

CHESHIRE FIRE AUTHORITY



STATEMENT OF ACCOUNTS

2005 - 2006

Cheshire Fire Authority
Statement of Accounts 2005-2006

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INTRODUCTION TO THE STATEMENT OF ACCOUNTS

by The Treasurer

The following pages comprise the Cheshire Fire Authority's Statement of Accounts for the year ended 31 March 2006. The Statement includes an analysis of the Authority's financial position, a statement of responsibilities, a statement on internal control, a statement of accounting policies and the statutory accounts. The following paragraphs provide an explanation of the Fire Authority's financial activities. They review revenue and capital expenditure and performance against the Authority's overall budget. In addition, the Statement of Accounts includes a summary of the revenue account in the form recommended by the Chartered Institute of Public Finance and Accountancy, in its Best Value Accounting Code of Practice.

Reporting the Accounts

The published accounts are an important element in demonstrating the Fire Authority's stewardship of public money. They show the resources available and how they are used by budget managers in delivering fire services to Cheshire communities.

Local Government Reorganisation

This is the 8th year of the Cheshire Fire Authority. Until 31 March 1998 Cheshire County Council was the Fire Authority for the Cheshire area and as such all expenditure, income, assets and liabilities relating to fire activities were included within the Statement of Accounts of the County Council. As a result of Local Government Reorganisation (LGR), from 1 April 1998, Cheshire County Council, Halton Borough Council and Warrington Borough Council became fire authorities and are required to meet their obligations through a combined Cheshire Fire Authority (CFA). The CFA is an independent body and is legally separate from its constituent authorities.

The Fire Authority's Framework of Accountability

The Authority operates within a robust framework of accountability. The aim is to ensure that the Authority's financial systems are underpinned by sound internal controls. An Internal Audit service monitors the operation of these systems and controls. On page 5 is a statement of the Treasurer's responsibilities. This includes the requirement to ensure that the CFA manages its affairs to secure economic, efficient and effective use of resources and to safeguard its assets. Presenting the accounts on a fair basis is part of that responsibility.

Significant Developments for 2005-06

The Authority implemented a new suite of management systems in 2005-06. This was previously shown in the balance sheet as a non-operational asset, but now that the system is in use, it is classified as an operational asset.

Fire Authority Funding

The Local Government Act 2003 changed the status of Combined Fire Authorities to precepting bodies. The major implication of this change is the way in which the Authority is now funded. Prior to 1 April 2004, the Fire Authority was funded by way of levy on its constituent authorities. From 1 April 2004, funding is from two main sources:

1. *Revenue Support Grant/National Non-Domestic Rates*
For 2005-06 these were distributed on the basis of the formula spending share and resident population.
2. *Council Tax Precept*
To be set by the Authority and collected on its behalf by Unitary or District Borough Councils as collection authorities.

In 2005-06 the Authority set its net revenue budget at £38.2m. Funding was provided by the Council Tax precept which generated £21.1m (55% of the Authority's total funding) with the balance of £17.1m (45%) being provided by Revenue Support Grant and National Non-Domestic Rates. The capital programme for the year was set at £1m to be financed via borrowing.

Analysis of 2005-06 Actual Spend

Actual gross revenue expenditure for the year amounted to £37.020m. Overall, there has been an underspend of £1.137m against the net revenue budget of £38.157m. This underspend is caused in the main by a large number of in-year retirements which has led to a reduction in staffing costs. In 2006-07, the Service is running a number of recruitment initiatives to bring staffing numbers back up to the budgeted establishment. In addition, the new pension financing arrangements mean that the commutation reserve of £1.663m must now be transferred through the revenue account into the General Reserve. This arrangement means that the surplus to be transferred to the General Reserve is £2.800m.

Significant Liabilities

Like other public bodies, the Authority is required to disclose the full estimated value of all its future pensions liabilities in respect of both uniformed and non-uniformed staff. This figure, currently £285.3m, does not represent an immediate call on the Authority's resources, rather it shows the cost of all pension liabilities for current and retired staff, were they to fall due immediately.

Further Information

It is hoped that the information provided in this Statement of Accounts is clear and informative. Should you require any further information or if you have any comments, please contact Darren Griffiths (Head of Finance and Governance) on telephone number 01606 868484.

Liz Lunn BA, CPFA
Treasurer
Cheshire Fire Authority

Member Approval

I certify that these accounts were considered and approved by the Closure of Accounts Committee on 22nd June 2006

.....
Cllr John Joyce
Presiding Member at Closure of Accounts Committee

STATEMENT OF RESPONSIBILITIES

Responsibilities of the Cheshire Fire Authority

The Cheshire Fire Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In Cheshire Fire Authority, that officer is the Treasurer.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

Responsibilities of the Treasurer to the Cheshire Fire Authority

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting, is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year then ended.

The Treasurer is the statutory officer responsible to the Authority for the proper administration of the Authority's financial affairs and for ensuring that sound financial management operates within the Combined Fire Authority. The Treasurer will ensure that the Authority has regard to national requirements, including the Local Authority Accounting Code of Practice (SORP 2005), the Code of Practice on Treasury Management and the Accounts and Audit Regulations. The CIPFA Best Value Accounting Code of Practice, introduced for accounting periods from 1 April 2000, requires the net cost of service shown in the revenue account to be analysed over the mandatory divisions of service prescribed by the Code.

In preparing this statement of accounts the Treasurer has ensured that:

- suitable accounting policies have been selected and applied consistently
- judgements and estimates made were reasonable and prudent
- the Code of Practice on Local Authority Accounting in Great Britain and the Best Value Accounting Code of Practice have been complied with

The Treasurer has also ensured that:

- accurate and timely accounting records were maintained
- reasonable steps for the prevention and detection of fraud and other irregularities were taken
- accurate representations were made to the Authority's Auditors, all relevant records were made available and any matters that could have had a material effect on the financial statements were disclosed

The Treasurer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Combined Fire Authority as at 31 March 2006.

Signed:

Liz Lunn BA, CPFA
Treasurer to Cheshire Fire Authority

STATEMENT ON INTERNAL CONTROL 2005 - 06

1) SCOPE OF RESPONSIBILITY

Cheshire Fire Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Authority also has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this responsibility, the Authority is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk.

2) CODE OF CORPORATE GOVERNANCE

The Authority adopted a Code of Corporate Governance in April 2004 based on the joint guidance issued by CIPFA and SOLACE. The Code reflects the Authority's commitment to comply with the underlying principles of Openness and Inclusivity and Integrity and Accountability which are framed around five dimensions:

- Community Focus
- Service Delivery Arrangements
- Structure and Processes
- Risk Management and Internal Control
- Standards of Conduct

The Fire and Rescue Service's Senior Management Team reviews progress against the Corporate Governance action plan at their regular meeting every two months. A similar report is also taken to Standards Committee with Internal Audit also kept informed on progress. Whilst there is scope for improvement, in general Internal Audit is satisfied with the current corporate governance arrangements.

Guidance on an updated Code of Corporate Governance is due to be issued by CIPFA/SOLACE in the coming months. Internal Audit will review the Authority and Fire and Rescue Service's corporate governance arrangements against the revised CIPFA/SOLACE framework during 2006-07. The auditors will assist the Authority to update its code and prepare an action plan to address any areas for improvement.

3) THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies and objectives. It can therefore only provide a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

A system of internal control has been in place at the Authority for the year ended 31 March 2006 and up to the publication of accounts. Except for the details of significant internal control issues identified in section 6, the system of internal control accords with proper practice.

4) THE INTERNAL CONTROL FRAMEWORK

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

4.1 Establish and monitor the achievement of the Authority's objectives

The objectives of the Authority were set out in IRMP3 following a period of extensive consultation with stakeholders. During 2005-06 performance scrutiny took place through regular reporting to the Authority's Performance and Overview Committee and at an Officer level, through the Performance Management Group.

