenditure Account, a Statement of Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses. These changes have been introduced as part of the move towards local authority compliance with UK Generally Accepted Accounting Practice (UK GAAP), which will promote consistency in financial reporting across sectors.

3.3 The main impact of these changes for readers of the accounts is that they will no longer see the net surplus or deficit on the General Fund at the bottom of the Income and Expenditure Account. For 2006/07 the net deficit is shown here as £13.399m. Readers of the accounts should not be alarmed by this figure as the Statement of Movement on the General Fund Balance reconciles the figure at the bottom of the Income and Expenditure Account with the position on the General Fund and shows the net position on the General Fund for the year, which for 2006/07 is a £0.564m surplus (comprising a £0.325m planned contribution to Balances and a £0.239m surplus).

4 CHANGES TO FUNDING ARRANGEMENTS FOR FIREFIGHTER PENSIONS

4.1 The funding arrangements for the Firefighters' Pension Scheme changed with effect from April 2006 and this change is reflected in the format of the accounts. A separate pension account has been created and the amounts paid into and out of this account are specified by regulation.

4.2 Under the new funding arrangements, the Authority will no longer meet pension expenses directly from revenue. Instead the Authority pays an employer's pension contribution, based on a percentage of pay, into the pension account. At year end, the pension account is balanced to nil by way of a grant payable to or receivable from the department for Communities and Local Government. The pension account (referred to in the accounts as the "Pension Fund") and the Pension Net Assets Statement are shown separately in the Statement of Accounts.

4.3 There are still some pension related costs which are charged to the General Fund, such as ill health charges.

4.4 Although the department for Communities and Local Government will fund the shortfall in the pension fund for 2006/07, the ongoing liability to pay pensions and other benefits after the period end are shown, as before, in the core accounting statements for both the Local Government Pension Scheme and the Firefighters' Pension Schemes. The Balance Sheet therefore shows a total pensions liability of £248m, some £9m less than the £257m liability in the 2005/06 Balance Sheet.

5 EXAMINATION OF SIGNIFICANT VARIANCES FROM BUDGET

Pensions Costs Chargeable to the General Fund

5.1 The underspend of -£647k on employers' pension contributions for the firefighters' pension schemes has arisen for two reasons:

5.1.1 participation by retained firefighters in the pension scheme and their ability to backdate contributions turned out to be lower than assumed when the budget was set (a variance of -£200k);

5.1.2 there have been significant vacancies in the wholetime firefighter establishment, which has resulted in an underspend on pension contributions (a variance of -£447k). The pay budget is not showing a corresponding underspend because overtime payments, which are not pensionable, have been higher than expected to cover the effect of the vacancies.

5.2 There is an overspend of £403k on pension related costs which fall outside of the Pension Fund. This overspend is made up of:

5.2.1 ill health charges overspent by £46k

5.2.2 injury allowances overspent by £280k

5.2.3 net transfer values overspent by £22k

5.2.4 a lump sum payment pre-dating 1 April 2006 of £27k and a refund of employee contributions relating to 2005/06 of £25k

Contributions to Balances and Earmarked Reserves

5.3 The original budget for 2006/07 included a contribution from Balances of £400k to support the budget. At the Combined Fire Authority meeting in February 2007, members approved the plan to eliminate the contribution from Balances and implement a contribution to Balances of £325k. The total variance against this budget is therefore +£725k.

5.4 Earmarked reserves are funds set aside to meet the costs of future, specified projects. Four new earmarked reserves have been created, as follows:

5.4.1 A reserve of £200k has been created for future Community Safety initiatives. This was approved by members at the Combined Fire Authority meeting in February 2007.

5.4.2 At that same meeting, members approved the financing of £300k of capital expenditure in 2006/07 from revenue funds. This action has been converted to the creation of a £300k reserve for the funding of future capital projects, which increases our financial resilience.

5.4.3 A reserve of £155k has been created for pension costs relating to possible future ill health charges and retained firefighter pension commutations arising from injuries, both of which are funded from the general fund rather than the pensions fund.

5.4.4 A reserve of £448k has been created from the Local Public Service Agreement (LPSA) reward grant received from the County Council and City Council LPSAs. This grant was a reward for achieving and exceeding targets set. Although there is no requirement to spend it on a particular purpose, the Authority has elected to spend the grant on achieving the targets within the Local Area Agreements (LAAs), which have replaced the LPSAs.

5.5 There have been several reductions in earmarked reserves where it was felt that these reserves were either no longer required or had been applied to fund projects in 2006/07 but had small balances remaining. The original pensions reserve of £132k was removed and has been replaced by a new pensions reserve covering different purposes (see paragraph 5.4.3). The other minor reductions in reserves totalled -£2k.

5.6 A summary of reserves and balances is shown in section 6.

Capital Charges and Leasing Payments

5.7 There has been a significant underspend on capital charges of -£1,148k, which was anticipated and reported to members in February 2007. The main reasons for this underspend were the change in accounting treatment relating to fire appliances and the underspend on the capital programme in previous years. The budget for 2007/08 has been revised to take account of these issues.

5.8 The budget for leasing rentals has underspent by - £201k due to delays in capital expenditure relating to specialist rescue equipment, small vehicles and IT equipment.

Pay Contingency

5.9 The underspend on the pay contingency of -£399k has arisen for two reasons: firstly, £200k of the contingency set aside for ongoing pay costs arising from the new shift system has not been required and secondly, most of the remaining underspend relates to approved new posts where the post holders have started part way through the year and the full year cost will be allocated from contingency into the base budget in 2007/08.

Operational Equipment

5.10 There have been unavoidable overspends in three areas of the budget totalling £190k. These budgets can be volatile and easily affected by numbers of new recruits and the nature of operational incidents.

5.11 Specialist equipment has overspent by £74k, personal protective clothing for new recruits has overspent by £66k and breathing apparatus expenditure has overspent by £50k. The Integrated Clothing Project (ICP) is expected to deliver a fully managed service for Personal and Protective Equipment (PPE) from 2007/08 onwards and a new contract for Breathing Apparatus has recently been negotiated.

Building Maintenance

5.12 The building maintenance budget has overspent by £213k. The move towards a comprehensive programme of planned maintenance has continued in the year. The number of emergency repairs is expected to reduce as planned maintenance is put into place.

Integrated Risk Management Plan Projects

5.13 Projects within the Integrated Risk Management Plan (both 2004/05 and 2005/06 IRMP's) have underspent by -£293k. Most of the IRMP projects are now underway, with plans to continue spending in 2007/08.

Capital Programme

5.14 The property element of the capital programme underspent by -£1.471m in respect of two major projects. These two projects were the building of the new fire station in Beeston and the major alterations to Service Headquarters. The slippage for these projects was anticipated and included within the 2007/08 capital programme.

5.15 The transport element of the capital programme underspent by -£1.331m. The procurement of fire appliances and other vehicles was delayed pending the results of the Best Value Review of Road Traffic Collision provision and the resulting slippage needs to be carried forward to 2007/08.

5.16 The ICT element of the capital programme underspent by -£1.184m. An extensive range of projects was included in the Information Technology capital programme and it was recognised during the year that a number of projects would have to be deferred so that resources could be focused on delivering the IT modernisation programme. As a result, the slippage needs to be carried forward to future years.

5.17 The total capital programme underspend was -£3.972m however part of this has already been included in the 2007/08 capital programme approved by members in February 2007. There is a remaining sum of £1.344m, which members are requested to approve as additional slippage to be added to the 2007/08 capital programme.

6. BALANCES AND EARMARKED RESERVES

6.1 The Authority's General Fund Balance at the year end is £2.640m. This is £0.239m more than anticipated in the Budget Report presented to the Fire Authority in February 2007.

6.2 Earmarked reserves now stand at £2.207m. These are expected to be used to support expenditure on various projects as follows:

Earmarked Reserve	31 March 2007 £000s
Pensions – Ill Health Charges and Retained Firefighters' Commutations	155
Integrated Clothing Project	600
Modernisation	237
FiReControl / FireLink Transition	200
Fire Safety	242
ICT Projects	25
Capital – Future Projects	300
LPSA Reward Grant	448
Total	2,207

7. FINANCIAL IMPLICATIONS

The financial implications are set out in full in the body of this report.

