Avon Fire Authority

Statement of Accounts
2005/2006

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Introduction

For the year 2005/2006, there was a net underspend on revenue account of £623K, primarily received as a 'one-off' benefit prior to a national change in relation to the pension arrangements.

Other than this, the authority's expenditure was broadly in line with its budget for the year.

There are a number of key issues arising from the Statement of Accounts:

- A working balance of £1.25m has been carried forward. A further £0.25m is included in the budget for 2006/2007, bringing the level of the working balance to £1.5m. This sum is intended to meet unforeseen expenditures and, if called upon, this would then need to be replaced.

- The Authority's medium term plan identifies certain budget pressures. The opportunity has been taken to create a reserve of £373k to help meet future budget pressures.

- There is a cash-backed pensions reserve of £2.048m. This reserve was originally set up to meet forecast fluctuations in pension costs arising from the unfunded fire-fighters pension scheme. From 1st April 2006, the Government have introduced new arrangements for the operation of this scheme and the volatility of pension costs going forward is not yet known. The government has suggested using any pension reserves to phase in costs and this could be essential in terms of the medium term position.

- A Capital Programme reserve of £200K is also available to assist, in particular, where aspects of the authority's capital programme may more properly be chargeable to revenue.

- A sum of £306K, received late in the year, has been set aside as a receipt in advance to meet future costs in relation to the governments Urban Search and Rescue programme.

- Also set out in detail within the Statement of Accounts are:

    - Explanatory Foreword (pages 1-5)

    - The Auditors Certificate and Statements (pages 6-7)

    - Statement of Accounting Policies (pages 8-15)

    - Revenue Expenditure and Income plus explanatory notes (pages 16-23)

    - Balance Sheet, together with explanatory notes (pages 24-34)

    - Details and notes concerning reserves and cash flow (pages 35-41)

    - Statement of Responsibilities (page 42)

    - Statement of Internal Control (pages 43-53)
        - This is designed to provide assurance that control measures are operating effectively and also to draw attention to areas where further work is required. This is also part of the Risk Management Process.

Explanatory Foreword by the Treasurer

Introduction

These accounts present the Fire Authority's financial performance and position for the year ended 31 March 2006.

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 2005/06.

The Balance Sheet - this shows the assets and liabilities of the Authority at 31 March 2006.

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.

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 2005) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Overview of the Accounts

The Revenue Account

The Revenue Account is analysed over a number of cost centres as identified in the best value accounting code of practice. The aim of this analysis is to provide financial information on a consistent basis to enable comparisons to be made between different fire authorities regardless of how they are organised.

A more traditional analysis over CIPFA subjective headings (e.g. employees, premises etc) and this is shown as note 1 to the revenue account for information.

The Authority's financial position remains sound and once again, expenditure has been maintained within overall budget.

In addition the containment in expenditure has enabled the following transactions to take place:

- An additional £250,000 has been added to the working balance. This means that the £250,000 contribution included in the MTFP for 2007/08 will not now be required.
- A new reserve of £373,000 has been created to help meet future budget pressures identified in the MTFP.
- There has been no withdrawal from the pension reserve, which will also help to ease budget pressures in this area.

The main variations from the last forecast are set out in below in the analysis of budget and spending in 2005/06.

As in the previous year, the revenue account has been 'grossed up' to reflect the actuarial calculations based on the future pension liabilities.

These calculations are required under Financial Reporting Standard 17 (FRS17) and have no direct effect on the council tax payer.

The Balance Sheet

Detailed notes in relation to the balance sheet are contained within the accounts. There are no major points which require separate comment.

Cash Flow Statement

This reflects the cost of transactions undertaken during the year on a purely cash basis.

The FRS 17 transactions set out above are not included in this statement as these are not cash items, but are a book-keeping transaction.

Other

Details of the reserves and provisions are included in the notes to the balance sheet.

Budget and Spending in 2005/2006

The Avon Fire Authority set a net revenue budget for 2005/06 of £42.816m (£40.795m in 2004/05), after allowing for the contribution to reserves, which resulted in a Council Tax of £48.73 (£46.44 in 2004/05) per Band D property.

In broad terms, where the Authority's funding came from and what it was spent on during 2005/2006 can be analysed as follows:

Source of funds	%	Application of funds	%
General Government Grants	32.34%	Employees (net)	79.82%
Contribution from non-domestic rate pool	26.34%	Premises	3.38%
Council Tax payers	38.86%	Transport	3.17%
Other Income	2.46%	Supplies and Services	8.77%
		Support Services	0.90%
		Capital	1.40%
		Transfer to earmarked reserves	0.85%
		Contribution to working balance	1.71%

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

	Budget 2005/2006 £'000s	Actual Expenditure 2005/06 £'000s	Difference £'000s
Expenditure on Services			
Employees (net)	35,449	35,037	(412)
Premises	1,504	1,484	(20)
Transport	1,324	1,390	66
Supplies & Services	4,125	3,851	(274)
Support Services	418	396	(22)
Capital Financing (net)	640	614	(26)
Income	(931)	(877)	54
	42,529	41,895	(634)
Investment Income & Interest on Balances	(213)	(202)	11
Net Operating Expenditure	42,316	41,693	(623)
Transfers to \ from revenue reserves	0	373	373
Revenue Support Grant	(14,198)	(14,198)	0
Non-domestic rates redistribution	(11,562)	(11,562)	0
Precepts	(17,056)	(17,056)	0
Working Balance	(500)	(750)	(250)

Details of the major variations between budget and expenditure are:

The underspend on employees primarily resulted from an underspend on the pensions account of £407k (see note 7 to the Revenue Account). This was as the result of the introduction, by the Government, of a new pensions procedure. Overspends included wholetime firefighters £84k and administration staff £77k, both of which were covered by recharging for secondments. There was a saving on retained firefighter pay (161k) and a rebate on the employers liability fund (£71k).

There was pressure on the transport budget primarily in relation to travel costs and allowances (£78k) which resulted in a net overspend of £65k.

There was a net underspend on supplies and services of £274k. This was primarily due to underspends on operating leases (£117k) as a result in a change of funding policy, fire hydrants (£77k) and a delay in incurring Urban Search and Rescue costs (£100k).

There was additional income raised in respect of recharging for employee secondments (£153k). This was offset by treating government grant in respect of Urban Search and Rescue (£306k) as a receipt in advance to match expenditure.

Capital

The Fire Authority determines its capital investment plans and consequent level of borrowing in accordance with the Prudential Code issued by CIPFA (subject to longstop controls). The Prudential Code requires the Fire Authority to ensure that its capital investment plans are affordable, prudent and sustainable.