A summarised Best Value Performance Plan was published before 31st March which reported on our performance against a number of key indicators. A full report will be published by the end of June.

4.2 Facilitate policy and decision making

2005-06 was the Authority's first year of operation under its new Committee structure incorporating a Policy Committee and a Performance and Overview Committee, which has been designed to assist Members with their challenge and scrutiny roles.

4.3 Ensure compliance with established policies, procedures, laws and regulations

The business of the Authority is conducted in accordance with defined processes and responsibilities as set out in Standing Orders and Financial Regulations.

Officers use their professional knowledge to ensure that decisions taken by the Authority are within their powers and in accordance with relevant laws and regulations. Key officers include the Chief Fire Officer, Treasurer and Monitoring Officer. In addition, the Treasurer procures an Internal Audit service on behalf of the Authority and External Audit also closely monitor compliance with established policies and regulations. Both Internal and External Audit annual plans are designed to be complementary and avoid duplication of effort.

4.4 Ensure the economical, effective and efficient use of resources and secure continuous improvement in the way in which the Authority's functions are exercised

The alignment of financial and service planning cycles has progressed through 2005-06, with the 2006-07 budget building process a good example of that. Reserves were assessed in the context of the risks facing the Authority during 2005-06 and were considered to be at an appropriate level.

Partnership working is increasing capacity and resources and the Authority is proactive at accessing external funds and expertise.

The Authority uses its Best Value process effectively to challenge existing provision and drive efficiency. A number of Best Value reviews were progressed during 2005-06, notably the review of incidents we attend and the day crewing shift system.

4.5 Provide appropriate financial management and the reporting thereof

The Financial Regulations and Standing Orders define the respective roles and responsibilities of the Authority, its Members and officers on financial matters. Collectively they provide a framework of rules and procedures within which the Authority will conduct all its financial affairs.

The new financial systems went live during 2005-06 and is able to provide timely and accurate management information including commitments.

The Authority buys-in an internal audit function which reports regularly to the Performance and Overview Committee in accordance with the Audit Protocol agreed by Members during 2005-06. Accounts are prepared in accordance with professional guidance and the statutory timetable for publication.

4.6 Ensure adequate performance management and the reporting thereof

The Authority has developed a robust approach to performance management and has a strong reporting framework in place. Clear standards are published on our website and in our plans so that stakeholders know what to expect.

Performance management information is delivered to managers at all levels of the organisation who use this information to identify areas of both under performance and best practice, which leads to local action and impacts on the allocation of resources. This is scrutinised in the meetings of the Performance Management Group.

On an individual level, staff appraisals highlight individual objectives that feed into and link with corporate objectives via a hierarchical system of plans.

5) REVIEW OF EFFECTIVENESS

The Authority has the responsibility of conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit and by managers within the Authority who have the responsibility for the development and maintenance of the internal control environment and also by External Audit.

A multi-disciplinary group was involved in gathering and evaluating the evidence to assist in the production of this Statement on Internal Control. Independent Member scrutiny was provided by the Chairman of the Standards Committee and by the Members of the Authority who approved the final statement.

6) SIGNIFICANT INTERNAL CONTROL ISSUES

The system of Internal Control within the Authority is considered to be satisfactory and although another challenging year is faced in 2006-07 and the following have been identified as key issues in relation to internal control.

- As the new financial systems are “bedded-in”, processes and procedures will develop which must be underpinned by appropriate documentation and sound internal controls. Much of this work has now taken place, but there are some issues still to address. Whilst Internal Audit are happy with progress, Officers nevertheless must work to ensure that the control framework mitigates against the risks of day to day business whilst not causing undue administrative burdens. This process will be informed by the expert advice of both Internal and External Audit.
- The Service must put in place measures to improve the effectiveness of its procurement and ability to act as a demanding client. The new Head of the Business Improvement Team is expected to lead on these areas.
- The number and value of our partnership arrangements are steadily increasing, which has a consequent effect on the level of risk facing the Authority. Officers have recognised this and the Head of Finance and Governance has been commissioned to lead on the development of a Partnership Toolkit which takes into the relevant dimensions of corporate governance.

.....
Cllr Tony Hooton
Chairman of Cheshire Fire Authority

.....
Steve McGuirk
Brigade Manager
Chief Fire Officer

.....
Elizabeth Lunn
Treasurer to Cheshire Fire Authority

Independent auditor's report to the Members of Cheshire Fire and Rescue Authority

Opinion on the financial statements

I have audited the financial statements of Cheshire Fire and Rescue Authority for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Cheshire Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority and its income and expenditure for the year in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003', published on 02 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Signature..... Date.....

Julian Farmer
District Auditor

Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for other local government bodies specified by the Audit Commission and published in August 2005, in all significant respects, Cheshire Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 in December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Signature..... *Date*.....

Julian Farmer
District Auditor

Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

STATEMENT OF ACCOUNTING POLICIES

INTRODUCTION

The general principles adopted in preparing the accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). They are in accordance with the Code of Practice on Local Authority Accounting and Statements of Standard Accounting Practice for which the Institute has issued guidance notes, except where further information is given below.

The accounts have been prepared on an historic cost basis as modified by the revaluation of fixed assets.

PRIOR PERIOD ADJUSTMENTS

Comparative figures for the preceding year are restated when material adjustments applicable to prior years arise from changes to accounting policies or when fundamental errors have occurred. The effect of prior period adjustments on outturn will be disclosed where practicable.

FIXED ASSETS

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the Fire Authority's accounts. Fixed assets acquired under finance leases are included, together with a corresponding liability for future lease payments. Land and Building assets are reported on the Balance Sheet at the lower of net current replacement cost or net realisable value. Other assets are reported at cost.

The Fire Brigade Headquarters, Fire Stations and Fire Museum have been revalued by Keith Skelhorn FRICS of Dunlop Haywards (Property Consultants) as at 1 April, 2005. The Day Crewed Housing was valued by Derek Johns MRICS in 2003/04. Work in progress is included in the accounts at cost.

Capital Receipts from the disposal of fixed assets are accounted for on an accruals basis.

Depreciation is provided for on all fixed assets, tangible and intangible, with charges commencing in the year of acquisition. Depreciation is calculated on the straight line method over the use of the asset's useful life. The following outlines estimated useful lives for categories of fixed assets:

Property	50 years
Vehicles	13 years for appliances, 20 years for Hydraulic Platforms/Turntable Ladders
Equipment	5-15 years
Intangible	5 years

In 2004/05 the Fire Authority was in the process of implementing a new computer software system. As the System was still under development, it was classified in the 2004/05 Statement of Accounts as a non-operational asset. During 2005/06 the System became operational and therefore it has been transferred into Operational Equipment in the 2005/06 Statement of Accounts.

CURRENT ASSETS & LIABILITIES

Stock

Stocks of specialised fire fighter clothing & uniforms, vehicle spares and fuel are shown at cost, or net realisable value. Stocks of stationery and catering supplies are not included in the balance sheet as such stocks are incidental and deemed not to be material to the accounts.

Investments

All investments are shown at the original cost price.

Basis of Inclusion of Debtors and Creditors in the Accounts

Income and expenditure are included in the accounts on an accruals basis, apart from minor cash income, which is not shown in the accounts until it is received.

Provision for Bad Debts

A provision is made for those debtors whose probable recoverable amount is less than the carrying value in the accounts. Reasonable efforts are made to recover all debts, regardless of whether a provision has been made.

Grants

Government grants are credited to income in the same period in which the related expenditure is charged, in accordance with each grant's criteria for use.