8. PERSONNEL IMPLICATIONS

There are no specific personnel implications arising from this report

9. RISK MANAGEMENT IMPLICATIONS

9.1 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.

9.2 The level of working balances and reserves, as shown in the accounts, will enable the position set out in the medium term financial strategy to be sustained.

10. EQUALITY IMPACT ASSESSMENT

There are no equality implications arising from this report.

11. RECOMMENDATIONS

11.1 That members approve the Statement of Accounts for 2006/07, as attached.

11.2 That members approve capital programme slippage of £1.344m as a variation to the 2007/08 capital programme.

12. BACKGROUND PAPERS FOR INSPECTION

None.

Peter Hurford
TREASURER TO THE FIRE & RESCUE AUTHORITY

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM

FIRE AUTHORITY

STATEMENT OF ACCOUNTS 2006/2007

NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY
STATEMENT OF ACCOUNTS 2006/07

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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 has been categorised in accordance with 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:

Income and Expenditure Account

This Account summarises the resources that have been generated and consumed in providing services and managing the Fire Authority during 2006/07. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets consumed and the real projected value of retirement benefits earned by employees in the year. This account shows how net expenditure was financed from the Precept, Revenue Support Grant and National Non Domestic Rates.

Statement of the Movement on the General Fund Balance

This is a reconciliation statement which summarises the differences between the deficit on the Income and Expenditure Account and the General Fund surplus balance. The detailed breakdown is shown below the statement. The Income and Expenditure Account shows the Authority's actual financial performance for the year measured in terms of the resources consumed and generated over the last 12 months. However the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Authority's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Authority for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Balance Sheet

The Balance Sheet sets out the financial position of the Authority as at the 31 March 2007**.** It shows the Authority's balances and reserves and its long term indebtedness, as well as the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. The Authority's total liability to pay future retirement benefits to current pension recipients and to current employees who will retire in the future is also represented in the Balance Sheet. Currently there is an expectation that these costs will be met by the Department of Communities and Local Government.

Cash Flow Statement

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

Pension Fund Account

This statement shows the income and expenditure relating to the Firefighters' Pension Schemes.

Pension Net Assets Statement

This statement shows the net current assets and liabilities arising from the operation of the Firefighters' Pension Scheme. This statement does not take account of liabilities to pay pensions and other benefits after the period end. Such liabilities are shown in the Balance Sheet.

Statement on Internal Control

The Statement on Internal Control sets out the Authority's responsibility for Internal Control and 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.

The Statement of Accounts is supported by the Statement of Responsibilities, the Statement on Corporate Governance, the Statement of Accounting Policies, and the notes which follow the core financial statements and the pension statements. In addition, there is a glossary of financial terms.

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 £39.847m for 2006/07 and the year end position shows an underspend of £0.240m against this budget (a variance of less than 1%).

	Budget 2006/07	Actual 2006/07	Variance from Budget 2006/07
	£000's	£000's	£000's
Expenditure:			
Net expenditure	39,847	39,602	(245)
Financed By:			
Revenue Support Grant	3,277	3,204	73
Precept from Constituent Authorities	19,595	19,663	(68)
National Non Domestic Rates	16,975	16,975	0
Total	**0**	**(240)**	**(240)**

Significant Variances

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

	Overspend £000's	Underspend £000's
Employers' Pension Contributions (Firefighters' Schemes)		647
Building Maintenance	212	
Operational Equipment and Protective Clothing and Breathing Apparatus	190	
ICT Contracts and Equipment		224
Pension Costs	403	
Operating Lease Payments		201
Capital Charges		1,148
Transfer to General Fund Balances	725	
Local Public Service Agreement Reward Grant		489
Net Transfer to Earmarked Reserves	969	
Contingency for Pay and Modernisation		399

The underspend on employers' pension contributions for the firefighters' pension scheme has arisen for two reasons: firstly the takeup by retained firefighters of the option to join the pension scheme and backdate contributions turned out to be lower than assumed when the budget was set; secondly there have been significant vacancies in the wholetime firefighter establishment, which has resulted in an underspend on pension contributions. The pay budget is not showing a corresponding underspend because overtime payments, which are not pensionable, have been higher than expected to cover the effect of these vacancies.

The building maintenance budget has overspent. The move towards a comprehensive programme of planned maintenance has continued in the year. The number of emergency repairs is expected to reduce as planned maintenance is put into place.

Operational equipment and protective clothing used by firefighters has unavoidably overspent, mainly due to the high number of new recruits joining the service in 2006/07.

The budget covering information technology maintenance contracts for hardware and software as well as replacement equipment has underspent. The budget in this area has been reviewed and part of the replacement programme is now covered by the capital programme rather than the revenue budget.

Pension costs chargeable to the General Fund have been significantly higher than anticipated when the budgets were set. It was recognised at the time that it was difficult to forecast some of the items. The overspends relate to injury awards and ill health charges. In addition, there have been net charges relating to the period before the current pension regulations came into force, including transfers out of the scheme, refund of employee contributions and lump sum payments. These costs will continue to be volatile and an earmarked reserve of £155k has been created to cope with future adverse variances against the budget.

Capital charges were identified as significantly underspending earlier in the year, as a result of slippage in the previous year's capital programme and the change in accounting treatment relating to fire appliance leases. This variance was reported to Members together with a plan of how to use the underspend, which was approved. The year end underspend is in line with the amount reported to Members.

The variances relating to transfer of funds to the General Fund balance and the creation of earmarked reserves for various purposes formed part of the plan to use the underspend on capital charges approved by Members during the year.

A contingency for possible ongoing costs arising from the implementation of the new shift system was significantly underspent.

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. During the year, the following major fixed assets were acquired / upgraded:

	2006/07
	£000s
Pumping Appliances	988
Small Vehicles	231
New Premise for Community Safety	569
Minor Works	694
Commencement of Works re New Fire Station in Beeston	103
Harworth Fire Station	227
IT Modernisation	185
Infrastructure and Refreshment of IT Equipment	126

The Fire Authority had a Capital Programme for 2006/07, 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. The Capital Programme amounts include slippage (budgets carried forward) from 2005/06:

Significant Variances

	Capital Programme 2006/07	Actual 2006/07	Variance from Budget 2006/07
	£000’s	£000’s	£000’s
Premises Programme	3,205	1,734	(1,471)
Transport Programme	2,531	1,200	(1,331)
IT and Communications Programme	1,713	529	(1,184)
Specialist Operational Equipment	600	614	14
Total	**8,049**	**4,077**	**(3,972)**

Two major projects in the capital programme slipped significantly and the slippage needs to carry forward to future years. These two projects were the building of the new fire station in Beeston and the major alterations to Service Headquarters.

The procurement of fire appliances and other vehicles was delayed pending the results of the Best Value Review into Road Traffic Collision provision and the resulting slippage needs to be carried forward to 2007/08.

An extensive range of projects was included in the Information Technology capital programme and it was recognised during the year that a number of projects would have to be deferred so that resources could be focused on delivering the IT modernisation programme. As a result, the slippage needs to be carried forward to future years.

Financing of Capital Expenditure

The Authority borrowed £2.0m from the Public Works Loan Board (PWLB) during the year, and repaid £102k of debt to the PWLB. This borrowing was to help finance the Capital Programme and was timed to take advantage of favourable interest rates. In addition, the Authority carried out a debt restructuring exercise. This comprised repaying £1.905m of PWLB debt and replacing it with £1.900m of new debt from the PWLB and resulted in a one-off saving of £65k, which will be spread over the life of the replacement debt, plus ongoing interest savings of £3k per annum.

Other Significant Items of Expenditure in the Year

The Authority, together with Lincolnshire Fire & Rescue Service, entered into legal proceedings over the co-responder scheme. This is a partnership arrangement with the Ambulance Service whereby specially trained firefighters are deployed to certain categories of medical emergency when the Fire and Rescue Service can attend in a shorter time than the Ambulance Service. The Authority was unsuccessful in these proceedings and was unsuccessful in the appeal which followed. Legal costs of £159k have been funded from the earmarked reserve set aside for the purpose at the end of 2005/06. It is expected that the Local Government Association will make a retrospective contribution towards the legal costs in 2007/08 but the amount of contribution has not been confirmed and has not been accounted for in 2006/07. In addition, costs were awarded against the Authority and Lincolnshire Fire & Rescue Service and these have been treated as a contingent liability.