For 2005/06 actual capital expenditure was £2,424k (including capital creditors). 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. Surpluses on the equalisation fund are invested in order to ensure that adequate funding throughout the life of the contract is available. The fund is reviewed and, if necessary, contributions amended every three to five years with the intention that the balance on the fund at the end of the contract will be nil. The percentage contributions rates for the three authorities are as follows:

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

The annual grant is now received from the Government on an annuity basis and is approximately £1.789m. Following a review of the fund by Gloucestershire County Council it is estimated that the contributions required from the three authorities will need to increase by 3% per annum. The estimated surplus on the fund at 31 March 2006 was £90k and this amount will be used to reduce the level of contributions required for 2006/07.
The balance of the fund as at 31 March 2006 was £2.39m analysed as follows:

Avon Fire Authority	£1.196m	(50%)
Gloucestershire County Council	£0.598m	(25%)
Somerset County Council	£0.598m	(25%)

An analysis of the Authority’s future commitments to the net annual contract payments (50%) due under the PFI joint venture are detailed in note 5 to the Revenue Account.

Other Issues

Pensions

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 2006 amounts to £279.5m compared with a liability of £246.6m at 31 March 2005. Of the liability at 31 March 2006, £274.6m relates to the Uniformed Firefighters scheme which is an unfunded scheme, and £4.9m relates to the Local Government Scheme.

With regards to the uniformed firefighters scheme, following consultation, Central Government have made significant changes to the arrangements for financing firefighters pensions with effect from April 2006. Each Fire and Rescue Authority is to be required to set up a new ring fenced 'Pensions Account' from which pension payments, retirement lump sums and transfers out are to be made. The Pensions account will be funded by employee and employer contributions (21.3%), the reimbursement by the employer of charges for ill-health early retirements and transfers in to the scheme. Any deficit \ surplus on the account at the year end will be met by \ paid to central government. The increase in the liability shown in the accounts, compared with the previous year, of £32.8m is largely as a result of the actuarial losses and interest cost on pension liabilities.

In relation to the Local Government scheme, 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. Following a change to the scheme's benefits which will allow members to commute part of their pension into a higher lump sum a past service gain of £273k has been recognised in the accounts. The gain is based upon the assumption that 50% of members will take up this option but this will largely depend on members own personal circumstances. The 50% assumption is purely an estimate, but is consistent with the basis on which potential cost savings from the change have so far been estimated. Also, fund assets are subject to large fluctuations in value depending on the state of the stock market. The forecast increase in the liability shown in the accounts, compared with the previous year is £0.1m, full details of which are shown in note 13 to the Balance Sheet.

The position shown in the 2005/06 accounts reflects the triennial valuation of the pension fund at March 2004. Based on this valuation the actuary recommended contribution rates 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 following discussions with the internal audit section of Bristol City Council who have been contracted to provide financial services to the authority and with the Audit Commission.

Independent auditor's report to Avon Fire Authority

Opinion on the financial statements

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

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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

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

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
I report to you my opinion as to whether the financial statements present fairly, the financial position of the Authority and its income and expenditure for the year, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

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

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

Basis of audit opinion

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

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

Opinion

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

B. Bethell

Brian Bethell, District Auditor and Relationship Manager

Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

29 September 2006

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

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

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

Conclusion

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

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 on 31 December 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

B. Bethell

Brian Bethell, District Auditor and Relationship Manager

Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

29 September 2006

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 2005 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 2006. 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.

Estimation techniques

6. 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).

Government Grants

7. 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.

8. 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.

9. 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.

Leases

10. Finance leases

Leases are accounted for as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Authority. Rental payments under such arrangements are apportioned between:

- a charge for the acquisition of the interest in the asset which is recognised as a tangible fixed asset and a corresponding liability in the balance sheet at the commencement of the lease and

- a finance charge which is allocated and charged to the asset management revenue account over the term of the lease.

Additional voluntary MRP contributions over and above the minimum 4% are made to equate the contribution to MRP with the profile of payments made to discharge the liability over the term of the lease.

Fixed assets recognised under finance leases are accounted for using the same accounting policies applicable to the Authority’s other tangible fixed assets, subject to depreciation being charged over the lease term if this is shorter than the asset’s estimated useful life.

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.

11. 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

12. 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.

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

14. 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

15. 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.

16. 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.

17. 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 costs are recognised immediately.

Provisions

18. 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.

19. 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

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

Reserves

21. 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.

22. Capital reserves are not utilised for revenue purposes and certain of them can only be used for specific statutory purposes. The fixed asset restatement account and capital financing account are non distributable reserves and the usable capital receipts reserve is a reserve established for specific statutory purposes.

Stocks

23. 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

24. 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

25. 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.

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

27. 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.

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

29. 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.

30. 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.

31. 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

32. 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.

33. 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

34. 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.

35. 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.

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

Depreciation

37. 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.

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

Charges to revenue

39. 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.

40. 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 2004/05) to the net amount at which the asset is included in the balance sheet.

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

42. 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.

43. 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.

Private Finance Initiative (PFI) scheme

44. 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.

45. 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. Surpluses on the equalisation fund are invested in order to ensure that adequate funding throughout the life of the contract is available. The fund is reviewed and, if necessary, contributions amended every three to five years with the intention that the balance on the fund at the end of the contract will be nil.

Revenue Account for the Year Ending 31 March 2006

2004/2005 Net Expenditure £'000		2005/2006 Gross Expenditure £'000	Income £'000	Net Expenditure £'000
4,620	Community fire safety	6,588	(666)	5,922
37,347	Fire fighting and rescue operations	41,262	(3,284)	37,978
63	Fire service emergency planning and civil defence	96	(13)	83
359	Corporate and democratic core	378	(9)	369
0	Non Distributed Cost	(273)		(273)
42,389	**Net Cost of Services**	**48,051**	**(3,972)**	**44,079**
(1,088)	Asset management revenue a\c	296	(1,539)	(1,243)
(298)	Interest receivable		(200)	(200)
(1)	Investment income		(2)	(2)
12,132	Pension interest cost and Expected return on pension assets	13,833	(637)	13,196
53,134	**Net operating expenditure**	**62,180**	**(6,350)**	**55,830**
558	Transfer to \ (from) revenue reserves			373
(1,494)	Reconciling amount for repayment of loans and credit arrangements			(1,503)
(11,321)	Contribution from the pensions reserve			(12,634)
40,877	**Amount to be met from government grants and local taxation**			**42,066**
(15,784)	General Government Grants			(14,198)
(9,558)	Non-domestic rates redistribution			(11,562)
(16,035)	Precepts			(17,056)
(500)	**Net Fund (surplus) / deficit**			**(750)**
-	Balance on Fund brought forward			(500)
(500)	**Balance on Fund carried forward**			**(1,250)**

Signed

Terry Walker ……………………………..……
Terry Walker
Chair of the Avon Fire Authority

Malcolm Shorney ……………………..……………..……
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:

2004/2005 Net Expenditure £'000		2005/2006 Gross Expenditure £'000	2005/2006 Income £'000	2005/2006 Net Expenditure £'000
	Continuing Services			
32,735	Employees	37,843	(3,095)	34,748
1,487	Premises	1,484		1,484
1,384	Transport	1,390		1,390
4,203	Supplies & Services	3,851		3,851
394	Support Services	396		396
2,959	Capital Charges	3,360		3,360
0	Non Distributed Cost	(273)		(273)
(773)	Income		(877)	(877)
42,389	**Net Cost of Services**	**48,051**	**(3,972)**	**44,079**

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.

