

Explanatory Foreword

1. Introduction

1.1 This foreword gives:

- a summary of the various statements which make up the 2005/06 accounts
- a broad picture of where the money comes from and what it is spent on
- a summary of the revenue expenditure on services and capital expenditure on new assets over the course of the year.

2. Summary of Statement of Accounts

2.1 The accounts for 2005/06 are set out on pages 4 - 6 and 20 – 41. They consist of:

- statement of accounting policies
- summary revenue account – this covers income and expenditure on the service
- balance sheet – this sets out the financial position on 31 March 2006
- cash flow statement - this summarises cash coming in or going out from transactions with others for revenue and capital purposes
- statement of total movements in reserves – this sets out how reserves have changed and been used during the year.

3. Where the money comes from

3.1 On 1 April 2004 the Authority moved to a precept status. The Authority's income now comes from general Government grants, a share of national business rates and the council tax. In addition specific Government grants are received for certain services and fees are charged to customers for some services. Interest is also earned on day to day balances.

The proportion of the Council's income from these sources is as follows:

	2004/05	2005/06
	%	%
Council tax	50.9	51.1
National business rates	26.4	31.0
General Government grants	18.9	14.9
Fees, charges & interest	2.2	1.8
Specific Government grants	1.6	1.2
	<hr/>	<hr/>
	100	100

4. What the money is spent on

4.1 The Authority spent its money as follows:

	2004/05	2005/06
	%	%
Firefighters' pay and allowances	53	51
Pensions	13	13
Other employee costs	14	15
Other costs	20	21
	<hr/>	<hr/>
	100	100

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5. Overview of the year – revenue account

5.1 The Authority set its budget requirement at £60,265,000 which was 3.25% more than the original budget for 2004/05.

The main components of the 2005/06 budget and actual income and expenditure are set out below.

	Original Budget £'000	Actual £'000	Variation £'000
Net cost of services	64,214	65,076	862
Asset management account surplus	-1722	-2,992	-1270
Interest receivable	-145	-207	-62
Pensions interest cost and expected return on pensions assets	16,970	16,850	-120
Net operating expenditure	79,317	78,727	-590
Contributions to Capital	722	1,978	1256
Deferred Charges written down	-146	-126	20
Contribution from Capital Financing a/c	-1,000	-1,667	-667
Contributions to/(from) other reserves	2	-919	-921
Movement on pensions reserve	-19230	-18,328	902
Amount to be met from Government grant, local taxpayers and balances	59,665	59,665	0
Council tax precept income	31,694	31,694	0
General Government grant	9,383	9,240	-143
National business rates	19,188	19,147	-41
Budget requirement	60,265	60,081	-184
Increase in revenue account balance	600	416	-184
Revenue account balance			
Brought forward 1 April 05	1400	1400	0
Carried forward 31 March 06	2000	1816	-184

5.2 At the end of the year net expenditure totalled £60,005,000 which was £260,000 lower than the budget requirement.

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6. Overview of the year – capital expenditure

6.1 In 2005/06 the Authority spent £2,814,000 on capital projects:

Scheme:	£'000
HQ redevelopment	1,036
Vehicles	1,557
Home Fire Risk Check Initiative	124
Repairs to Stations	97
	<u>2,814</u>

7. Debt

7.1 The Authority currently has thirteen loans totalling £5.1m.
On a day to day basis the Authority is able to lend to and borrow from Hampshire County Council.

8. Changes

8.1 There were no major changes in 2005/06.

9. Further information

9.1 Further information can be obtained about the accounts from the Treasurer to the Fire and Rescue Authority at the County Treasurer's Department, Hampshire County Council, The Castle, Winchester, Hampshire, SO23 8UB, telephone (01962) 847518, or e-mail jane.lovet@hants.gov.uk.

Statement of Accounting Policies

1. General principles

- 1.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain: A Statement of Recommended Practice (SORP) 2005 and the Accounts and Audit Regulations 2003. Any significant non-compliance is explained in the following notes.

2. Debtors and creditors

- 2.1 Debtors and creditors have been accrued in accordance with the Code of Practice.
- 2.2 There is, however, one exception. Electricity and other utility companies' payments are accounted for at the date of meter reading rather than being shared between financial years. This applies every year and therefore does not have a material effect on the year's accounts.

3. Reserves and provisions

- 3.1 Variations to reserves and provisions are shown in the notes to the summary revenue account
- 3.2 Provisions represent legal liabilities when the amount or date of payment is uncertain. They are charged to the revenue account in the year they are recognised.
- 3.3 The Authority holds two provisions. The first is a provision for bad debts which is deducted from the total for debtors. The second is for uninsurable and other claims. This covers costs which may arise as a result of the Authority being uninsured for a period, possible tribunals and other claims made against the Authority.
- 3.4 The Authority has the following reserves:
- the Revenue Account balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years
 - the capital reserve is used to help pay for future years' capital payments
 - the modernisation reserve will be used to help finance the range of initiatives required by the modernisation programme
 - the underspendings reserve is used to carry forward specific budget underspends from one year to the next
 - the transitional grant reserve will be used to repay the transitional funding as and when required by the Government.
 - the pensions reserve, which is not cash backed, represents the difference between the Authority's recognised liability in relation to pensions and the amount raised through taxation to pay that liability.

Statement of Accounting Policies

4. Fixed Assets

- 4.1 All spending on a fixed asset which yields benefits for a period of more than one year is treated as capital expenditure in the accounts.
- 4.2 Fixed assets are valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors. Fixed assets are classified into the groupings in the Code of Practice on Local Authority Accounting.
- 4.3 Land, property and other assets used for service provision are called “operational assets”. They are included in the balance sheet at the open market value for their present use when there is sufficient evidence to support the value, or at depreciated replacement cost otherwise.
- 4.4 Assets not used to provide services are called “non-operational assets” and are assets that are currently not in use. These are included in the balance sheet at open market value.
- 4.5 Surpluses arising on the valuations of fixed assets have been credited to the fixed asset restatement reserve. Land and building assets were revalued during 2005/06 and the accounts reflect these values.
- 4.6 Income from the disposal of fixed assets is accounted for in the year in which it occurs. This is used to meet expenditure for capital purposes.

5. Basis of charges for capital

- 5.1 Notional interest charges are based on asset valuations at the beginning of the financial year. In 2005/06 an interest rate of 3.5% was used as prescribed by the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee.
- 5.2 Depreciation charges are made on all fixed assets other than land and non-operational assets in line with FRS 15.
- 5.3 Depreciation is calculated on a straight line basis over the useful economic lives of the assets. In the case of permanent buildings a provisional average residual life has been assumed of 25 years for building components and 100 years for the other parts of the building. Furniture and equipment is assumed to have a life of ten years and vehicles between five and 15 years.