A revised system of shift working was introduced in January 2007. A contingency sum was set aside to fund possible ongoing costs arising from the change in shift system but some of these costs have not been significant. However there were fairly significant one-off costs of £255k, which were met from an earmarked reserve set aside for the purpose. These costs were for items such as IT system changes, alterations to certain premises and payments of time in lieu.

Change of Accounting Policy

Grants and contributions from external bodies, which have been received in advance of related expenditure being incurred, have previously been shown within Creditors on the Balance Sheet. In 2006/07, these have been analysed between income which is expected to be applied to expenditure within 12 months (shown within Creditors) and income which is expected to be applied to expenditure in the longer term (shown within Deferred Income).

Movements in Debtors and Creditors

There has been an increase in debtors on the balance sheet of £2.571m. This mainly relates to cash used to fund pension transactions relating to the firefighters' pension schemes (£2.425m)

There has also been an increase in creditors on the balance sheet of £0.708m. This is mainly the result of a loan repayment outstanding (£0.107m), Continuing Professional Development transitional payments outstanding (£0.092m), backdated employer pension contributions for retained staff (£0.088m), backpay relating to Rank to Role (£0.036m) and an increase in the total Trade Creditors (£0.322m).

Earmarked Reserves

Several earmarked reserves have been created for specific projects which will take place in 2007/08 and beyond. The effect of this will be that these earmarked reserves will support the 2007/08 budget and allow certain non recurrent expenditure to take place. The earmarked reserves as at the year end are as follows:

	31 March 2006 £000's	Movement in Year £000's	31 March 2007 £000's
Pensions – Ill Health Charges and Retained Firefighters' Commutations	132	23	155
Integrated Clothing Project	600	0	600
Modernisation	660	(423)	237
FiReControl / FireLink Transition	200	0	200
Fire Safety	94	148	242
ICT Projects	92	(67)	25
Local Public Service Agreement Reward Grant	0	448	448
Capital – Future Projects	0	300	300
Total	**1,778**	**429**	**2,207**

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 pension schemes in which the Authority participates, namely the Firefighter's Pension Schemes and the Local Government Pension Scheme. The schemes are currently in deficit, which shows as a total liability of £248.003m on the balance sheet. The largest element of this liability relates to the Firefighters' Pension Schemes and stands at £242.579m. The total pension scheme liabilities decreased in 2006/07 by £8.567m.

A new Firefighters' Pension Scheme was introduced in 2006/07 and the funding arrangements for Firefighter pensions changed with effect from April 2006. The Firefighters' Pension Schemes are unfunded and the annual cost of benefits is funded mainly by employee contributions and employer contributions. The department for Communities and Local Government funds any annual shortfall i.e. if the contributions into the fund do not meet the cost of pensions paid in the year. The Authority is required to continue to show the liability in respect of the Firefighter Pension Schemes in its Balance Sheet and notes to the core financial statements.

Other Published Financial Information
The Authority publishes its Annual Performance Plan and Review 2007 by 30 June 2007. This contains summarised financial information, which is extracted from this Statement of Accounts.

Plans for 2007/08

The Fire Authority will be undertaking various service developments over the forthcoming year, in line with proposals outlined in the Community Safety Plan 2007 to 2010.

- 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. During 2006/07 a Local Authority Controlled Company, East Midlands Fire and Rescue Control Centre Limited (EMFRCC Ltd), was set up to operate the future regional control centre covering the areas of the five Fire and Rescue Authorities in the region. The new regional control centre is expected to be operational by 2009 and until then, the directors of the company are ten elected Members from the five Fire and Rescue Authorities. There have been no financial transactions between the Authority and EMFRCC Ltd in 2006/07.
- Demand Led Resourcing will allow operational resources to be directed towards the highest areas of risk. In addition Beeston and Dunkirk fire stations will be closed and resources merged and moved to a new station over the next two years.

The 2007/08 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 major developments.

Mr P Hurford B.Soc.Sc. CPFA
Treasurer to the Nottinghamshire and City of Nottingham Fire Authority

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 (England).

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 the United Kingdom ('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 were reasonable and prudent;

iii) complied with the Code of Practice

The Treasurer has also:

i) kept proper accounting records which were up to date;

ii) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Treasurer to the Authority is Mr P Hurford, B.Soc.Sc. 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 2007 and its income and expenditure for the year then ended.

This Statement of Accounts is authorised for issue on 29 June 2007 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 P Hurford, B.Soc.Sc. CPFA
(Treasurer)

Dated ________________________________

STATEMENT OF APPROVAL OF THE STATEMENT OF ACCOUNTS

I confirm that these accounts were approved by the Nottinghamshire and City of Nottingham Fire Authority at the meeting held on the 29 June 2007

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

Signed ___________________________________

Councillor D Pulk
(Chairman of the Fire Authority)

Dated ___________________________________

STATEMENT OF ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Fire Authority's transactions for the 2006/07 financial year and its position at the year end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom : A Statement of Recommended Practice 2006, with the exception of certain transactions relating to retirement benefits. An explanation of the reason for this deviation from the Statement of Recommended Practice 2006 is provided below under the heading "Retirement Benefits".

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:

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

b) 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.

c) Fees and charges due from customers are accounted for as income at the date the Fire Authority provides the relevant services. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the amounts which may not be received.

Value Added Tax

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.

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 with a value less than £30,000 will, however, be capitalised if they form part of a larger asset e.g. a piece of IT equipment which forms part of the IT infrastructure.

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:

a) Land and Buildings
These assets are classified as either operational or non operational. Operational assets are valued at Depreciated Replacement Cost (DRC), Non operational assets are valued at Market Value. Operational assets which are non-specialised are valued at Existing Use Value (EUV). All assets are revalued every 5 years on a rolling basis by the Nottingham Valuation Office.

b) Furniture and Fittings

Furniture and fittings which form part of major refurbishments are classed as fixed assets and are shown in the balance sheet at depreciated historic cost.

c) 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.

d) 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 (reduction) in an asset's value is identified, this is accounted for by:

a) where attributable to the consumption of economic benefits (e.g. damage to an asset or premature obsolescence), the loss is charged to the Income and Expenditure Account.
b) 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 Income and Expenditure Account as part of the gain or loss on disposal. This does not impact on council tax and such amounts are adjusted for in the Statement of Movement on the General Fund Balance. Amounts 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.

Basis of Charging for Fixed Assets

Charges to Revenue

The Income and Expenditure Account is charged annually with the following amounts to record the real cost of holding fixed assets during the year:

a) depreciation attributable to the assets used
b) impairment losses attributable to the consumption of economic benefits (tangible fixed assets)
c) amortisation of intangible fixed assets

The Authority is not required to raise council tax to cover these charges. It is, however, required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to 4% of the underlying amount measured by the adjusted Capital Financing Requirement). The above charges are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

Depreciation

Depreciation is provided for on fixed assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.
Depreciation is calculated on the following bases:

Buildings	straight line allocation over the remaining useful life as estimated by the District Valuation Office
IT and Communications Equipment	straight line allocation over 5 years
Land, non operational buildings and leased vehicles other than Fire Appliances	not depreciated

Fire Appliances	straight line allocation over 10 or 12 years, depending on the appliance type
Furniture and Fittings	20% of opening balance

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

Stocks

Stocks are included in the balance sheet at the lower of cost or net realisable value. Stock issues are charged to revenue on a weighted average basis.

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. Overheads are allocated to services on various bases in accordance with the CIPFA Best Value Accounting Code of Practice 2006, whereby the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

a) Costs relating to the Fire Authority's status as a democratic organisation and costs relating to the provision of information for public accountability are charged to Corporate and Democratic Core.

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

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.

Reserves

The Fire Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. 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 in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Two 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 movement of this reserve is shown in note 20 on page 31.

ii) **Revenue Reserve**
<u>This reserve is the surplus of income over expenditure in the 2006/07 financial year and the cumulative effect of such surpluses carried forward from previous years. See note 20 on page 31.</u>

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 represents :-

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 .

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.

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.

