Avon Fire Authority

Statement of Accounts
2004/2005

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Statement of Accounts

Contents

Explanatory Foreword by the Treasurer

Introduction

These accounts present the Fire Authority's financial performance and position for the year ended 31 March 2005.

The Accounts comprise:

The Statement of Accounting Policies - this explains the basis on which the figures in the accounts are calculated.

The Revenue Account - this summarises expenditure and income for 2004/05.

The Balance Sheet - this shows the assets and liabilities of the Authority at 31 March 2005.

The Statement of Movements in Reserves - this statement brings together all the changes in the Authority's reserves during the year. The statement separates the movement between revenue and capital reserves.

The Cashflow Statement - this summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

The Statement of Responsibilities for the Statement of Accounts – this statement sets out the respective responsibilities of the authority and the treasurer for the accounts.

The Statement on Internal Control – this statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit. It also reports on significant identified weaknesses and the actions undertaken or proposed to rectify these.

Corporate Governance Code –incl. Statement of Assurance – this code is consistent with the framework document 'Corporate Governance in Local Government' and sets out the adopted arrangements for the governance of the Fire Authority's affairs and stewardship of its resources. It is designed to demonstrate that the authority's business is properly conducted and accountable.

The Revenue Account, Balance Sheet, Statement of Movements in Reserves and Cashflow Statement are supported by notes, which provide additional information. The statement of accounts meets the requirements of the Code of Practice on Local Authority Accounting (Revised 2004) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Change to major precepting authority status

Under the Local Government Act 2003 the Avon Fire Authority became a major precepting authority with effect from April 2004. The main consequences of this are broadly that:

- Instead of funding its expenditure by issuing a levy on the constituent Unitary Authorities, as in previous years, the Fire Authority now sets its own level of Council Tax. The Fire Authority then issues precepts upon the unitary authorities in its area, in proportion to the tax base determined by them, who then collect the council tax on its behalf.

- The Fire Authority, as a stand alone authority, is no longer able to issue a supplementary levy on the constituent Unitary Authorities during the year should the need arise. It has therefore been necessary for it to provide for a prudent level of balances and reserves, something that it was not previously permitted to do. A contribution to reserves of £0.5m per annum is being made over three years to serve as a working balance.

- The Fire Authority now receives Revenue Support Grant and a contribution from the non-domestic rate pool directly from Central Government towards the funding of its expenditure, these amounts having previously been paid to the unitary authorities. The Revenue Support Grant and contribution from the non-domestic rate pool are identified in the revenue account.

Budget and Spending in 2004/2005

The Avon Fire Authority set a net revenue budget for 2004/05 of £40.795m, after allowing for the contribution to reserves, which resulted in a Council Tax of £46.44 per Band D property.

In broad terms, where the Authority's funding came from and what it was spent on during 2004/2005 can be analysed as follows:

Source of funds	%	Application of funds	%
General Government Grants	37.2%	Employees (net)	79.0%
Contribution from non-domestic rate pool	22.5%	Premises	3.5%
Council Tax payers	37.8%	Transport	3.3%
Other Income	2.5%	Supplies and Services	9.9%
		Support Services	0.9%
		Capital	0.9%
		Transfer to earmarked reserves	1.2%
		Contribution to working balance	1.3%

Set out below is a comparison between actual expenditure and budget for the year.

	Budget 2004/2005 £'000	Actual Expenditure 2004/2005 £'000	Difference £'000
Expenditure on Services			
Employees (net)	34,366	33,546	(820)
Premises	1,481	1,487	6
Transport	1,268	1,384	116
Supplies & Services	3,567	4,203	636
Support Services	409	394	(15)
Capital Financing (net)	574	377	(197)
Income	(624)	(773)	(149)
	41,041	40,618	(423)
Investment Income & Interest on Balances	(164)	(299)	(135)
Net Operating Expenditure	40,877	40,319	(558)
Transfers to \ from revenue reserves	0	558	558
Revenue Support Grant	(15,201)	(15,201)	0
Non-domestic rates redistribution	(9,558)	(9,558)	0
Precepts	(16,035)	(16,035)	0
Transitional Funding	(583)	(583)	0
Working Balance	(500)	(500)	0

Details of the major variations between budget and expenditure are:

The underspend on employees resulted from an underspend on the net pensions budget because of significantly higher than expected transfer values in (£633k), an underspends on the retained fire fighter budget (£199k) and the support staff budget (£72k). There was also a reduction in employee insurance claims resulted in an underspend of 51k. These underspends were partly offset by an overspend on the training budget of £73k because of additional training pressures during the year.

The overspend on transport relates primarily to additional maintenance pressure on the existing fleet (£110k).

The overspend on supplies and services resulted mainly from the setting up of a liability (£583k) for the repayment of the transitional funding which is due for repayment in 2006/07. ICT expenditure was over budget by £172k which primarily related to control and radio costs and these overspends were partly offset by several minor underspends.

The underspend on capital financing resulted from slippage on the 2003/04 capital programme and the effects of reduced interest rates on existing borrowing.

The additional income arises primarily from increased recharges for the secondment of firefighters to the ODPM & Fire Service College and higher interest on balances than anticipated.

Capital

The Local Government Act 2003 also introduced a new prudential system of capital controls with effect from 2004/05. Under this new system the level of borrowing will be a matter for the Fire Authority to determine in accordance with the Prudential Code issued by CIPFA (subject to longstop controls). In determining the level of borrowing the Prudential Code requires the Fire Authority to ensure that its capital investment plans are affordable, prudent and sustainable.

For 2004/05 actual capital expenditure was £1,881k (including capital creditors for 2004/05). Further details relating to capital expenditure can be found in the notes to the Balance Sheet.

Joint Training Centre – Private Finance Initiative (PFI) scheme

The Authority, in partnership with Gloucestershire County Council and Somerset County Council, has invested in a twenty five year PFI contract to provide a joint fire and rescue service training centre at Avonmouth. Under this scheme the Authority will receive a significant element of its fire training from VT Fire Training (Avonmouth) Ltd., who designed, built, financed and now operates (DBFO) the training centre.

The Government provides some revenue support to the project in the form of grants (PFI credits), and the three authorities fund the balance by making contributions from within their own resources. The grant from the Government together with the contributions from partners is paid into an equalisation fund which is administered by Gloucestershire County Council on behalf of all the authorities. The percentage contributions rates for the three authorities are as follows:

Avon Fire Authority	50%
Gloucestershire County Council	25%
Somerset County Council	25%

The original annual grants were received on a sliding scale, with a disproportionate amount being received in the first nine years of the contract. Therefore the contributions required from the three authorities were greatly reduced in the earlier years but would be significantly increased over the last sixteen years of the contract. In order to spread the contributions more evenly over the life of the contract the equalisation fund was operated so that surplus government grants and authority contributions in the early years were invested and used to reduce contributions in the later years.

From 1 April 2005, a new system of grant payment has been introduced which now makes equal instalments throughout the life of the contract. The fund is currently being reviewed by Gloucestershire County Council to establish how the existing balance will be utilised over the remainder of the contract. The balance of the fund as at 31 March 2005 was £1.89M analysed as follows:

Avon Fire Authority	£945k	(50%)
Gloucestershire County Council	£472k	(25%)
Somerset County Council	£472k	(25%)

As detailed in note 4 to the Revenue Account the Authority is committed to paying £1m a year over the next 25 years, which is 50% of the annual contract payments.

Other Issues

Pensions

i) Opening pensions liability

As required by the 2004 code of practice on local authority accounting the discount rate for determining the liabilities under defined benefit schemes has been changed. Previously the rate was determined each year by the Government Actuaries Department based on the assumed long-term real rate of return expected to be earned on a portfolio of long-dated index linked stocks. The rate is now based on the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities, which is often referred to as the 'AA Corporate Bond Rate'. The authority's actuary has advised that the effect of the change in discount rate used has increased the authority's opening pension liability by £28,352m. Of this amount £26,854 is in respect of the fire fighters pension scheme and £1,498 is in respect of the local government scheme. Further information on the pension assets and liabilities of the authority are included in the notes to the balance sheet.

ii) Pensions Liability

The implementation of Financial Reporting Standard No. 17 (FRS17) – Retirement Benefits from 2003/04 has resulted in the recognition of the estimated value of the net assets/liabilities of defined benefit pension schemes together with a pension reserve in the authority's balance sheet.

Additionally, the Revenue Account shows the cost of providing retirement benefits to employees in the accounting periods in which the benefits are earned and not the cash payments to schemes or individuals. In accordance with regulations, adjustments made as a result of this accounting standard have no effect on the amount charged to the council taxpayer.