6. Deferred charges

- 6.1 Deferred charges are payments, which are capitalised but do not create tangible fixed assets. In 2005/06, the main category of expenditure

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coming under the heading of deferred charges was the costs associated with the Home Fire Safety Check Initiative.

7. Redemption of debt

- 7.1 The Authority's borrowing for capital purposes is determined by the Authority each year in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is known as the Capital Financing Requirement which is derived from the opening balance sheet. The Council makes provision for the redemption of debt in accordance with requirement that a minimum revenue provision is put aside from revenue. This must be at least equal to 4% of the capital financing requirement for capital purposes at the start of each financial year.

8. Stocks and stores

- 8.1 Stocks worth £575,000 have been included in the consolidated balance sheet. Several stocks are held with the largest relating to vehicle spares, uniforms and operational equipment. All stocks are valued at latest buying price which is not in line with the SORP however the difference is immaterial.

9. Support Services

- 9.1 The costs of the support services are allocated over services according to their usage by direct services with the exception of some corporate services which are allocated on the basis of net expenditure.

10. Pension arrangements

- 10.1 The Authority participates in two different pension schemes which meet the needs of employees. Both schemes provide members with defined benefits relating to pay and service. The costs of providing pensions for employees are charged to the accounts in accordance with the statutory requirements.

11. Leasing

- 11.1 The Authority has, on occasions, used operating leases to acquire vehicles as an alternative to capital financing. The rentals on the leases are charged to services in the revenue account. The Authority took the decision not to take out any further operating leases for operational vehicles in February 2004.

Statement of Internal Control

1 Scope of responsibility

- 1.1 Hampshire Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 1.2 The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.
- 1.4 In accordance with the requirements in the Accounts and Audit Regulations 2003, this statement sets out how the Authority has sought to meet these requirements during 2005/06.

2 The purpose of the system of internal control

- 2.1 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, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
- 2.2 It is an ongoing process designed to identify and prioritise the risk to the achievement of the Authority's policies, aims and objectives; and to evaluate the likelihood of those risks occurring and to manage them efficiently, effectively and economically.

3 The internal control environment

- 3.1 The Authority sets out its key aims and objectives in its Integrated Risk Management Plan (IRMP). This is the Authority's primary strategic and corporate plan. It is supplemented by a number of medium-term functional or business plans which support and complement the actions and activities that will be pursued. The Authority's revised staff appraisal system - 'Personal Development Review' - has been developed to ensure that all personnel are fully aware and engaged in helping to achieve the Authority's corporate aims. All the Authority's plans are integrated and monitored as part of the Authority's well established corporate planning process and performance management framework.
- 3.2 The IRMP sets out for the benefit of all our stakeholders the key corporate aims and the actions the Authority will take to achieve them. It shows how the Authority will respond to changes and challenges, identifies common aims with its partner organisations and sets priorities and targets for improvement. The IRMP is approved by the full Authority. It is comprehensively reviewed annually and takes fully into account the outcomes of: a comprehensive programme of consultation with stakeholders; performance results; various review outcomes; and external factors such as local and national policies, expectations and initiatives. It is available on the Authority's website together with

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current information on actual performance against targets. It is also published in hard copy for circulation to key partners and staff. The IRMP is supported by promotional activities and campaigns to ensure that the Authority's five corporate aims and targets provide a cornerstone for all internal and external communication activities.

- 3.3 The Authority's Performance Review Committee has particular responsibility for overseeing service improvement planning and reporting on performance. It monitors progress on implementing the outcomes and recommendations of best value reviews and internal audit reports. The Corporate Management Team (CMT) - a regular joint meeting of leading Members of the Authority and its Principal Officers - also plays an important role in reviewing the Strategic Risk Register.
- 3.4 The Authority has a constitution, originally adopted with effect from 1 April 1997. It is based on the provisions of Statutory Instrument 1996 No 2923 'The Hampshire Fire Services (Combination Scheme) Order 1996'. The various documents set out the processes by which its policies are made and decisions taken, the terms of reference of the Authority and its Standing Committees. The role of the Governance Committee (established in 2004) provides added scrutiny on governance issues.
- 3.5 The financial management of the Authority is overseen by the Treasurer in conjunction with the Chief Officer. Financial planning and management and is fully integrated with and influenced by the corporate planning and monitoring processes set out above. This includes processes for the forward planning of expenditure, consultation on budget proposals, setting and monitoring income and budgets, and completion of final accounts. All are intended to be accurate, informative, timely and within statutory requirements. The approaches and justification for them taken are summarised annually in the Authority's Budget Book.
- 3.6 The Constitution is supplemented by a set of Standing Orders (last reviewed, revised and adopted in May 2002), Codes of Conduct for members and officer, and a Protocol for member/officer relations. The Authority has a set of Financial Regulations and Scheme of Delegation to Officers (both of which were reviewed, revised and adopted in 2004/05). In addition the Service has a comprehensive set of 'Service Orders' setting out policies and procedures across a wide range of front-line and support functions.

4 Review of effectiveness of internal control

- 4.1 In order to ensure compliance with policies, procedures and statutory requirements the Authority has a range of controls and processes in place which are summarised in this section under headings taken from the good practice guidance. These processes help the Authority to ensure the economic, effective and efficient use of its resources, to secure continuous improvement in excising its functions, and to provide effective performance management and reporting.
- 4.2 *Statutory roles of Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing.*

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The role of Monitoring Officer is combined with that of Clerk. He works with the Authority's Internal Auditor and they have close working relationships with the Standards Committee and Governance Committee. The Standards Committee has responsibility for maintaining high standards of probity amongst members through the provision of advice and training and by carrying out investigations referred to it by the Standards Board. The Governance Committee is responsible for monitoring, reviewing and reporting to the Authority the governance arrangements. The Treasurer is the Authority's designated Section 151 Officer.

The Authority, its standing committees and the Chief Officer have a full range of professional officer advice (including legal and financial) to enable them to carry out their functions effectively and in compliance with statutory requirements. Legal and financial services are provided through contracts for services (service level agreements) with Hampshire County Council. This is supplemented by specialist legal advice (mainly for specific fire and rescue activities and occasional employment advice) by other external providers. The External Auditor is satisfied with the Authority's arrangements (Annual Audit Letter 2004/05) and aware of the Authority's review the contracts for various services provided by Hampshire County Council. This review has been completed and the findings and recommendations are due to be reported to the Performance Review Committee in June 2006.