2004/2005 £'000		2005/2006 £'000
	Income	
(2,959)	Capital charges to revenue account	(3,360)
(17)	Deferred capital grant	(188)
	Expenditure	
1,676	Provision for depreciation	2,009
212	Loan interest	296
(1,088)	**Surplus to consolidated revenue account**	**(1,243)**

3. **Operating Lease Rentals**

The amounts paid in respect of operating leases in 2005/06 and 2004/2005 and the amounts outstanding in respect of future years, are as follows:

2004/2005 £'000		2005/2006 £'000
529	Total rentals paid	522
	Outstanding undischarged leasing obligations:-	
522	Within 1 year	462
462	Between 1 and 2 years	452
452	Between 2 and 3 years	431
1,581	Over 3 years	1,150

4. **Finance Lease Rentals**

The authority has acquired vehicles for operational purposes under finance leases. The rentals payable under these arrangements are identified below together with an analysis of the amounts which have been charged to the revenue account during the year.

2004/2005 £'000		2005/2006 £'000
0	Total rentals paid	85
	Analysis of charges to the Revenue Account	
0	Finance Charge (Asset Management Revenue account)	0
0	MRP (including voluntary contributions)	85

As set out in the accounting policies, where the Authority enters into finance leases, it makes voluntary MRP contributions over and above the minimum 4% required in order to equate the contributions to MRP with the profile of payments made to discharge the liability over the term of the lease.

5. **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's share (50%) of the annual net contract payments paid during the year together with the estimated amounts payable over the remaining 22 years of the joint venture are as follows:

2004/2005 £'000		2005/2006 £'000
401	Total contract payments made	392
	Outstanding undischarged contract obligations:-	
413	Within 1 year	358
425	Between 1 and 2 years	368
438	Between 2 and 3 years	379
12,127	Over 3 years	9,812

6. **Publicity Expenditure**

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of publicity expenditure. During 2005/2006 the Authority incurred expenditure totalling £45k, an analysis of which is as follows:

2004/2005 £'000		2005/2006 £'000
	Advertising	
43	Recruitment	32
4	Equalities	9
-	Tender invitations	1
-	Fire Safety	1
1	Other	2
48	**Total**	**45**

7. **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. The latest valuation was undertaken at 31 March 2004 and assessed the overall funding level at 80%. Based upon this valuation the actuary 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 2005/06, the Authority paid an employer's contribution of £458k (£370k for 2004/05) 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 was £542k (16.5% of pensionable pay) (£447k (15.5% of pensionable pay) for 2004/05). This recognises the principle of a phased approach to contribution rates and remains subject to the next actuarial valuation effective from April 2008.

- There is no reason to believe that the age profile of the membership has increased substantially since the 2004 valuation

- A past service gain of £273k has been recognised following a change to the scheme's benefits which will allow members to commute part of their pension into a higher lump sum. The gain is based upon the assumption that 50% of members will take up this option but this will largely depend on members own personal circumstances. The 50% assumption is purely an estimate, but is consistent with the basis on which potential cost savings from the change have so far been estimated. (2004/05 Nil cost \ gains).

- There were no curtailment costs (ie arising from redundancy\efficiency retirements) (Nil for 2004/05)

- The notional interest cost on pension liabilities was £787k (£658k for 2004/05)

- Expected return on assets held by the scheme was £637k (£590k for 2004/05)

<u>Fire fighters</u>

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 2005/06, the Authority made net pension payments of £6,912k (£6,533k for 2004/05) 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 £6,539k (34.5% of pensionable pay) (£5,645k (31% of pensionable pay) for 2004/05)

- Interest cost of pension liabilities was £13,046k (£12,064k for 2004/05)

- The cost of spreading the unfunded accrued liability over 40 years would have cost an additional £7,191k (37.9% of pensionable pay) (£7,528k (41.3% of pensionable pay) for 2004/05)

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.

It should be noted that as a result of changes to the financing of fire fighters pensions arrangements (as detailed in the explanatory forward) the Revenue Account only includes 11 months payments in respect of fire fighters pension contributions. The overall expenditure is therefore reduced by £640k.

8. Capital Financing - Minimum Revenue Provision

Under the Prudential Code for capital finance in local authorities the Authority is required, by statute, to set aside an amount as a minimum revenue provision (MRP) for the redemption of debt. The amount required to be set aside is 4% of the Authority's Capital Finance Requirement. The calculation of the authorities Capital Finance Requirement and its MRP is as follows:

2004/2005 £'000		2005/2006 £'000
	Capital Financing Requirement as at 1 April:	
36,655	Fixed assets	38,606
(42,105)	Fixed asset restatement account	(43,850)
9,429	Capital financing account	10,923
3,979	Capital Financing Requirement	**5,679**
(165)	Adjustment Factor A	(165)
3,814	Adjusted Capital Financing Requirement	**5,514**
152	MRP	221
13	Additional amount in respect of SCA repayment	13
-	Finance Leases -Voluntary MRP Contributions (see note 4 above)	85

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.

9. **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:

2004/2005 £'000		2005/2006 £'000
39	Allowances	40
1	Travel and subsistence expenses	1
40	**Total**	**41**

10. **Employees Remuneration**

The Authority is required to disclose the number of employees whose remuneration, excluding employer pension contributions, was £50,000 or more in bands of £10,000 and this information is set out in the following table:

2004/2005 No. of Employees	Remuneration Band	2005/2006 No. of Employees
6	£50,000 - £59,999	19
-	£60,000 - £69,999	2
1	£70,000 - £79,999	-
1	£80,000 - £89,999	2
-	£90,000 - £99,999	1
1	£100,000 - £109,999	-
-	£110,000 - £119,999	1

11. **Related Party Transactions**

The Code of practice requires disclosure of material transactions with 'related parties'. For 2005/2006 the appropriate items are as follows:

- Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants (Revenue Support Grant and other specific grants) and redistributed non-domestic rates – (£26,028k)

- Members of the Authority have direct control over the Authority's financial and operating policies. They have been asked to provide information regarding related party transactions and from the information received it is believed that there have been no significant transactions during the year.

- Officers of the Authority have been asked to provide information regarding related party transactions and from the information received it is believed that there have been no significant transactions during the year.