Pension Costs

FRS 17 is a financial reporting standard concerned with accounting for pension costs. The objectives of the new standard are to ensure that:-

- ◆ Financial statements reflect at fair value the assets and liabilities arising from the employer's retirement benefit obligations and any related funding;
- ◆ The operating costs of providing retirement benefits to employees are recognised in the accounting periods in which the benefits are earned by the employees and the related finance costs and any other changes in the value of the assets and liabilities are recognised in the accounting periods in which they arise; and
- ◆ The financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

From 2003-04 onwards all authorities were required to implement the FRS17 standard in full. The Authority participates in two schemes:

- ◆ The Local Government Pension Scheme for non uniformed staff –

All fire non uniformed staff, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme, through the medium of the Cheshire Pension Fund. The scheme, which is a funded, defined benefit scheme, is administered by Cheshire County Council in accordance with the Pension Regulations 1997. The Authority currently pays an employer's contribution of 17.5% of pensionable employees' pensionable pay into the Cheshire Pension Fund. All pension payments to fire staff are met from this fund.

Employer contribution rates are reviewed every three years. The last review took place at 31 March 2004 and was effective from 1 April 2005. The next review will be effective from 1 April 2008. Contributions are set at a level intended to balance pension liabilities with the Authority's share of the Fund's investment assets.

- ◆ The Firefighter Pension Scheme for uniformed staff -

This is an unfunded, defined benefit scheme which is regulated by the Pension Regulations 1987. The net cost of pensions and other benefits, after allowing for contributions made by fire officers, is met from the revenue budget on a pay as you go basis.

The impact of these two pension schemes is identified separately in the revenue account and balance sheet. In presenting the detailed information required in the Statement of Recommended Practice, the Authority has implemented the following accounting policies:

- ◆ Net assets/net liabilities are identified for both pension schemes;
- ◆ The attributable assets of the scheme (local government) are measured at fair value;
- ◆ The attributable liabilities of both schemes are measured on an actuarial basis, using the projected unit method;
- ◆ Scheme liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability;
- ◆ The surplus/deficit in each scheme is the excess/shortfall of the value of assets in the scheme over/below the present value of the scheme;
- ◆ The current service cost is based on the most recent actuarial valuation at the beginning of the period, with the financial assumptions updated to reflect conditions at that date;
- ◆ The interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period;
- ◆ The expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable;
- ◆ Recognised that actuarial gains and losses may arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date;
- ◆ Past service costs are disclosed on a straight-line basis over the period in which the increase in benefits vest.
- ◆ Losses arising from settlements or curtailments and allowed for in the actuarial assumptions are measured at the date on which the employer becomes committed to the transaction;
- ◆ Gains arising from settlements or curtailments and not allowed for in the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction.

Pensions Reserve/Pensions Liability

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing the particular schemes in which the Authority participates. However, accounting for pensions is in accordance with generally accepted accounting practice, subject to the interpretations provided in the Statement of Recommended Practice.

Where the payments made for the year in accordance with the scheme requirements do not match the change in the Authority's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised via taxation. This is represented by an appropriation to or from the notional pensions reserve, which equals the net change in the pensions liability recognised in the Revenue Account.

Leases

SSAP 21 identifies two types of lease transactions - operating leases and finance leases.

An operating lease involves the lessee paying a rental for the hire of an asset for a period of time which is substantially less than its useful economic life. The lessor retains most of the risks and the rewards of ownership in the case of an operating lease.

A finance lease occurs when the discounted minimum lease payments are 90% or more of the fair value. Also, a finance lease transfers substantially all the risks and rewards of ownership of an asset to the lessee, other than legal title.

The Authority has no finance leases. Details of operating leases are shown in the notes to the revenue account.

Interest

Cash which is surplus to requirements for over one month is invested in recognised institutions. For periods less than one month it is invested with Cheshire County Council who pay interest at the 7 day LIBID rate.

RESERVES

Notional Accounts

These reserves represent purely accounting entries, without any actual cash effect.

Fixed Asset Restatement Account

This account is increased by the surplus arising on new property valuations and reduced by the net book value of assets that have been disposed of.

Pension Reserve (FRS17)

This reserve represents the disclosure requirements as laid out in FRS17.

Capital Financing Account

This account represents, primarily, non-debt financing of fixed assets, net of depreciation charged to the Revenue Account. Included are the following:

- Fixed Assets financed through revenue contribution
- Fixed Assets financed through capital receipts
- Minimum Repayment Provisions - Statutory Provision for repayment of debt (4% of Fixed Asset net book value - average 25 year useful life)
- Voluntary Repayment Provision - Additional provision for repayment of debt, to reflect better matching for shorter life fixed assets. Currently a rate of approximately 2.7% is applied
- Depreciation - The current depreciation provision offsets the above, reflecting the current charge for fixed assets used in the provision of service

Earmarked Reserves

These reserves represent monies set aside for specific purposes. They include both revenue and capital reserves.

Commutation Reserve

This reserve represents the estimated cash cost of commutations for those fire-fighters who are eligible for retirement but who have decided not to retire.

The fire-fighters' pension scheme allows fire-fighters to retire after 25 years service providing they are over the age of 50. The compulsory retirement ages for ranks of Station Officers and below is 55 and for ranks of Assistant Divisional Officer and above 60.

Capital Reserve - Schemes

This reserve represents funds set aside for capital schemes that have been deferred or are in progress.

Capital Reserve - Unapplied Receipts

With effect from 1 September 1998 all capital receipts can be used to finance capital expenditure. The receipts from the disposal of assets are used to help fund future capital programmes.

Resource Centre Managers' Reserve

The Authority operates a devolved budget management scheme. Any Member approved carry forwards on Service resource centre managers' budgets are transferred into this reserve. The reserve also includes specific approvals by Members to fund expenditure in future years.

Community Risk Reduction Smoke Alarm and Prevention Reserve

The purpose of this reserve is to improve the ability and speed by which the Service can respond to community need

General Reserve

This reserve represents cumulative revenue account under spends, net of any approved contributions to fund revenue expenditure.

OTHER

Contingent Assets/Liabilities

Contingent Assets/Liabilities are not recognised in the Revenue Account or the Balance Sheet where there is not absolute certainty they will materialise. Where appropriate, they may feature as notes to the accounts if there is a reasonable likelihood of the event occurring.

Asset Management Reserve Account (AMRA)

The SORP (CIPFA Statement of Recommended Practice) requires that service revenue accounts be charged annually with a capital charge for all fixed assets used in the provision of services. This charge equals the current provision for depreciation plus a capital financing charge, calculated by applying a notional interest rate (3.5% for 2005/06) to the net book value of all depreciated fixed assets. The CIPFA/LASAAC Joint Committee set the annual notional interest rate.

Cost of Support Services

All support services provided by Cheshire County Council are paid for on the basis of Service Level Agreements.

**CHESHIRE FIRE AUTHORITY
SUMMARY REVENUE ACCOUNT 2005-06**

Expenditure in Best Value Accounting Code of Practice Format

	Gross Expenditure 2005-06 £000	Income 2005-06 £000	Net Expenditure 2005-06 £000	Net Expenditure 2004-05 £000
Corporate & Democratic Core	957	0	957	970
Fire fighting and Rescue Operations	19,179	544	18,635	36,431
Community Fire Safety	22,809	459	22,350	5,229
Net Cost of Service	42,945	1,003	41,942	42,630
<u>Adjustments</u>				
Asset Management Revenue Account (Note 4)			(1,049)	(898)
Interest and investment Income			(436)	(460)
Provision for tax repayment (Note 28)			118	0
Pension Interest Cost and expected return on assets – FRS17			13,130	8,760
Net Operating Expenditure			53,705	50,032
<u>Appropriations</u>				
Reconciling amount for provision for loan repayment (Note 12)			(1,798)	(1,162)
Capital Expenditure financed from revenue			0	79
Capital Reserve – Transfers in Year, net			0	382
CRR Smoke Alarms & Prevention Reserve – Transfer in year			0	200
Resource Centre Managers' Reserve – Transfers in Year			13	(57)
Pension Reserve FRS17 – Transfers in Year			(14,900)	(13,042)
Commutation Reserve – transfer in (Note 22)			(1,663)	
Amount to be met from Government Grants and Local Taxation			35,357	36,432
Revenue Support Grant			(5,631)	(6,546)
Transitional Grant			0	(471)
Non Domestic Rates			(11,442)	(9,550)
Council Tax			(21,084)	(19,909)
Net General Fund (surplus)/deficit			(2,800)	(44)
Balance on General Fund brought forward			(2,996)	(2,952)
Balance on General Fund carried forward			(5,796)	(2,996)