Government Grants and Contributions (Revenue)

Government grants and third party contributions and donations are recognised as income at the date the Authority satisfies the conditions of entitlement to the grant / contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in the revenue account with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the Income and Expenditure Account after Net Operating Expenditure. There has been a change in accounting policy in 2006/07, whereby grants and contributions from external bodies, which have been received in advance of related expenditure being incurred, have previously been shown within Creditors on the Balance Sheet. In 2006/07, these have been analysed between income which is expected to be applied to expenditure within 12 months (shown within Creditors on the Balance Sheet) and income which is expected to be applied to expenditure in the longer term (shown within Deferred Income on the Balance Sheet).

Capital Grants

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

Deferred Charges

Deferred charges represent expenditure that may be capitalised but does not result in the creation of tangible 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 this expenditure and therefore the deferred charge has been fully amortised to revenue during the year.

Investments

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

Restructuring of Borrowing

Where a repurchase of borrowing has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect, gains and losses are recognised on the balance sheet and written down to revenue on a straight line basis over the term of the replacement loan.

Retirement Benefits

Financial Reporting Standard 17 (FRS 17) specifies the accounting treatment of retirement benefits and related transactions and balances. One of its objectives is to ensure that the cost of providing retirement benefits is recognised in the performance statements in the accounting periods in which those benefits are earned by employees. The SORP 2006 guidance notes set out the accounting transactions required to deliver this objective, however the new statutory pension accounting arrangements for firefighter pensions have resulted in the SORP 2006 guidance no longer being fully applicable. The Audit Commission Technical Support team issued amended accounting guidance on 20 June 2007 to support the requirements of FRS 17 and this amended guidance has been followed when preparing this Statement of Accounts.

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 2007 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, the Corporate Risk Profile and risk registers. It is also informed by comments made by the External Auditors in their Annual Audit Letter and by other review agencies and inspectorates in their reports.
Throughout 2006/07 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 2005/06

- External Auditors' Management Letter
- Budget Monitoring Reports
- Business Risk Management Policy
- Periodic Performance Reports
- Medium Term Financial Strategy and Budget
- External Audit Plans for the 2006/07 audit
- The results of the Comprehensive Performance Assessment
- Internal Audit Annual report 2005/06.
- 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 adopted a 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 2007/08 although the Internal Control environment continues to improve.

However the following issues represent the key areas in relation to internal control:-

1. Departmental Managers are to provide the Risk Manager with assurances as to the actual and predicted levels of risk resulting from the business planning process.
2. The Corporate Risk Profile must be updated alongside a corporate risk register that identifies the significant risks the Authority faces.
3. To ensure effective budget management and purchasing/procurement control, all relevant staff must receive appropriate training on the use of Kypera once the system is operational.

Signed ________________________ Signed ________________________

F Swann MSc, BA (Hons), MIFireE, MCMI	Councillor D Pulk
(Chief Fire Officer)	(Chairman of the Fire Authority)
Dated ________________________	Dated ________________________

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 put in place an appropriate management and reporting framework 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.

CIPFA have recently issued a consultation document on revising the code of corporate governance and when this revised code is produced in the summer of 2007 a formal review will take place to reassess the Authority's compliance.

There have, however, been significant improvements in governance arrangements since the code was formally approved by the Authority in 2005, particularly in relation to 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.

These arrangements have been in place for over 12 months now and are kept under regular review. A number of amendments have been made to improve both the transparency and efficiency of decision making and elected Members are now more closely involved in the scrutiny of reports for consideration and decision. To this end Members have been trained in some of the more technical aspects of their remits to enable informed and challenging debate.

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 ________________________

F Swann MSc, BA (Hons), MIFireE, MCMI (Chief Fire Officer)

Dated ________________________

Signed ________________________

Cllr D Pulk (Chairman of the Fire Authority)

Dated ________________________

AUDITOR'S REPORT

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CORE ACCOUNTING STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

This Account summarises the resources that have been generated and consumed in providing services and managing the Fire Authority during 2006/07. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets consumed and the real projected value of retirement benefits earned by employees in the year. The restatement in 2005/06 refers to the change from a Revenue Account to an Income and Expenditure Account.

2005/06 Restated Net Expenditure		**Notes**	**2006/07 Gross Expenditure**	**2006/07 Gross Income**	**2006/07 Net Expenditure**
£000's			**£000's**	**£000's**	**£000's**
	Community Fire Safety				
2,467	- Staff		3,368	(1)	3,367
507	- Service		1,195	(860)	335
2,974			**4,563**	**(861)**	**3,702**
	Fire Fighting and Rescue Operations				
27,807	- Staff		28,923	(5)	28,918
7,582	- Service		8,462	(413)	8,049
35,389			**37,385**	**(418)**	**36,967**
(24)	Fire Service Emergency Planning and Civil Defence		199	(74)	125
47	Corporate and Democratic Core	4	157	0	157
(288)	Non Distributed Costs		186	0	186
38,098	**Net Cost of Services**		**42,490**	**(1,353)**	**41,137**
0	Gain/Loss on Disposal of Fixed Assets		2		2
(2)	(Surpluses) / Deficits on Trading Undertakings	2	402	(470)	(68)
489	Interest Payable and Similar Charges	8	363	0	363
(160)	Interest and Investment Income		0	(211)	(211)
12,068	Pensions Interest Cost and Expected Return on Pensions Assets		12,467	0	12,467
50,493	**Net Operating Expenditure**		**55,724**	**(2,034)**	**53,690**
(18,679)	Precepts		0	(19,663)	(19,663)
(9,807)	General Government Grants		0	(3,277)	(3,277)
0	Local Public Service Agreement Reward Grant		0	(449)	(449)
(11,892)	Non Domestic Rates redistribution		0	(16,902)	(16,902)
10,115	**(Surplus) / Deficit for the Year**		**55,724**	**(42,325)**	**13,399**

STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Authority's actual financial performance for the year measured in terms of the resources consumed and generated over the last 12 months. However the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Authority's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance. The detailed breakdown is shown below the statement.

2005/06 Net Expenditure Restated		2006/07 Net Expenditure
£000's		£000's
10,115	(Surplus) / deficit for the year on the Income and Expenditure Account	13,399
(10,925)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(13,963)
(810)	Increase in General Fund Balance for the year	(564)
(1,266)	General Fund Balance brought forward	(2,076)
(2,076)	General Fund Balance carried forward	(2,640)

Reconciling Items for the Statement of Movement on the General Fund Balance

2005/06		Notes	2006/07
£000s			£000s
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(1,664)	Depreciation and impairment of fixed assets	10	(1,730)
309	Government Grants Deferred amortisation		165
(309)	Write downs of deferred charges to be financed from capital resources	17	(160)
0	Net loss on sale of fixed assets		(2)
(17,868)	Net charges made for retirement benefits in accordance with FRS 17	21	(19,922)
(19,532)	Subtotal		**(21,648)**
	Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year		
226	Minimum revenue provision for capital financing	12	274
160	Capital expenditure charged in-year to the General Fund Balance		50
7,908	Employers' contributions payable to the Pension Funds and retirement benefits payable direct to pensioners	21	6,932
8,294	Subtotal		**7,256**
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
313	Net transfer to or from earmarked reserves	20	429
313	Subtotal		**429**
(10,925)	**Net additional amount required to be credited to the General Fund balance for the year**		**(13,963)**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Authority for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2005/06 Net Expenditure		**Notes**	**2006/07 Net Expenditure**
£000's			**£000's**
10,115	(Surplus) / deficit for the year on the Income and Expenditure Account		13,399
190	(Surplus) / deficit arising on revaluation of fixed assets	10	(1,256)
20,729	Actuarial (gains) / losses on pension fund assets and liabilities	21	(21,557)
31,034	Total recognised (gains) / losses for the year		**(9,414)**

BALANCE SHEET

The Balance Sheet shows the Authority's balances and reserves and its long term indebtedness, as well as the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