The pensions liability in the balance sheet at 31 March 2005 amounts to £246.6m compared with a liability of £193.1m at 31 March 2004. Of the liability at 31 March 2005, £241.8m relates to the Uniformed Firefighters, scheme which is an unfunded scheme, and £4.8m relates to the Local Government Scheme.

With regards to the uniformed firefighters scheme it needs to be recognised that pension payments will be paid out over a period of many years and that Central Government provides support each year towards the estimated cost of this unfunded scheme. This support is based on calculations of the projected net expenditure for all fire authorities pension schemes which are made by the Government Actuary's Department (GAD). There is a forecast increase in the liability shown in the accounts, compared with the previous year, of £48.9m which is largely as a result of the actuarial losses and interest cost on pension liabilities.

In relation to the Local Government scheme, again pension payments will be paid out over a period of many years in which time it is expected that fund assets will continue to generate returns to meet them. Also, fund assets are subject to large fluctuations in value depending on the state of the stock market. There is a forecast increase in the liability shown in the accounts, compared with the previous year, of £3.0m which is largely as a result of actuarial losses.

The position shown in the 2004/05 accounts reflects the triennial valuation of the pension fund at March 2004. Based on this valuation the actuary has recommended a contribution rate of 13.5% with effect from 1 April 2005, 15.5% with effect from 1 April 2006 and 17.5% with effect from 1 April 2007. The authority has made provision for these increases in its medium term financial projections

Statement of Internal Control

The statement of internal control is designed to demonstrate that the authority's business is properly conducted and that controls are in place to ensure accountability. This statement has been compiled in conjunction with the internal audit section of Bristol City Council who have been contracted to provide financial services to the authority. It has also been discussed with the Audit Commission.

Independent Auditor's Report to Avon Fire Authority

I have audited the statement of accounts on pages 20-45 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 9-19.

This report is made solely to Avon Fire 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 Chief Financial Officer and Auditor

As described on page 45 the Chief Financial Officer 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 presents fairly the financial position of the Council and its income and expenditure for the year.

I review whether the statement on internal control on page 46 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 Council'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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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.

Opinion

In my opinion the statement of accounts presents fairly the financial position of Avon Fire Authority as at 31 March 2005 and its income and expenditure for the year then ended.

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: B. Bethell

Date: 14 October 2005

Name: ...Brian Bethell...........................

Address: The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR

Statement of Accounting Policies

General

1. The Accounts and Audit Regulations 2003 require the Fire Authority to prepare and publish a statement of accounts. The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting 2004 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), applicable Statements of Standard Accounting Practice (SSAP's) and Financial Reporting Standards (FRS's).

Accounting concepts

2. The Statement of Accounts provides information about the Authority's financial performance and position for the year ended 31 March 2005. Except where specified in the Code of Practice, or in specific legislative requirements, it is the authority's responsibility to select and regularly review its accounting policies, as appropriate.

3. These accounts are prepared in accordance with a number of fundamental accounting principles, ie

   - Relevance
   - Reliability
   - Comparability
   - Understandability
   - Materiality

4. Additionally three further concepts play a pervasive role in the selection and application of accounting policies, estimation techniques and the exercise of professional judgement and hence the financial statements. These are:

   Accruals
   The financial statements are prepared on an accruals basis, ie transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments are made or received. This does not apply to the Cash Flow statement.

   Going concern

   The accounts are prepared on the assumption that the Authority will continue its operations for the foreseeable future.

   Primacy of legislative requirements

   The Authority derives its powers from statute and its financial and accounting framework is closely controlled by primary and secondary legislation. Where legislative requirements and accounting principles conflict, legislative requirements take precedence.

Accounting convention

5. The historical cost convention has been adopted in these financial statements, modified by the revaluation of certain categories of assets, eg land, buildings, vehicles and plant.

Accruals of Income and Expenditure

6. Customer and client receipts

Sums due to the Authority, for example customer and client receipts in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate.

7. Employee costs

The full cost of employees is charged to the accounts of the period within which the employees worked. Accrual is made for remuneration earned but unpaid at the year-end, where material. Where retrospective adjustments or special payments are required, for example through pay awards or redundancy payments, the accounts are charged (or credited) with the additional amount as soon as it can reasonably be estimated, in line with the requirements for recognising a provision (see paragraph 36).

8. Interest

Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates on a basis which reflects the overall economic effect of the borrowings.

9. Supplies and services

The cost of supplies and services is accrued and accounted for in the period during which they were consumed or received. Accrual is made for all material sums unpaid at the year end for goods or services received or works completed.

Acquired \ discontinued operations

10. There were no acquired or discontinued operations for which the directly related income and expenditure would be shown separately on the face of the consolidated revenue account under either the heading of acquired or discontinued operations. Similarly there were no liabilities in respect of discontinued operations which would be disclosed separately in the notes to the consolidated balance sheet

Contingent assets \ liabilities

11. Contingent assets or liabilities are not recognised in the accounting statements. They would be disclosed as a note to the balance sheet if the inflow of a receipt or economic benefit is probable or there is a possible obligation which may require a payment or a transfer of economic benefit. Such disclosure would indicate the nature of the asset or liability together with an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

13. The Authority had no contingent assets or liabilities as at 31 March 2005.

Estimation techniques

14. Estimation techniques are the methods adopted to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their precise value. Unless specified in the Code of Practice or in legislative requirements, the method of estimation will generally be the one that most closely reflects the economic reality of the transaction. The application of techniques will vary according to the item concerned, for example in particular in relation to capital accounting and pensions (see separate sections).

Exceptional items, extraordinary items and prior period adjustments

15. Where there are exceptional items, these are included in the cost of the service to which they relate or on the face of the consolidated revenue account if that degree of prominence is necessary in order to give a fair presentation of the accounts, together with a descriptive note.

16. Extraordinary items are also disclosed and described on the face of the consolidated revenue account after dealing with all items within the ordinary activities of the authority, together with further information by way of a note to the accounting statements.

17. Material prior period adjustments may be made, for example, as a result of changes in accounting policies or from the correction of fundamental errors. These are accounted for by restating the comparative figures for the preceding period in the statement of accounts and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the Statement of Total Movements in Reserves of the current period. The effect of prior period adjustments on the outturn for the preceding period is disclosed where practicable.

Foreign currency translation

18. Where there is income and expenditure arising from a transaction denominated in a foreign currency it is translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period is used as an approximation. Where the transaction is to be settled at a contracted rate, that rate is used.

19. At each balance sheet date, where there are material monetary assets and liabilities denominated in a foreign currency these are translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

Government Grants

20. Whatever their basis or payment, revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of the authority or to compensate for a loss of income are credited to the revenue account in the period that they are payable.

21. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the government grants-deferred account and written off to the asset management revenue account over the useful life of the asset to match the depreciation of the asset to which it relates.

22. Government grants or other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Group accounts

23. The Authority has considered all its interests in statutory bodies, subsidiaries, associates or joint ventures and does not have any aggregate material interests which would necessitate the preparation of group accounts.

Intangible assets

24. Intangible items may meet the definition of an asset when access to the future economic benefits that it represents is controlled by the Authority, either through custody or legal protection. Where there are such assets these would be included at current value and amortised on a systematic basis over their economic lives.

Investments

25. The Authority has no long term investments which would be carried at cost, less provision, if appropriate, for loss in value and would be identified separately on the face of the balance sheet.

Leases

26. Finance leases

The Authority had no outstanding finance leases at 31 March 2005. The code requires that rental payments under such arrangements would be apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. Any hire purchase contracts that have similar characteristics to a finance lease and are of a financing nature would also be accounted for as a finance lease and appropriate balance sheet notes would be disclosed.

27. Operating leases

Rentals payable, net of benefits received or receivable (e.g. cash incentives for a lessee to sign a lease), under operating leases are charged to revenue on a straight line basis over the term of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate. Any hire purchase contracts that have similar characteristics to an operating lease would also be accounted for as an operating lease and appropriate notes disclosed. Details of rentals paid during the year under operating leases together with outstanding undischarged leasing obligations are shown in note 3 to the revenue account.

Overheads

28. Charges or apportionments covering all support service costs are made to all service heads. The costs of the corporate and democratic core and of non-distributed costs are each allocated to a separate objective service head and are not apportioned to other service heads.

29. The support service costs charged or apportioned to service heads comprise legal, personnel, financial, property-related services, IT, equalities and administrative buildings.

30. There are a variety of methods used for the apportionment of support service costs which include allocated charges, apportioned charges based on service users full time equivalent staff or total budget and by reference to floor areas used. The bases of apportionment used are applied consistently to all service heads to which apportionments are made.

Pension Costs

31. Pensions reserve

Accounting for employees' pensions is in accordance with generally accepted accounting practice subject to the interpretations set out in the SORP. 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 in taxation. This is represented by an appropriation to or from the pensions reserve which equals the net change in the pensions liability recognised in the Consolidated Revenue Account.

