

CHESHIRE FIRE AUTHORITY



STATEMENT OF ACCOUNTS

2006 - 2007

Cheshire Fire Authority
Statement of Accounts 2006-2007

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EXPLANATORY FOREWORD

by The Treasurer

The following pages comprise the Cheshire Fire Authority's Statement of Accounts for the year ended 31 March 2007. The Statement includes an analysis of the Authority's financial position (the statutory accounts), a statement of responsibilities, a statement on internal control and a statement of accounting policies. 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.

The statutory accounts include:

Income and Expenditure Account – reports the net cost for the year of all the functions for which the Authority is responsible and demonstrates how that cost has been financed from Government grants and income from local taxpayers.

Statement of Movement on General Fund Balance – whilst the surplus or deficit on the Income and Expenditure Account is the best measure of the Authority's financial result for the year, the movement on the general fund balance is also an important aspect of the Authority's stewardship.

Statement of Total Recognised Gains and Losses – not all gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. However, when assessing the financial result for the period, the Statement of Total Recognised Gains and Losses considers all gains and losses.

Balance Sheet – The balance sheet shows all the major assets and liabilities of the Authority and how they are financed.

Cashflow Statement – this statement summarises the inflows and outflows of cash arising from the transactions with third parties for revenue and capital purposes.

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.

To comply with proper accounting practices, the 2006-07 Statement of Accounts requires the 2005-06 Consolidated Revenue Account and Statement of Total Movements on Reserves to be restated to follow the guidance contained within the 2006 Statement of Recommended Practice.

Cheshire Fire Authority

This is the 9th 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, 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

The Authority appointed a new Treasurer (Darren Griffiths) with effect from 1st April 2007. It is the responsibility of the new Treasurer to sign-off the accounts for 2006-07.

With effect from 1st April 2006, the method of financing Firefighter pensions changed. Whereas previously the Authority had simply met any liability as it fell due, the new system requires an employers' contribution. Further detail is provided in the main body of the accounts.

During 2007-08, the Authority approved the transfer of £1.5m of the general reserve into the Community Risk Reduction Reserve in order to meet the costs of Home Safety Assessments up until 2010-11.

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. However, now the Fire Authority receives its funding from two main sources:

1. *Revenue Support Grant/National Non-Domestic Rates*
For 2006-07 these were distributed on the basis of a "relative needs formula" which replaced the "formula spending share".
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 2006-07 the Authority set its net revenue budget at £37.7m. Funding was provided by the Council Tax precept which generated £21.9m (58% of the Authority's total funding) with the balance of £15.8m (42%) provided by Revenue Support Grant and National Non-Domestic Rates. The capital programme for the year was set at £3.15m to be financed via borrowing and capital receipts.

Analysis of 2006-07 Actual Spend

Actual expenditure for the year amounted to £36.6m. Overall, there has been an underspend of £1.1m against the net revenue budget of £37.7m. This underspend is caused in the main by a large number of in-year retirements which has led to a reduction in staffing costs. The Service has recently recruited a number of firefighters and, due to the retirement profile of its staff, continues to do so with the aim of ensuring staffing numbers are sufficient to fill all posts within the budgeted establishment.

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 £279m, 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 (Treasurer) on telephone number 01606 868484.

Darren Griffiths
Treasurer
Cheshire Fire Authority

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 2006), 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 2007 and that events after this date and prior to the formal approval of the Accounts have been properly considered.

Signed:

Date:

Darren Griffiths
Treasurer to Cheshire Fire Authority

Statement from Cheshire Fire Authority

I certify that this Statement of Accounts has received the full approval of Cheshire Fire Authority

.....
Councillor Tony Hooton Date
Cheshire Fire Authority

STATEMENT ON INTERNAL CONTROL 2006-07

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 Cheshire Fire & Rescue Service's Corporate Governance Action Plan is well developed, but further work has been put on hold in anticipation of an updated Code of Corporate Governance that was due to be issued by CIPFA/SOLACE in the Autumn of 2006. However, the release of the revised code has been delayed; despite this the Authority is committed to reviewing its governance arrangements against the revised code upon its release.

Internal Audit will review the Authority's corporate governance arrangements against the revised CIPFA/SOLACE framework during 2007-2008. The auditors will review and make recommendations for improving the Authority's local code.

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 seeking to eliminate all of the risks that might potentially threaten the attainment of objectives. It can therefore only provide a reasonable and not absolute assurance of effectiveness. The system of internal control derives from a continuous risk management approach that identifies and prioritises risks with the potential to threaten the achievement of the Authority's objectives. The approach assesses the likelihood of those risks emerging to cause harm and the most likely foreseeable impact. It then implements the level of control appropriate to ensure identified risks are managed efficiently, effectively and economically.

A system of internal control has been in place at Cheshire Fire Authority for the year ended 31 March 2007 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 within Cheshire Fire Authority 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 IRMP4 following a period of extensive consultation with stakeholders. During 2006 - 07 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

During 2006-07, the Authority continued to operate using the established structure of Member committees and advisory groups who conduct business and make decisions in accordance with the Authority's Standing Orders. The Authority has a committee structure (incorporating a Policy Committee and Performance and Overview Committee) in place with the aim of assisting Members with their continuing challenge and scrutiny roles.