- Other local authorities:

  - Bristol City Council as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£6,138k) and as a provider of financial services to the Fire Authority – amount including the cost of servicing existing debt but excluding new borrowing - (£697k), new borrowing – (£1,387k)

  - Bath & North East Somerset as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£3,120k) and as the authority responsible for administering the Avon Pension Fund, with contributions paid over in respect of Fire Authority employees – (£2,342k)

  - North Somerset (£3,513k) and South Gloucestershire (£4,285) as billing authorities responsible for collecting council tax on behalf of the Fire Authority for their areas

- Other public bodies:

  - HM Revenue & Customs as a significant element of the Fire Authority's expenditure relates to payments for PAYE, National Insurance and VAT - (£9,052k)

12. 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 £53k (£62k in 2004/05) details of which are as follows:

2004/2005 £'000		2005/2006 £'000
45	Fees payable with regard to external audit services carried out by the appointed auditor	53
17	Fees payable in respect of other services provided by the appointed auditor	0

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

The Balance Sheet at 31 March 2006

31/03/2005 £'000		31/03/2006 £'000	31/03/2006 £'000	Notes
	Fixed assets			
	Operational assets			
34,079	- Land and Buildings		35,585	
4,362	- Vehicles, Plant and Equipment		4,534	
38,441	Total Operational Assets		40,119	1 to 5
165	Non-Operational Assets		-	
38,606	**Total fixed assets**		40,119	
	Current assets			
2,948	Debtors	1,826		6
3,724	Cash and bank	5,002		7
6,672			6,828	
45,278	**Total assets**		46,947	
	Current liabilities			
(234)	Borrowing repayable within 12 months	(281)		
(3,448)	Creditors	(2,196)		8
(3,682)			(2,477)	
41,596	**Total assets less current liabilities**		44,470	
	Long-term liabilities			
(5,268)	Long term borrowing	(6,374)		9
-	Deferred Liabilities	(689)		
-	Creditors - Amounts due over 1 year	(295)		10
(246,624)	Pensions Liability	(279,528)		13
(269)	Provisions	(179)		11
(252,161)			(287,065)	
(210,565)	**Total assets less liabilities**		(242,595)	
	Financed by:			
43,850	Fixed assets restatement account		44,949	
(10,923)	Capital financing account		(12,426)	
-	Government grants - deferred		6	
223	Usable capital receipts reserve		434	
(244,576)	Pensions Reserve		(277,480)	13
361	Earmarked reserves		672	12
500	Fund balance		1,250	
(210,565)	**Total net worth**		(242,595)	

Signed

Terry Walker ……………………………..…….
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 2006 are shown in the table below together with movements in the year:

2004/2005 Total £'000		2005/2006 Land & Buildings £'000	Vehicles & Equipment £'000	**Total £'000**	Investment Properties £'000
45,330	**Gross Book Value at 1 April 2005 (2004)**	35,986	11,978	**47,964**	165
2,047	Additions	944	1,480	**2,424**	0
(1,203)	Disposals	0	(1,542)	**(1,542)**	(165)
1,956	Revaluation & Restatements	1,283	367	**1,650**	-
48,130	**Gross Book Value at 31 March 2006 (2005)**	38,213	12,283	**50,496**	0
(8,676)	**Accumulated depreciation at 1 April 2005 (2004)**	(1,908)	(7,616)	**(9,524)**	-
(1,676)	Depreciation for the year	(720)	(1,289)	**(2,009)**	-
828	Depreciation on assets sold	0	1,156	**1,156**	-
(9,524)	**Accumulated depreciation at 31 March 2006 (2005)**	(2,628)	(7,749)	**(10,377)**	0
38,606	**Net Book Value at 31 March 2006 (2005)**	35,585	4,534	**40,119**	0

The above figures included accumulated depreciation of £162k on an asset disposed during the year which results in the total net book value being understated by this amount.

Assets held under finance leases

The following values of assets are held under finance leases and accounted for as part of Tangible Fixed Assets:

2004/2005 Vehicles & Equipment £'000		2005/2006 Vehicles & Equipment £'000
0	**Gross Book Value at 1 April 2005 (2004)**	0
0	Additions	830
0	Disposals	0
0	Revaluation & Restatements	0
0	**Gross Book Value at 31 March 2006 (2005)**	830
0	**Accumulated depreciation at 1 April 2005 (2004)**	0
0	Depreciation for the year	0
0	Depreciation on assets disposed	0
0	**Accumulated depreciation at 31 March 2006 (2005)**	0
0	**Net Book Value at 31 March 2006 (2005)**	830

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2006 are as follows:

2004/2005 £'000		2005/2006 £'000
	Outstanding undischarged leasing obligations:-	
0	Within 1 year	140
0	Between 1 and 2 years	57
0	Between 2 and 3 years	60
0	Over 3 years	573
0	Total Liabilities at 31 March 2006	830

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

The Fire Authority determines its level of borrowing in accordance with the Prudential Code issued by CIPFA (subject to longstop controls). 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.

2004/2005 £'000		2005/2006 £'000
3,979	Opening Capital Financing Requirement	5,679
	Capital Investment	
1,881	Operational Assets	2,424
	Sources of finance	
-	Capital Receipts	-
(16)	Government grants and other contributions	(193)
(165)	Revenue Provision	(319)
5,679	Closing Capital Financing Requirement	7,591
	Explanation of movements in year	
1,452	Increase in underlying need to borrow (supported by Government financial assistance)	680
248	Increase in underlying need to borrow (unsupported by Government financial assistance)	1,232
1,700	Total long term borrowing at 31 March 2006 (2005)	1,912

4. **Information on Assets held**

An analysis of the principal tangible assets owned by the Authority (including those acquired under finance leases) is as follows:

Number as at 31/03/2005		Number as at 31/03/2006
	Land and buildings	
23	Fire Stations etc	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	3
	Vehicles and Equipment	
47	Operational Vehicles	49
63	Ancillary Vehicles	70
19	Compressors	19
11	Trailers etc	11

The SORP requires that intangible assets are identified and recorded in the accounts. The Fire Authority has not complied with this requirement. This position will be reviewed for next year.

5. 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 2006 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 2005/06.

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	12-17
Other Vehicles	6-10
Compressors	7- 8
Trailers etc	5-12
Communication equipment	12
Computer equipment	5
Other equipment	5-10

6. Debtors

An analysis of debtors, amounts due in less than 1 year, is shown in the table below:

2004/2005 £'000		2005/2006 £'000
68	Government departments	175
1,983	Other local authorities	1,400
897	Sundry debtors	251
2,948		1,826

7. Cash and Bank

The amount for Cash and bank is further analysed between cash held at the bank and that held in imprest accounts in the following table:

2004/2005 £'000		2005/2006 £'000
3,683	Cash at bank	4,964
41	Imprests	38
3,724		5,002

8. Creditors

An analysis of creditors, amounts due in less than 1 year, is shown in the table below:

2004/2005 £'000		2005/2006 £'000
(583)	Government departments	(598)
(1,435)	Other local authorities	(211)
(1,430)	Sundry creditors	(1,387)
(3,448)		(2,196)

9. Analysis of Borrowing

The loans outstanding have been raised through Bristol City Council. Loans repayable during 2006/2007 are shown as short term borrowing in the Balance Sheet. The maturity of long term loans is as follows:

2004/2005 £'000		2005/2006 £'000
225	Between 1 and 2 years	256
583	Between 2 and 5 years	708
826	Between 5 and 10 years	1,004
3,634	Over 10 years	4,406
5,268	Total long term borrowing at 31 March 2006 (2005)	6,374

10. Creditors – Amounts due over 1 year

An analysis of creditors, amounts due in less than 1 year, is shown in the table below:

2004/2005 £'000		2005/2006 £'000
-	Government departments	(295)
-	Other local authorities	-
-	Sundry creditors	-
-		(295)

11. Provisions

	01 April 2005 £'000	Receipts in year £'000	Payments in year £'000	31 March 2006 £'000
Insurance	80	56	136	0
Fire Hydrants	100	23	23	100
Training	73	0	0	73
AMP\Building Investigative works	7	0	1	6
Medical Insurance Scheme	9	0	9	0
	269	79	169	179

a. <u>Insurance Provision</u>

The insurance provision was created to meet the cost of the policy excess for employer's liability claims. All outstanding claims where an excess was applicable were settled during the year and the balance of the provision remaining has now been written back to the Revenue Account.

b. <u>Fire Hydrants</u>

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

c. <u>Training Provision</u>

Training is generally provided within the Authority's revenue account. The provision has therefore been written back as part of the 2006/07 budget process.

d. <u>AMP\Building Investigative works</u>

A provision was created for works associated with the Authority's asset management plan (AMP) and building investigative works. It is anticipated that the balance remaining will be utilised in 2006/2007.

e. <u>Medical Insurance Scheme</u>

A provision was previously created to cover the cost of outstanding referrals under the medical insurance scheme and it was fully utilised during the year.

12. Earmarked Reserves

	1 April 2005 £'000	Receipts in year £'000	Payments in year £'000	31 March 2006 £'000
Gambia appliance reserve	0	16	0	16
Arson Task Force (grant)	67	30	67	30
Capital Programme Contributions	200	0	0	200
Future Budget Pressures	0	373	0	373
Home Fire Initiative	94	110	151	53
	361	529	218	672

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. Arson Task Force

Funding from the Arson Control Forum (ACF) Implementation Fund has been received towards the arson task force initiative, the overall aim of which is the prevention of fire. This 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 by the year end is carried forward for use in future years on this initiative.

c. 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.

d. Future Budget Pressures

The Fire Authority's medium term financial plan has identified a number of budget pressures which are likely to arise in future years and this reserve has been set up to help alleviate some of these pressures.

e. Home Fire Initiative

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

13. 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 2005/06 are based on the valuation that was undertaken as at March 2004 whilst the 2004/05 contributions were based on the valuation undertaken as at March 2001.

The Fire Fighters Pension Scheme is a nationally approved unfunded scheme. In calculating the level of financial support that Central Government currently gives to Fire Authorities and 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.

As highlighted in the explanatory foreword significant changes to the arrangements for financing fire fighters pensions come into effect from April 2006. Each Fire and Rescue Authority is required to set up a new ring fenced 'Pensions Account' from which pension payments, retirement lump sums and transfers out are to be made. The Pensions account will be funded by employee and employer contributions (21.3%), the reimbursement by the employer of charges for ill-health early retirements and transfers in to the scheme with any deficit \ surplus at the year end being met by \ paid to central government. The estimated future costs of the new scheme are reflected in the Fire Authority's medium term financial plans which include the utilisation of its separate pension reserve.

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

2004/05		2005/06		
Total £'000		Local Government Scheme £'000	Fire Fighters Scheme £'000	Total £'000
9,571	Share of market value of assets in Avon Pension Fund	12,145		12,145
(256,195)	Liabilities	(17,034)	(274,639)	(291,673)
(246,624)	Deficit	(4,889)	(274,639)	(279,528)

The movement in estimated liabilities during 2005/06 are as follows:

	Local Government Scheme £'000	Fire Fighters Scheme £'000	Total £'000
Net deficit at beginning of year	(4,848)	(241,776)	(246,624)
Current Service Cost	(542)	(6,539)	(7,081)
Employer Contributions\Payments	458	6,912	7,370
Past Service Cost\Curtailment Cost	273	0	273
Net Interest\Return on Assets	(150)	(13,046)	(13,196)
Actuarial gain \ (loss)	(80)	(20,190)	(20,270)
Net deficit at end of year	(4,889)	(274,639)	(279,528)

The net deficit has increased from £246.6m to £279.5m during the year largely as a result of actuarial losses (£20.3m - £21.7m of which relates to changes in assumptions reflecting the change in financial conditions/change in discount rate over the year. Falls in the yields on corporate bonds during the year have required significantly more conservative estimates being used in the calculations compared to the previous year) and the interest cost on pension liabilities (£13.8m).

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)	1,693	0	1,693
Liability (loss) \ gain	(288)	0	(288)
Change in assumptions	(1,485)	(20,190)	(21,675)
Net loss	(80)	(20,190)	(20,270)

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	13.9% of assets	0% of assets
Liability loss	(1.7%) of liabilities	0% of liabilities
Change in assumptions	(8.7%) of liabilities	(7.4%) of liabilities
Net gain \ (loss)	(0.5%) of liabilities	(7.4%) 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	637	0	637
Interest on Pension Liabilities	(787)	(13,046)	(13,833)
Net gain \ (cost)	(150)	(13,046)	(13,196)

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 2005 £'000	%	Rate of Return %		Assets at 31 March 2006 £'000	%	Rate of Return %
7,274	76.0%	7.5%	Equities	9,267	76.3%	7.0%
1,895	19.8%	4.7%	Government Bonds	1,737	14.3%	4.3%
316	3.3%	5.4%	Other Bonds	862	7.1%	4.9%
0	0.0%	6.5%	Property	0	0.0%	6.0%
86	0.9%	4.8%	Cash\Liquidity	279	2.3%	4.5%
9,571			Total	12,145		

In respect of the Fire Fighters pension scheme the Fire Authority has an earmarked reserve, at 31 March 2006, of £2,048k. It is anticipated that this reserve will be utilised to fund future liabilities arising under this scheme and has been included in the balance sheet as part of the pension reserve calculated under FRS 17.

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	2.9%	2.9%
Rate of increase in salaries	4.15%	4.15%
Rate of increase in pensions	2.9%	2.9%
Rate for discounting scheme liabilities	5.4%	4.9%

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	2.9%	2.9%
Rate of increase in salaries	3.9%	3.9%
Rate of increase in pensions	2.9%	2.9%
Rate for discounting scheme liabilities	5.4%	4.9%

* plus a salary scale to allow for promotional effects.