- 4.3 *Internal Audit provide independent and objective assurances across the whole range of the Authority's activities.*

The Governance Committee has approved the Internal Audit Strategy and Plan for 2006/07 and the Annual Internal Audit Opinion for 2005/06 is presented together with this Internal Statement of Control (in its draft form) at the June meeting of the Committee.

The Authority's Internal Auditor has provided an Annual Statement of Assurance which will be included in the Statement of Final Accounts for 2005/06.

- 4.4 *External Audit provide a further source of assurance by reviewing and reporting upon the Authority's internal control processes and any other matters relevant to their statutory functions and codes of practice.*

The Annual Audit Letter for 2004/05 commented positively on the Authority's governance arrangements and performance.

For the first time all fire and rescue services have been reviewed under a Comprehensive Performance Assessment (CPA) in 2005. This resulted the Authority being categorised as a 'good' authority. The assessment raised no concerns over the Authority's financial and governance arrangements.

- 4.5 *Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed.*

The Authority has comprehensive Risk Management Policy and Strategic Risk Register. The Register is under a process of continual review which includes a quarterly review by

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the Service Management Team and twice yearly review by the Corporate Management Team. The Register is presented annually to the Authority with any major changes highlighted. Reviews of Register are also regarded as a valuable part of our improvement planning process and the development and prioritisation of actions in the IRMP and supporting plans.

Additional risk assessment training is being progressively rolled-out to those senior managers with responsibility for business planning so that 'risk management' is regarded as part of good day to day management practice and firmly embedded across the organisation.

Insurance policies and levels of reserves and balances are regularly reviewed - at least annually - to ensure that the Authority is financially adequately safeguarded. The Authority achieved its aim to establish a £2m level of reserves in 2006/07.

4.6 Provision of effective, efficient and responsive systems of financial management.

The Authority's three year financial management strategy is reviewed annually and incorporated in the Budget Book. The budget is monitored during the year at meetings of the Finance and General Purposes Committee (FGPC). The Final Accounts report is reported to the FGPC at the June/July meetings. Procedures have been reviewed to ensure that the timetable for earlier completion of Final Accounts is achieved. As part of CPA process, no concerns were raised in relation to the Authority's policies and procedures in the use of resources. Revised Financial Regulations were approved by the Authority in February 2005 and implemented from 1 April 2005.

Internal Audit monitor the effectiveness and level of compliance as part of their work during the year. It has been confirmed - in the Audit Opinion - that the systems continue to operate successfully.

4.7 Codes of practice are issued by external bodies in respect of services and processes, with which the Authority is expected to comply.

The Authority complies with the 2003 CIPFA Code of Practice relating to Capital Finance and Treasury Management. This work is undertaken on behalf of the Authority by Hampshire County Council's Treasurers Department under a contract for services. The Authority monitors policies, practices and activities through regular reports.

4.8 The role of the Standards Committee is to promote and maintain high standards of conduct by councillors and co-opted members.

The Standards Committee has not dealt with any major issues of concern during 2005/6.

4.9 Governance Committee is charged with governance responsibilities.

The Governance Committee's terms of reference are now well established. During 2005/06 the Governance Committee questioned the status and role of the Corporate Management Team (CMT). Two reports prepared by the Clerk and Director of Corporate

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Services were considered by the Committee and the conclusion reached was that the CMT performs a useful role in fostering good (all party) member/officer relations; provides a sounding board for exploring new policy initiatives, and encourages member engagement in discussions of topical interest and concern. It was confirmed that CMT is not a standing committee of the Authority and that it is not a formal decision making committee.

- 4.10 *Performance Management processes are in place to measure progress against objectives and to provide for remedial action where appropriate.*

The entire performance management framework is very well-developed. The Authority has a good track record of monitoring performance via the Performance Review Committee which also now receives reports on compliance with audit recommendations. All performance indicators, both national and local, are clearly set out on the Authority's website and responsibility for monitoring each indicator is allocated to a member of the Service Management Team.

The Authority continues to be actively involved in regional collaboration across the full six work streams set out in the National Framework for the Fire and Rescue Service. Hampshire takes the lead on the Human Resources work stream.

A review of vehicle workshops commenced in 2004/05 and made a series of interim recommendations to improve efficiency and effectiveness in the day to management of the function. The review continued during 2005/06 to determine whether the tests of 'best value' could be satisfied. The review concluded (in May 2006) that the function should remain in house.

Two new best value reviews commenced in 2005/06: a review of service level agreements with Hampshire County Council; and a review of the effectiveness of our partnership arrangements.

- 4.11 *A corporate procurement policy has been formally approved and communicated to all relevant staff.*

The Authority, having completed a best value review of its procurement function, appointed a new post of Procurement Manager who was tasked with pursuing all the outstanding actions arising from the Review. These have now been completed and tangible savings have been achieved in several purchasing contracts. The Authority has also committed to active participation in the national and regional procurement initiatives – especially the 'FireBuy' consortium arrangement.

- 4.12 *A Corporate Health and Safety Policy has been formally approved and communicated to all relevant staff.*

The Authority has a well-established policy (Service Order 8/1/1) which has been communicated widely to its staff. Comprehensive information and advice is available on our website.

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- 4.13 *A corporate complaints policy/procedure has been formally approved, communicated to all relevant staff, the public and other stakeholders and is regularly reviewed.*

The Authority has a well-established complaints procedure (Service Order 2/8/3/6/2) setting out our policy and procedure for dealing with complaints. Full information is also available on our website.

- 4.14 *Reports received from external agencies and inspectorates. Relevant external inspection reports.*

The Authority's CPA rating of "good" was confirmed in July 2005 and the outcomes of the assessment have influenced the IRMP and supporting plans. Areas for improvement have been identified with many strategies and actions being taken. These are logged in the Authority's 'Improvement Planning Register' (formerly referred to as the Improvement Planning Matrix).

- 4.15 *Delivery of services by trained, skilled and experienced personnel.*

The Authority has achieved ISO 9001 accreditation for its Commercial Training function, and has been formally recognised as working towards Investors in People (IIP) accreditation for the whole organisation by April 2007.

The Authority has made excellent progress in implementing the national Integrated Personal Development System [IPDS] which provides a comprehensive process for identifying personal training and development needs against a set of job role-maps.

5 Areas for improvement and improvement planning process

- 5.1 The Authority prides itself on being a 'learning organisation'. Our Improvement Planning Register provides a useful checklist of the various actions and activities being taken to modernise the Service and improve the way we operate and deliver services. These improvements are categorised under five main themes:

- engaging our staff and communities
- managing our capacity to deliver
- managing our performance and raising our game
- embedding risk management
- living our values

The Register has recently been reformatted and is regularly reviewed by a joint officer/member steering board. It will be presented regularly to the Performance Review Committee and annually to the full Authority.