32. Classification of schemes

The Authority participates in two different pension schemes which meet the needs of different groups of employees. The first of these two schemes is for uniformed firefighters, a national unfunded scheme, whilst the second is for APT&C and manual employees who are eligible to join the Local Government Pension Scheme which is a funded scheme. Both of these schemes are classified as defined benefit schemes and these accounting policies apply in respect of pensions costs arising from them together with unfunded discretionary benefits which are paid for by the authority.

33. Defined benefit schemes

a) Local Government Pension Scheme

The actuary to the pension fund provides the information necessary to complete the Authority's accounts, on the following basis:

Attributable scheme assets are measured at their fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses should be deducted. The attributable scheme liabilities are measured using the projected unit method. The scheme liabilities comprise:

(i) any benefits promised under the formal terms of the scheme, and

(ii) any constructive obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefits will be granted.

The surplus/deficit in a scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities.

Any unpaid contributions to the scheme should be presented in the balance sheet as creditor due within one year.

The change in the defined benefit asset or liability (other than that arising from contributions to the scheme) is analysed into the following components:

(i) Periodic costs:

(a) current service cost

(b) interest cost

(c) expected return on assets, and

(d) actuarial gains and losses, and

(ii) Non-periodic costs:

(a) past service costs, and

(b) gains and losses on settlements and curtailments.

The current service cost is included within net cost of services. The net of the interest cost and the expected return on assets is included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Total Movements in Reserves for the period.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost are recognised immediately.

b) Fire Fighters Scheme

The actuary to the Local Government pension fund has provided the information necessary to complete the Authority’s accounts, on the following basis:

The attributable scheme liabilities are measured using the projected unit method. The scheme liabilities comprise:

(i) any benefits promised under the formal terms of the scheme, and

(ii) any constructive obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefits will be granted.

Any unpaid contributions to the scheme should be presented in the balance sheet as creditor due within one year.

The change in the defined benefit liability (other than that arising from contributions to the scheme) is analysed into the following components:

(i) Periodic costs:

(a) current service cost

(b) interest cost, and

(c) actuarial gains and losses, and

(ii) Non-periodic costs:

(a) past service costs, and

(b) gains and losses on settlements and curtailments.

The current service cost is included within net cost of services and the interest cost is included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Total Movements in Reserves for the period.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that the benefits vest immediately, the past service cost are recognised immediately.

Post balance sheet events

34. Where a material post balance sheet event occurs which:

- provides additional evidence relating to conditions existing at the balance sheet date, or

- indicates that application of the going concern concept to a material part of the authority is not appropriate,

changes are made in the amounts to be included in the Statement of Accounts.

35. The occurrence of a material post balance sheet event which concerns conditions which did not exist at the balance sheet date is disclosed. The disclosure states the nature of the event and an estimate of the financial effect of the event.

Provisions

36. Provisions are made for any liabilities of uncertain timing or amount that have been incurred and in particular when:

(a) the Authority has a present obligation (legal or constructive) as a result of a past event

(b) it is probable that a transfer of economic benefits will be required to settle the obligation, and

(c) a reliable estimate can be made of the amount of the obligation.

37. Provisions are charged to the appropriate revenue account; when payments for expenditure are incurred to which the provision relates they are charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Provisions for bad and doubtful debts

38. The amount of debtors included in the balance sheet is adjusted for doubtful debts, which are provided for, and known collectable debts are written off.

Repurchase of borrowing

39. Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the revenue account in the periods during which the repurchase or early settlement is made. Where however the repurchase of borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains or losses are recognised over the life of the replacement borrowing.

Research and development

40. Expenditure on research and development is normally regarded as part of the continuing operations of the authority and is written off as it is incurred.

Reserves

41. Amounts set aside for purposes falling outside the definition of provisions are considered as reserves, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure is not charged direct to any reserve. Details relating to each of the principal reserves are provided in the notes to the balance sheet. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

42. Capital reserves are not utilised for revenue purposes and certain of them can only be used for specific statutory purposes. Two of these reserves are non distributable reserves and are therefore referred to as accounts. The fixed asset restatement account and capital financing account are examples of such reserves (it should be noted that these reserves have been renamed as accounts as from 1 April 2004, there is no requirement to change the accounting treatment of these reserves). The usable capital receipts reserve is a reserve established for specific statutory purposes.

Stocks

43. The authority does not maintain separate stock accounts and treats all stock purchases as revenue expenditure incurred during the year. This is justified due to the policy of maintaining stock levels at a minimum and the high stock turnover.

Tangible Fixed Assets

Recognition

44. All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, is capitalised and is classified as a tangible fixed asset, provided that it yields benefits to the authority and the services it provides are for a period of more than one year.

Measurement

45. A fixed asset is initially measured at its cost. Costs, but only those costs, that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

46. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where known.

47. Operational land and properties and other operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value. In the case of investment properties, net realisable value will normally be market value. In the case of assets under construction net current replacement cost will normally be historical cost and such assets are held at historical cost until they are brought into commission.

48. Vehicles, plant and equipment are valued on the basis of depreciated replacement cost.

49. When an asset is included in the balance sheet at current value, it is revalued at intervals of not more than five years and the revised amount is included in the balance sheet. Freehold properties are revalued on a five yearly basis and adjusted to reflect market and construction price changes in the interim period between valuations, whilst other operational assets are revalued on an annual basis.

50. The valuation of the authority's freehold properties, which comprise the authority's property portfolio, is carried out by Bath and North East Somerset Unitary Authority, as indicated in the notes to the balance sheet, on the basis recommended by CIPFA and in accordance with the statements of asset valuation principles and guidance notes issued by the Royal Institute of Chartered Surveyors (RICS). The following valuation bases are used to determine net current replacement cost for revalued properties other than investment properties that are not impaired:

- non-specialised operational properties for which there is no general market are valued on the basis of existing use value (EUV).
- specialised operational properties are valued on the basis of depreciated replacement cost.
- investment properties and properties surplus to requirements are valued on the basis of market value (MV).

Surpluses or deficits on the revaluation of assets are taken to the fixed asset restatement account.

51. The authority had no outstanding finance leases as at 31 March 2005. Where an asset is acquired under a finance lease, at the inception of the lease the amount recorded as both an asset and a liability would be the present value of the minimum lease payments derived by discounting them at the interest rate implicit in the lease.

Impairment

52. The value at which each category of assets is included in the balance sheet is reviewed at the end of each year and where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly.

53. Where an impairment loss on an asset occurs the loss is recognised, if it is caused by a clear consumption of economic benefits, in the asset management revenue account and the service revenue account. Other impairments are recognised in the fixed asset restatement account.

Disposals

54. Income from the disposal of fixed assets is held in the capital receipts unapplied account until such time as they are allocated to finance other capital expenditure.

55. Where a fixed asset is disposed of for other than a cash consideration, or payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

56. Upon disposal, the net book value of the asset disposed of is written off against the fixed asset restatement account.

Depreciation

57. Depreciation is provided for on all fixed assets with a finite useful life and is calculated on a straight-line basis according to their assessed useful lives.

58. Depreciation is not provided for on freehold land or non-operational investment properties.

Charges to revenue

59. Service revenue accounts, as defined in CIPFA's *Best Value Accounting Code of Practice* are charged with a capital charge and where required, any related impairment loss, for all fixed assets used in the provision of the service.

60. Such charges are the annual provision for depreciation, where appropriate, plus a capital financing change determined by applying a specified notional rate of interest of 3.5% (3.5% for 2003/04) to the net amount at which the asset is included in the balance sheet.

61. Capital charges for the use of fixed assets and relevant impairment losses included in revenue accounts are credited to the asset management revenue account.

62. External interest is payable on borrowing from Bristol City Council and is charged to the Asset Management Revenue Account, which is credited with the capital charges charged to services. These charges therefore have a neutral impact on the amounts required to be raised from the council taxpayer.

63. The amounts set aside from revenue for the repayment of external loans and to finance capital expenditure are disclosed separately on the face of the consolidated revenue account, below net operating expenditure.

Value added tax

64. VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

Private Finance Initiative (PFI) scheme

65. Under the Joint Training PFI scheme (details of which can be found in the explanatory forward) the Government provides some revenue support to the project in the form of grants (PFI credits), and the three authorities fund the balance by making contributions from within their own resources. The original the annual grants were received on a sliding scale, with a disproportionate amount being received in the first nine years of the contract. Therefore the contributions required from the three authorities were greatly reduced in the earlier years but would be significantly increased over the last sixteen years of the contract. In order to spread the contributions more evenly over the life of the contract an equalisation fund was operated so that surplus government grants and authority contributions in the early years were invested and used to reduce contributions in the later years.