CHESHIRE FIRE AUTHORITY

BALANCE SHEET 2005-06

		2005-06		2004-05 As Restated	
		£000	£000	£000	£000
FIXED ASSETS					
Operational Assets	Note 14				
Property		30,507		31,378	
Vehicles		2,689		2,930	
Equipment		1,410		1,131	
Non-Operational Assets		0		39	
TOTAL LONG TERM ASSETS		34,606		35,478	
CURRENT ASSETS					
Stocks	Note 15	163		185	
Debtors and prepayments	Note 16	896		1,771	
Investments (Short Term)	Note 17	10,595		9,793	
Cash in Hand		7		6	
Cash at Bank		6	11,667	0	11,755
Less Current Liabilities					
Creditors	Note 18	(3,149)		(3,051)	
Provision for tax liability	Note 28	(118)		0	
Cash Overdrawn		0		(1,406)	
Short Term Borrowing		(133)	(3,400)	(133)	(4,590)
TOTAL ASSETS LESS CURRENT LIABILITIES		42,873		42,643	
LONG TERM LIABILITIES					
Pension Liability – LT Creditors	Note 19	(46)		(64)	
Long Term Borrowing	Note 20	(4,505)		(3,757)	
Pension Liability (FRS 17)	Note 21	(285,300)		(244,500)	
TOTAL ASSETS LESS TOTAL LIABILITIES		(246,979)		(205,678)	
FINANCED BY:					
<u>Notional Accounts</u>					
Fixed Assets Restatement Account	R Note 3	37,209		37,061	
Pension Account (FRS 17)		(285,300)		(244,500)	
Capital Financing Account	R Note 4	(7,165)	(255,256)	(5,374)	(212,813)
<u>Earmarked Reserves</u>					
Commutation	Note 22	0		1,663	
Capital Reserve	Note 23	1,714		1,721	
Capital – unapplied receipts	R Note 2	380		364	
Resource Centre Managers	Note 24	132		118	
Community Risk Reduction	Note 25	200		200	
Capital Grant – Deferred	R Note 4	55		73	
General	Note 26	5,796	8,277	2,996	7,135
TOTAL NET WORTH		(246,979)		(205,678)	

The R Notes are shown as notes to the Statement of Total Movements in Reserves.

Prior Period Adjustment

Comparative figures have been restated to reflect the revaluation of the Day Crewed Housing Properties in 2003/04 which was not reflected in the published financial statements for 2004/05. This adjustment has the effect of increasing the value of property brought forward to £31,378k, rather than £25,8425k, as previously published. This adjustment also has the effect of increasing the Fixed Assets Restatement Account brought forward to £37,061k, rather than £31,525k, as previously published.

NOTES TO THE FINANCIAL STATEMENTS

- 1 Expenditure and income have been analysed above on the Best Value Code of Practice analysis, the subjective analysis is shown below.

During 2005-06 the Authority has continued to give particular focus to Community Risk Reduction activities. This ongoing change is represented by a reclassification of costs between Fire Fighting and Rescue Operations and Community Fire Safety and this explains the significant difference between net costs of the activities between 2004-05 and 2005-06.

2 Summary Revenue Account

The Fire Authority's accounts must be prepared in accordance with the Best Value Accounting Code of Practice on Local Authority Accounting as issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Whilst being prepared on a total cost basis in accordance with the Code, the Summary Revenue Account has been included below in the old format to allow comparisons with the prior year's Summary Revenue Account.

<u>Category of Expenditure</u>		2005-06	2004-05
		£000	£000
Employees			
Uniformed		21,685	21,983
Non Uniformed		3,513	2,876
Other Employee Costs		624	543
		25,822	25,402
Overheads:			
Agency and Contracted Services	Note 3	1,469	984
Capital Charges	Note 4	3,296	2,471
Members Allowances	Note 5	93	77
Premises		1,240	1,357
Supplies, Services and Other Expenses		2,252	2,822
Transport		934	957
		9,284	8,668
Pensions:			
Pensions FRS17		1,770	9,936
Pensions		6,069	0
		7,839	9,936
Gross Cost of Service per BVACOP		42,945	44,006
Service Income	Note 6	(1,003)	(1,376)
Net Cost of Service		41,942	42,630

3 Agency & Contracted Services

		2005-06 £000	2004-05 £000
Section 12 payments to	Staffordshire	(1)	25
	Merseyside		14
Services Bought In		1,470	945
TOTAL		<u>1,469</u>	<u>984</u>

Section 12 refers to mutual aid arrangements provided by neighbouring fire authorities under the Fire Services Act 1947.

4 Asset Management Revenue Account (AMRA)

	2005-06 £000	2004-05 £000
Income		
Notional Capital Charges to services		
- Depreciation	(2,061)	(1,414)
- Notional Interest Charge	(1,234)	(1,057)
Capital grants amortised	(18)	(18)
Expenditure		
External Interest Payable	203	177
Provision for Depreciation	2,061	1,414
Surplus on Asset Management Revenue Account	<u>(1,049)</u>	<u>(898)</u>

5 Members' Allowances

In accordance with the Local Authorities Regulations 1995 (Nov 2003), the total amount spent on members' allowances in 2005-06 was £93,170 (2004-05 £76,524).

Member Allowances are approved by the Authority after consideration of the advice and recommendations of its Independent Panel. As required under the appropriate regulations, the Authority publishes annual details of the sums paid by it to each Member of the Authority in respect of those allowances to which they are entitled. An appropriate notice is published in the local press usually in July stating that details may be obtained from the Authority on request.

6 Income

	2005-06 £000	2004-05 £000
Sales	57	0
Fees	453	642
Invest to Save Contributions	0	246
Prince's Trust	135	488
Other Income	358	0
	<u>1,003</u>	<u>1,376</u>

7 Publicity

Per the requirements of Section 5 (1) of the Local Government Act 1986, the Authorities spending on publicity was £128,556 (2004-05 £67,271).

8 Leases

The Authority has no finance leases. Payments under operating leases made in 2005-06 totalled £289,771. All lease commitments relate to vehicles.

Commitments expiring next year	£160,329
Commitments expiring in 2 to 5 years	£129,442
Commitments expiring after 5 years	£0

9 Officers' Emoluments

In accordance with the Accounts and Audit Regulations 2003, the number of employees whose taxable emoluments for 2005-06 exceeded £50,000 is detailed below:

£	Number of Officers	
	2005-06	2004-05
50,000-59,999	7	9
60,000-69,999	4	4
70,000-79,999	0	0
80,000-99,999	1	2
100,000-109,999	2	0
110000-119999	0	1
120000-129999	1	

10 Related Party Transactions

Under the Accounting Code of Practice, information in respect of material transactions with related parties is required to be disclosed. A number of these transactions have already been disclosed within the financial statements, as follows:

- (1) Transactions with other public bodies (i.e. Cheshire County Council and the district councils of Cheshire) have been disclosed within the revenue account and the cash flow statement, as well as in the other notes to the accounts.
- (2) Transactions with the Cheshire Pension Fund have been disclosed within the statement of accounting policies and notes to the revenue account.
- (3) Transactions with Central Government have been disclosed within the revenue account and the cash flow statement, as well as in the other notes to the accounts.

There is one material transaction to disclose in respect of:

Members, Chief Officers, (including their close family) and the Fire Authority.

The Authority paid Cheshire County Council £153,000 in respect of Internal Audit and Treasurership services. Within that amount, £21,000 reflects the work undertaken by the County Performance Improvement Officer in her role as the Authority's statutory S151 Officer.

