



# **Avon Fire Authority Statement of Accounts 2006/07**



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## **Statement of Accounts**

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## Introduction

The Authority has continued to exercise prudent financial management throughout the year and remains in a strong position to meet the financial challenges identified in its medium term financial plan together with the objectives set out within its corporate plan. Net expenditure for the year was £753k lower than budgeted after allowing for the creation of a provision (£100k) to meet potential future legal costs. Further information on net expenditure compared to the budget is set out on pages 4 and 5.

In accordance with revised guidance the presentation of the Accounting Statements for 2006/07 has been revamped with the various changes being set out in detail on page 7. As part of these changes there is a new Income and Expenditure Account and a reconciliation between the surplus for the year and the deficit shown on this account is set out on page 5.

The key financial issues arising from the Statement of Accounts are:

- The fund balance (working balance) now stands at £1.5m which is within the agreed parameters. 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 amounting to £769k to help meet future budget pressures and uncertainties surrounding future pay awards and future Government funding.
- A cash-backed pensions reserve of £2.048m is held to fund future potential liabilities including any which arise from the new fire fighters pension scheme which was introduced from 1<sup>st</sup> April 2006. Utilisation of this reserve has been incorporated into the Authority's medium term financial plan.
- The authority continues to develop its Integrated Risk Management Plan (IRMP) to meet the changes required as part of Central Government's modernisation agenda. The opportunity has been taken to set aside a sum of £250k to meet the one-off costs of introducing new IRMP initiatives.
- At the year end there were capital grants of £561k relating to Central Government's Urban Search and Rescue (USAR) initiative which had not been utilised. This was primarily as a result of the time scales involved in obtaining planning permission for the development of Nailsea Fire Station. Planning permission was granted during 2006/07 and it is anticipated that these grants will be utilised during 2007/08.
- During the year the Authority submitted and was successful in its tender for the acquisition of new workshop premises at Avonmouth. As at the 31 March a deposit of £0.2m had been paid in respect of these premises with a balance of around £2.0m excluding VAT due to be paid during 2007/08.
- There is a Capital Programme reserve of £200k. Following the successful acquisition of new work shop premises at Avonmouth the costs of relocating in 2007/08 may require one-off calls for items that may not be generally suitable for capitalisation. This reserve can be utilised to cover such costs and augment the capital funding available.
- The Authority's property portfolio was reviewed by external valuers at the end of the year and this resulted in a net increase in the value of freehold properties of £21.9m, the majority of which related to the Authority's Temple Back site (£14.4m). These net increases have been included within the statement of accounts, but have no effect on the Fire Authority Balance.

# Explanatory Foreword by the Treasurer

## Introduction

These accounts present the Fire Authority's financial performance and position for the year ended 31 March 2007.

### The Accounts comprise:

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

### Core Financial Statements

**The Income and Expenditure Account** - this summarises the resources generated and consumed by the authority in the year.

**The Statement of Total Movement on the Fund Balance** - A reconciliation showing how the balance of resources generated/consumed in the year links with statutory requirements for raising council tax.

**The Statement of Total Recognised Gains and Losses** – A demonstration of how the movement in net worth in the Balance Sheet is identified to the I&E Account surplus/deficit and to unrealised gains and losses.

**The Balance Sheet** - this shows the assets and liabilities of the Authority at 31 March 2007.

**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 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 Core Financial Statements 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 2006) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### Overview of the Accounts

For 2006/07 the previous Revenue Account and Statement of Total Movement on Reserves have been replaced by a new Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses.

#### The Income & Expenditure Account

This Account shows the resources that have been generated and consumed in providing services and managing the Authority during the year. It differs from the CRA in that it no longer includes movements in and out of reserves. These are now shown in the Statement of Movement on the Fund Balance which reconciles the position on the Income and Expenditure Account and the Fund Balance.

The Net Cost of Services in the Income and 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.

Although the Income and Expenditure Account shows a deficit of £15.1m this includes £16.1m of net charges (details of which are shown in the reconciliation set out on page 5) which, whilst required to be charged to the Income & Expenditure Account in accordance with proper accounting practices, do not fall to be met by the council tax payer. After taking into account these charges 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:

- A budgeted contribution of £250k to the working balance. This means that as at 31 March 2007 the working balance is £1.5m which is within the agreed parameters.
- An additional £396k to be added to the reserve for budget pressures/efficiencies. This has been created to help meet future budget pressures identified in the MTFP and could be essential if pay awards are higher than budgeted or if government grant is less than estimated.
- The creation of a new reserve of £250k to meet IRMP one-off costs.
- To set-aside £56k for IT Consultancy support
- To earmark additional income of £51k received at Landsdown for additional works
- 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 below in the analysis of budget and spending in 2006/07.