In support of this process, Officers, in particular statutory officers, ensure that Members have sufficient information on which to make an informed decision.

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

Financial and service planning are effectively aligned. However, the principal of continuing improvement ensures that these business processes are under continual review to ensure they become even more integrated. This is reflected in the process of submitting policy options in the form of a business case which is considered against corporate objectives and costs, in order that the most value for money policy options are prioritised.

The Treasurer assessed our reserves in the context of the risks facing the Authority during 2006-07 and found them 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. Best value reviews completed in 2006 -07 included the review of the Day Crewing shift system and of our Accommodation. A value for money review of the retained duty system is planned for 2007-08.

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.

Financial systems that went live during 2005-06 are now 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.

The ongoing financial position of the Service is monitored by the officer led Budget Management Board.

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 and Area Manager Forum.

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

In 2006-07 the Service has begun to align performance measurement to local activities at the level of both Performance Delivery Groups (based on district boundaries) and Station Activity Plans. Whilst there is still scope for improvement, this process now enables managers at the local level determine to what extent their activities contribute to Corporate Objectives and high-level performance indicators. In addition, local Members now sit on Performance Delivery Groups to add to the scrutiny and challenge process.

At Committee level, Performance & Overview Committee scrutinise performance in selected areas on a thematic basis.

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 and of the effectiveness of Internal Audit. 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

In 2007-08 it is anticipated that the Authority will benefit considerably from the work undertaken in 2006-07 to develop and introduce a revised Corporate Risk Management Framework. Work programmed for 2007-08 will concentrate on further embedding risk management and expand the application of the process into PDG areas and Station Activities.

The System of Internal Control within the Authority is therefore satisfactory and although another challenging year is faced in 2007-08 the following have been identified as key issues in relation to internal control.

- Contract management – the Authority has begun to address procurement issues, but must now become a more demanding client and manage relationships with suppliers on a more commercial footing. This is being addressed by the Head of Asset Management in developing his procurement strategy, which is being considered by Performance and Overview Committee.
- Partnerships – the Authority uses partnerships to generate additional capacity. However, given the nature of those arrangements, it is often difficult to identify and measure tangible outcomes for the community. The Partnership Toolkit, developed within the Service, is assisting in this along with a sub-group of Area Managers who regularly meet with PDG Managers to scrutinise the performance of their partnerships.
- Payroll – poor levels of service from our current provider together with an inability to extract the required level of management reporting will cause the Authority to explore an alternative service provider in 2007-08. This is being led by the Head of Human Resources and the Head of Asset Management.

A more detailed action plan to address these issues will be presented to Standards Committee following the formal approval of the Accounts (of which the Statement on Internal Control forms a part).

.....
Cllr Tony Hooton
Cheshire Fire Authority

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

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Darren Griffiths
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 and the firefighters' pension fund accounting statements of Cheshire Fire Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of Movement on General Fund Balances, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and firefighters' pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to Cheshire Fire 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 the auditor

The Chief Finance Officer's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 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 and the firefighters' pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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' issued in 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

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 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and

The firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial transactions of the firefighters' pension fund during the year ended 31 March 2007 and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Julian Farmer-
District Auditor
The Heath Business Park
Runcorn
WA7 4ZX.
September 2007

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 Fire and Rescue Services. 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 having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Cheshire Fire Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority’s best value performance plan for the financial year 2006/07 in December 2006. 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
The Heath Business Park
Runcorn
WA7 4ZX.
September 2007

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, Statements of Standard Accounting Practice and Financial Reporting Standards 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.

Income and Expenditure Account

As required by the CIPFA Best Value Accounting Code of Practice, the net cost of service is analysed over the mandatory divisions of service prescribed by the Code. For 2006-07, the process has been refined to ensure that all areas of expenditure are properly allocated over the three divisions of service. The Corporate and Democratic Core allocation now includes expenditure on premises, supplies and services, transport, pensions and depreciation for the first time, resulting in an increase in this division of service of 104% from 2005-06.

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 and Rescue Service Headquarters, Fire Stations and Fire Museum were 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

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 and the transfer costs associated with the local pensions account which are shown on a cash basis

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 scheme, meaning that there are no investment assets built up to meet the liability. That liability now resides in a local pensions account into which pension contributions are made and from which, pensions are paid. The cost of employer contributions into the local pensions account are charged to the Service revenue account. The balance on the local pensions account is the responsibility of Government.

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.

Northwest Fire and Rescue Management Board

The Government issued a White Paper "Our Fire and Rescue Service" during 2003/04. This required Fire Authorities to establish before 1st April 2004 Regional Management Boards (RMBS), the intention being to increase efficiency and effectiveness for all fire authorities by delivering shared services and reducing duplication of effort. In particular, RMBs are expected to deliver:

1. Resilience to emergencies, especially potential chemical, biological, radiological or nuclear attack;
2. Specialist or common services where appropriate (i.e. fire investigation)
3. Regional Control Rooms
4. Procurement
5. Training
6. Personnel Management and Human Resources Management

The five fire authorities in the North West (Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside) formed a joint committee (The North West Fire and Rescue Management Board) in February 2004. The committee is comprised of councillors from the five constituent authorities.