31 March 2006 Restated		Notes	31 March 2007
£000's			£000's
	Fixed Assets	10 14 15	
	Tangible Fixed Assets		
	Operational Assets		
23,902	Land and Buildings		25,393
2,612	Vehicles and Plant	8	2,183
1,044	Equipment / Furniture and Fittings		1,669
	Non Operational Assets		
0	Land and Buildings		563
0	Assets Under Construction		1,298
27,558	**Total Long Term Assets**		**31,106**
	Current Assets		
248	Stocks and Work in Progress		238
1,414	Debtors		3,985
1,283	Payments in Advance		659
3,700	Investments		1,685
171	Cash and Bank		4
6,816	**Total Current Assets**		**6,571**
	Current Liabilities		
(160)	Short Term Borrowing		(47)
(3,034)	Creditors		(3,742)
(160)	Provisions	18	(113)
(3,354)	**Total Current Liabilities**		**(3,902)**
31,020	**Total Assets less Current Liabilities**		**33,775**
	Long Term Liabilities		
(3,807)	Long Term Borrowing	16	(5,814)
0	Government Grants Deferred		(208)
(127)	Deferred Income	19	(212)
(57)	Unapplied Capital Grants		(1)
(2,533)	Deferred Liabilities	8	(2,133)
0	Deferred Discounts on Early Redemption of Debt		(65)
(256,570)	Liability related to Defined Benefit Pension Scheme		(248,003)
(232,074)	**Total Assets less Liabilities**		**(222,661)**
	Financed By:		
24,393	Fixed Asset Restatement Account	20	25,648
(3,751)	Capital Financing Account	20	(5,153)
0	Usable Capital Receipts Reserve	20	0
0	Deferred Capital receipts		0
(256,570)	Pensions Reserve	20	(248,003)
2,076	General Fund Balance	20	2,640
1,778	Earmarked Reserves	20	2,207
(232,074)	**Total Net Worth**		**(222,661)**

CASH FLOW STATEMENT

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined, for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Note 22 gives further details about the cash flow statement.

2005/06		2006/07	2006/07
£000's		£000's	£000's
Restated	**Revenue Activities**		
	Cash Outflows		
33,660	Cash paid to and on behalf of employees	34,947	
6,410	Other operating cash payments	7,205	**42,152**
	Cash Inflows		
(9,807)	Revenue Support Grant	(3,277)	
(18,679)	Precepts	(19,663)	
(11,892)	National non domestic rate receipts from national pool	(16,902)	
(835)	Other Income	(2,432)	**(42,274)**
(1,143)	**Net Cash (Inflow) / Outflow from Revenue Activities**		**(122)**
	Returns on Investments and Servicing of Finance		
	Cash Outflows		
141	Interest paid	127	
349	Interest element of finance lease rental payments	122	**249**
	Cash Inflows		
(160)	Interest received	(276)	**(276)**
330	**Net Cash (Inflow) / Outflow from Servicing of Finance**		**(27)**
	Capital Activities		
	Cash Outflows		
1,853	Purchase of fixed assets	4,174	**4,174**
	Cash Inflows		
0	Sale of fixed assets	(19)	
(309)	Capital grants received	(331)	**(350)**
1,544	**Net Cash (Inflow) / Outflow from Capital Activities**		**3,824**
731	**Total Net Cash (Inflow) / Outflow before Financing**		**3,675**
	Management of Liquid Resources		
500	Net increase / decrease in short term deposits		**(2,015)**
	Financing		
	Cash Outflows		
237	Repayments of amounts borrowed	1,984	
616	Capital element of finance lease rental payments	423	**2,407**
	Cash Inflows		
(2,084)	New loans raised		(3,900)
(731)	**Net cash inflow / outflow from Management of Liquid Resources and Financing**		**(3,508)**
0	**Net Decrease in Cash**		**167**

NOTES TO THE CORE ACCOUNTING STATEMENTS

1. Authorisation of Accounts for Issue
The financial statements have been authorised for issue on 29 June 2007 by the Treasurer to the Fire Authority. Events arising after this date will not have been recognised in the Statement of Accounts, even if they would have a material effect on these accounts.

2. Trading Operations
The Authority runs two trading operations: Fire Extinguisher Maintenance and a Commercial Training Unit. The Commercial Training Unit was previously managed solely by the Authority but this arrangement changed on 1 November 2005, when the Authority entered into a partnership with a private company called natfire to provide fire safety training to external organisations. At the end of the year, prior to support service charge allocations under the Best Value Accounting Code of Practice, the financial results for the two trading operations were as follows:

	Income 2006/07	Expenditure 2006/07	(Surplus) / Deficit 2006/07
	£000s	£000s	£000s
Fire Extinguisher Maintenance	(270)	215	(55)
Commercial Training Unit	(189)	170	(19)
Total	**(459)**	**385**	**(74)**

3. Expenditure on Publicity
In accordance with the requirements of section 5(1) of the Local Government Act 1986, the Authority's spending on publicity was:

	2006/07	2005/06
	£000s	£000s
Recruitment advertising	38	56
Public education & Publicity	57	35
Total	**95**	**91**

4. Members' Allowances
Allowances paid to Members of the Authority were as follows:

	2006/07	2005/06
	£000s	£000s
Members' allowances	73	36

5. Officers' Emoluments
The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was:

	2006/07	2005/06
	Number	Number
£50,000 - £59,999	6	8
£60,000 - £69,999	5	2
£70,000 - £79,999	3	3
£80,000 - £89,999	2	0
£90,000 - £99,999	1	2
£100,000 - £109,999	1	1
£110,000 - £119,999	0	0
£120,000 - £129,999	1	1
Total	**19**	**17**

6. Related Party Transactions
The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the

Authority. Disclosure of these transactions allows readers of these accounts to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

All Officers and Members of the Fire Authority have submitted a return in respect of related party transactions. These returns confirmed that there were no such transactions during the financial year ended 31 March 2007 other than those detailed below.

The Fire Authority is made up of 12 Members from the Nottinghamshire County Council and 6 Members from the Nottingham City Council. Some of these Members serve on the Regional Management Board. Therefore transactions with these 3 bodies are considered to be with related parties and are summarised below.

	2006/07	2005/06
	£000s	£000s
Nottinghamshire County Council:		
Treasury, Payroll, Pensions & Internal Audit	125	100
Public Relations	17	43
Other Income and Expenditure	399	618
Nottingham City Council		
Committee Services	39	19
Other Income and Expenditure	65	76
Regional Management Board		
Contributions towards regional costs	307	39
Reimbursement of regional costs	-124	-45

The Balance Sheet contains amounts within both debtors and creditors for sums due to or from related parties. These amounts are detailed below.

	2006/07	2005/06
	£000s	£000s
Amounts Included Within Debtors		
Nottinghamshire County Council:	46	71
Nottingham City Council	142	13
Regional Management Board	42	38
Amounts Included Within Creditors		
Nottinghamshire County Council:	294	293
Nottingham City Council	76	110
Regional Management Board	33	0

7. Audit Fees

The Authority incurred fees relating to external audit and inspection in accordance with the Audit Commission Act 1998 and the Local Government Act 1999.

	2006/07	2005/06
	£000s	£000s
Fees payable to the Audit Commission re external audit services	33	38
Fees payable to the Audit Commission re statutory inspection	13	13
Fees payable to the Audit Commission re certification of grant claims and returns	0	0
Total	**46**	**51**

8. Finance Leases
Vehicles: The authority uses vehicles (fire appliances) financed under the terms of finance leases. The rentals paid under these arrangements in 2006/07 were £673k, charged to the Income and Expenditure Account as £151k finance costs (debited to interest payable) and £522k relating to the write-down of obligations to the lessor.

The following values of assets are held under finance leases by the Authority, accounted for as part of Tangible Fixed Assets:

	Vehicles
	£000s
Value at 1 April 2006	2,533
Additions	74
Revaluations	48
Depreciation	(522)
Disposals	0
Value at 31 March 2007	**2,133**

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2007, accounted for as part of Long Term Liabilities:

	Vehicles
	£000s
Obligations payable in 2007/08	460
Obligations payable between 2008/09 and 2012/13	1,392
Obligations payable after 2012/13	281
Total liabilities at 31 March 2007	**2,133**

There are no commitments existing as at 31 March 2007 in respect of finance leases which have been entered into but whose inceptions occur after the year end.

9. Operating Leases
Vehicles: The authority uses vehicles financed under the terms of operating leases. The rentals paid under these arrangements in 2006/07 were £164k, charged to the Income and Expenditure Account.

Plant and Equipment: The authority has IT equipment and specialist operational equipment financed under the terms of operating leases. The rentals paid under these arrangements in 2006/07 were £71k, charged to the Income and Expenditure Account.