66. From 1 April 2005, a new system of grant payment has been introduced which now makes equal instalments throughout the life of the contract. The fund is currently being reviewed by Gloucestershire County Council to establish how the existing balance will be utilised over the remainder of the contract with the intention that the balance on the reserve at the end of the contract will be nil.

Revenue Account for the Year Ending 31 March 2005

2003/2004 Net Expenditure £'000		2004/2005 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
3,521	Community fire safety	5,371	(751)	4,620
33,890	Fire fighting and rescue operations	40,280	(2,933)	37,347
48	Fire service emergency planning and civil defence	73	(10)	63
266	Corporate and democratic core	369	(10)	359
30	Non Distributed Cost	0		0
37,755	**Net Cost of Services**	**46,093**	**(3,704)**	**42,389**
(1,031)	Asset management revenue a\c	212	(1,300)	(1,088)
(215)	Interest receivable		(298)	(298)
(1)	Investment income		(1)	(1)
10,289	Pension interest cost and Expected return on pension assets	12,722	(590)	12,132
46,797	**Net operating expenditure**	**59,027**	**(5,893)**	**53,134**
-	Transfer to \ (from) revenue reserves			558
(1,390)	Reconciling amount for provisions for loan repayment			(1,494)
(8,208)	Contribution from the pensions reserve			(11,321)
37,199	**Amount to be met from government grants and local taxation**			**40,877**
(37,199)	Contributions			-
-	General Government Grants			(15,784)
-	Non-domestic rates redistribution			(9,558)
-	Precepts			(16,035)
-	**Net Fund (surplus) / deficit**			**(500)**
-	Balance on Fund brought forward			-
-	**Balance on Fund carried forward**			**(500)**

Signed

Terry Walker *Malcolm Shorney*

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Terry Walker
Chair of the Avon Fire Authority

Malcolm Shorney
Treasurer of the Avon Fire Authority

Notes to the Revenue Account

1. **Subjective analysis of Net Cost of Services**

An alternative analysis of the net cost of services, based upon CIPFA's subjective analysis headings, is given in the table below:

2003/2004 Net Expenditure £'000		2004/2005 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
	Continuing Services			
29,454	Employees	35,666	(2,931)	32,735
1,283	Premises	1,487		1,487
1,248	Transport	1,384		1,384
3,197	Supplies & Services	4,203		4,203
379	Support Services	394		394
2,791	Capital Charges	2,959		2,959
30	Non Distributed Cost	-		0
(627)	Income		(773)	(773)
37,755	**Net Cost of Services**	**46,093**	**(3,704)**	**42,389**

2. **Asset Management Revenue Account**

The asset management revenue account records the charges made to the Brigade for the use of capital assets and the actual cost to the Authority of external interest and finance lease payments. The resulting surplus is shown in the revenue account.

2003/2004 £'000		2004/2005 £'000
	Income	
(2,791)	Capital charges to revenue account	(2,959)
-	Deferred capital grant	(17)
	Expenditure	
1,525	Provision for depreciation	1,676
235	Loan interest	212
(1,031)	**Surplus to consolidated revenue account**	**(1,088)**

3. **Lease Rentals**

The amounts paid in respect of operating leases in 2004/05 and 2003/2004 and the amounts outstanding in respect of future years, are as follows:

2003/2004 £'000		2004/2005 £'000
411	Total rentals paid	529
	Outstanding undischarged leasing obligations:-	
410	Within 1 year	522
404	Between 1 and 2 years	462
344	Between 2 and 3 years	452
1,447	Over 3 years	1,581

4. **Undischarged obligations – Private Finance Initiative (PFI) scheme (Joint Training Centre)**

As set out in the Accounting policies, under a joint PFI venture, the Authority now receive a significant element of their fire training from VT Fire Training (Avonmouth) Ltd., a company contracted to provide the training until 31st March 2028. The training is supplied at the Joint Fire Training Centre, Avonmouth, a facility that the service provider designed, built, financed and now operates (DBFO) under the PFI contract. The Authority is committed to paying £1m a year over the next 25 years, which is 50% of the annual contract payments.

5. **Publicity Expenditure**

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of publicity expenditure. During 2004/2005 the Authority incurred expenditure totalling £48k, an analysis of which is as follows:

2003/2004 £'000		2004/2005 £'000
	Advertising	
24	Recruitment	43
-	Equalities	4
1	Tender invitations	-
2	Fire Safety	-
3	Other	1
30	**Total**	**48**

6. **Pensions**

APT&C and Manual Employees

All staff, other than uniformed firefighters, are eligible to join the Local Government Pension Scheme (LGPS). The scheme is administered by Bath and North East Somerset Council and is called the Avon Pension Fund. The Fund provides members with benefits related to length of service and final salary. It is a 'defined benefit' scheme. The Fund's Actuary carries out a valuation of the Fund every three years in accordance with government regulations. If the valuation indicates that there are insufficient assets to meet future liabilities, employer contribution rates are increased to make up the shortfall. For 2004/05 the contribution rate was 11.5% which was based on a valuation undertaken at 31 March 2001 which assessed the overall funding level at 99.4%. The latest valuation of the Fund, which was undertaken at 31 March 2004, assessed the overall funding level at 80%. Based on this valuation the actuary has recommended a contribution rate of 13.5% with effect from 1 April 2005, 15.5% with effect from 1 April 2006 and 17.5% with effect from 1 April 2007.

For 2004/05, the Authority paid an employer's contribution of £370k (£336k for 2003/04) into the Avon Pension Fund. The adjustments made to the Revenue Account in accordance with the accounting standard, FRS17, are based on the following assessments by the Fund actuary:

- The current service (pension) cost were £447k (15.5% of pensionable pay) (£303k (11.8% of pensionable pay) for 2003/04)
- There is no reason to believe that the age profile of the membership has increased substantially since the 2004 valuation
- There were no past service/curtailment costs (ie arising from early retirement enhancements awarded in the year) (£30k for 2003/04)
- Interest cost of pension liabilities was £658 (£569k for 2003/04)
- Expected return on assets held by the scheme was £590k (£440k for 2003/04)

Fire fighters

Uniformed firefighters are eligible to join the national scheme for fire fighters. This is an unfunded scheme and provides members with benefits related to length of service and final salary and is a 'defined benefit' scheme.

For 2004/05, the Authority made net pension payments of £6,533 (£6,115k for 2003/04) to former uniformed firefighters. The adjustments made to the Revenue Account in accordance with accounting standard, FRS17, are based on the following assessments by the actuary:

- Current service (pension) cost of £5,645 (31% of pensionable pay) (£4,097k (24.3% of pensionable pay) for 2003/04)
- Interest cost of pension liabilities was £12,064 (£10,160k for 2003/04)

- The cost of spreading the unfunded accrued liability over 40 years would have cost an additional £7,528k (41.3% of pensionable pay) (£7,035k (41.7% of pensionable pay) for 2003/04)

To enable the above assessments to be made the actuary made assumptions on the following items:

- Rates of early / normal retirement
- Rates of ill health retirement
- Rates of mortality
- Rates of withdrawal from active membership
- Proportions married
- Age difference between husband and wife
- Allowance for salary increases due to age and promotion

Further information can be found in the notes to the Balance Sheet and in the Statement of Movement in Reserves.

7. Capital Financing - Minimum Revenue Provision

Following the introduction of the Prudential Code for capital finance in local authorities, with effect from 1 April 2004, the calculation of the amount that the Authority is required by statute to set aside as a minimum revenue provision (MRP) for the redemption of debt was changed. The Authority is now required to set aside 4% of its Capital Finance Requirement. For 2004/05 the calculation of the authorities Capital Finance Requirement and its MRP is as follows:

2003/2004 £'000		2004/2005 £'000
	Capital Financing Requirement as at 1 April:	
36,031	Fixed assets	36,655
(41,026)	Fixed asset restatement account	(42,105)
8,039	Capital financing account	9,429
3,044	Capital Financing Requirement	**3,979**
	Adjustment Factor A	(165)
	Adjusted Capital Financing Requirement	**3,814**
122	MRP	152
14	Additional amount in respect of SCA repayment	13

In 1996/97 the Authority received Supplementary Credit Approval (SCA) for borrowing to finance transitional costs incurred in the year. In accordance with the Secretary of State's specifications this SCA is being repaid on a straight line basis over seven years and this commenced in 2000-01. It was therefore necessary for the Authority to set aside an additional amount for the repayment of debt over and above the MRP to comply with this requirement.

The figures for 2003/04 have been entered for comparison purposes only as the new prudential system was not operational during that financial year with the MRP being calculated under the previous rules.