The region has conducted significant work in 2006/07 by working collaboratively. The expenditure is largely contained within the five constituent authorities. A full set of the Regional Management Board accounts are available from Ged Murphy, Treasurer to the Board, Greater Manchester Fire and Rescue Authority, 146 Bolton Road, Swinton, Manchester, M27 8US: Tel 0161 608 4001.

2006 Statement of Recommended Practice (SORP)

Changes in Accounting practices have been mandated by the 2006 SORP. Where relevant, these are explained in the notes to the accounts.

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.

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 Reserve

The purpose of this reserve is to fund the Services extensive programme of Home Safety Assessments until 2010.

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.

CHESHIRE FIRE AUTHORITY

INCOME AND EXPENDITURE ACCOUNT 2006-07

Expenditure in Best Value Accounting Code of Practice Format

	Gross	Income	Net	Net
	Expenditure		Expenditure	Expenditure
				Restated
	2006-07	2006-07	2006-07	2005-06
	£000	£000	£000	£000
Corporate & Democratic Core	1,957		1,957	957
Fire fighting and Rescue Operations	22,662	663	21,999	17845
Community Fire Safety	16,361	383	15,978	21,458
Net Cost of Service	40,980	1,046	39,934	40,260
Interest payable			249	203
Interest and investment income (note 15)			(512)	(436)
Pension Interest Cost and expected return on pensions assets			13,840	13,130
Net Operating Expenditure			53,511	53,157
Council Tax			(21,874)	(21,084)
General government grants			(2,307)	(5,631)
Non Domestic Rates redistribution			(13,218)	(11,442)
Deficit for the Year			16,112	15,000

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2006-07	<i>2005-06</i>
	£000	<i>£000</i>
Deficit for the year on the Income and Expenditure Account	16,112	<i>15,000</i>
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(15,682)	<i>(18,230)</i>
Increase in General Fund Balance for the Year	430	<i>(3,230)</i>
General Fund Balance brought forward	(6,226)	<i>(2,996)</i>
General Fund Balance carried forward	<u>(5,796)</u>	<i><u>(6,226)</u></i>

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 twelve months. However, we raise Council Tax on a different basis because for example, capital investment is accounted for as it is financed rather than when fixed assets are consumed.

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. The reconciliation above summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

	2006-07 £000	2006-07 £000	2005-06 £000
<i>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</i>			
Depreciation of fixed assets	(2,149)		(2,061)
Government Grants deferred amortisation	45		
Net charges made for retirement benefits in accordance with FRS 17	(23,630)		(21,530)
		(25,734)	(23,591)
<i>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</i>			
Minimum revenue provision for capital financing	180		157
Capital expenditure charged in year to the General Fund Balance	107		
Employer's contributions payable to the Cheshire Pension Fund and retirement benefits payable direct to pensioners	7,730		6,630
		8,017	6,787
<i>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</i>			
Voluntary revenue provision for capital financing	122		106
Net transfer to or from earmarked reserves	1,913		(1,532)
		2,035	(1,426)
Net additional amount required to be credited to the General Fund Balance for the year		(15,682)	(18,230)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES 2006-07

The Statement of Total Recognised Gains and Losses reflects all gains and losses for the period, not just those shown within the Income and Expenditure Account.

	2006-07	<i>2005-06</i>
	£000	<i>£000</i>
Deficit on the Income and Expenditure Account for the year	16,112	<i>15,000</i>
Surplus arising on revaluation of fixed assets	(11)	<i>(171)</i>
Actuarial (gains) and losses on pension fund assets and liabilities		
- Local Government Pension Scheme	(900)	<i>(100)</i>
- Fire Authority Pension Scheme	(21,000)	<i>26,000</i>
Transfer from RCM Reserve to Creditors (Cadets)	73	
Tax provision credited back to revenue as part of net additional amount to be credited to General Fund Balance	(118)	
Other Changes	(16)	
Total Recognised (Gains) / Losses for the year	(5,860)	<i>40,729</i>

EXPLANATION OF PRIOR PERIOD ADJUSTMENTS

In the 2006/07 Statement of Accounts, the Authority has adopted two significant new mandatory accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- capital financing charges for the use of fixed assets are no longer made to service revenue accounts and support services
- credits for government grants deferred are now posted to service revenue accounts rather than credited as a corporate item

The 2005-06 accounts have also been restated to exclude the cost of payments to pensioners amounting to £429,745. The expenditure was incurred in late March 2006, but related to the cost of pensions for April 2006 and as such should have been regarded as a prepayment in the 2005-06 accounts. The effect of the change is to increase the value of debtors and prepayments by £430,000 to £1,326,000 with a corresponding increase in the General Fund to a restated value of £6,226,000.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

	Consolidated		Relocation	Adjustment	2005/06
	Revenue		Of	To Reflect	Comparatives
	Account in	Removal	Government	Prepayment	In Income
	2005/06	Of capital	Grants		And
	Statement of	Financing	Deferred		Expenditure
	Accounts	Charges	Credits		Account
	£000	£000	£000	£000	£000
Corporate & Democratic Core	957				957
Fire Fighting and Rescue Operations	18,635	(573)	(18)	(199)	17,845
Community Fire Safety	22,350	(661)		(231)	21,458
Impact on Net Cost of Services	41,942	(1,234)	(18)	(430)	40,260
Asset management revenue account	(1,049)	1,234	18		203
Impact on Net Operating Expenditure	40,893	0	0	(430)	40,463