- 5.2 We take the outcomes of all audit reviews very seriously and monitor the implementation of recommendations publicly through regular reports to the Performance Review Committee. We take similar action in monitoring the outcomes of the best value reviews. Outstanding actions continue to be reported until they have been successfully implemented.

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- 5.3 Our three-year Integrated Risk Management Plan (IRMP) sets out an ambitious programme of improvements in the way we deliver front-line services. Some of the actions involve conducting trials/pilot schemes during which we will be consulting with the local community, key stakeholders and our staff to ensure that our proposals are sound and that we can be confident that they will deliver the anticipated improvements in service.

- 5.4 Apart from our engagement in the review of the potential for increased collaborative working with the Isle of Wight Fire and Rescue Authority, we will continue to participate in regional reviews – particularly that involving the provision of training facilities and the scope for greater collaboration. From 2007/08 we are likely to be reviewing our position in relation to environmental/sustainability issues.

Signed:
Chairman

Signed:
Chief Officer

Date:

Date:

Statement of Responsibilities for the Statement of Accounts - Authority

1. The Authority's responsibilities

1.1 The 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 this Authority, that officer is the Treasurer:
- to manage its affairs so as to secure economic, efficient and effective use of resources and safeguard its assets:
- to approve the Statement of Accounts

2. The Chairman's Statement

2.1 I certify that the Statement of Accounts for 2005/06 were considered and approved at the Finance and General Purposes Committee meeting on 29 June 2006.

Cllr. P. Heath
Chairman – Finance and General Purposes Committee
29 June 2006

Statement of Responsibilities for the Statement of Accounts - Treasurer

3. The Treasurer's responsibilities

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

In preparing this statement of accounts, the Treasurer has sought to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that were reasonable and prudent
- comply with the Code of Practice on Local Authority Accounting in Great Britain

The Treasurer has also:

- kept proper records which are up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

4. The Treasurer's statement

- 4.1 I certify that the Statement of Accounts presents fairly the financial position of the Hampshire Fire and Rescue Authority as at 31 March 2006 and its income and expenditure for the year ended 31 March 2006.

JC Pittam BSc, CPFA
Treasurer
20 June 2006

Auditor's Report to Hampshire Fire and Rescue Authority

I have audited the statement of accounts on pages 18 to 39 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 4 to 6.

This report is made solely to Hampshire 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 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Treasurer and Auditor

As described on page 15 the Treasurer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial position of the Authority and its income and expenditure for the year.

I review whether the statement on internal control on page 7 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 2 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 whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards 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 judgements 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 statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Auditor's Report to Hampshire Fire and Rescue Authority

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:

Name: Stephen Taylor

District Auditor

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 local government bodies specified by the Audit Commission and published in July 2005, in all significant respects, Hampshire 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

Auditor's Report to Hampshire Fire and Rescue Authority

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance planning for the financial year 2005/06 in September 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 plans.

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:

Name: Stephen Taylor

District Auditor

Summary Revenue Account

2004/05 Net Exp £'000		Gross Exp £'000	2005/06 Gross Income £'000	Net Exp £'000
	Community Fire Safety :			
3,869	Statutory inspection, certification & enforcement	4,539	68	4,471
2,103	Prevention and education	3,200	434	2,766
	Firefighting and Rescue Operations :			
49,839	Operational responses	56,359	1,526	54,833
2,344	Communications and mobilising	2,213	16	2,197
94	Securing water supplies	109	0	109
434	Corporate management	445	0	445
259	Democratic representation and management	263	0	263
30	Non-distributed costs (note 15)	40	0	40
-499	Decrease in provisions (note 6)	0	48	-48
58,473	Net Cost of Services	67,168	2,092	65,076
-1,923	Asset management revenue account (note 5)			-2,992
-316	Interest received			-207
15,910	Pensions interest cost and expected return on pensions assets (note 11)			16,850
72,144	Net Operating Expenditure			78,727
0	Capital expenditure financed from revenue			1,978
-17,619	Movement on pensions reserve			-18,328
-145	Deferred charges written down			-126
-1,098	Contribution from capital financing account (note 7)			-1,667
4,301	Contribution + to/ - from other reserves (note 13)			-919
57,583	Amount to be met by Government Grant and Local Taxpayers			59,665
-11,461	Revenue Support Grant			-9,240
-16,027	National business rates			-19,147
-30,880	Precept			-31,694
785	Increase in Revenue Account Balance for the year			416
615	Balance on 1 April			1,400
1,400	Balance carried forward as at 31 March			1,816

Notes to the Summary Revenue Account

1 Format

- 1.1 The summary revenue account brings together income and expenditure on the service. It uses the nationally recognised Best Value Accounting Code of Practice. This helps comparison between authorities.

2 Prior period adjustments

- 2.1 There are no prior period adjustments for 2005/06

3 Expenditure on publicity

- 3.1 Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of expenditure on publicity. Spending on publicity in 2005/06 was £186,000 (£188,000 in 2004/05), of which £71,000 (£52,000 in 2004/05) related to staff advertising.

4 Local Authorities (Goods and Services) Act 1970

- 4.1 Services are provided to other authorities and public bodies under the Local Authorities (Goods and Services) Act 1970. Income from this was £36,000 (£33,000 in 2004/05) which covers the costs incurred.

5 Asset Management revenue account

- 5.1 The balance on this account reflects the difference between capital charges levied on services (which represent a realistic economic cost of using assets in the delivery of services) and the costs to the Authority of financing its assets (from borrowing) and depreciation suffered on the assets during the year:

	2004/05	2005/06
	£'000	£'000
Capital charges to services	-3,409	-5,129
Depreciation provision	1,274	2,039
Less government grants released	0	-152
Net interest payable	212	250
Asset management revenue account surplus	<u>-1,923</u>	<u>-2,992</u>

Notes to the Summary Revenue Account

6 Changes in Provisions

6.1	The contributions during the year were:	2004/05	2005/06
		£'000	£'000
	Provision for doubtful debts	0	0
	Provision for uninsurable and other claims	-499	-48
		<hr/>	<hr/>
		-499	-48

These changes result from the assessment of risks at the end of each year. Note 10 to the balance sheet sets out more information on these provisions.