The Statement of Movement in Reserves

2004/2005 £'000		2005/2006 £'000	£'000
	Surplus / (deficit) for the year:		
500	- General Fund	750	
	Add Movements on specific revenue reserves		
0	- Gambia Appliance Reserve (balance sheet note 7 a)	16	
5	- HQ Temple Mess Club	0	
(1)	- New York Appeal	0	
49	- Arson Task Force (balance sheet note 7 b)	(37)	
200	- Capital Prog Contributions (balance sheet note 7 c)	0	
0	- Future Budget Pressures (balance sheet note 7 d)	373	
(10,963)	*deduct* Appropriation from pensions reserve	(12,634)	
(40,546)	Actuarial gains (losses) relating to pensions (see note* below)	(20,270)	
(50,756)	**Total increase / (decrease) in revenue resources (note 1)**		(31,802)
0	Increase / (decrease) in useable capital receipts	211	
94	Increase / (decrease) in unapplied capital grants and contributions	(41)	
94	**Total increase / (decrease) in realised capital resources (note 2)**		170
1,955	Gains / (losses) on revaluation of fixed assets	1,650	
1,955	**Total increase / (decrease) in unrealised value of fixed assets (note 3)**		1,650
(210)	**Value of assets sold, disposed of or decommissioned (note 3)**		(551)
0	Capital receipts set aside	0	
(1,494)	Revenue resources set aside	(1,503)	
0	Movement on Government Grants Deferred	6	
(1,494)	**Total increase / (decrease) in amounts set aside to finance capital investment (note 4)**		(1,497)
0	**Increase / (decrease) on the pensions reserve**		
(50,411)	**Total recognised gains and losses**		**(32,030)**

* The movement in actuarial losses on pensions for 2004/05 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 2005/2006	750	-	-	-
Appropriation to \ from revenue	-	373	-	-
Contribution from pensions reserve				(12,634)
Transfers to\from specific reserves	-	-	(21)	-
Actuarial gains and losses relating to pensions	-	-	-	(20,270)
	750	373	(21)	(32,904)
Balance brought forward at 1 April 2005	500	200	67	(244,576)
Balance Carried forward at 31 March 2006	1,250	573	46	(277,480)

See notes 12 -13 to the balance sheet for further details on revenue reserves.

2. Movements in realised capital resources:

	Usable Capital Receipts £'000s	Unapplied Capital Grants and Contributions £'000s
Amounts receivable in 2005/2006	211	153
Amounts applied to finance new capital investment in 2005/2006	0	(194)
Total increase / (decrease) in realised capital resources in 2005/2006	211	(41)
Balance brought forward at 1 April 2005	223	94
Balance Carried forward at 31 March 2006	434	53

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 2005/2006	1,650
Total increase / (decrease) in unrealised capital resources 2005/2006	1,650
Value of assets sold, disposed of or decommissioned	
Amounts written off fixed asset balances for disposals in 2005/2006	(551)
Total movement on reserve in 2005/2006	1,099
Balance brought forward at 1 April 2005	43,850
Balance carried forward at 31 March 2006	44,949

The balance on this account represents the difference between the valuation of assets under the previous system of capital accounting and current revaluations. Adjustments are then made to this account each year 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	Government grants deferred £'000s	Total £'000s
Movements in amounts set aside to finance capital investment			
Capital receipts set aside in 2005/2006: - useable receipts applied	0		
Total capital receipts set aside in 2005/2006	0	0	0
Revenue resources set aside in 2005/2006: - reconciling amount for provisions for loan repayment	(1,503)		
Total revenue resources set aside in 2005/2006	(1,503)	0	(1,503)
Grants applied to capital investment in 2005/06		193	
Amounts credited to the Asset Management Revenue Account in 2005/06		(187)	
Movement on Government Grants Deferred	0	6	6
Total increase/(decrease) in amounts set aside to finance capital investment			(1,497)
Total movement on reserve in 2005/06	(1,503)	6	
Balance brought forward at 1 April 2005	(10,923)	0	
Balance carried forward at 31 March 2006	(12,426)	6	

The Capital Financing account contains the amounts which are required by statute to be set aside from revenue for the repayment of loans and the amount of capital expenditure financed from revenue and usable receipts. The account, however, is not reduced when debt is actually repaid.

Government grants deferred are grants that have been received and applied to the financing of capital expenditure. These deferred credits are then released to revenue to off set the depreciation charge made on those assets which have been financed by grant.

5. The actual loss identified as movements on the Pension Reserve in 2005/06 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2006:

Local Government Scheme	2002/03		2003/04		2004/05		2005/06	
	£'000s	%	£'000s	%	£'000s	%	£'000s	%
Differences between the expected and actual return on assets	(2,300)	34.9	1,122	13.5	242	2.5	1,693	13.9
Differences between actuarial assumptions about liabilities and actual experience					(501)	3.5	(288)	1.7
Changes in the demographic and financial assumptions used to estimate liabilities					(2,624)	18.2	(1,485)	8.7
	(2,300)		1,122		(2,883)		(80)	

Fire Fighters Scheme	2002/03		2003/04		2004/05		2005/06	
	£'000s	%	£'000s	%	£'000s	%	£'000s	%
Differences between the expected and actual return on assets					0	0	0	0
Differences between actuarial assumptions about liabilities and actual experience	(10,389)	6.1	(14,460)	7.5	2,805	1.2	0	0.0
Changes in the demographic and financial assumptions used to estimate liabilities	2,956	1.7			(40,468)	16.7	(20,190)	7.4
	(7,433)		(14,460)		(37,663)		(20,190)	

Cash Flow Statement

2004/2005 £'000		2005/2006 £'000	£'000	Notes
	Revenue Activities			
	Cash outflows			
34,107	Cash paid to and on behalf of employees	35,940		
7,305	Other operating costs	6,045		
41,412			41,985	
	Cash inflows			
-	Rent	(3)		
(16,035)	Precepts received	(17,056)		
(9,558)	Receipts from national non-domestic rate pool	(11,562)		
(15,201)	Revenue Support Grant	(14,198)		
(851)	Other Government Grants	(269)		3
(451)	Cash received for goods and services	(486)		
(1,536)	Other revenue cash payments / income	770		
(43,632)			(42,804)	
(2,220)	**Revenue Activities Net Cash (Inflow) /Outflow**		(819)	1
	Returns on Investments and Servicing of Finance			
	Cash outflows			
235	Interest paid	212		
	Cash inflows			
(298)	Interest received	(199)		
(63)			13	
	Capital Activities			
	Cash outflows			
1,869	Purchase of Fixed Assets	1,580		
	Cash inflows			
-	Sales of Fixed Assets	(211)		
(16)	Capital grants received	(153)		
1,853			1,216	
(430)	**Net Cash (Inflow) / Outflow Before Financing**		410	
	Financing			
	Cash outflows			
136	Repayments of amounts borrowed	165		
	Cash inflows			
(861)	New loans raised	(1,853)		
(725)			(1,688)	
(1,155)	**Net increase in cash**		(1,278)	2