CHESHIRE FIRE AUTHORITY

BALANCE SHEET 2006-07

		2006-07		2005-06 <i>Restated</i>	
		£000	£000	£000	£000
FIXED ASSETS					
Operational Assets	Note 12				
Property		29,598		30,507	
Vehicles		2,497		2,689	
Equipment		1,628		1,410	
Non-Operational Assets		211		0	
TOTAL LONG TERM ASSETS			33,934		34,606
CURRENT ASSETS					
Stocks	Note 13	100		163	
Debtors and prepayments	Note 14	4,681		1,326	
Investments (Short Term)	Note 15	9,198		10,594	
Cash in Hand		7		7	
Cash at Bank		0	13,986	6	12,096
Less Current Liabilities					
Creditors	Note 16	(3,196)		(3,149)	
Provision for tax liability		0		(118)	
Cash Overdrawn		(495)		0	
Short Term Borrowing		(133)	(3,824)	(133)	(3,400)
TOTAL ASSETS LESS CURRENT LIABILITIES			44,096		43,302
LONG TERM LIABILITIES					
Pension Liability – LT Creditors	Note 17	(46)		(46)	
Capital Grant – Deferred	Note 18	(151)		(55)	
Long Term Borrowing	Note 19	(5,342)		(4,505)	
Pension Liability (FRS 17)	Note 11	(279,300)		(285,300)	
TOTAL ASSETS LESS TOTAL LIABILITIES			(240,743)		(246,604)
FINANCED BY:					
<u>Notional Accounts</u>					
Fixed Assets Restatement Account		37,192		37,209	
Pension Account (FRS 17)		(279,300)		(285,300)	
Capital Financing Account		(8,746)	(250,854)	(7,165)	(255,256)
<u>Earmarked Reserves</u>					
Capital Reserve - schemes	Note 21	1,720		1,714	
Capital – unapplied receipts		289		380	
Resource Centre Managers	Note 22	442		132	
Community Risk Reduction	Note 23	1,700		200	
PDG Reserve		164		0	
General	Note 24	5,796	10,111	6,226	8,652
TOTAL NET WORTH			(240,743)		(246,604)

CHESHIRE FIRE AUTHORITY

CASH FLOW STATEMENT 2006-2007

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.

	2006-07	2005/06
	£000	Restated £000
REVENUE ACTIVITIES		
<u>Outflows</u>		
Payments to and on behalf of employees	(29,988)	(25,013)
Other operating payments	(6,651)	(13,186)
	(36,639)	(38,199)
<u>Inflows</u>		
Charges for services and other receipts	(3,011)	2,027
Specific Grants (Note 5)	297	241
Revenue Support Grant	2,314	5,624
Transitional Grant		0
Non Domestic Rates	13,218	11,442
Contribution from Council Tax	21,874	21,084
	34,729	40,418
REVENUE ACTIVITIES NET CASH INFLOW	(1,910)	2,219
SERVICING OF FINANCE		
<u>Outflows</u>		
Interest paid	(116)	(203)
<u>Inflows</u>		
Interest received	445	492
SERVICING OF FINANCING ACTIVITIES NET CASH INFLOW	329	289
CAPITAL ACTIVITIES		
<u>Outflows</u>		
Purchase Of Fixed Assets	(1,391)	(1,056)
<u>Inflows</u>		
Capital Receipts	170	16
CAPITAL ACTIVITIES NET CASH OUTFLOW	(1,221)	(1,040)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING	(2,802)	1,468
FINANCING		
<u>Outflows</u>		
Principal Repayments	(66)	(133)
<u>Inflows</u>		
New loans raised	970	880
FINANCING - NET INFLOW	904	747
MANAGEMENT OF LIQUID RESOURCES		
Net (Increase) / Decrease in short term deposits	1,397	(802)
NET INCREASE /(DECREASE) IN CASH	(501)	1,413

CHESHIRE FIRE AUTHORITY

FIREFIGHTERS PENSION FUND 2006-07

	£000	£000
Contributions Receivable		
Employer Contributions		
Re members of 1992 Firefighters Pension Scheme	3,476	
Re members of 2006 New Firefighters Pension Scheme	<u>24</u>	3,500
Actuarial charges re Early Retirements		0
Re Ill Health Retirements taking place in 2005-06	108	
Re Ill Health Retirements taking place in 2006-07	<u>160</u>	<u>268</u>
		3,768
Member (employee) Contributions		
1992 Firefighters Pension Scheme	1,798	
2006 New Firefighters Pension Scheme	19	1,817
Transfer Values Receivable to from Other Schemes		127
Total Amount Receivable		5,712
Benefits Payable		
On-going pension payments	6,206	
Lump Sum Retirements Benefits	2,277	
Lump Sum Death Benefits	54	
	8,537	
Transfer Values Payable to other Schemes	463	
Total Amount Payable		9,000
Net Amount Payable before Top-up Grant Receivable		3,288
Top up Grant Receivable		3,288
Note re Top up Grant Receivable		
Amount Receivable as above		3,288
Less received to date		385
Amount Due		2,903

Net Assets Statement as at 31 March 2007

	£000	£000
Contributions due from Employer		0
Top up Grant Receivable		2,903
<u>Less Unpaid Lump Sum Retirement Benefits</u>		<u>(9)</u>
Other Current Assets and Liabilities (other than liabilities to pay pensions and other benefits in the future)		0
Net Assets as at 31 March 2007		2,894

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.