8. Members' Allowances

In accordance with relevant legislation the Authority has approved a Scheme of Allowances for its Members. The details of allowances which have been paid under this scheme are as follows:

2003/2004 £'000		2004/2005 £'000
30	Allowances	39
-	Travel and subsistence expenses	1
30	**Total**	**40**

9. Employees Remuneration

The Authority is required to disclose the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000. For 2004/2005 the information is as follows:

2003/2004 No. of Employees	Remuneration Band	2004/2005 No. of Employees
-	£50,000 - £59,999	6
3	£60,000 - £69,999	-
-	£70,000 - £79,999	2
1	£80,000 - £89,999	-
-	£90,000 - £99,999	1

10. **Related Party Transactions**

The Code of practice requires disclosure of material transactions with 'related parties'. For 2004/2005 the appropriate items are as follows:

a. Bristol City Council as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£5,632k)

b. Bath & North East Somerset as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£2,946k)

c. North Somerset as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£3,396k)

d. South Gloucestershire as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£4,061k)

e. HM Customs & Excise, as a significant part of each creditor payment involves payment to them - (£1,288k)

f. The Inland Revenue, as a significant element of the Fire Authority's expenditure relates to payments for PAYE and National Insurance - (£7,431k)

g. The Avon Pension Fund, administered by Bath & North East Somerset Council, as contributions paid over in respect of Fire Authority employees - (£2,545k)

h. Bristol City Council as a provider of Financial Services to the Fire Authority – amount including the cost of servicing existing debt but excluding new borrowing - (£544k), new borrowing – (£1,853k)

11. **Audit Commission Fees**

Under the code of practice the Authority is required to disclose the fees payable to the Audit Commission for external audit services and inspection carried out in accordance with relevant legislative requirements. The amount for audit fees included in the accounts is £62k, details of which are as follows:

2003/2004 £'000		2004/2005 £'000
73	Fees payable with regard to external audit services carried out by the appointed auditor	45
22	Fees payable in respect of other services provided by the appointed auditor	17

The fees for other services in both 2003/04 and 2004/05 relates to a national study of modernisation in the fire service.

The Balance Sheet at 31 March 2005

31-Mar-2004 £'000		31-Mar-2005 £'000	31-Mar-2005 £'000	Notes
	FIXED ASSETS			
	Operational assets			
32,424	- Land and Buildings		34,079	
4,231	- Vehicles, Plant and Equipment		4,362	
36,655	Total Operational Assets		38,441	1 to 4
-	Non-Operational Assets		165	
36,655	Total Fixed Assets		38,606	
	CURRENT ASSETS			
1,149	Debtors – general	897		
218	Debtors – other local authority	1,983		
86	Debtors – ministry	68		
3,553	Cash at bank	3,683		
81	Imprests	41		
5,087		6,672		
	LESS CURRENT LIABILITIES			
(165)	Borrowing repayable within 12 months	(234)		
(10)	Receipts in advance	(10)		
(1,694)	Creditors – external	(1,420)		
-	Creditors – ministry	(583)		
(1,122)	Creditors – other local authority	(1,435)		
(2,991)		(3,682)		
2,096	NET CURRENT ASSETS		2,990	
(3,649)	Long term borrowing	(5,268)		5
(193,067)	Pensions Liability	(246,624)		8
(2,189)	Provisions	(269)		6
(198,905)			(252,161)	
(160,154)	TOTAL ASSETS LESS LIABILITIES		(210,565)	
42,105	Fixed assets restatement account		43,850	
(9,429)	Capital financing account		(10,923)	
-	Government grants - deferred		-	
223	Usable capital receipts reserve		223	
(193,067)	Pensions Reserve		(244,576)	8
14	Earmarked reserves		361	7
-	Fund balance		500	
(160,154)	TOTAL NET WORTH		(210,565)	

Signed

Terry Walker
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Terry Walker
Chair of the Avon Fire Authority

Malcolm Shorney
………………..……………..……

Malcolm Shorney
Treasurer of the Avon Fire Authority

Notes to the Balance Sheet

1. **Fixed Assets**

Details of the value of assets held at 31 March 2005 are shown in the table below together with movements in the year:

2003/2004 Total £'000		2004/2005 Land & Buildings £'000	Vehicles & Equipment £'000	**Total £'000**	Investment Properties £'000
43,868	Gross Book Value at 1 April 2004 (2003)	33,672	11,658	**45,330**	-
941	Additions	1,043	838	**1,881**	165
(901)	Disposals	(180)	(1,023)	**(1,203)**	-
1,423	Revaluation & Restatements	1,451	505	**1,956**	-
45,331	Gross Book Value at 31 March 2005 (2004)	35,986	11,978	**47,964**	165
(7,707)	Accumulated depreciation at 1 April 2004 (2003)	(1,248)	(7,428)	**(8,676)**	-
(1,525)	Depreciation for the year	(675)	(1,001)	**(1,676)**	-
556	Depreciation on assets sold	15	813	**828**	-
(8,676)	Accumulated depreciation at 31 March 2005 (2004)	(1,908)	(7,616)	**(9,524)**	0
36,655	Net Book Value at 31 March 2005 (2004)	34,078	4,362	**38,440**	165

During the year a fire fighter who occupied one of the fire houses retired from the service. The property, which had previously been classified as an operational asset, has been reclassified as an investment property. This transfer has been reflected as a disposal under land and buildings and an addition under investment properties in the above table.

2. **Capital expenditure and sources of finance**

As outlined in the explanatory forward a new prudential system of capital controls was introduced with effect from 2004/05. Under this new system the level of borrowing will be a matter for the Fire Authority to determine in accordance with the Prudential Code issued by CIPFA (subject to longstop controls). In determining the level of borrowing the Prudential Code requires the Fire Authority to ensure that its capital investment plans are affordable, prudent and sustainable.

One of the prudential indicators, which relates to affordability, is the capital financing requirement which indicates the underlying need to borrow for capital purposes.

The table below shows how capital expenditure during the year has been financed, the sources of that finance and how this relates to the movement in the capital financing requirement during the year. The underlying need to borrow for capital purposes has also been analysed between borrowing supported by Government financial assistance and that which is not supported. The borrowing which is not supported relates to borrowing which the Authority has determined as prudent under the new prudential system.

The figures for 2003/04 have been entered for comparison purposes only as the new prudential system was not operational during that financial year.

2003/2004 £'000		2004/2005 £'000
3,174	Opening Capital Financing Requirement	3,979
	Capital Investment	
941	Operational Assets	1,881
	Sources of finance	
-	Capital Receipts	-
-	Government grants and other contributions	(16)
(136)	Revenue Provision	(165)
3,979	Closing Capital Financing Requirement	5,679
	Explanation of movements in year	
805	Increase in underlying need to borrow (supported by Government financial assistance)	1,452
-	Increase in underlying need to borrow (unsupported by Government financial assistance)	248
805	Increase / (decrease) in Capital Financing Requirement	1,700

3. Information on Assets held

Fixed asset owned by the Authority include the following:

Number as at 31/03/2004		Number as at 31/03/2005
	Land and buildings	
23	Fire Stations	23
1	Brigade HQ	1
1	Command and Control Centre	1
1	Emergency Control	1
1	Vehicle Workshops	1
1	Hot Fire Training Centre	1
4	Fire Houses	4
	Vehicles and Equipment	
49	Operational Vehicles	47
65	Ancillary Vehicles	63
19	Compressors	19
14	Trailers etc	11

4. Fixed Asset Valuation

The freehold properties which comprise the Authority's property portfolio were reviewed by Bath and North East Somerset Unitary Authority on 1 April 2005 on the undermentioned basis in accordance with the statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Properties regarded by the Authority as operational were reviewed on the basis of open market value for their existing use or, where this could not be assessed, because there was no market for the subject asset eg. fire stations, the depreciated replacement cost. Properties regarded by the Authority as non-operational have been valued on the basis of open market value for existing use.

The results of the above review of freehold properties were included within the accounts for 2004/05

Vehicles, plant and equipment have been valued on the basis of depreciated replacement cost.