7 Contribution from the capital financing account

		2004/05	2005/06
		£'000	£'000
	Provision for repaying loans	176	220
	Depreciation provision net of government grants released	-1,274	-1,887
	Contribution from capital financing account	<hr/>	<hr/>
		-1,098	-1,667

8 Officers' emoluments

8.1 The number of employees whose remuneration, excluding pension contributions, was £50,000 or more is set out below:

Total remuneration	Number of Employees	
	2004/05	2005/06
£50,000 - £59,999	3	0
£60,000 - £69,999	2	4
£70,000 - £79,999	1	1
£80,000 - £89,999	1	2
£90,000 - £99,999	0	1
£100,000 - £109,999	1	0
£110,000 - £119,999	0	1
Total	<hr/>	<hr/>
	8	9

Notes to the Summary Revenue Account

9 Local Authorities (Members' Allowances) Act 2003

9.1 The Authority is required to make a scheme for the payments of basic allowances, special responsibilities, travelling and subsistence and other specified Members' allowances. In 2005/06 £114,000 was paid to Members under this scheme (£119,000 in 2004/05).

10 Audit fee disclosure

10.1 The following fees were paid to the Audit Commission during the year:

	2004/05 £000	2005/06 £000
Code of Audit Practice audit	56	52
Statutory inspections	19	0
Certification of grant claims	2	2
Other work	0	0
Total	<u>77</u>	<u>54</u>

11 Pensions

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

11.2 The Authority participates in two pension schemes:

- The Local Government Pension Scheme for non-uniformed staff, administered by Hampshire 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' Pension Scheme for firefighters – this is an unfunded scheme, meaning that there are no investments assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Notes to the Summary Revenue Account

- 11.3 The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. The charge made against the Council Tax is based on the cash payable in the year, in the form of employer's contributions or actual pension payments. This is achieved as a result of a transfer to a pensions reserve to neutralise the impact of the amended accounting treatment. The following transactions have been made in the Summary Revenue Account:

	Local Government Pension Scheme		Firefighters' Pension Scheme	
	2004/05 £000	2005/06 £000	2004/05 £000	2005/06 £000
Net Cost of Services:				
• Current service cost	920	1,040	8,740	9,130
• Past service cost	30	40	0	0
Net Operating Expenditure:				
• interest cost	860	1,060	15,620	16,610
• expected return on assets in the scheme	-570	-820	0	0
Amount to be met by Constituent Authorities:				
• Movement on pensions Reserve	-568	-493	-17,051	-17,835
	672	827	7,309	7,905
Actual amount charged against Revenue account for pensions in the year:				
• Added years contributions	-2	-7		
• employers' contributions payable to scheme	-670	-820		
• retirement benefits payable to pensioners			-7,309	-7,905
Net effect on budget requirement	0	0	0	0

Notes to the Summary Revenue Account

11.4 Details of the assets and liabilities for pensions can be found in note 19 to the Balance Sheet and details of the actuarial gains and losses are set out in note 5 to the Statement of Movements in Reserves.

11.5 Further information can be found in the actuary's valuation report, which has already been published and the Hampshire Pension Fund Annual Report which are both available from The Treasurer, The Castle, Winchester, SO23 8UB.

12 **Related party transactions**

12.1 The following Government grants were received during the year:

	2004/05 £'000	2005/06 £'000
General government grants	27,488	28,571
Transitional Grant	787	0
Other specific revenue grants	272	817
Capital grant – home fire safety checks	146	146
Total	<u>28,693</u>	<u>29,534</u>

12.2 The Treasurer is also the County Treasurer of Hampshire County Council.

The Authority's daily cash surplus or deficit is pooled with that of the County Council and interest is paid based on the average 7 day rate. The total interest received was £206,000 (£306,000 in 2004/05) and the balance temporarily invested as at 31 March 2006 was £6,343,000 (£5,521,000 on 31 March 2005).

12.3 During the year there were no related party transactions involving members or chief officers of the Authority.

13 **Earmarked reserve accounts**

The following variations to earmarked reserve accounts have been made:

	2004/05 £'000	2005/06 £'000
Capital payments	2,514	-679
Transitional Grant	787	0
Modernisation	500	+260
Underspendings	500	-500
Total	<u>4,301</u>	<u>-919</u>

Notes to the Summary Revenue Account

14 **Operating lease payments**

The following operational lease payments have been made:

	2004/05	2005/06
	£'000	£'000
Vehicles	918	916
Leased cars	245	248
Photocopiers	16	22
Home Computers Initiative	0	59
Total	<u>1,179</u>	<u>1,245</u>

15 **Non-distributed costs**

In accordance with the BVACOP the additional pension costs for added years and early retirements are not charged to individual services. They are aggregated as non-distributed costs.

Balance Sheet

31 March 2005		31 March 2006	
£'000		£'000	£'000
	Long Term Assets		
	Fixed assets : (see note 1)		
4,893	Authority dwellings	4842	
73,266	Other land and buildings	79,053	
5,487	Vehicles, plant and equipment	6,238	
646	Work in Progress	1,540	
1,272	Non-operational assets	1,480	
85,564	Total fixed assets		93,153
39	Long-term debtors (see note 2)		27
85,603	Total long term assets		93,180
	Current Assets		
595	Stocks (see note 3)	575	
469	Debtors - general (see note 4)	385	
684	Payments in advance (see note 5)	758	
5,521	Temporary Lending (see note 8)	6,343	
5	Imprests	5	
7,274	Total current assets	8,066	
	Current Liabilities		
-1,368	Creditors (see note 6)	-3,221	
-281	Receipts in advance (see note 7)	-174	
0	Temporary Borrowing (see note 8)	0	
-1,649	Total current liabilities	-3,395	
5,625	Net current (liabilities) or assets		4,671
91,228	Total assets plus net current (liabilities)/assets		97,851
	Long term liabilities		
-5,100	Long term borrowing (see note 9)	-5,100	
-303	Provisions (see note 10)	-225	
-5,403	Total long term liabilities		-5,325
11,630	Assets relating to defined benefit pension scheme	15,240	
-332,094	Liabilities relating to defined benefit pension schemes (see note 18)	-370,860	-355,620
-234,639	Total Net Assets		-263,094
	Financed by :		
-320,464	Pensions reserve (see note 18)		-355,620
84,081	Fixed asset restatement account (see note 11)		91,023
-3,999	Capital financing account (see note 12)		-3717
42	Usable capital receipts reserve (see note 13)		22
4,301	Earmarked reserves (see note 17)		3,382
1,400	Revenue account		1,816
-234,639			-263,094