Commitments under operating leases – the Authority was committed at 31 March 2007 to making payments of £140k under operating leases, comprising the following elements:

	Vehicles	Plant and Equipment
	£000s	£000s
Leases expiring in 2007/08	66	0
Leases expiring between 2008/09 and 2012/13	43	31
Leases expiring after 2012/13	0	0

10.Movements in Fixed Assets

The movements in operational fixed assets during the year were as follows:

Operational	Land & Buildings	Vehicles	Equipment, Furniture & Fittings	Total
	£000s	£000s	£000s	£000s
Gross Value as at 31 March 2006	27,727	8,029	2,548	38,304
Depreciation to 31 March 2006	(3,825)	(5,417)	(1,504)	(10,746)
Net Book Value as at 31 March 2006	23,902	2,612	1,044	27,558
Movement in 2006/07				
Acquisitions	1,116	81	1,015	2,212
Disposals	0	(20)	0	(20)
Revaluations	1,256	48	0	1,304
Impairments	0	0	0	0
Reclassification	(85)	0	0	(85)
Depreciation for the period	(796)	(538)	(390)	(1,724)
Net book value as at 31 March 2007	**25,393**	**2,183**	**1,669**	**29,245**

The movements in non operational fixed assets during the year were as follows:

Non Operational	Land & Buildings	Land & Buildings Under Construction	Vehicles Under Construction	Total
	£000s	£000s	£000s	£000s
Gross Value as at 31 March 2006	0	0	0	0
Depreciation to 31 March 2006	0	0	0	0
Net Book Value as at 31 March 2006	0	0	0	0
Movement in 2006/07				
Acquisitions	569	225	988	1,782
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairments	0	0	0	0
Reclassification	0	85	0	85
Depreciation for the period	(6)	0	0	(6)
Net book value as at 31 March 2007	**563**	**310**	**988**	**1,861**

11. Depreciation
The methods of depreciation and the depreciation rates used for each class of tangible fixed asset are given in the Accounting Policies section.

12. Capital Expenditure and Financing
The capital financing requirement is the sum of money required from external sources to fund capital expenditure. The movement in the year is shown below: to be checked

	2006/07	2005/06
	£000s	£000s
Opening Capital Financing Requirement	6,837	5,647
Capital Investment		
Operational assets	2,261	1,572
Non operational assets	1,782	0
Deferred charges	160	309
Sources of Finance		
Capital receipts	(19)	0
Government grants and other contributions	(165)	(309)
Government grant to revenue	0	4
Revenue contribution used to finance capital costs	(50)	(160)
Government grants deferred	(208)	0
Minimum revenue provision	(274)	(226)
Closing Capital Financing Requirement	**10,324**	**6,837**

	2006/07	2005/06
	£000s	£000s
Explanation of Movements in the Year		
Increase in underlying need to borrow (supported by Government financial assistance)	948	946
Increase in underlying need to borrow (unsupported by Government financial assistance)	2,539	244
Increase in Capital Financing Requirement	**3,487**	**1,190**

13. Commitments under Capital Contracts
There were commitments for capital expenditure in 2007/08 for which the Authority had contractual obligations as at 31 March 2007. The sum is £1.777m in respect of the following significant projects and is expected to be spent in 2007/08:

	Commitments
	£000s
Pumping Appliances	638
Small Vehicles (Vans)	162
Radios	42
Headquarters Extension	862
Edwinstowe Building Works	39
Arnold Station Building Works	34
Total	**1,777**

14. Analysis of Fixed Assets
The significant fixed assets of the Authority are shown below. Less significant assets such as small vehicles and IT equipment are not shown.

	31 March 2007	31 March 2006
	Number	Number
Fire Stations	25	25
Community Safety Office	1	0
Training School	1	1
Administrative Headquarters	1	1
Houses	3	3
Large & Medium Vehicles, including Fire Appliances	81	81

The Community Safety Office building has been classified as non-operational, as the premises are awaiting refurbishment to convert them into usable office space. When this work has been completed, the building will be reclassified as operational.

15. Valuation of Fixed Assets
The Nottingham Valuation Office carries out valuations of all properties over a 5 year rolling programme. The last valuation took place on 20 March 2007 and was carried out by Martyn Platt MCIOB.
All properties with a useful life of more than 50 years are valued annually to check for impairment. The basis of valuation for operational property is depreciated replacement cost.

16. Analysis of Borrowing Repayable over a Period in Excess of 12 Months
The following long term borrowings from the Public Works Loan Board were outstanding at the financial year end.

Analysis of Loans by Maturity	2006/07	2005/06
	£000s	£000s
Between 1 and 2 years	49	168
Between 2 and 5 years	164	553
Between 5 and 10 years	339	822
Between 10 and 15 years	356	861
Over 15 years	4,906	1,403
Total	**5,814**	**3,807**

17. Deferred Charges
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 and the deferred charge of £160k has been fully amortised to revenue during the year.

18. Provisions
No new provisions have been created in the year. Movements on the two existing provisions are shown below. The pensions provision consists of a sum to relating to an outgoing pension transfer value relating to 2006/07. The insurance provision has decreased by £22k following a review of liabilities in respect of employees and public liability claims which are on file and expected to be settled in the forthcoming financial year. £8k of the provision has been applied to cover uninsured liabilities arising in 2006/07.

Provision	Balance 2005/06	Increase/(Decrease) in Provision 2006/07	Provision Used 2006/07	Balance 2006/07
	£000s	£000s	£000s	£000s
Insurance	143	-22	-8	113
Pensions	17	0	-17	0
Total	**160**	**-22**	**-25**	**113**

19. Deferred Income

Grants and contributions from external bodies, which have been received in advance of related expenditure being incurred, have been analysed between income which is expected to be applied to expenditure within 12 months (shown within Creditors) and income which is expected to be applied to expenditure in the longer term (shown within Deferred Income). A list of the significant sums included within Deferred Income is shown:

	Deferred Income
	£000s
Arson Task Force	97
New Burdens Grant	46
New Dimensions Grant	21
LPSA Pump Priming Grant	25
Safe as Houses Grant	22

20. Movements on Reserves

The Authority holds a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are required to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2006	Net Movement in Year	Balance 31 March 2007	Purpose of Reserve	Further Details
	£000s	£000s	£000s		Reference to further information
Fixed Asset Restatement Account	24,393	1,255	25,648	Gains on revaluation of fixed assets	
Capital Financing Account	(3,751)	(1,402)	(5,153)	Capital resources set aside to meet past expenditure	
Usable Capital Receipts	0	0	0	Proceeds of fixed asset sales to meet capital expenditure	A capital receipt of £18,851 was applied in the year to finance capital expenditure of £18,851
Pensions Reserve	(256,570)	8,567	(248,003)	Balancing account to allow inclusion of pensions liability in the Balance Sheet	Note 21, page 32
General Fund	2,076	564	2,640	Resources available to meet future running costs for the Service	Statement of Movement on the General Fund Balance page 21
Earmarked Reserves (Revenue)	1,778	429	2,207	Resources set aside to meet future project costs	Treasurer's Foreword page 6
Total	**(232,074)**	**9,413**	**(222,661)**		

21. Retirement Benefits

Participation in Pension Schemes

The Authority participates in three pension schemes, all of which are defined benefit schemes.

1. The Local Government Pension Scheme is for administrative, support and Control employees and is administered by Nottinghamshire County Council. This is a funded scheme, which means that contributions are paid into a fund with the intention of balancing pension liabilities with pension assets.
2. The Firefighters Pension Scheme 1992, which is an unfunded pension scheme, meaning that there are no investment assets and cash has to be generated to meet pension payments as they fall due.
3. The Firefighters Pension Scheme 2006, which is also an unfunded pension scheme. This scheme came into being with effect from April 2006 and currently there are relatively few employees who are members of it. The transactions, assets and liabilities of both Firefighter Schemes have been amalgamated for the purposes of financial reporting.

Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised when those benefits are earned by employees within the Net Cost of Services in the Income and Expenditure account. This is known as the current service cost. However, the charge against council tax is based on the cash payable in the year, so the Statement of Movement in the General Fund shows a reversal of the current service cost and the inclusion of payments by the employer instead. The Net Operating Expenditure section of the Income and Expenditure account contains the Pensions Interest Cost, which is the expected increase during the year in the present value of the scheme liabilities arising because the benefits are one year closer to settlement. Again, this cost is reversed in the Statement of Movement in the General Fund, as it is not chargeable against council tax.