Notes to the Cashflow Statement

1. Reconciliation to Revenue Account

2004/2005 £'000		2005/2006 £'000
(500)	Deficit (Surplus) on revenue account for the year	(750)
	Non-cash transactions	
1,920	(Increase) \ decrease in provisions	90
(2,395)	Decrease in reserves	(352)
	Items on an accruals basis	
1,495	Increase \ (decrease) in debtors	(1,122)
(622)	(Increase) \ decrease in creditors	957
	Items shown under another classification in cashflow	
12	Increase in capital creditors	154
(992)	Increase in Capital Financing debtor	382
298	Interest received	199
0	Investment Income	0
(136)	Capital – Principal	(165)
(235)	Capital – Interest	(212)
(1,155)	Net Cash from Revenue Activities	(819)

2. Reconciliation of Movement in Cash

	Balance 1/4/2005 £' 000	Balance 31/3/2006 £' 000	Movement in the year £' 000
Cash at bank	3,683	4,964	(1,281)
Cash held in imprest accounts	41	38	3
	3,724	5,002	(1,278)

3. An analysis of government grants received is shown in the table below:

2004/2005 £'000		2005/2006 £'000
583	Transitional Funding	0
200	Arson Task Force	200
42	New Dimension	36
0	Regional Control Project	33
26	Miscellaneous	0
851	Total	269

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 2006.

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 2006 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 budget, Best Value Performance Plan (BVPP), Integrated Risk Management Plan (IRMP), Corporate Plan, Medium Term Financial Plan (MTFP) and in its response to the Comprehensive Performance Assessment (CPA). Its current capital programme was considered as part of the budget making process.

The budget took account of its priorities, particularly in response to its CPA Action Plan and, with the necessity to respond to a lower than anticipated real term funding position and to provide efficiency changes, is believed to address value for money requirements.

A capital programme was approved, by the Authority, together with provision for prudential borrowing of £5.1m over the 3 years of the MTFP.

This will need consideration over that period. Revenue provision to meet the capital costs has 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. A corporate risk register has been compiled, but this needs further development. This will also build on the Authority's continuity of service developments.

Progress has been made on developing business planning at a unit level, and it is intended to enhance this during the year.

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 during 2005/06. Previously the services of a Treasurer had been provided under contractual arrangements with Bristol City Council. The Treasurer carries out the statutory functions in Sections 112 and 114 of the Local Government Finance Act 1988.

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

Financial Regulations and Standing Orders were reviewed during 2005/06.

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) and its CPA Action Plan. 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). From 2006/07 the FSS will no longer exist. The Audit Commission fee includes work related to value for money issues.

The Authority's high sickness levels continue to hamper progress. However, over the past year a number of new policies and schemes have been introduced and, although sickness levels are significantly down, there is still further work to do

The following action was undertaken during the year:

- May 05 – The Attendance Management Policy was issued to line managers at the Chief Fire Officer and Chief Executives meeting/workshop.
- June 05 – Return to Work Interview paperwork was made available to managers.
- July 05 - Managers received specific training in managing absence enabling this to be cascaded to their teams.
- September 05 – Managers were notified of their staff members who exceeded the agreed acceptable levels of sickness absence and so need to be seen, in line with policy rules.
- September and October 05 – Absence statistics showing trends by station and by watch were made available to managers.
- November 05 – A review of progress and reinforcement of continued focus on attendance management was incorporated in the Chief Fire Officer and Chief Executive workshops.
- January 06 – As part of an ongoing process, line managers will be issued with reports identifying the staff members who have exceeded the agreed acceptable levels of sickness absence, since the original reports were run in September 05. The reports will also identify those staff members who appeared on the initial reports and whose sickness levels have not improved. Line managers will then arrange for the appropriate meetings to take place.

The additional staff availability offers an increasing availability to respond to, for example, the modernisation programme and fire safety issues and enhances the value which the Authority is able to achieve from the money invested.

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.

Unlike many fire & rescue authorities, prudential budgeting over the years has allowed the Authority to create a substantial pension reserve. Although the funding of pensions has now changed, government has suggested that the reserve could be used to meet future commitments.

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

A particular achievement this year has been shown in the prompt analysis of the Government's finance settlement and the realisation that a clear error existed in the analysis for this Authority. Prompt action ensured a meeting with the Minister for Local Government and the awarding of an additional £1.163m in the final settlement.

Only 2 fire and rescue authorities met with the Minister, although 8 others met with the Under-Secretary.

In the event, only 2 fire and rescue authorities were successful in their claim and this action alone is a major contribution to the evidence of a value for money structure. Without this success it would have been very difficult to address some of the issues identified during the budget process.

In particular, value for money has been enhanced by:

- A determined response to the local government finance settlement, although savings and redirection of funds were still necessary and were accommodated within the budget plan.

- Inclusion in the budget of funds to enable the Authority to respond adequately to the CPA requirements via its action plan.

- Crewing Urban Search and Rescue from existing resources.

- Contracting arrangements including savings afforded by the contract with Bristol City Council to provide financial services.

- The direct appointment of a Treasurer during the year.

- Improved attendance statistics.

- Improved performance information.

- Reduced ill health retirements

- Focused Community Fire Safety activities met largely by the utilisation of existing resources.

- CPA improvement plan

- Risk management

- Integrated Risk Management Plan – targeted at the Authority's Operational Requirements

  and

- Asset planning – e.g. potential relocation of workshops

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 has enabled this to be applied to selected project management issues.

- Finance training for cost centre managers and budget holders has been enhanced during the year. Following approval of the Authority's revised Standing Orders and Financial Regulations, it is intended to carry out further selective training.

VI Risk Management

A corporate risk register is in place and it is intended to introduce a risk management section in reports to the Fire Authority during 2006/07. Further refinement is in hand under the auspices of the Improvement Unit, who have been working with a private sector advisor. Currently, assistance and advice is being received from Bristol City Council's Internal Audit section.

Risk management now receives considerable attention as evidenced by, for example, the CPA Action Plan which clearly links risk considerations to the identified weaknesses.

Additionally, the Authority's 3 Year Integrated Risk Management Plan (IRMP) was issued in December 2005 and has been discussed within the Avon and Somerset Local Resilience Forum (LRF). This is seen as a vitally important strategic partnership, providing the ideal forum through which to consult a wide multi-agency professional audience on our future plans. The IRMP has now been adopted.

There are also regular meetings of the Risk Assessment Working Group (RAWG), a sub-group of the LRF. Avon and Somerset Constabularly currently provides the Chair, while our own Civil Contingencies Co-ordinator provides the co-ordinating secretarial function. The RAWG reviews the strategic risk profile within the Avon and Somerset area and a current version of the Community Risk Register was approved and published on the 12th January 2006.

The Fire Authority was judged to be 'fair' in its Comprehensive Performance Assessment (CPA). Following this, a detailed action plan has been drawn up, to include risk considerations and this is regularly reviewed by the Senior Management Board.

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

- 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 Business Services Manager 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

The Fire Authority is also bidding for additional resources via the Capacity Building Fund and has co-ordinated and produced the submission for the whole of the South West.

VII 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.