<u>Category of Expenditure</u>		2006-07	2005-06
		£000	£000
Employees			
Uniformed		24,807	21,685
Non Uniformed		5,010	3,513
Other Employee Costs		489	624
		30,306	25,822
Overheads:			
Third Party Payments	Note 2	1,062	1,469
Capital Charges		2,149	2,062
Members Allowances	Note 3	97	93
Premises		1,240	1,240
Supplies, Services and Other Expenses		2,840	2,234
Transport		954	934
		8,342	8,032
Pensions:			
Pensions FRS17		2,060	1,770
Pensions		272	5,639
		2,332	7,409
Gross Cost of Service per BVACOP		40,980	41,263
Service Income	Note 4	(1,046)	(1,003)
Net Cost of Service		39,934	40,260

2 Third Party Payments

		2006-07	2005-06
		£000	£000
Payments to	Staffordshire	23	(1)
	Greater Manchester	3	0
Services Bought In		1,036	1,470
		1,062	1,469

Sections 13-16 of the Fire and Rescue Services Act 2004 refer to aid arrangements provided by neighbouring fire authorities. In certain circumstances this aid is chargeable and in 2006-07, the costs incurred are shown above.

3 Members' Allowances

In accordance with the Local Authorities Regulations 1995 (Nov 2003), the total amount spent on members' allowances in 2006-07 was £97,305 (2005-06 £93,170).

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.

4 Income

	2006-07	2005-06
	£000	£000
Sales	47	57
Fees	463	453
Invest to Save Contributions	0	0
Prince's Trust	263	135
Other Income	<u>273</u>	<u>358</u>
	1,046	1,003

5 Publicity

Per the requirements of Section 5 (1) of the Local Government Act 1986, the Authorities spending on publicity was £102,970. (2005-06 £128,556). This is analysed as follows:

	£
Recruitment advertising	35,419
Publicity	63,626
Other advertising	3,925

6 Leases

The Authority has no finance leases. Payments made under operating leases in 2006-07 totalled £348,953 (2005-06: £289,771). All expenditure on leases relates to vehicles.

The Authority was committed at 31 March 2007 to making payments of £461,545 under operating leases in 2006-07, comprising the following:

	£
Leases expiring in 2007-08	250,949
Leases expiring between 2008-09 and 2011-12	210,596
Commitments expiring after 2011-12	0

7 Officers' Emoluments

In accordance with the Accounts and Audit Regulations 2003, the number of employees whose taxable emoluments for 2006-07 exceeded £50,000 is detailed below:

£	Number of Officers	
	2006-07	2005-06
50,000-59,999	13	7
60,000-69,999	3	4
70,000-79,999	0	0
80,000-89,999	0	1
90,000-99,999	0	0
100,000-109,999	3	2
110,000-119,999	0	0
120,000-129,999	0	1
130,000-139,999	1	0

8 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 £138,977 in respect of Internal Audit and Treasurership services. Within that amount, £21,620 reflects the work undertaken by the County Performance Improvement Officer in her former role as the Authority's statutory S151 Officer.

9 Audit Costs

In 2006-07 the Authority incurred costs:

	2006-07	2005-06
	£000	£000
Fees payable to the Audit Commission	67	46
Fees payable in respect of other services provided by the appointed auditors	8	0
DCLG contribution re: Use of Resources Assessment	(12)	0
	63	46

10 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 £4,507,000. The Authority has decided to make an additional debt repayment provision to recognise the estimated life of the assets being financed through loans.

	2006-07	2005-06
	£000	£000
Minimum repayment provision	180	157
Voluntary repayment provision	122	106
	302	263

11 Retirement Benefits

Participation in Pensions Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

- the Local Government Pension Scheme for non uniformed staff, administered by Cheshire County Council – this is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Firefighters' Scheme for uniformed staff – this 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 pension payments as they become due. However, as from 1 April 2006, Firefighter contributions and employer's contributions are now paid into a pension scheme account, from which pension payments are made. Details of the pension scheme account in 2006/07 are shown in a separate note 19.