#### The Statement of Movement on the Fund Balance

This statement reconciles the position on the Income and Expenditure Account and the Fund Balance.

#### The Statement of Total Recognised Gains and Losses

All the gains and losses of the Authority for the year are brought together in this statement and it shows the aggregate increase in the net worth as displayed in the Balance Sheet

#### 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 2006/2007

The Avon Fire Authority set a net revenue budget for 2006/07 of £41.821m (£42.816m in 2005/06), after allowing for the contribution to reserves, which resulted in a Council Tax of £51.14 (£48.73 in 2005/06) per Band D property.

In broad terms, where the Authority's funding came from and what it was spent on during 2006/2007 can be analysed as follows:

Source of funds	Application of funds		
	%	%	
General Government Grants	8.98%	Employees (net)	78.98%
Contribution from non-domestic rate pool	45.12%	Premises	3.76%
Council Tax payers	40.85%	Transport	3.12%
Other Income	5.05%	Supplies and Services	8.04%
		Support Services	1.83%
		Capital	2.01%
		Transfer to earmarked reserves	1.70%
		Contribution to working balance	0.56%

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

	Budget	Actual	Difference
	2006/2007	2006/07	
	£'000s	£'000s	£'000s
Expenditure on Services			
Employees (net)	35,298	34,946	(352)
Premises	1,668	1,666	(2)
Transport	1,412	1,381	(31)
Supplies & Services	3,663	3,560	(103)
Support Services	790	808	18
Capital Financing (net)	866	891	25
Income	(1,590)	(1,793)	(203)
	<u>42,107</u>	<u>41,459</u>	<u>(648)</u>
Investment Income & Interest on Balances	(335)	(440)	(105)
Net Operating Expenditure	<u>41,772</u>	<u>41,019</u>	<u>(753)</u>
Transfers to \ from revenue reserves	0	753	753
Revenue Support Grant	(3,976)	(3,976)	0
Non-domestic rates redistribution	(19,970)	(19,970)	0
Precepts	(18,076)	(18,076)	0
Working Balance	<u>(250)</u>	<u>(250)</u>	<u>0</u>

Details of the major variations between budget and expenditure are:

The underspend on employees primarily resulted from the change to the financial arrangements for the firefighters pension scheme including £314k as a result of net transfer values being received in respect of employees joining or leaving the pension scheme prior to the 1 April 2006.

Expenditure on whole time fire fighters (146k) and Control staff (£56k) was higher than budgeted but these additional costs were covered by the increased charges for secondments and additional central government funding.

There was a relatively small overspend on the transport budget which was in relation to higher than anticipated travel costs and allowances (£23k) and higher fuel costs (12k).

The net underspend on supplies and services of £103k was primarily due to an underspend on uniforms and personal protective equipment (£80k) as a result of a lower number of new recruits than expected. Expenditure on the repair and maintenance of fire hydrants (£37k) was also lower than anticipated.

As indicated above the additional income was largely as a result of additional recharges for the secondment of fire fighters (£121k). Bank interest received was also higher (£105k) than expected.

### Reconciliation of budgeted expenditure to deficit on Income and Expenditure Account

	2006/2007	
	£'000	£'000
Budgeted contribution to Working Balance		250
Transfer to ear marked reserves		753
<b>Surplus for year</b>		<b>1,003</b>
<b>Adjustments for items which do not fall to be charged to the council tax payer but which are required to be charged to the Income and Expenditure Account in accordance with proper accounting practices.</b>		
Items to be charged to the Income and Expenditure Account in accordance with proper accounting practices but required by Statute not to be charged to council tax payers		
FRS 17 - Retirement Benefits	(22,047)	
Depreciation	(1,613)	
Amortisation of Government Grants deferred	91	
Items required by statute to be charged to council tax payers but not required in accordance with proper accounting practices to be charged to the Income and Expenditure Account		
Minimum Revenue Provision (MRP) including voluntary contributions for the repayment of debt and deferred liabilities	333	
Revenue contributions to capital expenditure	181	
Employer's contributions payable to the Pensions Account and retirement benefits	6,916	
		(16,139)
<b>Deficit on the Income and Expenditure Account for the year</b>		<b>(15,136)</b>

### 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 2006/07 actual capital expenditure was £3,480k (including capital creditors). Further details relating to capital expenditure can be found in the notes to the core financial statements.

### **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 was used to reduce the level of contributions required for 2006/07.

The balance of the fund as at 31 March 2007 was £2.77m analysed as follows:

Avon Fire Authority	£1.386m (50%)
Gloucestershire County Council	£0.693m (25%)
Somerset County Council	£0.693m (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 1 to the Core Financial Statements.

### **Other Issues**

#### Pensions

The implementation of Financial Reporting Standard No. 17 (FRS17) – Retirement Benefits from 2003/04 has had a material impact on the Authority's financial statements with the recognition of the estimated value of the net assets/liabilities of defined benefit pension schemes together with a pension reserve being included in the Authority's balance sheet.