The finite useful life of the Authority's assets on which depreciation has been provided are estimated as follows:

	Years
Buildings	15-30
Fire Appliances	13-17
Other Vehicles	6-10
Compressors	7-20
Trailers etc	5-12
Communication equipment	12
Computer equipment	5
Other equipment	5-10

5. Analysis of Borrowing

The loans outstanding have been raised through Bristol City Council. Loans repayable during 2005/2006 are shown as short term borrowing in the Balance Sheet. The maturity of long term loans is as follows:

2003/2004 £'000		2004/2005 £'000
159	Between 1 and 2 years	225
415	Between 2 and 5 years	583
568	Between 5 and 10 years	826
2,507	Over 10 years	3,634
3,649	Total long term borrowing at 31 March 2005 (2004)	5,268

6. Provisions

	1 April 2004 £'000	Receipts in year £'000	Payments in year £'000	31 March 2005 £'000
Insurance	233	0	153	80
Fire Hydrants	87	43	30	100
Training Centre	73	0	0	73
Pension	1,690	0	1,690	0
AMP\Building Investigative works	50	0	43	7
Transport	48	0	48	0
Legal Claims	8	0	8	0
Medical Insurance Scheme	0	9	0	9
	2,189	52	1,972	269

a. Insurance Provision

The insurance provision has been created to meet the cost of employee liability claims. As claims may not be settled for a considerable length of time the provision is based on the previous claims experience of the Authority. As claims are settled they are charged to this provision.

b. Fire Hydrants

A provision has been created in respect of outstanding maintenance commitments.

c. Training Centre Provision

This provision is intended to fund work relating to the joint training centre scheme. The funding was provided via an insurance settlement and it is anticipated that that it will be utilised in 2005/2006.

d. Pensions

A provision was created to meet anticipated pension costs. This provision was reclassified during 2004/05 as an earmarked reserve.

e. AMP\Building Investigative works

A provision was created for works associated with the Authority's asset management plan (AMP) and building investigative works. The majority of this provision was utilised during the year and it is anticipated that the balance will be utilised in 2005/2006.

f. Transport

This provision was created to provide a contribution to the capital programme for transport related expenditure and was fully utilised in 2004/05.

g. Legal Claims

This provision has been set up to cover a potential liability arising from a claim against the Authority. This claim was settled during 2004/05.

h. Medical Insurance Scheme

A provision has been created to cover the cost of outstanding referrals under the medical insurance scheme. It is anticipated that this provision will be utilised during 2005/06.

7. **Other Reserves**

	1 April 2004 £'000	Receipts in year £'000	Payments in year £'000	31 March 2005 £'000
Gambia appliance reserve	0	0	0	0
HQ Temple Mess Club	(5)	9	4	0
New York Appeal	1	0	1	0
Arson Task Force	18	67	18	67
Capital Programme Contributions	0	200	0	200
Home Fire Safety Checks	0	94	0	94
	14	370	23	361

a. Gambia Reserve

The Gambia Reserve represents the balance of donations received over expenditure for the transfer of obsolete fire engines and equipment to the Gambia.

b. HQ Temple Mess Club

The balance on the HQ Temple Mess Club account, which was funded separately by its members, was previously separately identified in the financial statements. During 2004/05 a separate account was no longer maintained with transactions being processed through the revenue account.

c. New York Appeal

Following the events of 11 September 2001 donations have been received which will be forwarded to the New York Fire Service. The balance of donations received was forwarded during 2004/05.

d. Arson Task Force

Funding from the Arson Control Forum (ACF) Implementation Fund was received during 2004/05 towards the arson task force initiative the overall aim of which is the prevention of fire. This new initiative includes not only the clearance of abandoned vehicles but also advising the public and businesses in ways of preventing all types of arson. The funding received is for expenditure on this initiative only and any amount not utilised is being carried forward for use on this scheme in future years.

e. Capital Programme Contributions

Proposals for the relocation of the workshop and other capital works could require one-off revenue calls for items that may not be suitable for capitalisation. This reserve has been set up to cover such costs and augment the capital funding available.

f. Home Fire Safety Checks

As part of the Government's modernisation of the fire service, grant was received during the year for carrying out home fire safety checks. The funding received is for expenditure on this initiative only and amount not utilised at the year end is being carried forward for use on this scheme in future years.

8. Pension Assets and Liabilities

In accordance with the requirements of Financial Reporting Standard No. 17 - Retirement Benefits (FRS 17), calculations have been made by the actuary, on behalf of the Fire Authority, of the estimated value of future liabilities for pensions earned by its employees and the value of any assets held in pension funds to provide for these. The net position, estimating what the Authority's potential liability for future pensions could be, is included in the balance sheet. The liability also takes account of enhanced benefits in cases of early retirement which are approved by and paid directly by the Authority, under discretionary powers.

As explained in note 6 to the Revenue Account the Fire Authority participates in two schemes, the Firefighters scheme for uniformed fire fighters which is unfunded and the Local Government Scheme for other employees (administered by Bath and North East Somerset Council).

With regards to the Local Government Scheme a formal valuation of the Fund is carried out every three years by the actuary. If this shows that the fund has insufficient assets to meet its future liabilities, participating organisations must, by law, make additional contributions to make up the shortfall. The contributions made in 2004/05 are based on the valuation that was undertaken as at March 2001. As indicated in note 6 to the revenue account the latest actuarial valuation of the Avon Pension Fund was undertaken as at March 2004, with the revised contribution rates derived from this valuation being applicable from April 2005.

The Fire Fighters Pension Scheme is a nationally approved unfunded scheme. In calculating the level of financial support that Central Government gives to Local Authorities each year, through Revenue Support Grant (RSG) and the redistribution of Business Rates, account is taken of the pension payments due under this scheme. The Avon Fire Authority also calculates annually its estimated future fire fighters pension liabilities for the next 10 years and the estimated costs of these future pensions are reflected in the Fire Authority’s medium term financial plans. In addition the Fire Authority has a separate pension reserve which will be utilised to fund any short term deficit.

The estimated assets and liabilities included in the Authority’s balance sheet are as follows:

2003/04		2004/05		
Total £’000		Local Government Scheme £’000	Fire Fighters Scheme £’000	Total £’000
8,326	Share of market value of assets in Avon Pension Fund	9,571		9,571
(201,393)	Liabilities	(14,419)	(241,776)	(256,195)
(193,067)	Deficit	(4,848)	(241,776)	(246,624)

The movement in estimated liabilities during 2004/05 are as follows:

	Local Government Scheme £'000	Fire Fighters Scheme £'000	Total £'000
Net deficit at beginning of year	(1,820)	(191,247)	(193,067)
Current Service Cost	(447)	(5,645)	(6,092)
Employer Contributions\Payments	370	6,533	6,903
Past Service Cost\Curtailment Cost	0	0	0
Net Interest\Return on Assets	(68)	(12,064)	(12,132)
Actuarial gain \ (loss)	(2,883)	(37,663)	(40,546)
	(4,848)	(240,086)	(244,934)
Add Trf of Pension Provision to reserve		(1,690)	(1,690)
Net deficit at end of year	(4,848)	(241,776)	(246,624)

As a result of the Fire Authority becoming a major precepting authority with effect from 1 April 2004 the pension provision previously held has been reclassified as a pension reserve the effect of which is that the pension liability has been increased. The net deficit has increased from £193.1m to £246.6m during the year largely as a result of actuarial losses (£40.5m - £28.3m of which relates to the change in assumptions on the discount rate) and the interest cost on pension liabilities (£12.1m).

Actuarial losses arise from a change in actuarial assumptions or from events not coinciding with previous assumptions.

Statement of Actuarial Gains and (Losses)

	Local Government Scheme £'000	Fire Fighters Scheme £'000	Total £'000
Asset gain \ (loss)	242	0	242
Liability (loss) \ gain	(501)	2,805	2,304
Change in assumptions	(2,624)	(40,468)	(43,092)
Net loss	(2,883)	(37,663)	(40,546)

The above actuarial gains\(losses) expressed as a percentage of the schemes assets or liabilities is as follows:

	Local Government Scheme	Fire Fighters Scheme
Asset gain	2.5% of assets	0% of assets
Liability loss	(3.5%) of liabilities	(1.2%) of liabilities
Change in assumptions	(18.2%) of liabilities	(16.7%) of liabilities
Net gain \ (loss)	(20.1%) of liabilities	(15.6%) of liabilities

The interest on pension liabilities and expected return on assets are:

	Local Government Scheme £'000	Fire Fighters Scheme £'000	Total £'000
Expected return on assets	590	0	590
Interest on Pension Liabilities	(658)	(12,064)	(12,722)
Net gain \ (cost)	(68)	(12,064)	(12,132)

The assets included within the Local Government Scheme have principally been valued at market value for investments. The split of investments between categories, together with the expected rate of return on each is as follows:

Assets at 31 March 2004 £'000	%	Rate of Return %		Assets at 31 March 2005 £'000	%	Rate of Return %
6,220	74.7%	7.5%	Equities	7,274	76.0%	7.5%
1,207	14.5%	4.7%	Government Bonds	1,895	19.8%	4.7%
824	9.9%	5.5%	Other Bonds	316	3.3%	5.4%
0	0.0%	6.5%	Property	0	0.0%	6.5%
75	0.9%	4.0%	Cash\Liquidity	86	0.9%	4.75%
8,326			Total	9,571		

The liabilities under the Local Government Scheme are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the Fund, discounted to their present value. The valuations are based on the valuation as of 31 March 2004, updated for the following year, by William M. Mercer the independent actuary to the Avon Fund. The main financial assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	2.8%	2.9%
Rate of increase in salaries	3.8%	4.15%
Rate of increase in pensions	2.8%	2.9%
Rate for discounting scheme liabilities	5.5%	5.4%

The actuary has not carried out any specific investigations in relation to whether the average age of the membership has increased, but does not believe that there have been substantial changes since the 2004 valuation. For any employers who are not admitting new entrants to the Fund, the average age can be expected to increase gradually over time.