Non Uniformed Staff Pension Costs

In addition to employer contributions, Cheshire Fire Authority 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
Capitalised costs of Discretionary Retirements to 31 March 2007	0
Total	396

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

Transactions Relating to Retirement Benefits

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	Local Government Pension Scheme £000		Firefighters' Pension Scheme £000	
	2006-07	2005-06	2006-07	2005-06
Income and Expenditure Account				
<i>Net Cost of Services:</i>				
Current Service Cost	890	600	8,900	7,800
<i>Net Operating Expenditure</i>				
Interest Cost	690	610	13,900	13,100
Expected Return on Assets in the Scheme	(750)	(580)		
<i>Net Charge to the Income and Expenditure Account</i>	830	630	22,800	20,900
<i>Statement of Movement in the General Fund Balance</i>				
Reversal of Net Charges made for Retirement Benefits in accordance with FRS17	(830)	(630)	(22,800)	(20,900)
Actual amount charged against the General Fund Balance for Pensions in the year:				
Employers' Contributions payable to Scheme	730	630		
Retirement Benefits payable to pensioners			7,000	6,000

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March 2007 are shown in the following table:

	Local Government Pension Scheme		Firefighters' Pension Scheme		Total	Total
	31 March 2007 £000	31 March 2006 £000	31 March 2007 £000	31 March 2006 £000		
Estimated employer assets	11,900	10,600			11,900	10,600
Estimated pension liabilities	(14,200)	(13,700)	(277,000)	(282,200)	(291,200)	(295,900)
Net pension liability	(2,300)	(3,100)	(277,000)	(282,200)	(279,300)	(285,300)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £279 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 £241 million at 31 March 2007. 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.
- The only liability for the Authority in relation to the deficit on the firefighters' scheme are the future employers contributions.

Basis for Estimating Liabilities and Assets

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		Firefighters' Pension Scheme	
	2006/07 %	2005/06 %	2006/07 %	2005/06 %
Price increases	3.2	3.1	3.2	3.1
Salary Increases	4.7	4.6	4.7	4.6
Pension increases	3.2	3.1	3.2	3.1
Discount rate	5.4	4.9	5.4	4.9

Assets

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

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 2007	Proportion of the Fund 31 March 2006
	% per year	%	%
Equities	7.8	75.6	77.6
Bonds	4.9	12.3	11.2
Property	5.8	10.5	8.4
Cash	4.9	1.6	2.8
Total	7.2	100.0	100.0

Actuarial Gains and Losses

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

Actuarial Gains and Losses – Local Government Pension Scheme

	2006/07		2005/06		2004/05		2003/04		2002/03	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	0	0	1660	15.8	250	3.2	812	12.3	(1,682)	(33.0)
Differences between actuarial assumptions and actual experience	(20)	(0.1)	80	0.6	(220)	(2.0)	(216)	(2.7)	25	0.4
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	920	6.4	(1,640)	(15.7)	(1,820)	15.0	4	0		
Other gains on liabilities	0	0								
Actuarial gains and (losses)	900	6.3	100	0.7	(1,790)	16.2	600	7.5	(1,657)	(23.3)

Actuarial Gains and Losses – Firefighters’ Pension Scheme

	2006/07		2005/06		2004/05		2003/04		2002/03	
	£000	%	£000	%	£000	%	£000	%	£000	%
Differences between the expected and actual return on assets	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Differences between actuarial assumptions and actual experience	3,100	1.1	1,800	0.6	(22,300)	(9.2)	288	0.2	900	0.6
Changes in Financial Assumptions Underlying the Present Value of the Scheme Liabilities	17,800	6.4	(27,800)	(9.2)	(46,728)	(19.4)			(13,388)	(9.0)
Other gains on liabilities	100	0.1								
Actuarial gains and (losses)	21,000	7.6	(26,000)	(9.2)	(69,028)	(28.6)	288	0.2	(12,488)	(8.4)

12 Fixed Assets

Movement on Fixed Assets

The figures below provide information on the movement of fixed assets held by the Authority during 2006-07. Following the introduction of capital asset accounting, the fixed assets are shown at their current value (see Statement of Accounting Policies).

Operational Assets

	Land & Buildings	Vehicles	Equipment	Total
	£000	£000	£000	£000
Gross Book Value at 31 March 2006	31,747	6,950	4,025	42,722
Less Accumulated Depreciation	(1,240)	(4,261)	(2,615)	(8,116)
Net Book Value at 31 March 2006	30,507	2,689	1,410	34,606
<i>Movement in 2006/07</i>				
Additions	310	329	644	1,283
Disposals		(28)		(28)
Revaluations		11		11
Depreciation	(1,219)	(504)	(426)	(2,149)
Net Book Value at 31 March 2007	29,598	2,497	1,628	33,723

Non Operational Assets

	Land & Buildings £000	Vehicles £000	Equipment £000	Total £000
Gross Book Value at 31 March 2006	0	0	0	0
Less Accumulated Depreciation	0	0	0	0
Net Book Value at 31 March 2006	0	0	0	0
<i>Movement in 2006/07</i>				
Additions	73	138		211
Disposals				
Revaluations				
Depreciation				
Net Book Value at 31 March 2007	73	138	0	211

Notes on Non Operational Assets

The above Land and Buildings expenditure represents initial spending on the new Runcorn Fire Station and the extension to the Fire Headquarters. Neither of these buildings were completed by 31 March 2007.

The above Vehicles expenditure represents spending on 2 Water Rescue Ladder Chassis. The Vehicles will not become operational until next financial year when the other parts of the vehicles are delivered and the vehicles are completed, although there is a capital commitment of £148k in relation to these.