11 Audit Costs

In 2005-06 the Authority incurred costs:

	2005-06 £000	2004-05 £000
Fees payable to the Audit Commission	46	17
Fees payable in respect of other services provided by the appointed auditors	0	49
	<u>46</u>	<u>66</u>

12 Provision for the Repayment of Debt

The Authority is required by statute to set aside a minimum revenue provision for the repayment of external debt. The figure used to calculate the annual provision for debt repayment was £3,924,000. The Authority has decided to make an additional debt repayment provision to recognise the estimated life of the assets being financed through loans.

	2005-06 £000	2004-05 £000
Minimum repayment provision	157	140
Voluntary repayment provision	106	94
Less depreciation charged to fixed assets	<u>(2,061)</u>	<u>(1,396)</u>
Reconciling amount for provision for loan repayment	<u>(1,798)</u>	<u>(1,162)</u>

13 Pension Costs

Non Uniformed Staff Pension Costs

The LGPS is a funded scheme, meaning that the scheme's liabilities are backed by investment assets. The Authority and its employees pay contributions into the fund, calculated at a level intended to fund the growth in pension liabilities over the longer term.

In 2005-06 the Cheshire Fire Authority paid employer contributions of £630,000 (2004-05 £500,000) into the Cheshire Pension Fund (the Fund). This represented 17.6% (2004-05 15.6%) of employees' pensionable pay (other than Fire Officers), into the Cheshire Pension Fund. The Authority has also made payments to fund costs of discretionary retirement benefits paid to employees who retire on the grounds of redundancy or in the efficiency of the service.

The capitalised costs of all such retirements are as follows:

	£000's
Capitalised costs of Discretionary Retirements to 31 December 1999	263
Capitalised costs of Discretionary Retirements to 31 March 2001	133
Capitalised costs of Discretionary Retirements to 31 March 2002	0
Capitalised costs of Discretionary Retirements to 31 March 2003	0
Capitalised costs of Discretionary Retirements to 31 March 2004	0
Capitalised costs of Discretionary Retirements to 31 March 2005	0
Capitalised costs of Discretionary Retirements to 31 March 2006	0
Total	<u>396</u>

These discretionary retirement costs have already been substantially provided for by way of an uplift to employer contributions to the Fund (and included in the figures set out above) or, in the case of retirements since 31 December 1999, by way of additional payment to the Fund.

The rate of employer contributions due to the Fund is determined every three years based on a valuation by the Fund's Actuary. The valuation effective for the 2005-06 financial year was undertaken as at 31 March 2004. The main actuarial assumptions were: -

	Nominal % p.a.	Real % p.a.
Investment Return:		
Equities	6.7%	3.8%
Bonds	4.9%	2.0%
Property	5.7%	2.8%
Earnings Growth	4.4%	1.5%
Price Inflation	2.9%	-

FRS 17 Accounting for Retirement Benefits is based on the simple principle that the operating costs of providing retirement benefits should be accounted for at the time the Authority is committed to give them even if the actual giving will be many years into the future. FRS 17 also requires that related finance costs be recognised in the period in which they arise. The charges to the revenue account as calculated on an FRS 17 basis in respect of non uniformed fire staff are set out in the table below.

	Local Government Pension Scheme	
	2005-06 £000	2004-05 £000
Current Service Cost	600	510
Past service cost	0	0
Settlements & Curtailments	0	0
Total Operating Cost	600	510
Expected Return on Employer Assets	(580)	(490)
Interest on Pension Scheme Liabilities	610	450
Net Return on Assets/Interest on Liabilities	30	(40)
Net Operating Cost (FRS17)	630	470

The implementation of FRS17 has a nil impact on council tax. The charge made against council tax is based on the actual contributions payable in the year. An appropriation to cover the net operating cost, calculated on an FRS17 basis, has been made from a notional Pension Reserve.

Uniformed Firefighters Pension Costs

The Uniformed Pension Scheme is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The funding arrangements for Firefighters pensions are to change from 1st April 2006. From this date, Firefighter contributions and a new employer's contribution will be paid into a pension scheme account, from which pension payments will be made. The account will be topped up as necessary by the Home Office if the contributions are insufficient to meet the cost of pension payments. Any surplus will be recouped by the Home Office. The new arrangement should eliminate volatility resulting from fluctuations in firefighter retirements. This may impact on the future presentation of FRS17 notes, although this is still uncertain.

In 2005-06 the net cost of pensions and other benefits amounted to £7.8m representing 46.6% of pensionable pay.

FRS 17 'Accounting for Retirement Benefits' applies equally to Firefighters' pension benefits – i.e. the operating costs of providing retirement benefits are accounted for at the time the Authority is committed to give them even if the actual giving will be many years into the future. The charges to the revenue account as calculated on a FRS 17 basis are set out in the table below.

	Uniformed Pension Scheme	
	2005-06 £000	2004-05 £000
Current Service Cost	7,800	8,600
Past service cost	0	0
Settlements & Curtailments	0	0
Total Operating Cost	7,800	8,600
Expected Return on Employer Assets	0	0
Interest on Pension Scheme Liabilities	13,100	8,800
Net Return on Assets/(Interest on Liabilities)	13,100	8,800
Net Operating Cost (FRS17)	20,900	17,400

The implementation of FRS17 has a nil impact on council tax. The charge made against council tax is based on the actual contributions payable in the year. An appropriation to cover the net operating cost, calculated on an FRS17 basis, has been made from a notional Pension Reserve.

FRS17 is also referred to in note 21 to the balance sheet and in the Statement of Total Movement in Reserves.

14 Fixed Assets

The figures below provide information on the movement of fixed assets held by the Authority during 2005-06. Following the introduction of capital asset accounting, the fixed assets are shown at their current value (see Statement of Accounting Policies).

	Property	Vehicles	Equip.	Non-Op. Equip.	Total
	£000	£000	£000	£000	£000
Net Book Value at 1 April 2005	31,378	2,930	1,131	39	35,478
Gross Book Value at 1 April 2005	34,396	6,869	3,368	39	44,672
Additions	156	265	618		1,039
Impairments	(156)				(156)
Disposals		(184)			(184)
Transfer to Operational Equipment			39	-39	0
Revaluations and Restatements	(2,649)				(2,649)
Gross Book Value at 31 March 2006	31,747	6,950	4,025	0	42,722
Depreciation at 1 April 2005	(3,018)	(3,939)	(2,236)		(9,193)
Charge for the year	(1,198)	(484)	(379)		(2,061)
Disposals		162			162
Revaluations and Restatements	2,976				2,976
Depreciation at 31 March 2006	(1,240)	(4,261)	(2,615)		(8,116)
Net Book Value at 31 March 2006	30,507	2,689	1,410		34,606

Valuation

The table below gives details of the basis of valuation of the Authority's assets as at 31 March, 2006.

	Property	Vehicles	Equip.	Total
	£000	£000	£000	£000
Valued at historical cost		2,689	1,410	4,099
Valued at current value in :				
2003/04 (Day Crewed Housing)	8,423			8,423
2005/06 (Fire Stations and Administrative Buildings)	22,084			22,084
Total	<u>30,507</u>	<u>2,689</u>	<u>1,410</u>	<u>34,606</u>

The Fire Stations and the Fire Headquarters have been re-valued by Dunlop Haywards (an independent firm of property consultants) as at 1 April 2005. The valuations have been prepared on the bases set out below.

The Fire Stations have been valued on the basis of Depreciated Replacement Cost, which is defined by the Royal Institute of Chartered Surveyors as "the current cost of reproductional replacement of an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation".

The Fire Headquarters has been valued on the basis of Existing Use Value.

The Day Crewed Housing stock were valued by Derek Johns MRICS (the then Property Manager at Cheshire Fire Authority) in 2003/04 at estimated Market Value. The revaluation of Day Crewed Housing in 2003/04 was not reflected in the 2004-05 accounts. Consequently, the opening Property valuation has been restated to reflect this change which has had the effect of increasing the balance by £5,536k. This has been disclosed in the note immediately following the Balance Sheet.