Notes to the Balance Sheet

1. Net fixed assets

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

	Dwellings £'000	Other land and buildings £'000	Vehicles, plant and equipment £'000	Non- operational properties £'000	Deferred charges £'000	Work in progress £'000	Total £'000
Gross book value as at 31 March 2005	4,928	74,288	12,125	1,272	0	646	93,259
Less accumulated depreciation / impairment	34	1,023	6,638	0	0	0	7,695
Net book value as at 31 March 2005	4,894	73,265	5,487	1,272	0	646	85,564
Movement in 2005/06:							
Transfers between cats.	0	5	516	0	2	-523	0
Additions	0	108	1,156	0	124	1,426	2,814
Disposals of assets:							
write-off accum dep'n	0	0	318	0	0	0	318
write-out GBV	0	0	-324	0	0	-9	-333
Revaluation of assets:							
write-off accum. dep'n	0	49	0	0	0	0	49
change in cert valuation	-15	6,714	0	208	0	0	6,907
Depreciation for year	-37	-1,088	-915	0	0	0	-2,040
Written off to CFA	0	0	0	0	-126	0	-126
Net book value as at 31 March 2006	4,842	79,053	6,238	1,480	0	1,540	93,153
Gross book value as at 31 March 2006	4,925	80,394	12,876	1,480	493	1,540	101,708
Accumulated dep'n/imp	83	1,341	6,638	0	493	0	8,555
Net book value as at 31 March 2006	4,842	79,053	6,238	1,480	0	1,540	93,153

Deferred charges represent expenditure which has been capitalised but which does not add to the value of Authority owned assets. The expenditure during the year relates mainly to the cost of the Home Fire Safety Checks.

1.2 Fixed assets held at 31 March	2005	2006
Dwellings :		
Number of houses	23	23
Other land and buildings :		
Number of fire stations	53	53
Total floor area (sq m)	37,805	36,828
Vehicles :		
Number of vehicles owned	114	133

1.3 Valuation bases and depreciation

Land and buildings assets are required to be revalued every five years, or sooner when there are material changes. The last quinquennial revaluation was completed in 2004/05. From 2005/06 the Authority adopted a rolling programme for valuing its assets. The valuations were carried out by qualified personnel from the Estates Practice, Hampshire County Council.

Notes to the Balance Sheet continued...

FRS 15 requires the dates and amounts of valuations to be analysed across each of the classes carried at current value. No analysis is required for assets valued at historic cost.

	Valuation year	Authority dwellings £'000	Other land and buildings £'000	Vehicles, plant and equipment £'000	Non operational assets £'000
Valued at historic cost				6,238	
Valued at current value in:	2003/04		7		
	2004/05	4,842	63,748		1,480
	2005/06		15,298		
		4,842	79,053	6,238	1,480

Asset valuations are also required to reflect any impairment during the year but there was none during the year.

Details of the policies applied to fixed assets and depreciation can be found in the Statement of Accounting Policies.

1.4 Capital spending and financing

Capital spending on fixed assets was as follows:

Capital expenditure	2004/05 £'000	2005/06 £'000
Land	0	0
Construction work	17	1,013
Vehicles and equipment	1,501	1,681
Fees and salaries	56	120
	<u>1,574</u>	<u>2,814</u>

Capital spending was financed as follows :

Capital financing	2004/05 £'000	2005/06 £'000
Capital receipts	0	97
Revenue contributions - budgeted	0	1,300
Rev conts - Capital payments reserve	0	679
Supported borrowing	1,424	586
Capital contribution	10	0
Capital grant	140	152
	<u>1,574</u>	<u>2,814</u>

1.5 Capital commitments

The Authority has authorised expenditure in future years under its capital programme of £7,349,000 of which £2,468,000 is contracted.

	Expenditure approved and contracted at 31 March 2006 £'000	Expenditure approved but not contracted at 31 March 2006 £'000
2005/06 Frontline appliances	591	243
Cosham Fire Station	0	3,500
HQ redevelopment - phase 1	1,877	1,130
Other schemes	0	8
	<u>2,468</u>	<u>4,881</u>

Notes to the Balance Sheet continued...**2 Long term debtors**

	31 March 2005 £'000	31 March 2006 £'000
Car loans to staff	34	25
Other	5	2
	<u>39</u>	<u>27</u>

3 Stocks

	31 March 2005 £'000	31 March 2006 £'000
Uniforms	268	262
Equipment	72	70
Workshops	162	152
Fuel	28	30
Hydrants	6	6
Memorabilia	3	2
Foam	37	34
Stationery	17	17
First Aid	2	2
	<u>595</u>	<u>575</u>

4 Debtors

	31 March 2005 £'000	31 March 2006 £'000
Government departments	13	1
Other local authorities	0	5
Sundry debtors	456	379
	<u>469</u>	<u>385</u>

5 Payments in advance

5.1 These mainly represent the annual payments on leasing arrangements of £652,000

6 Creditors

	31 March 2005 £'000	31 March 2006 £'000
Government departments	609	1194
Other local authorities	39	240
Sundry creditors	720	1787
	<u>1,368</u>	<u>3,221</u>

The Authority's policy is to pay business creditors 30 days after the date shown on the invoice.

6.1 Increase in Government creditors results from income tax and national insurance contributions relating to back pay made in March being due to the Inland Revenue.

The figure for Government Departments also includes creditors of £184,000 in respect of grant repayments due from the 2004/05 and 2005/06 Revenue Support Grant amending reports

Notes to the Balance Sheet continued...

The variance in sundry creditors between 31/03/05 and 31/03/06 mainly relates to creditors included in 2005/06 for further backdated pay awards due to firefighters.

Other local authorities creditors includes £166,000 for transfer value paid.

7 Receipts in advance

- 7.1 The balance shown represents some leasing rebates received in advance and funding for some local fire initiatives

8 Temporary Borrowing and Lending

- 8.1 The balance represents the amount borrowed from or lent to Hampshire County Council.

9 Long term borrowing

9.1	Range of interest rates payable	Source of loan	31 March 2005 £'000	31 March 2006 £'000
	4.5 - 5.875%	Public Works Loan Board	5,100	5,100

All loans mature between 2019 and 2034.

10 Provisions

- 10.1 The Authority holds two provisions. The first is for the provision for bad debts, which totals £991. This has been netted off the balance of debtors.
- 10.2 The second is for uninsurable and other claims. This covers costs which may arise as a result of the Authority being uninsured for a period (one of the Authority's insurers went into liquidation), possible tribunals (together with their associated costs) and other claims made against the Authority. These cases may take a number of years to settle.

The movement on this provision can be summarised as follows:

	2004/05 £000	2005/06 £000
Balance as at 1 April	1,482	303
Payments made during the year	-680	-30
Increase/decrease(-) made during year	-499	-48
Balance as at 31 March	<u>303</u>	<u>225</u>

11 Fixed asset restatement account

- 11.1 The fixed asset restatement account was created in order to allow assets to be maintained in the accounts at current value. The account is written down by the net book value of assets being disposed of. The account is also debited or credited with deficits or surpluses when revaluations are made.