The same actuary was also engaged by the Authority to calculate the accrued liabilities under the Fire Fighters Scheme in accordance with the guidance issued by CIPFA. The main financial assumptions used in the calculations are:

	Beginning of year		End of year
Rate of inflation	2.8%		2.9%
Rate of increase in salaries	3.8%	*	3.9%
Rate of increase in pensions	2.8%		2.9%
Rate for discounting scheme liabilities	6.3%		5.4%

* plus a salary scale to allow for promotional effects.

The Statement of Movement in Reserves

2003/2004 £'000		2004/2005 £'000	£'000
	Surplus / (deficit) for the year:		
0	- General Fund	500	
	Add Movements on specific revenue reserves		
8	- Gambia Appliance Reserve (balance sheet note 7 a)	0	
(11)	- HQ Temple Mess Club (balance sheet note 7 b)	5	
-	- New York Appeal (balance sheet note 7 c)	(1)	
(18)	- Car Clear Scheme	0	
(1)	- Memorial Fund	0	
18	- Arson Task Force	49	
0	- Capital Prog Contributions (balance sheet note 7 e)	200	
0	- Home Fire Safety Checks (balance sheet note 7 f)	94	
(6,451)	*deduct* Appropriation from pensions reserve	(10,963)	
362	Actuarial gains (losses) relating to pensions (see note* below)	(40,546)	
(6,093)	**Total increase / (decrease) in revenue resources (note 1)**		(50,662)
223	Increase / (decrease) in useable capital receipts	0	
223	**Total increase / (decrease) in realised capital resources (note 2)**		0
1,423	Gains / (losses) on revaluation of fixed assets	1,955	
1,423	**Total increase / (decrease) in unrealised value of fixed assets (note 3)**		1,955
(344)	**Value of assets sold, disposed of or decommissioned (note 3)**		(210)
0	Capital receipts set aside	0	
(1,390)	Revenue resources set aside	(1,494)	
(1,390)	**Total increase / (decrease) in amounts set aside to finance capital investment (note 4)**		(1,494)
(1,757)	**Increase / (decrease) on the pensions reserve**		
(7,938)	Total recognised gains and losses		(50,411)

* The movement in actuarial losses on pensions includes £28,352k which relates to the effect of the change in assumptions on the discount rate on the opening liability.

Notes to the Statement of Movement in Reserves

1. Movements in revenue resources

	General Fund Balances £’000s	Earmarked Revenue Reserves £’000s	Other specific Reserves £’000s	Pension Reserve £’000s
Surplus/deficit for 2004/2005	500	-	-	-
Appropriation to \ from revenue	-	200	-	358
Contribution from pensions reserve				(11,321)
Transfers to\from specific reserves	-	-	147	-
Actuarial gains and losses relating to pensions	-	-	-	(40,546)
	500	200	147	(51,509)
Balance brought forward at 1 April 2004	-	-	14	(193,067)
Balance Carried forward at 31 March 2005	500	200	161	(244,576)

2. Movements in realised capital resources:

	Usable Capital Receipts £’000s
Amounts receivable in 2004/2005	0
Amounts applied to finance new capital investment in 2004/2005	(0)
Total increase / (decrease) in realised capital resources in 2004/05	0
Balance brought forward at 1 April 2004	223
Balance Carried forward at 31 March 2005	223

3. Movements in unrealised value of fixed assets and value of assets sold, disposed of or decommissioned**:**

	Fixed asset restatement account £'000s
Movements in unrealised value of fixed assets	
Gains / losses on revaluation of fixed assets in 2004/2005	1,955
Total increase / (decrease) in unrealised capital resources 2004/2005	1,955
Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposals in 2004/2005	(210)
Total movement on reserve in 2004/2005	1,745
Balance brought forward at 1 April 2004	42,105
Balance carried forward at 31 March 2005	43,850
The balance on this reserve represents the difference between the valuation of assets under the previous system of capital accounting and current revaluations. The reserve is adjusted in future years in respect of further revaluations and in respect of the enhancement / disposal of assets, where appropriate.	

4. Movements in amounts set aside to finance capital investment:

	Capital financing account £'000s
Movements in amounts set aside to finance capital investment	
Capital receipts set aside in 2004/2005: - useable receipts applied	0
Total capital receipts set aside in 2004/2005	0
Revenue resources set aside in 2004/2005: - reconciling amount for provisions for loan repayment	(1,494)
Total movement on reserve in 2004/2005	(1,494)
Balance brought forward at 1 April 2004	(9,429)
Balance carried forward at 31 March 2005	(10,923)

5. The actuarial loss identified as movements on the Pension Reserve in 2004/05 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2005:

Local Government Scheme	2002/03		2003/04		2004/05	
	£'000s	%	£'000s	%	£'000s	%
Differences between the expected and actual return on assets	(2,300)	34.9	1,122	13.5	242	2.5
Differences between actuarial assumptions about liabilities and actual experience					(501)	3.5
Changes in the demographic and financial assumptions used to estimate liabilities					(2,624)	18.2
	(2,300)		1,122		(2,883)	

Fire Fighters Scheme	2002/03		2003/04		2004/05	
	£'000s	%	£'000s	%	£'000s	%
Differences between the expected and actual return on assets					0	0
Differences between actuarial assumptions about liabilities and actual experience	(10,389)	6.1	(14,460)	7.5	2,805	1.2
Changes in the demographic and financial assumptions used to estimate liabilities	2,956	1.7			(40,468)	16.7
	(7,433)		(14,460)		(37,663)	

Cash Flow Statement

2003/2004 £'000		2004/2005 £'000	£'000	Notes
	Revenue Activities			
	Cash outflows			
31,857	Cash paid to and on behalf of employees	34,107		
7,058	Other operating costs	7,305		
38,915			41,412	
	Cash inflows			
(37,199)	Unitary Authorities Contribution	-		
(1)	Rent	-		
-	Precepts received	(16,035)		
-	Receipts from national non-domestic rate pool	(9,558)		
-	Revenue Support Grant	(15,201)		
-	Other Government Grants	(851)		
(285)	Cash received for goods and services	(451)		
(174)	Other revenue cash payments / income	(1,536)		
(37,659)			(43,632)	
1,256	Revenue Activities Net Cash (Inflow) /Outflow		(2,220)	1
	Returns on Investments and Servicing of Finance			
	Cash outflows			
189	Interest paid	235		
	Cash inflows			
(226)	Interest received	(298)		
(37)			(63)	
	Capital Activities			
	Cash outflows			
861	Purchase of Fixed Assets	1,869		
	Cash inflows			
(223)	Sales of Fixed Assets	-		
-	Capital grants received	(16)		
638			1,853	
1,857	Net Cash (Inflow) / Outflow Before Financing		(430)	
	Financing			
	Cash outflows			
108	Repayments of amounts borrowed	136		
	Cash inflows			
(779)	New loans raised	(861)		
(671)			(725)	
1,186	Net increase in cash		(1,155)	2

Notes to the Cashflow Statement

1. Reconciliation to Revenue Account

2003/2004 £'000		2004/2005 £'000
0	Deficit (Surplus) on revenue account for the year	(500)
	Non-cash transactions	
(172)	(Increase) \ decrease in provisions	1,920
4	Decrease in reserves	(2,395)
	Items on an accruals basis	
1,037	Increase \ (decrease) in debtors	1,495
460	(Increase) \ decrease in creditors	(622)
	Items shown under another classification in cashflow statement	
80	Increase in capital creditors	12
(82)	Increase in Capital Financing debtor	(992)
226	Interest received	298
0	Investment Income	0
(108)	Capital – Principal	(136)
(189)	Capital – Interest	(235)
1,256	Net Cash from Revenue Activities	(1,155)

2. Reconciliation of Movement in Cash

	Balance 1/4/2004 £' 000	Balance 31/3/2005 £' 000	Movement in the year £' 000
Cash at bank	3,553	3,683	(130)
Cash held in imprest accounts	81	41	40
	3,634	3,724	(90)

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

to make arrangements for the proper administration of its financial affairs and to secure 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 to secure economic, efficient and effective use of resources and to safeguard its assets;

approve the statement of accounts.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASACC Code of practice on Local Authority Accounting in the United Kingdom. The statement of accounts presents fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2005.

In preparing this statement of accounts, the Treasurer has:

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the code of practice.