The re-valuation of the Fire Stations and the Fire Headquarters Property at 1 April 2005 added a further £327k to the value of Property.

All property will be re-valued every 5 years. Assets under construction at year end are not depreciated until they are fully operational.

Fixed Assets owned by the Authority on 31 March 2006 include the following:

Fire Stations (including Headquarters and Control Room)	26
Fire Houses	54
Fire Museum	1
Vehicles	95

In 2004/05 the Fire Authority was in the process of implementing a new computer software system. As the System was still under development, it was classified in the 2004/05 Statement of Accounts as a non-operational asset. During 2005/06 the system became operational and therefore it has been transferred into Operational Equipment in the 2005/06 Statement of Accounts.

15 Stocks

	2005-06 £000	2004-05 £000
Uniforms		92
Vehicle Spares		82
Fuel		11
	163	185

Our new financial systems require stock to be split over a number of categories, hence no comparable analysis is available for 2005-06. A stocktake and valuation exercise will take place in 2006-07 to analyse stock into these new categories.

16 Debtors

	2005-06 £000	2004-05 £000
General Debtors greater than 1 year old	69	746
Debtors less than 1 year old	827	1,025
	896	1,771

17 Investments

Temporary surpluses of cash are invested with Cheshire County Council at the 7 day LIBID rate, except where it is clear that the surpluses are available for more than one month. In these cases money is invested on the money market.

	2005-06 £000	2004-05 £000
Cheshire County Council	6,593	4,793
Money Market Deposits	4,000	5,000
	10,593	9,793

18 Creditors

	2005-06 £000	2004-05 £000
Trade Creditors	1,179	2,352
Pay accruals	1,049	240
Revenue Grants - Deferred	921	459
	3,149	3,051

19 Pension Liability - Long Term Creditors

The long term creditor of £46,282 represents the unpaid costs of any non-uniformed staff early retirements. These costs are paid out over a period up to 5 years.

20 Loans Outstanding - Long Term Borrowing

As at 31 March 2005 long term debt outstanding was £3,757,000. During the year further loans were taken out for £880,000 and principal totalling £133,200 was re-paid. The following tables analyse long term borrowing by type and debt maturity.

Loan Type	2005-06	<i>2004-05</i>
	£000	<i>£000</i>
Public Works Loan Board	4,372	<i>3,491</i>
Instalment Loans	133	<i>266</i>
Balance at 31 March	4,505	<i>3,757</i>

Loan Maturity	2005-06	<i>2004-05</i>
	£000	<i>£000</i>
1 – 2 Years	133	<i>133</i>
2 - 5 Years	0	<i>133</i>
5 – 10 Years	1,037	<i>1,037</i>
10 Years and above	3,335	<i>2,454</i>
Balance at 31 March	4,505	<i>3,757</i>

21 Pensions FRS 17

Note 13 to the revenue account contains details of how the Authority's participation in the Local Government Pensions Scheme (administered by Cheshire County Council) and the Fire fighters' Pension Scheme in providing uniformed and non uniformed staff with retirement benefits, impacts upon the revenue account on an FRS 17 basis.

Assets

Assets in the Cheshire Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories by proportion of the total assets held by the Fund. The table below also includes the expected long term return from each of the asset categories.

	Long Term Returns	Proportion of the Fund 31 March 2006	Proportion of the Fund 31 March 2005
	% per year	%	%
Equity	7.4	77.6	76.6
Bonds	4.6	11.2	10.9
Property	5.5	8.4	9.1
Cash	4.6	2.8	3.4
Cash			
		100.0	100.0

The Fire Fighters' Pension Scheme has no assets to cover its liabilities.

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. Both the Firefighters' Pension Scheme and the Cheshire County Council Pension Fund liabilities have been assessed by Hymans Robertson and Co, an independent firm of actuaries. The main assumption used in their calculations are shown in the following table.

	Local Government Pension Scheme		Fire Authority Pension Scheme	
	2005/06	2004/05	2005/06	2004/05
	%	%	%	%
Price increases	3.1	2.9	3.1	2.9
Salary Increases	4.6	4.4	4.6	4.4
Pension increases	3.1	2.9	3.1	2.9
Discount rate	4.9	5.4	4.9	5.4

The underlying assets for retirement benefits attributable to the Authority at 31 March are shown in the following table.

	Local Government Pension Scheme		Fire Authority Pension Scheme		Total	Total
	31 March 2006	31 March 2005	31 March 2006	31 March 2005	31 March 2006	31 March 2005
	£000	£000	£000	£000	£000	£000
Estimated employer assets	10,600	7,900			10,600	7,900
Estimated pension liabilities	(13,700)	(11,100)	(282,200)	(241,300)	(295,900)	(252,400)
Net pension liability	(3,100)	(3,200)	(282,200)	(241,300)	(285,300)	(244,500)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £285 million has a substantial impact on the net worth of the Authority as shown in the Balance Sheet, resulting in a negative overall balance of £247 million at 31 March 2006. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- ◆ The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme's actuary.
- ◆ Finance is only required to be raised to cover fire pensions when the pensions are actually paid.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The Administering Authority and actuaries have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently the valuation of the Council's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change to the pension scheme.

Movement on Net Pension Liability

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

Net Pension Liability as at	Local Government Pension Scheme	Fire Authority Pension Scheme
	£000	£000
Net pension liability at 1 April 2004	(3,200)	(241,300)
Current Service Cost	(600)	(7,800)
Employer contributions	630	6,300
Pension & Lump Sum expenditure	0	0
Past service cost	0	0
Transfer In from Other Authorities	0	(500)
Transfer Out from Other Authorities	0	200
Impact of settlements & curtailments	0	0
Net return on assets	(30)	0
Interest cost on liabilities	0	(13,100)
Actuarial gains/(losses)	100	(26,000)
Net pension liability at 31 March 2005	(3,100)	(282,200)

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

	Local Government Pension Scheme		Fire Authority Pension Scheme	
	£000	% of assets/liabilities	£000	% of assets/liabilities
Differences between the expected and actual return on assets	1,660	15.8	N/A	N/A
Differences between actuarial assumptions and actual experience	80	0.6	1,800	0.6
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	(1,640)	(15.7)	(27,800)	(9.2)
Other losses on liabilities	-	-	-	-
Changes in demographic assumptions	-	-	-	-
Actuarial gains and (losses)	100	0.7	(26,000)	(8.6)

The net pension liability identified in the FRS17 disclosures set out above does not represent an immediate call on the Authority's reserves. Rather this is the notional amount, using the prescribed FRS17 calculation basis, by which the Authority's pension liabilities exceed its share of the Fund's assets.

22 Commutation Reserve

This reserve was created to provide for the commutation (lump sum) of those Officers who were eligible to retire but had not yet elected to do so. However, the new pension funding arrangements that take effect for the financial year 2006-07, mean that the reserve is no longer required and consequently, it has been transferred to the general reserve via the revenue account.

	2005-06	<i>2004/05</i>
	£000	<i>£000</i>
Balance at 1 April	1,663	<i>843</i>
Provision made in year	0	<i>820</i>
Transfer to revenue	(1,663)	
Balance of at 31 March	0	<i>1,663</i>

23 Capital Reserve

	2005-06	<i>2004-05</i>
	£000	<i>£000</i>
Balance at 1 April	1,722	<i>1,340</i>
Appropriation (to)\from revenue in year	(6)	<i>382</i>
Balance at 31 March	1,716	<i>1,722</i>

24 Resource Centre Managers' Reserve

	2005-06	<i>2004-05</i>
	£000	<i>£000</i>
Balance at 1 April	118	<i>175</i>
Transfers from revenue	13	<i>(57)</i>
Balance at 31 March	131	<i>118</i>

25 Community Risk Reduction Reserve - Alarms & Prevention

	2005-06
	£000
Balance at 1 April	200
Transfers to /from revenue	0
Balance at 31 March	200

26 General Reserve

This reserve represents cumulative revenue account under spends, net of any approved contributions to fund revenue expenditure.