	Local Government Pension Scheme £000s		Firefighters' Pension Schemes £000s	
	2006/07	2005/06	2006/07	2005/06
Income and Expenditure Account				
Net Cost of Services				
Current Service Cost	774	624	6,681	5,481
Past Service Cost	0	(305)	0	0
Net Operating Expenditure				
Pensions Interest Cost	185	155	12,282	11,913
Net Charge to Income & Expenditure Account	959	474	18,963	17,394
Statement of Movement in the General Fund Balance				
Reversal of net charges for retirement benefits in accordance with FRS 17	-959	-474	-18,963	-17,394
Actual amount charged against the General Fund balance for pensions in the year (employers contributions re LGPS / retirement benefits payable re FPS)	539	465	6,393	7,443

Assets and Liabilities in Relation to Retirement Benefits

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

	Local Government Pension Scheme £000s		Firefighters' Pension Schemes £000s		Total £000s	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Estimated liabilities in schemes	-15,524	-14,697	-242,579	-250,511	-258,103	-265,208
Estimated assets in schemes	10,100	8,638	0	0	10,100	8,638
Net asset / (liability)	**-5,424**	**-6,059**	**-242,579**	**-250,511**	**-248,003**	**-256,570**

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £248.003m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, however statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The net liability on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The figures in the above table represent the Fire Authority's share of the liabilities in the County Council Fund.
- Finance is only required to be raised to cover firefighter pensions when the pensions are actually paid and any shortfalls are currently met by the Department for Communities and Local Government.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities of the Firefighters' Schemes and the Local Government Pension Scheme have been assessed by Mercers Human Resource Consulting, an independent firm of actuaries. The most recent full actuarial valuation for the Firefighters' Schemes was on 31 March 2007 and for the Local Government Pension Scheme was on 31 March 2004.

The main assumptions used in their calculations for FRS 17 purposes were:

	Local Government Pension Scheme		Firefighters' Pension Schemes	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
	%	%	%	%
Rate of inflation	3.1	2.9	3.1	2.9
Rate of increase in salaries	4.85	4.65	4.6	4.4
Rate of increase in pensions	3.1	2.9	3.1	2.9
Rate for discounting scheme liabilities	5.4	4.9	5.4	4.9
Take up of option to convert annual pension into retirement grant	50.0	50.0	N/A	N/A
Rate of return from equities	7.5	7.0	N/A	N/A
Rate of return from other bonds	5.4	4.9	N/A	N/A
Rate of return from Government bonds	4.7	4.3	N/A	N/A
Rate of return from property	6.5	6.0	N/A	N/A
Rate of return from cash / liquidity	5.25	4.5	N/A	N/A
Rate of return from other investments	N/A	N/A	N/A	N/A

The Firefighters' Pension Schemes have no assets to cover their liabilities. Assets in the Local Government Pension Scheme are valued at fair value, principally market value for investments, totalling £10.1m for the Fund as a whole as at 31 March 2007 (£8.638m as at 31 March 2006). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund.

	31 March 2007	31 March 2006		Long Term Return
	%	%		%
Equity investments	68.6	69.4		7.5
Government Bonds	7.7	8.0		4.7
Other Bonds	4.2	6.3		5.4
Property	16.9	14.3		6.5
Cash / liquidity	2.6	2.0		5.25
Other Assets	0	0		Dependent on type of asset
Total	**100**	**100**		

Actuarial Gains and Losses

The actuarial gains or losses identified as movements on the Pensions Reserve in 2006/07 can be analysed as follows, measured as absolute amounts and as a percentage of assets or liabilities as at 31 March. Losses are shown as negative figures.

Local Government Pension Scheme	2006/07		2005/06		2004/05		2003/04		2002/03	
	£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
Differences between the expected and actual return on assets	19	0.2	1,094	12.7	239	3.6	467	9.7	-1,173	30.2
Differences between actuarial assumptions about liabilities and actual experience	0	0.0	-1,464	10.0	-331	3.0	0	0	0	0
Changes in the demographic and financial assumptions used to estimate liabilities	1,036	6.7	-1,384	9.4	-2,371	21.5	0	0	0	0
Total	**1,055**	**6.8**	**-1,754**	**11.9**	**-2,463**	**22.4**	**467**	**7.2**	**-1,173**	**19.7**

Firefighters' Pension Schemes	2006/07		2005/06		2004/05		2003/04		2002/03	
	£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
Differences between the expected and actual return on assets	0	0	0	0	0	0	0	0	0	0
Differences between actuarial assumptions about liabilities and actual experience	7,509	3.1	1,910	1.0	12,604	5.7	-5,822	3.1	-1,803	1.1
Changes in the demographic and financial assumptions used to estimate liabilities	12,993	5.4	-20,885	8.4	-37,229	16.8	0	0	-1,682	1.1
Total	**20,502**	**8.5**	**-18,975**	**7.3**	**-24,625**	**11.1**	**-5,822**	**3.1**	**-3,485**	**2.1**

22. Notes to the Cashflow Statement

Reconciliation of net deficit on the Income & Expenditure Account to the net cash inflow from revenue activities on the Cashflow Statement

2005/06		2006/07
Restated		
£000s		£000s
10,115	Deficit on Income and Expenditure Account	13,399
	Non cash items included in the Income & Expenditure Account	
(1,664)	Depreciation	(1,730)
309	Government grant deferred amortisation	165
(309)	Write down of deferred charges	(160)
(9,960)	FRS 17 adjustments	(12,990)
0	Disposal of fixed assets	(21)
	Movement in Assets & Liabilities	
497	Increase/(decrease) in debtors	2,903
(364)	(Increase)/decrease in creditors	(3,430)
(2)	Increase/(decrease) in stock	(10)
565	(Increase)/decrease in provision	47
	Items included in the Income & Expenditure Account, shown elsewhere on the Cashflow Statement	
160	Interest earned	211
(490)	Interest paid	(363)
0	Proceeds from the sale of fixed assets	19
	Net revenue activities included in the Pension Account Statements	1,838
(1,143)	**Net Cash Inflow from Revenue Activities**	**(122)**

Movement in Cash

	Balance 1 April 2006	Balance 31 March 2007	Movement In Year
	£000s	£000s	£000s
Bank Balance	169	1	(168)
Cash in Hand	2	3	(1)
	171	**4**	**(167)**

Reconciliation between Movement in Cash and Movement in Net Debt

2005/06		2006/07
£000s		£000s
0	Increase / (Decrease) in cash	(167)
500	Short term investments	(2,015)
237	Cash Outflow from loan repayments	2,007
(2,084)	Cash inflow from increase in debt	(3,900)
(1,347)	Change in Net Debt resulting from Cash Flows	**(4,075)**
1,251	Net debt as at 1 April 2006	(96)
(96)	Net debt as at 31 March 2007	(4,172)
(1,347)		**(4,075)**

Reconciliation of items included in Financing & Management of Liquid Resources to the Balance Sheet

	Balance 1 April 2006	Balance 31 March 2007	Movement 2006/07
	£000s	£000s	£000s
Financing			
Borrowing repayable within 12 months	(160)	(47)	113
Long term borrowing	(3,807)	(5,814)	(2,007)
	(3,967)	(5,861)	(1,894)
Management of Liquid Resources			
Temporary Investments	3,700	1,685	(2,015)
Cash / Bank	171	4	(167)
Net cash (inflow) / outflow	**(96)**	**(4,172)**	**(4,075)**

The cash outflow from loan repayments of £2,007k shown above includes an accrual of £23k. This accrual relates to a loan repayment made in April 2007 which related to the 2006/07 financial year.

Liquid Resources
Liquid resources are current asset investments that are readily convertible into cash without curtailing or disrupting the Authority's activities. Temporary investments are comprised of short term cash surpluses which are invested in accordance with the Authority's Treasury Management Strategy.