12 Capital financing account

- 12.1 The capital financing account contains :

* the amount of capital expenditure financed from revenue and capital receipts

* the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation and writing down of deferred charges.

Notes to the Balance Sheet continued...

The change in the account is analysed below:

	2004/05	2005/06
	£'000	£'000
Balance as at 1 April	2,756	3,999
Revenue contributions	0	-1978
Capital receipts applied	0	-97
Minimum revenue provision	-176	-220
Depreciation	1,414	2,039
Deferred charges	145	126
Deferred Gov grants released	-140	-152
Balance as at 31 March	<u>3,999</u>	<u>3,717</u>

13 Usable capital receipts reserve

13.1 The balance on the usable capital receipts reserve is made up as follows :

	2004/05	2005/06
	£'000	£'000
Balance as at 1 April	0	-42
Receipts in the year	-42	-77
Less : used to finance capital expenditure	0	97
Balance as at 31 March	<u>-42</u>	<u>-22</u>

14 Contingent liabilities

14.1 There are no contingent liabilities that have been provided for in the accounts.

15 Finance and operating leases

15.1 The Authority does not hold any assets under finance leases.

15.2 The Authority has operational leases for operational vehicles, employee leased cars and photocopiers. The Authority is committed to make payments totalling £1,131,000 during 2006/07 for leases which expire over the following timescales:

	2005/06	2006/07
	£'000	£'000
Within the year	78	136
Within the second to fifth year	638	622
Over five years	402	373
Total	<u>1,118</u>	<u>1,131</u>

16 Euro costs

The Authority does not have any commitments in respect of Euro costs.

17 Earmarked reserves

	31 March	31 March
	2005	2006
	£'000	£'000
Transitional Grant reserve	787	787
Underspendings carried forward	500	0
Capital payments reserve	2,514	1,835
Modernisation reserve	500	760
Total	<u>4,301</u>	<u>3,382</u>

18 Disclosure of net pensions asset/liability.

18.1 As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these 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.

18.2 The Authority participates in two pension schemes:

- The Local Government Pension Scheme for non-uniformed employees, administered by Hampshire County Council - this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets.
- The Firefighters' Pension Scheme for firefighters - 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 pensions payments as they eventually fall due.

18.2 An independent actuary, Hewitt, Bacon and Woodrow has calculated that the following assets and liabilities for pensions should be included in the balance sheet.

It is based on a formal actuarial valuation as at 31 March 2005 for the firefighters' scheme and 31 March 2004 for the Local Government scheme.

31 March 2005	Local Government Pension Scheme £m	Firefighters' Pension Scheme £m	Total £m
Estimated Liabilities in Scheme	19.46	312.63	332.09
Estimated assets in scheme	11.63	0.00	11.63
Net liability	7.83	312.63	320.46

31 March 2006	Local Government Pension Scheme £m	Firefighters' Pension Scheme £m	Total £m
Estimated Liabilities in Scheme	23.38	347.48	370.86
Estimated assets in scheme	15.24	0.00	15.24
Net liability	8.14	347.48	355.62

18.4 Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The main assumptions are as follows :

	2004/05	2005/06
	%	%
Discount rate	5.3	4.9
Rate of inflation	2.9	3.0
Rate of increase in salaries	4.4	4.5
Rate of increase in pensions	2.9	3.0
Rate of increase on deferred pensions	2.9	3.0
Long - term expected rate of return on equities	7.7	7.3
Long - term expected rate of return on bonds	4.7	4.3
Long - term expected rate of return on property	6.7	6.3
Long - term expected rate of return on other assets	4.8	4.6
Average long - term expected rate of return	6.8	6.5

Notes to the Balance Sheet continued...

Changes to the Local Government pension Scheme permit employees retiring on or after 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries it has been assumed that 50% of employees retiring after 6th April 2006 will take advantage of this change in the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Statement of Total Movement in Reserves. The change has not affected the figure in the Consolidated Revenue Account.

Assets in the County Council Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion:

	31 March 2005	31 March 2006
	%	%
Equity investments	69	70
Bonds	22	21
Property	4	4
Other assets	5	5
	<u>100</u>	<u>100</u>

The proportions of total assets held in each asset type, shown above, reflect the proportions held by the Fund as a whole at 31 March.

18.5 The requirement to meet the liabilities of the firefighters' scheme falls on the Authority from the year the firefighter retires. The liability for the deficit on the Local Government scheme will be reflected in future employer's pension contributions made by the Authority. Both costs will in turn be met by Council Taxpayers and Government Grant.

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

	Local Government Pension Scheme	Firefighters Pension Scheme
	£m	£m
Net deficit at the beginning of the year	-7.84	-312.63
Movement in year :		
Current service cost	-1.04	-9.13
Contributions	0.83	7.64
Past service costs	-0.04	0.00
Other finance income	-0.24	-16.61
Actuarial gain / loss (-)	0.19	-16.75
Net deficit at the end of the year	<u>-8.14</u>	<u>-347.48</u>

19 Post balance sheet events

There were no post balance sheet events that require disclosure.

20 Final issue of accounts

The Statement of Accounts were authorised for issue on 29 September 2006 by the Treasurer and Chair of the Governance Committee.

Cash Flow Statement

	2004/05	2005/06
	£'000	£'000
Revenue Activities		
Cash outflows		
Cash paid to and on behalf of employees	47,085	40,379
Other operating costs	12,781	21,666
	<u>59,866</u>	<u>62,045</u>
Cash inflows		
Cash received for goods and services	-1,030	-869
Specific Government Grant	-806	-735
Levies	0	0
Precepts	-30,880	-31,694
Revenue Support Grant	-11,461	-9,240
National Business Rates	-16,027	-19,147
Rents	-76	-67
Other income	-3,243	-3,770
	<u>-63,523</u>	<u>-65,522</u>
Net cash inflow/outflow from revenue activities (note 1)	-3,657	-3,477
Returns on Investments and Servicing of Finance		
Cash outflow		
Interest paid	212	250
Cash inflow		
Interest received	-317	-207
	<u>-105</u>	<u>43</u>
Net cash outflow/inflow (-) from Servicing of Finance	-105	43
Capital Activities		
Cash outflows		
Purchase of fixed assets	1,434	2,688
Deferred charges	140	126
	<u>1,574</u>	<u>2,814</u>
Cash inflows		
Sale of fixed assets	-42	-78
Capital Grant	-140	-152
Capital Contribution	-10	0
	<u>-192</u>	<u>-230</u>
Net cash outflow from capital activities	1,382	2,584
Net cash outflow/inflow before financing	-2,380	-850
Management of Liquid Resources		
Net increase/decrease in short term deposits	4166	822
Financing		
Cash outflows		
Repayments of amounts borrowed	0	0
Cash inflows		
New long term loans	-1,850	0
New short term loans	0	0
Decrease / increase in cash (note 2)	-64	-28