	2005-06
	£000
Balance at 1 April	2,996
Transfers in year	2,800
Balance at 31 March	5,796

27 Capital Expenditure and Financing

	2005-06	2004-05
	£000	£000
Capital Expenditure		
Property	156	199
Vehicles	265	457
Equipment	618	247
Non Operational	0	39
	<u>1,039</u>	<u>942</u>

Capital Expenditure was financed as follows

	2005-06	2004-05
	£000	£000
Borrowing	1,033	763
Revenue Contribution	0	79
Capital Receipts	0	9
Capital Grant	0	91
Capital Reserve	6	
	<u>1,039</u>	<u>942</u>

28 Provision for Tax Liability

The Authority has provided for £118,000 to recognise a potential tax liability relating to 2005-06 and previous years.

29 The Euro

The Authority has not yet incurred any costs in preparing for currency conversion to the Euro.

CHESHIRE FIRE AUTHORITY

CASH FLOW STATEMENT 2005-2006

This statement provides a link between the Balance Sheet at the beginning of the year, the Revenue Account for the year and the Balance Sheet at the end of the year. It looks at where the money came from and how it was spent for both revenue and capital activities and therefore reflects the changes in the financial structure of the Cheshire Fire Authority during the year.

	2005/06 £000	2004/05 £000
REVENUE ACTIVITIES		
<u>Outflows</u>		
Payments to and on behalf of employees	(25,013)	(26,200)
Other operating payments	(13,186)	(10,368)
	<u>(38,199)</u>	<u>(36,568)</u>
<u>Inflows</u>		
Charges for services and other receipts	2,027	648
Specific Grants (Note 5)	241	*
Revenue Support Grant	5,624	6,546
Transitional Grant	0	471
Non Domestic Rates	11,442	9,550
Contribution from Council Tax	21,084	19,909
	<u>40,418</u>	<u>37,124</u>
(* see Note 5)		
REVENUE ACTIVITIES NET CASH INFLOW	2,219	556
SERVICING OF FINANCE		
<u>Outflows</u>		
Interest paid	(203)	(177)
<u>Inflows</u>		
Interest received	492	288
SERVICING OF FINANCING ACTIVITIES NET CASH INFLOW	289	111
CAPITAL ACTIVITIES		
<u>Outflows</u>		
Purchase Of Fixed Assets	(1,056)	(901)
<u>Inflows</u>		
Capital Grants	0	91
Capital Receipts	16	19
CAPITAL ACTIVITIES NET CASH OUTFLOW	(1,040)	(791)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING	1,468	(124)
FINANCING		
<u>Outflows</u>		
Principal Repayments	(133)	(133)
<u>Inflows</u>		
New loans raised	880	922
FINANCING - NET INFLOW	747	789
MANAGEMENT OF LIQUID RESOURCES		
Net (Increase) / Decrease in short term deposits	(802)	(1,605)
NET INCREASE /(DECREASE) IN CASH	1,413	(940)

1 Reconciliation of revenue cash flow

	2005/06 £000	2004/05 £000
Surplus / (Deficit) for the year	2,800	44
<u>Adjustment for Interest</u>		
Interest paid	203	177
Interest received	(492)	-288
<u>Adjustments for Non Cash Transactions:</u>		
AMRA	(18)	
Contribution to Capital Financing Reserve (mrp & voluntary contribs)	263	234
Provision for tax repayment	118	0
Transfer to RCM Reserve	13	-57
Commutation Reserve - transfer in	(1,663)	819
Capital Expenditure financed from revenue		79
Transfer to Capital Reserve		382
Transfer to CRR Smoke Alarms Reserve		200
<u>Adjustment: Changes to Working Capital</u>		
(Increase) / decrease in stocks	22	0
(Increase) / Decrease in non capital debtors & prepayments	876	(1,043)
Increase / (Decrease) in non capital creditors	115	53
Reduction in long term creditors	(18)	(44)
Revenue Activities Net Cash Flow	2,219	556

Comparative figures for 2004-05 have been restated to reflect an inconsistency identified within the cashflow statement in that year.

2 Reconciliation of Net Cash Flow to Movement in Net Debt

	As at 31/3/06 £000	As at 31/3/05 £000	Movement during year £000
Cash at Bank	13	6	7
Cash Overdrawn	0	(1,406)	1,406
Investments	10,595	9,793	802
Borrowing	(4,638)	(3,890)	(748)
	<u>5,970</u>	<u>4,503</u>	<u>1,467</u>
Increase in Cash in the period	1,413		
Cash inflow from increase in debt	(748)		
Cash outflow from increase in liquid resources	802		
Movement in net debt for period	<u>1,897</u>		
Net funds at 1/4/05	<u>4,503</u>		
Net funds at 31/3/06	<u>5,970</u>		

3 Movement in liquid resources and long term borrowing

	As at 31/3/06 £000	As at 31/3/05 £000	Movement during year £000
Investments (short term)	10,595	9,793	802
Long term borrowing	4,638	3,890	748

4 Definition of Liquid Resources

Liquid resources have been defined as the short term investments that are disclosed on the face of the balance sheet.

5 Analysis of Specific Grants for 2005-06

	2005/06 £000
Community Risk Reduction	25
Arson	46
Blacon Car Clear	39
LPSA Pump Priming	131
Total	241

The above table represents the specific grants cash received in 2005-06. 2004-05 specific grants were reflected in the "Charges for Services and Other Receipts" figure (in the Cashflow Statement) for which no further analysis is available.

STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	2005/06	2005/06	2004/05 as restated
	£000	£000	£000
Surplus/deficit for the year - General Fund	2,800		44
Add back Movements on earmarked revenue reserves	(1,649)		1,344
Deduct Appropriation from pensions reserve	(14,900)		(13,285)
Actuarial gains and losses relating to pensions (Note 6)	(25,900)		(70,818)
Total increase/decrease in revenue resources (note 1)		(39,649)	(82,715)
Increase/decrease in usable capital receipts	16		109
Increase/decrease in unapplied capital grants and contributions	-		
Amount applied to finance capital expenditure	(7)		(100)
Total increase(decrease) in realised capital resources (note 2)		9	9
Gains/(losses) on revaluation of fixed assets	327		5,536
Impairment losses on fixed assets due to general change in prices	(156)		
Total increase/(decrease) in unrealised value of fixed assets (note 3)	0		0
		171	5,536
Value of assets sold, disposed of or decommissioned (note 4)			
Value of assets sold	(23)		(28)
Capital receipts set aside	0		
Revenue resources set aside	(1,791)		(1,075)
Movement on Government Grants Deferred	(18)		73
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)		(1,832)	(1,030)
Total recognised gains and losses		(41,301)	(78,200)

Prior Period Adjustment

The gain of £5,536k on the revaluation of Day Crewed Housing Properties has been reflected in the restated 2004/05 Balance Sheet, as the revaluation took place in 2003/04, but was not reflected in the 2004/05 accounts. The effect of this prior period adjustment is shown in notes R3 & 4. This has also been disclosed in the note immediately following the Balance Sheet.

Notes to the Statement of Total Movements in Reserves

R1. Movements in revenue resources

	General Fund Balances £000	Earmarked Revenue Reserves £000	Pensions Reserve £000
Surplus for 2005/06	2,800		
Appropriations to/from revenue		(1,649)	
Appropriation from pensions reserve			(14,900)
Actuarial gains and losses relating to pensions	0	0	(25,900)
Balance brought forward at 1 April 2005	2,996	1,981	(244,500)
Balance carried forward at 31 March 2006	5,796	332	(285,300)

The Authority's Earmarked and Pensions Reserves are referred to in the Statement of Accounting Policies (Pages 12-17).