Analysis of Government Grants

Grant	Source of Funding	2006/07	2005/06
		£000s	£000s
New Dimensions	CLG	47	35
Arson Task Force	CLG	30	90
Performance Management Framework	CLG	0	213
Fire Prevention	CLG	98	87
New Burdens	CLG	159	29
Local Public Service Agreement Reward	CLG	461	25
Chemical, Biological, Radiological or Nuclear	CLG	371	0
Home Fire Risk Check	CLG	120	120
Integrated Common Services Review Grant	Regional Centre of Excellence	90	0
Total		**1,376**	**599**

23. Contingent Liability and Contingent Asset

The court proceedings and appeal hearing in respect of co-responding resulted in costs being awarded against the Authority (see Treasurer's Foreword page 6 for further detail). The sum in question has not yet been notified to the Authority and is therefore a contingent liability. It is expected that certain other Fire and Rescue Authorities will contribute sums towards meeting the awarded costs, but the amounts are not certain and are therefore contingent assets.

PENSION STATEMENTS

PENSION FUND ACCOUNT

The funding arrangements for the Firefighters' Pension Scheme in England changed on 1 April 2006. The amounts paid into and paid out of the pension fund are specified by regulation. Under the new funding arrangements, the Authority will no longer meet the pension outgo directly. Instead the Authority pays an employer's pension contribution, based on a percentage of pay, into the pension fund. At year end, the pension fund is balanced to nil by way of a grant payable to or receivable from Communities and Local Government. As this is the first year of operation under the new regulations, there are no comparative figures for 2005/06.

	Notes	2006/07
		£000's
Contributions Receivable		
From Employer		
Normal		(3,488)
Early retirements		0
Other (Ill Health Retirements)		(653)
From Members		(1,863)
Total		**(6,004)**
Transfers In		
Individual transfers in from other schemes		(165)
Total		**(165)**
Benefits Payable		
Pensions		6,682
Commutations and lump sum retirement benefits		1,892
Lump sum death benefits		0
Other		0
Total		**8,574**
Payments to and on account of Leavers		
Refunds of contributions		0
Individual transfers out to other schemes		15
Other		0
Total		**15**
Net Amount payable for the year before top-up grant from Communities & Local Government		**2,420**
Top-up grant received from Communities & Local Government		**(582)**
Balance of top-up grant receivable for the year from Communities & Local Government	5	**1,838**

PENSION NET ASSETS STATEMENT

The net current assets and liabilities arising from the operation of the pension fund are shown in this statement. As this is the first year of operation under the new pension scheme regulations, there are no comparative figures for 2005/06. This statement does not take account of liabilities to pay pensions and other benefits after the period end. Such liabilities are shown in the core accounting statements and are explained in more detail in the notes to the core accounting statements. As this is the first year of operation under the new regulations, there are no comparative figures for 2005/06.

	Notes	2006/07
		£000's
Current Assets		
Contributions due from employer	4	91
Contributions due from members	4	66
Prepaid Pensions	4	586
Transfers In Receivable	4	84
Pension top-up grant receivable from CLG	4 5	1,838
Total		**2,665**
Current Liabilities		
Unpaid pension benefits	4	(240)
Total		**(240)**
Net Assets		**2,425**
Memorandum Note: General Fund cash used to finance Pension Fund deficit	5	**(2,425)**

NOTES TO THE PENSIONS STATEMENTS

1. The Firefighters' Pension Fund

The funding arrangements for the Firefighters' Pension Scheme in England changed on 1 April 2006. There are two separate pension schemes for firefighters: the 1992 scheme and the 2006 scheme. The regulations differ in some respects for each of the schemes but the funding arrangements are, in principle, the same and the transactions, current assets and current liabilities for both schemes have been amalgamated in the Pension Fund Account and the Pension Net Assets Statement.

The amounts paid into and paid out of the pension fund are specified by regulation and the fund is administered in accordance with the regulations. The schemes remain unfunded, and there are no investment assets in the fund. Instead, cash must be generated to meet pension payments as they fall due. Under the new funding arrangements, the Authority will no longer meet the pension outgo directly. Instead the Authority pays an employer's pension contribution, based on a percentage of pay, into the pension fund. At year end, the pension fund is balanced to nil. If the amounts payable exceed the amounts receivable, then a pension top-up grant from the department for Communities and Local Government will fund the difference. If the amounts receivable exceed the amounts payable, the excess sum will be paid to the department for Communities and Local Government. The underlying principle is that employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while Central Government will meet the costs of retirement pensions in payment, net of employee and employer contributions.

2. Accounting Policies for the Pension Fund

<u>General Principles</u>
The Pension Fund Account and Net Assets Statement summarise the Pension Fund transactions for the 2006/07 financial year and its position at the year end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom : A Statement of Recommended Practice 2006.

<u>Accruals</u>
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. Accruals are shown as debtors and creditors in the Net Assets Statement. Further details relating to the debtors and creditors are shown in note 4 below. In all cases, reasonably accurate calculations of accruals have been possible with the information available at the time of preparing the financial statements.

<u>Administration Costs</u>
The cost of managing pension activities, which includes part of the costs of Personnel, Payroll and Finance staff as well as part of the cost of Pension Services provided by the County Council and the cost of actuarial services, are not accounted for within the Pension Fund but are included in the Authority's Income and Expenditure Account under Net Cost of Services.

3. The Liability to Pay Pensions

The Authority has a liability to pay future retirement benefits to current members of the Firefighters' Pension Schemes. The value of this liability has been assessed by an independent firm of actuaries and is shown in the Authority's Balance Sheet and explained further in Note 21 to the core financial statements. The Pension Fund Account and Net Assets Statement do not take account of this liability.

4. Accruals Within the Pension Fund and Net Assets Statement

<u>Option for Retained Firefighters to Join the Firefighters' Pension Scheme</u>
Retained firefighters were given the option to join the 2006 Firefighters' Pension Scheme and backdate membership to 6 April 2006. As at 31 March 2007, 80 retained firefighters had confirmed that they wished to join the scheme and backdate contributions. The contributions due from the firefighters and the related employer contributions for the period 6 April 2006 to 31 March 2007 have been calculated and accrued for.

<u>Pension Contributions re Continuing Professional Development Payments</u>

Authorities were advised not to action transitional Continuing Professional Development payments relating to 2006/07 in circular NJC/10/06. The employer's pension contribution relating to these payments has been calculated and accrued for.

<u>Prepaid Pensions</u>
Retirement benefits are paid to members monthly in advance. The payments made in March 2007 relate to April 2007 and have been treated as prepayments.

<u>Transfers Between Pension Schemes</u>
The Pension Regulations state that where members transfer between Fire Authority Schemes within England, no transfer of accrued pension benefits will take place. However, where members transfer to / from the Fire Authority Scheme to / from another Fire Authority in Scotland, Wales or Northern Ireland or to / from a non Fire Authority organisation, they can opt to transfer their accrued benefits. As at 31 March 2007, transfers into the Fire Authority Scheme which had been requested but not actioned have been calculated and accrued for.

<u>Pension Commutations</u>
Retiring members can opt to exchange part of their ongoing entitlement to pension payments for a one-off payment of benefit on retirement. This is known as a pension commutation. As at 31 March 2007, 4 members had requested commutations which had not been actioned at that time. The values of these commutations have been calculated and accrued for.

<u>Pension Top-Up Grant Receivable</u>
The amount required to be received from Communities and Local Government in order to balance the Pension Fund to nil has been calculated and accrued for.

5. Financing of the Pension Fund

The Authority does not operate a separate bank account for Pension Fund transactions. Instead, all Pension Fund cash transactions go through the Authority's main bank account. The balance of top-up grant due from the department for Communities and Local Government will not be received until July 2007. The Authority has therefore had to use its own cash balances to support the deficit on the Pension Fund until the balance of grant is received. The amount of the cash deficit as at 31 March 2007 was £2,424,541. The cost of financing these cash transactions (for example interest payable) is not accounted for within the Pension Fund but is included within the Authority's Income and Expenditure Account under Net Operating Expenditure. The amount of grant receivable is £1,838,325. The difference between the grant receivable and the cash deficit as at 31 March 2007 is the total of the accruals included in the Pension Fund.

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 Medium Term Financial Strategy and the Community Safety 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 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. Provision

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

17. 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.

18. Revenue Contribution to Capital Outlay

A fixed asset purchased directly from revenue contributions.

19. Revenue Expenditure and Income

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