The Treasurer has also;

kept proper accounting records which were up to date;

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

Signed

Malcolm Shorney
……………………………….

Malcolm Shorney
Treasurer

Avon Fire Authority

Statement on Internal Control

1. Scope of Responsibility

The Fire Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

This is supported by a responsible budgeting process including a full assessment of the need for balances in line with CIPFA and government guidelines.

2. The Purpose of the System of Internal Control

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

The system of internal control described has been largely in place at the Fire Authority during the year ended 31 March 2005 and is correct at the date of approval of the annual report and accounts.

The statement, although signed at a point in time, does have a year round aspect and will be reviewed during the year.

3. The Internal Control Environment

I Establishing and monitoring the achievement of the authority's objectives.

The Fire Authority has set out its priorities in its Best Value Performance Plan (BVPP), IRMP and in its Medium Term Financial Plan (MTFP). Its current capital programme was considered as part of the budget making process. A Corporate Plan will be available during 2005/06.

These are considered and identified in the budget setting processes and the budget report.

A capital programme was approved by the Authority, together with provision for further prudential borrowing of £5m over the 3 years of the MTFP.

This will need consideration over that period. Revenue provision to meet the capital costs have been included in the MTFP.

Monitoring during the year is achieved via capital and revenue monitors reported to the Authority as well as performance indicators in the Best Value Performance Plan, which are monitored by the Planning and Performance Unit.

The Fire Authority continues to take steps to meet the requirements of the modernisation programme and this will be kept under review during the year. Progress will depend, in part, on government allocations of funding.

This needs to be considered alongside a risk management plan which is in hand, but needs further development. This will also build on the Authority's continuity of service developments.

Further work is in hand to develop detailed business planning at a unit level, although this is not yet in place.

II *The facilitation of policy and decision making*

Policy and decision making is formally made by the Fire Authority. The Fire Authority is responsible for setting the budget and precept.

This is backed up by a Performance Management Forum, the Modernisation Forum and open forums at meetings of the Fire Authority.

III *Ensuring compliance with established policies, procedures, laws and regulations.*

The Monitoring Officer carries overall responsibility for legal issues.

Procedures are covered by financial, human resources and prudential guidelines. (Including areas such as Code of Conduct).

The Authority also appointed its own Treasurer in May 2005. Previously services had been provided by Bristol City Council. The Treasurer carries out the role of S.151 Officer.

Operational risk management is well embedded in processes together with health and safety procedures.

Financial Regulations and Standing Orders are being reviewed during 2005/06.

There is a separate Corporate Governance Code which is included within the Statement of Accounts which further defines the Authority's framework.

IV *Ensuring the economical, effective and efficient use of resources*

The Authority has considered some services under a best value regime and continues to consider strategic reviews (such as IRMP). Certain services may be developed on a regional basis under the auspices of the South West Regional

Management Board, a statutory joint committee set up in compliance with current government policy.

Financial savings have been identified as part of the budget process, partly in response to the Gershon requirements. The Performance Management Forum also reviews key outcomes.

The Authority collaborates on regional procurement (eg. breathing apparatus) and also operates e-tendering online in some areas.

The Authority is in the lower quartile for both council tax levels and spend vs Formula Spending Share (FSS). The Audit Commission fee includes work related to value for money issues.

The Authority's high sickness levels continue to hamper progress. Over the past year a number of new policies and schemes have been introduced but it is too early to assess their impact.

V *The financial management of the authority*

The Authority has contained expenditure within budget each year since its inception in 1996 and continues to receive an unqualified audit opinion. The Authority is well placed to fund the operational pay awards. Several of its financial services are provided by Bristol City Council under a medium term contract. The City Council has received a score of 4 (maximum 4) for its use of resources. The Fire Authority has received a maximum score (i.e. 4) from the Audit Commission for its Auditor Score Judgement.

Unlike many fire authorities, prudential budgeting over the years has allowed the Authority to create a substantial pension reserve.

Regular reports are made to members to monitor capital and revenue spend in relation to budgets, as well as to the Senior Management Board.

Development and maintenance of financial management systems is undertaken in liaison with the Authority's Financial Services Provider (Bristol City Council). Systems include:

- Comprehensive budgeting systems on a medium term basis
- Setting targets to measure financial and other performance
- The preparation of regular financial reports which compare forecasts with budgets for revenue expenditure
- Regular capital monitoring reports which compare actual expenditure plus commitments to budgets
- Clearly defined revenue expenditure guidelines.

In addition:

- PRINCE 2 training is being rolled out and is applied to selected project management issues.

- Finance training for cost centre managers and budget holders has been enhanced during the year and will be completed during 2005/06.

- A comprehensive review of financial regulations, will be undertaken following the appointment by the Authority of its own Treasurer.

The effectiveness of the system of financial management is informed by:

- Risk management procedures – at this stage there is a corporate risk register, but departmental registers and service plans need further consideration. This will involve further staff training in the autumn and further risk management development work to be carried out by the Improvement Unit. Risk management needs to be developed further to advise resource allocation.

- The work of the internal auditors, and

- The external auditors in their annual audit letter and other reports

- The role carried out by the Authority's Finance Officer and by its Treasurer

- Written assurances from the main corporate financial system managers (CFM, Payroll, Debtors and Creditors) via the Financial Services Provider

- The work of the Senior Management Board

VI Performance management and its reporting

The Authority has a series of performance indicators and targets used to measure its progress and standards. Full details of these measures are contained in the Best Value Performance Plan.

This is reported through the Performance Management Forum to the Fire Authority.

The Fire Authority has recently been subject to a Comprehensive Performance Assessment (CPA). The Authority was judged to be "fair".

VII The Authority has created a wide ranging internal control environment via a series of SIC Questionnaires for various aspects of the fire and rescue service.

This will be further developed in 2005/06. The Questionnaires have been assessed by the Management Board to consider further action and have been of value as part of this process.

An action plan will be drawn up to consider any major issues.

The Service is also completing an operational assurance questionnaire distributed by ODPM. This will further support the Statement on Internal Control in future years.

4. Review of Effectiveness

Authorities have responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Senior Management Board, and also by comments made by the external auditors and other review agencies and inspectorates.

- The Fire Authority, as a single-purpose authority, does not have a formal Scrutiny Management Committee. However the Performance Management Forum, which includes elected members, carries out this role.

- Internal Audit, a service provided by Bristol City Council, the Authority's Financial Services Provider, is independent and objective. It undertakes a cyclical review of the financial systems, based partly on a risk analysis of the functions undertaken. Key financial systems are reviewed on an annual basis. In addition Internal Audit carries out other ad hoc responsive investigations relating to the Authority's control framework. This aspect of the work also contributes to the maintenance of a sound system of internal financial control. Internal Audit has achieved or partly achieved all the mandatory standards set out in the CIPFA Code of Practice 2000. Internal Audit provides an annual report to the Authority on the work it has undertaken during the year.

- The Audit Commission also carries out significant work and provides its own Annual Audit Letter to the Authority. In their annual audit letter they comment particularly on financial aspects of corporate governance, performance and other reports.

- Other review / assurance mechanisms: for example Health and Safety Inspectorate and Comprehensive Performance Assessment.

5. Significant Internal Control Issues

The main internal control issues which need attention have been highlighted in reports from the internal and external auditors.

The key issues are listed below, with proposed actions:

INTERNAL AUDIT

Internal Audit concluded that for those areas which have been subject to examination, comprehensive and effective systems of internal control have generally been implemented by the Authority.

Recommendations were made for improvement in the stores and payroll systems. These have now been largely addressed.

Internal Audit are currently reviewing their processes to develop a more risk based analysis to determine their priorities for audit coverage. This has been a requirement of the Audit Commission.

AUDIT COMMISSION

In his annual audit letter, the District Auditor has noted some areas which need attention. In order to ensure a timely response it is proposed to hold regular meetings with the District Auditor and relevant Fire Authority staff during the year.

The significant items are:

Best Value Performance Plan

Seven indicators contained significant errors or uncertainties. It was necessary to publish an addendum to the plan with revised figures and this will be used to avoid the same situation in the future.

E-government

Progress has been slower than planned and a sustained effort will be made over the coming year. The Authority has progressed certain elements of e-government, such as e-procurement and electronic payment methods.

Standing Orders and Financial Regulations

These have been in place since 1996 and will be reviewed during the year by the Authority's Monitoring Officer and Treasurer.

6. Comprehensive Performance Assessment (CPA)

A CPA was carried out in early 2005 and the Authority was judged to be "fair". An action plan is under consideration by the Management Board to address the main recommendations.

7. Other Issue

This statement has been agreed with the Senior Management Board.

Chair: *Terry Walker*

Chief Fire Officer: *Kevin Pearson*

Treasurer: *Malcolm Shorney*