R2. Movements in realised capital resources

This represents the extent to which there have been changes in the Authority's ability to finance capital investment in future years. Usable capital receipts relate to the proceeds from the sale of fixed assets.

	Usable capital receipts £000	Capital Reserve £000
Amounts received in 2005/06	16	0
Amounts applied to finance capital expenditure	0	(7)
Amounts transferred to revenue account	0	0
Increase (decrease) in realised capital resources in 2005/06	16	(7)
Balance brought forward at 1 April 2005	364	1,721
Balance carried forward at 31 March 2006	380	1,714

R3 & 4. Movements in Unrealised Value of Fixed Assets and Value of Assets sold, disposed of or decommissioned

This represents the extent to which the value of the Authority's asset portfolio has changed in the year. Movements in the Fixed Asset Restatement Account comprise of changes in the fixed asset balance arising from revaluations net of any decreases arising from impairments and amounts written off for fixed assets disposed of during the year. The balance on this account cannot be used to finance future capital expenditure.

	Fixed Asset Restatement Account £000
R3. Movements in unrealised value of fixed assets	
Gains on revaluation of fixed assets in 2005/06	327
Impairments	<u>(156)</u>
Total increase(decrease) in unrealised capital resources in 2005/06	171
R4. Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposal in 2005/06	<u>(23)</u>
Total Movement on reserve in 2005/06	148
Balance brought forward at 1 April 2005 (as restated)	<u>37,061</u>
Balance carried forward at 31 March 2006	<u>37,209</u>

R5. Movements in amounts set aside to finance capital investment

These are represented by movements on the Capital Financing Account and the Government Grants Deferred Account.

The Capital Financing Account contains the amounts which are required by statute to be set aside from capital receipts and revenue for the repayment of external debt, and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between the amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The balance on the account cannot be used to finance future capital expenditure.

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is initially included in the Government Grants Deferred Account. Amounts are then released to the asset management revenue account over the useful life of the asset to match the depreciation charge on the asset to which it related. The account does not represent cash received, but the balance of undischarged credit.

	Capital financing Account £000	Government Grants Deferred Account £000	TOTAL £000
Capital receipts set aside in 2005/06			
- usable receipts applied	0	0	
Total capital receipts set aside in 2005/06	0	0	
Revenue resources set aside in 2005/06			
- capital expenditure financed from revenue	0	-	
- capital expenditure financed from revenue reserves	7	-	
- reconciling amount for provisions for loan repayment	(1,798)	-	
Total revenue resources set aside in 2005/06			(1,791)
Government grants and receipts applied to capital investment in 2005/06	-	-	
Amounts credited to the Asset Management Revenue Account in 2005/06	-	(18)	
Movement on Government Grants Deferred			(18)
Total increase(decrease) in amounts set aside to finance capital investment			(1,809)
Total movement on reserve in 2005/06	(1,791)	(18)	
Balance brought forward at 1 April 2005	(5,374)	73	
Balance carried forward at 31 March 2006	(7,165)	55	

6. Actuarial Gains and Losses Relating to Pensions

The actuarial (gains)/losses identified as movements on the Pensions Reserve in 2005-06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006.

Local Government Pension Scheme

	2002/03		2003/04		2004/05		2005/06	
	£000	% *	£000	% *	£000	% *	£000	% *
Differences between the expected and actual return on assets	(1,682)	(33.0)	812	12.3	250	3.2	1660	15.8
Difference between actuarial assumptions about liabilities and actual experience	25	0.4	(216)	(2.7)	(220)	(2.0)	80	0.6
Changes in the demographic and financial assumptions used to estimate liabilities	0	0	4	0	(1,820)	(16.4)	(1,640)	(12.0)
	<u>(1,657)</u>	<u>(23.3)</u>	<u>600</u>	<u>7.5</u>	<u>(1,790)</u>	<u>(16.2)</u>	<u>100</u>	<u>0.7</u>
Actuarial gain/(loss) in pension plan	<u><u> </u></u>							

* Note – all figures are expressed as a percentage of the total present value of liabilities, with the exception of the first line which is expressed as a percentage of the assets, hence, the individual percentages do not total to the bottom line.

Firefighters Pension Scheme

	2002/03		2003/04		2004/05		2005/06	
	£000	%	£000	%	£000	%	£000	%
Difference between actuarial assumptions about liabilities and actual experience	900	0.6	288	0.2	(22,300)	(9.2)	1,800	0.6
Changes in the demographic and financial assumptions used to estimate liabilities	(13,388)	(9.0)	0	0	(46,728)	(19.4)	(27,800)	(9.9)
Actuarial gain/(loss) in pension plan	<u>(12,488)</u>	<u>(8.4)</u>	<u>288</u>	<u>0.2</u>	<u>(69,028)</u>	<u>(28.6)</u>	<u>(26,000)</u>	<u>(9.2)</u>

GLOSSARY OF TERMS

Accruals

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

Appropriations

Amounts transferred to or from revenue or capital receipts.

Asset Charges

The Authority charges the revenue account with the full economic costs of the assets used to deliver their services. These charges are called asset charges. The change in the method of accounting for capital does not affect the level of Council Tax.

Asset Management Revenue Account

The asset charges will be reversed in the asset management revenue account, ensuring that there is no impact on the level of Council Tax. This account will meet the charge for the depreciation on the Authority's fixed assets, and the external interest payable on the Authority's borrowing.

Budget

A statement of the Authority's expected level of service and spending over a set period, usually one year.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, or expenditure which extends the life of or adds value to an existing fixed asset.

Capital Financing Account

This account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between the amounts provided for depreciation and that required to be charged to revenue to repay the principal elements of external loans. The balance on this account cannot be used to finance future capital expenditure.

Capital Receipts

Proceeds from the sale of capital assets.. These can be used to repay outstanding debt or to finance new capital expenditure.

Contingencies

Sums set aside to cover unforeseen events where the cost is unknown or unforeseen expenditure which may be needed during the year.

Council Tax

The means of raising money locally, to pay for Fire Authority services. This is a property based tax where the amount levied depends on the valuation of each dwelling.

Current Assets and Liabilities

Current assets are items which can be readily converted into cash. Current liabilities are items which are due immediately or in the short term. By convention these items are ordered by reference to the ease that assets can be converted into cash, and the timescale in which the liability falls due.

Fixed Assets

Tangible assets that yield benefits to the Authority and the service it provides for a period of more than one year.

Fixed Asset Restatement Account

The system of capital accounting requires the establishment of this account. The balance represents the difference in the valuation of assets under the previous accounting rules and the current method of capital asset accounting. The account will be written down as assets are disposed of, and charged or reimbursed with deficits or surpluses arising on future re-valuations and capital expenditure which does not increase in values, e.g. maintenance. The balance on this account cannot be used to finance future capital expenditure.

Income

Amounts which the Authority receives, or expects to receive, from any source. Income includes fees, charges, sales and contributions from constituent bodies.

Long-Term Borrowing

Loans that are raised with external bodies, for periods greater than one year.

Provisions

Provisions represent sums set aside for liabilities or losses which are certain to arise but owing to their inherent nature cannot be quantified with any certainty. The Authority's main provisions relate to hydrants, pensions and capital.

Reserves

There are two types of reserve; those which are available to meet current expenditure, and those which are not available to meet such expenditure. Most revenue reserves are capable of being used, but the reserves brought about by the new capital accounting system, namely the fixed asset restatement reserve and the capital financing reserve cannot be used to meet current expenditure.

Revenue Expenditure

Amounts which the Authority pays or expects to pay to any source - includes the cost of employees, premises, transport, supplies and services.

Revenue Support Grant

General government grant support towards fire authority expenditure.

SORP (Statement of Recommended Practice)

Guidelines and requirements issued by CIPFA with respect to the accounting and reporting arrangements for Local Authorities, including Fire Authorities.

Temporary Investments

This comprises of cash in hand, cash overdrawn and short-term investments which are readily convertible into known amounts of cash. These are deposited with banks or similar institutions.