Capital Expenditure and Financing

	2006-07 £000	2005-06 £000
Capital Expenditure		
Land and Buildings	310	156
Vehicles	329	265
Equipment	644	618
Non Operational Land and Buildings	73	
Non Operational Vehicles	138	
	1,494	1,039

Capital Expenditure was financed as follows

	2006-07 £000	2005-06 £000
Borrowing	1,150	1,033
Revenue Contribution	108	
Capital Receipts	113	
Government grants and other contributions	123	6
Capital Reserve	0	
	1,494	1,039

Valuation Information

The table below gives details of the basis of valuation of the Authority's assets as at 31 March 2007.

	Property £000	Vehicles £000	Equip. £000	Total £000
Valued at historical cost		2,497	1,628	4,125
Valued at current value in :				
2003/04 (Day Crewed Housing)	8,251			8,251
2005/06 (Fire Stations and Administrative Buildings)	21,347			21,347
Total	29,598	2,497	1,628	33,723

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 .

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 2007 include the following:

Fire Stations (including Headquarters and Control Room) 26
 Fire Houses 54
 Fire Museum 1
 Vehicles 95
 Historical Vehicles 7
 Boats and Trailers 4

13 Stocks

	2006-07	2005-06
	£000	£000
Workshops and equipment	<u>100</u>	<u>163</u>

The current accounting system (Agresso) does not facilitate the ready split of stock between categories. This is to be addressed in 2007-08 by changes to the method used to record stock transactions within Agresso.

14 Debtors and Prepayments

	2006-07	2005-06
	£000	£000
General Debtors greater than 1 year old	3	69
Debtors less than 1 year old	4,678	827
Prepayments	0	430
	<u>4,681</u>	<u>1,326</u>

The increase in debtors is mainly due to the “top-up grant” owed by Government to the local pensions account (see note 20).

15 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.

	2006-07	2005-06
	£000	£000
Cheshire County Council	3,198	6,594
Money Market Deposits	6,000	4,000
	<u>9,198</u>	<u>10,594</u>

16 Creditors

	2006-07	2005-06
	£000	£000
Trade Creditors	993	1,179
Pay accruals	1,330	1,049
Revenue Grants - Deferred	873	921
	<u>3,196</u>	<u>3,149</u>

17 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.

18 Capital Grant Deferred

	£000
Balance brought forward at 1 April 2006	55
Capital expenditure financed from grants in 2006/07	123
Amortisation of Government Grants deferred	(27)
Balance as at 31 March 2007	<u>151</u>

19 Long Term Borrowing – Loans Outstanding

As at 31 March 2006 long term debt outstanding was £4,505,000. During the year a further loan was taken out for £971,000 and principal totalling £133,200 was re-paid. The following tables analyse long term borrowing by type and debt maturity.

	2006-07	2005-06
Loan Type	£000	£000
Public Works Loan Board	5,342	4,372
Instalment Loans	0	133
Balance at 31 March	<u>5,342</u>	<u>4,505</u>

	2006-07	2005-06
Loan Maturity	£000	£000
1 – 2 Years	0	133
2 - 5 Years	600	0
5 – 10 Years	759	1,037
10 Years and above	3,983	3,335
Balance at 31 March	<u>5,342</u>	<u>4,505</u>

20 Firefighters' Pension Fund

The funding arrangements re uniformed firefighters' pensions changed with effect from 1 April 2006. Until that time, the net cost of pensions (principally on-going payments to pensioners and lump sum commutations) was met by the employer. The main source of income to offset the expenditure was the contribution made by employees, amounting to 11% of their pensionable pay.

With effect from 1 April 2006, a new Firefighters Pension Fund for each English Fire Authority was introduced. Rather than meet all of the net cost of pensions, the employer is now required to make contributions to the Fund. In the event of a shortfall, the deficit in the Fund is met by the Department for Communities and Local Government (DCLG). Similarly, any surplus on the Fund would be payable by the employer to the DCLG. The deficit / surplus is known as "Top-Up Grant".

A further change introduced in April 2006 was the introduction of a new Scheme for new Firefighters. This new Scheme attracts a contribution rate from employees of 8.5% of their gross pay (compared to 11% for

the previous {1992} Scheme). Members of the previous Scheme were given the choice of staying with their existing Scheme or transferring to the New Scheme.

The new employers' contribution consists of 21.3% of gross pay re the 1992 Scheme & 11% of gross pay re the 2006 Scheme, together with formulae based charges for the cost of ill-health and other early retirements.

The new arrangements remove the annual volatility that resulted from fluctuations in firefighter retirements. However, there are still no investment assets nor do the Fund's financial statements take account of liabilities to pay pensions and other benefits due after the end of the financial year.