Since the CPA inspection and subsequent publication of the Authority's associated Improvement Plan, the Forum has adjusted its standing agenda to concentrate on the three main issues identified by the CPA team as requiring improvement, namely:

- Performance Management
- Business Planning
- Attendance Management

Emphasis is placed on the Corporate Plan, Best Value Performance Plan and delivery of external contracts. This ensures that the Authority's performance management priorities are addressed and reviewed – significant improvement has been seen in the quality of performance information being collected.

Following earlier difficulties with performance information it is pleasing to note that the Audit Commission, in its Best Value Statutory Report, commented that:

"I have not identified any matters to report to the Authority. Performance Information for publication in the Authority's Best Value Performance Plan has been an area of concern in recent years. However, there is now significant progress in the arrangements for producing and assessing the accuracy of performance information."

VIII 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 and this will be repeated during 2006/07.

The Questionnaires will be assessed by the Management Board to consider further action and will be of value as part of the internal control process.

The Service has completed an operational assurance questionnaire distributed by ODPM. This further supports the Statement on Internal Control as do the developments outlined in the preceding paragraphs of this statement.

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 systems (financial and others) are reviewed annually based on risk assessment. 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 all the mandatory standards set out in the CIPFA Code of Practice 2003. 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:

i) <u>Comprehensive Performance Assessment (CPA)</u>

As set out in paragraph 3(VI), the Fire Authority was judged to be "fair" in its CPA. The main areas of concern at that time revolved around sickness management and performance information.

A detailed action plan is available and this is regularly reviewed by the Senior Management Board. These issues are covered extensively elsewhere in the Statement on Internal Control.

ii) <u>Audit Commission</u>

The key issues raised were:

a) Deliver the Authority's Improvement Plan.
b) Continue to develop fund balances to a prudent level.
c) Continue the process of embedding risk management into the Authority's management arrangements.

d) Ensure the publication by December 2005 of an addendum to the 2005/06 Best Value Performance Plan setting out accurate performance information.
e) Undertake a thorough review of the collation and production of performance indicators and performance information generally.
f) Ensure that Internal Audit plans for 2006/07 are agreed by 31 March 2006, and that Internal Audit work is progressed and delivered within the audit year and reported promptly.
g) Devise means to ensure that audit recommendations are addressed promptly and where agreed, implemented effectively.

The action plan produced at the time is attached as Appendix A.

The Audit Commission acknowledged that progress had already been made in a number of these areas.

To support the action plan, significant detail is included elsewhere within the SIC, particularly in relation to risk management and performance information. In relation to development of fund balances, despite the tight government finance settlement, provision has been made for a £250,000 addition in 2006/07 while the medium term financial plan provides for a further £250,000 to be added in 2007/08.

iii) Internal Audit

Discussions with Internal Audit have recognised significant improvements in some areas, such as payroll, where all recommendations have been acted upon.

There are two areas of concern outstanding which warrant comment in this statement:

a) Performance Management
Internal Audit have not audited this before and there has been significant progress here as evidenced by the Audit Commission's review (see para 3(VII)). Internal Audit also recognise much good work in this area although data quality still needs improvement. Internal Audit have discussed this with the relevant manager and are working closely with her to develop this further.

b) Risk Management
Internal Audit recognise ongoing improvements in this area but have recommended further development and embedding of a risk management policy framework together with work in relation to partnerships. This also, is under discussion with the relevant officer to take this forward.

6 Accounts and Audit Regulations

These require the Authority to review the system of internal audit once a year as part of the system of internal control. This review is summarised below.

Discussions have taken place during the year to provide a better link with the Audit Commission and, to this end, several productive meetings have been held between the auditors and officers of the Authority.

Internal Audit have moved to a risk based audit plan and this is seen as providing better assurance in key areas.

Internal Audit is provided as part of the financial services contract with Bristol City Council and officers believe this is working well, particularly given the fact that a number of systems are provided by Bristol City Council and, therefore, less audit work is necessary than would ordinarily be the case.

7 Other issue

This statement has been agreed with the Service Management Board.

Chair *Terry Walker*

Chief Fire Officer/Chief Executive *Kevin Pearson*

Treasurer *Malcolm Shorney*

Annual Audit Letter 2004-05
Action Plan

Action Needed	Lead Officer(s)	Response / Intentions	Target
To deliver the Authority's Improvement Plan	Service Improvement People Development	To work with the Business Change Manager the Local Audit Manager and Internal Audit in monitoring the progress against targets in the Improvement Plan. This will supplement regular reporting on progress to the Service Management Board (SMB), the Service Management Team (SMT), the Modernisation Forum (MF), the Performance Management Forum (PMF) and the Fire Authority (FA).	Regular reporting to SMB, SMT, MF, PMF, FA
To continue to develop fund balances to a prudent level	Business Service Manager, Finance and Other Assets	We fully support the requirement to increase balances to £1.5m and a further £0.5m is estimated to be contributed in 2005/06. However the recent government grant settlement announcement has severely limited the ability of the Authority to contribute to reserves in 2006/7. At the time of writing we are awaiting confirmation of the financial settlement for 2006/07.	FA budget setting meeting 13 January 2006
To continue the process of embedding risk management into the Authority's management arrangements	Business Service Manager, Strategic Planning and Communications	The Authority is committed to embedding Corporate Risk Management as an integral element of improving Business Planning and Performance Management. Corporate Risk Register has been produced and a programme of Senior Managers workshops is underway to support the embedding of this critical area.	Regular updates at SMT

Action Needed	Lead Officer(s)	Response / Intentions	Target
To ensure the publication by December 2005 of an addendum to the 2005/06 Best Value Performance Plan setting out accurate performance information	Business Service Manager, Strategic Planning and Communications	Officers have been working closely with the Audit Commission and Internal Audit on a review and revision of performance information systems and processes. An addendum to the Best Value Performance Indicators (BVPIs) will be published by 31 December 2005 and systems will be adjusted for future reporting as necessary.	31 December 2005
To undertake a thorough review of the collation and production of performance indicators and performance information generally	Business Service Manager, Strategic Planning and Communications	Resources have been committed to reviewing the collation and production of performance indicators and performance information to improve the quality of data in a number of areas. A number of changes to the collection, interpretation and reporting of data and information have already been made.	Regular reports to SMB, SMT, PMF, FA
To ensure that Internal Audit plans for 2006/07 are agreed by 31 March 2006, and that Internal Audit work is programmed and delivered within the audit year and reported promptly	Service Improvement People Development	Several meetings have already taken place involving officers from Avon Fire & Rescue Service, Audit Commission and Internal Audit. Audit plans have been agreed and co-ordinated to ensure that maximum effectiveness and support is obtained with minimum duplication.	March 31 2006
To devise means to ensure that audit recommendations are addressed promptly and where agreed, implemented effectively	Service Improvement People Development	Arrangements have been put in place to report progress on Audit recommendations to SMT.	Regular update at SMT