Notes to the Cashflow Statement

1. Reconciliation to revenue account

	2004/05 £'000	2005/06 £'000
Balance on revenue account	-785	-416
Items on an accruals basis :		
Increase/decrease in stocks	94	-20
Increase/decrease in debtors	-90	-95
Increase/decrease in payments in advance	-28	75
Increase/decrease in creditors	1,130	-1,853
Increase/decrease in receipts in advance	-104	107
	<u>1,002</u>	<u>-1,786</u>
Non cash transactions :		
Revenue contributions to capital	0	-1,978
Provision for loan repayment	-176	-221
Provision for bad debts	0	0
Insurance provision	499	48
Increase/decrease in reserves	-4,301	919
Items classified elsewhere in cash flow statement :		
Interest paid	-212	-250
Interest received	316	207
Net cash inflow/outflow from revenue activities	<u>-3,657</u>	<u>-3,477</u>

2. Reconciliation of the movement in cash with the movement in net debt

	2004/05 £'000	2005/06 £'000
Movement of net debt in balance sheet :		
Long term loans :		
- 1 April	-3,250	-5,100
- 31 March	-5,100	-5,100
- Movement	<u>-1,850</u>	<u>0</u>
Short term loans :		
- 1 April	0	0
- 31 March	0	0
- Movement	<u>0</u>	<u>0</u>
Deposits		
- 1 April	1,355	5,521
- 31 March	5,521	6,343
- Movement	<u>4,166</u>	<u>822</u>
Total movement in net debt	2,316	822
Net cash outflow before financing	-2,380	-850
Decrease/increase in cash	<u>-64</u>	<u>-28</u>

3. Reconciliation of items shown in financing and management of liquid resources to the related items in the balance sheet

	2004/05	2005/06
	£'000	£'000
Net increase/decrease in short term deposits	4,166	822
Repayments of amounts borrowed	0	0
New long term loans	-1,850	0
New short term loans	0	0
Total movement in net debt in balance sheet	2,316	822

Statement of Movements in Reserves

2004/05 £'000		£'000	2005/06 £'000
	Surplus for the year		
1,400	Revenue Account	416	
4,301	Earmarked reserves (see notes to revenue account)	-919	
5,701	Total increase in revenue resources		-503
42	Increase/decrease(-) in useable capital receipts	-20	
0	Increase/decrease(-) in unapplied capital grants and contributions	0	
42	Total increase/decrease in realised capital resources (note 1)		-20
27,254	Gains/losses on revaluation of fixed assets	49	
0	Impairment losses on fixed assets due to general changes in prices	6,907	
27,254	Total increase/decrease in unrealised value of fixed assets (note 2)		6,956
-27	Value of assets sold, disposed of or decommissioned (note 3)		-15
0	Capital receipts set aside	97	
-1,243	Revenue resources set aside	185	
-1,243	Total increase/decrease in amounts set aside to finance capital investment (note 4)		282
-54,260	Net actuarial loss relating to pensions (note 5)		-16,560
-17,599	Adjustment to consolidated revenue account to reconcile with pension contributions and early retirement cashflow		-18,595
-40,132	Total recognised gains and losses		-28,455

Notes to the Statement of Movements in Reserves

1. Movements in realised capital resources

	Useable Capital Receipts	
	2004/05 £'000	2005/06 £'000
Amounts receivable during the year	42	77
Amounts applied to finance new capital investment during the year	0	-97
Total increase/decrease in realised capital resources	42	-20
Balance brought forward at 1 April	0	42
Balance carried forward at 31 March	42	22

The useable capital receipts reserve is a cash-backed reserve.

Fixed Asset Restatement Account

	2004/05	2005/06
	£'000	£'000
2. Movements in unrealised value of fixed assets		
Gains/losses on revaluation of fixed assets during the year	-27,254	-6956
Impairment losses on fixed assets due to general changes in prices	0	0
Total increase/decrease in unrealised capital resources	-27,254	-6,956

3. Value of assets sold, disposed of or decommissioned

Amounts written off fixed asset balances for disposals in year	27	15
Total movement on account during year	-27,227	-6,941
Balance brought forward at 1 April	-56,854	-84,081
Balance carried forward at 31 March	-84,081	-91,022

The fixed asset restatement account relates to the valuation of existing capital assets and is therefore not cash-backed.

Notes to the Statement of Movements in Reserves continued...

4. Movements in amounts set aside to finance capital investment

	Capital Financing Account	
	2004/05 £'000	2005/06 £'000
Capital receipts set aside in year:		
- reserved receipts	0	0
- useable receipts applied	0	97
Total capital receipts set aside during year	0	97
Revenue resources set aside in year:		
- capital expenditure financed from revenue	0	1,978
- reconciling amount for provisions for loan repayment	-1,243	-1,793
Total revenue resources set aside during year	-1,243	185
Total movement on account during year	-1,243	282
Balance brought forward at 1 April	-2,756	-3,999
Balance carried forward at 31 March	-3,999	-3,717

The capital financing account relates to the financing of existing capital assets and is therefore not cash-backed.

5. Net actuarial gain/(loss) on pensions

The actuarial gains and losses identified as movements on the Pensions Reserve can be analysed into the following categories measured as absolute amounts and as a percentage of assets or liabilities as at 31 March 2006:

Notes to the Statement of Movements in Reserves continued...

(a) 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.	-2,030	3.4	790	9.9	450	3.9	1,980	13.0
Differences between actuarial assumptions about liabilities and actual experience	10	0.1	0	0.0	910	4.7	0	0.0
Changes in assumptions underlying the present value of pension liabilities	-20	-0.2	10	0.1	-3,620	-18.7	-1,790	-7.7
	<u>-2,040</u>		<u>800</u>		<u>-2,260</u>		<u>190</u>	

(b) Firefighters' Pension Scheme:

	2002/03		2003/04		2004/05		2005/06	
	£000	%	£000	%	£000	%	£000	%
Differences between actuarial assumptions about liabilities and actual experience	1,320	0.6	-3,990	-1.6	-140	-0.1	16,200	4.7
Changes in assumptions underlying the present value of pension liabilities	-80	0.0	160	0.1	-51,860	-16.6	-32,950	-9.5
	<u>1,240</u>		<u>-3,830</u>		<u>-52,000</u>		<u>-16,750</u>	
Total net actuarial gain/ (loss) on pensions	-800		-3,030		-54,260		-16,560	