21 Capital Reserve

	2006-07	2005-06
	£000	£000
Balance at 1 April	1,714	1,722
Appropriation (to)\from revenue in year	6	(8)
Balance at 31 March	<u>1,720</u>	<u>1,714</u>

22 Resource Centre Managers' Reserve

	2006-07	2005-06
	£000	£000
Balance at 1 April	131	118
Reclassified Third Party	(54)	13
BVR Accommodation	270	
Additional contracted service costs for 2007-08	95	
Balance at 31 March	<u>442</u>	<u>131</u>

23 Community Risk Reduction Reserve

	2006-07	2005-06
	£000	£000
Balance at 1 April	200	200
Transfers to /from revenue	1,500	0
Balance at 31 March	<u>1,700</u>	<u>200</u>

24 General Reserve

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

	2006-07	2005-06
	£000	£000
Balance at 1 April	6,226	2,996
Transfers in year	(430)	3,230
Balance at 31 March	<u>5,796</u>	<u>6,226</u>

25 The Euro

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

NOTES TO THE CASH FLOW STATEMENT

1 Reconciliation of revenue cash flow

	2006-07	2005-06
	£000	£000
Surplus / (Deficit) for the year	(430)	3,230
<u>Adjustment for Interest</u>		
Interest paid	116	203
Interest received	(445)	(492)
<u>Adjustments for Non Cash Transactions:</u>		
Amortisation of Govt Grants deferred	18	0
AMRA	0	(18)
Contribution to Capital Financing Reserve (mrp & voluntary contribs)	302	263
Provision for tax repayment	(118)	118
Transfer to RCM Reserve	365	13
Adjust for RCM monies debited from revenue	18	
Commutation Reserve - transfer in	0	(1,663)
Capital Expenditure financed from revenue	107	0
Transfer to Capital Reserve	6	0
Transfer to PDG Reserve	164	0
Transfer to CRR Reserve	1,500	0
<u>Adjustment: Changes to Working Capital</u>		
(Increase) / decrease in stocks	64	22
(Increase) / Decrease in non capital debtors & prepayments	(3,355)	446
Increase / (Decrease) in non capital creditors	(222)	115
Reduction in long term creditors	0	(18)
Revenue Activities Net Cash Flow	(1,910)	2,219

2 Reconciliation of Net Cash Flow to Movement in Net Debt

	As at 31/03/07 £000	As at 31/3/06 £000	Movement during year £000
Cash in Hand	7	7	0
Cash at Bank	0	6	(6)
Cash Overdrawn	(495)	0	(495)
Investments	9,198	10,595	(1,397)
Borrowing	(5,475)	(4,638)	(837)
	<u>2,805</u>	<u>5,970</u>	<u>(2,735)</u>
Reduction in Cash in the period	(501)		
Cash inflow from increase in debt	(837)		
Cash inflow from reduction in liquid resources	(1,397)		
Movement in net debt for period	<u>(2,735)</u>		
Net funds at 1/4/06	5,970		
Net funds at 31/3/07	<u>3,235</u>		

3 Movement in liquid resources and long term borrowing

	As at 31/03/07 £000	As at 31/3/06 £000	Movement during year £000
Investments (short term)	9,198	10,595	(1,397)
Long term borrowing	5,475	4,638	837

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 2006-07

	2006/07 £000	2005-06 £000
Community Risk Reduction		25
Blacon Car Clear		39
LSA Pump Priming		131
New Burden	53	
Regional Control	41	
New Dimensions	74	
Arson	13	46
Fire Prevention	65	
ODPM Smoke Alarm	51	
Total	297	241

The above table represents the specific grants cash received in 2006/07 and 2005/06.

NOTE ON MOVEMENTS IN RESERVES IN 2006/07

Reserve	Balance at 1 April 2006	Gains or (losses)	Transfers to or from other reserves	Balance at 31 March 2007	Further detail of movements
<i>Notional Accounts</i>					
Fixed Asset Restatement Account	37,209	(17)		37,192	(a) below
Pensions Account (FRS17)	(285,300)	6,000		(279,300)	Note 11 to the Accounts
Capital Financing Account	(7,165)	(1,721)	140	(8,746)	(b) below
<i>Earmarked Reserves</i>					
Capital Reserve	1,714	6		1,720	£6k contribution from revenue to capital reserve
Capital – unapplied receipts	380	22	(113)	289	(c) below
PDG Managers Reserve	0	164		164	Transfer from revenue
Resource Centre Managers'	132	310		442	(d) below
Community Risk Reduction	200	1500	0	1,700	
General Fund	6,226	(430)		5,796	Statement of Movement on the General Fund Balance page 16
Total	(246,604)	5,834	27	-240,743	

(a) Fixed Asset Restatement Account - further detail of movements

	£000
Balance brought forward at 1 April 2006	37,209
Gains on revaluation of fixed assets in 2005/06	11
Amounts written off fixed asset balances for disposal in 2006/07	(28)
Balance carried forward at 31 March 2007	37,192

(b) Capital Financing Account – further detail of movements

	£000
Balance brought forward at 1 April 2006	(7,165)
Depreciation on Fixed Assets 2006/07	(2,149)
Amortisation of Government Grants deferred	45
Capital expenditure financed from capital receipts and revenue	<u>221</u>
Minimum revenue provision and voluntary contributions	302
Balance carried forward at 31 March 2007	<u>(8,746)</u>

(c) Capital – Unapplied Receipts

	£000
Balance brought forward at 1 April 2006	380
Add receipts from sale of asset	22
Less receipts used to finance capital expenditure	(113)
Balance carried forward at 31 March 2007	<u>289</u>

(d) Resource Centre Managers' Reserve

	£000
Balance brought forward at 1 April 2006	132
Transfer to 3 rd Party Funds	(37)
Spend against projects	(18)
BVR Accommodation	270
Additional contracted service costs for 2007-08	95
Balance carried forward at 31 March 2007	<u>442</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.