Additionally, the Income and Expenditure 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 net pensions liability in the balance sheet at 31 March 2007 amounts to £278.4m compared with a liability of £279.5m at 31 March 2006. Of the liability at 31 March 2007, £274.2m relates to the

Uniformed Firefighters scheme which is an unfunded scheme, and £4.2m relates to the Local Government Scheme. More details can be found in note 23 to the core financial statements on page 36.

With regards to the uniformed fire fighters pensions scheme significant changes were introduced to the financial arrangements with effect from April 2006. Each Fire and Rescue Authority was 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 is 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 is met by \ paid to central government. Details relating to the new pensions account are set out on page 43.

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. Also, fund assets are subject to large fluctuations in value depending on the state of the stock market.

The position shown in the 2006/07 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.

### **Changes**

The 2006 Code of Practice on Local Authority Accounting, a Statement of Recommended Practice (the SORP) introduced a number of substantive changes which are required to be introduced for accounting periods beginning in 2006/07. Details of these changes which have been incorporated into the accounts are as follows:

#### The removal of the requirement to make a capital financing charge

In previous years, charges were made to individual services for the cost of capital employed, comprising notional interest (based on the asset value) and a charge for depreciation. These capital charges were then reversed out through the asset management revenue account (AMRA) in the consolidated revenue account to ensure that there was no impact on council taxpayers. From 2006/07 the requirement to charge notional interest has been removed, and with it the need for the AMRA. The depreciation charge is retained and the corresponding reversing entry is included in the new Statement of Movement on the Fund Balance (see below).

#### Change in accounting treatment of Government Grants Deferred

Government grants or other contributions used to finance expenditure are now credited to the service revenue account over the useful life of the related asset to match the depreciation charge. Previously, these credits were made to the AMRA.

#### The new Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses

These replace the Revenue Account and Statement of Total Movement on Reserves. The Income and Expenditure Account shows the resources that have been generated and consumed in providing services and managing the Authority during the year. It differs from the Revenue Account in that it no longer

includes movements in and out of reserves. These are now shown in the Statement of Movement on the Fund Balance which reconciles the position on the Income and Expenditure Account and the Fund Balance.

The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Authority for the year and shows the aggregate increase in the net worth as displayed in the Balance Sheet. In addition to the surplus\deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

The comparative figures for the year ending 31 March 2006 have been restated to reflect these changes.

For the first time, the SORP lays down a mandatory order for the statements:

- The core financial statements (ie I&E Account, Balance Sheet and Cash Flow)
- Consolidated notes to the core statements

## 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;

to 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 2007.

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*

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**Malcolm Shorney**  
**Treasurer**

# 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 2006 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 2007. 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 value 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. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.
9. 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 held in the government grants-deferred account and credited to the relevant service revenue account to off-set the depreciation charge made for the related asset in line with the depreciation policy applied to them.
10. 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**

11. 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 Net Operating Expenditure 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 notes disclosed.

12. 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 13 to the core financial statements.

### **Overheads and Support Services**

13. The costs of overheads and support services are charged or apportioned to the service heads that benefit. 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.
14. The support service costs charged or apportioned to service heads comprise legal, personnel, financial, property-related services, IT, equalities and administrative buildings.
15. 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**

16. Charges made in the financial statements

The amount charged to the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses for employees' pensions is in accordance with FRS 17 Retirement Benefits, subject to the interpretations set out in the SORP.

17. Pensions Reserve

The amount chargeable to the Fund for providing pensions for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Where this amount does not match the amount charged to the Income and Expenditure Account for the year the difference is taken to the Pensions Reserve. Where the pension costs charged to the Income and Expenditure Account are:

- larger than the amount payable for the year in accordance with the scheme requirements the Statement of Movement on the Fund Balance is credited and the Pensions Reserve debited
- smaller than the amount payable for the year in accordance with the scheme requirements the Statement of Movement on the Fund Balance is debited and the Pensions Reserve credited.

18. 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.

## 19. 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 a 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 Gains and Losses 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.

### 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 a 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 Gains and Losses 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**

- 20. Provisions are made for any liabilities of uncertain timing or obligations which may accrue on the basis of potential liabilities 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.
- 21. 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**

22. 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**

23. 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 Income and Expenditure Account. Expenditure is not charged direct to any reserve. Details relating to each of the principal reserves are provided in the notes to the core financial statements. 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.
24. 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**

25. 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.

## **Intangible Assets**

26. Intangible assets arise from expenditure on assets that do not have physical substance but when access to the future economic benefits that it represents are identifiable and controlled by the Authority (eg software licences).

### **Recognition**

27. From 1 April 2006 expenditure on such items has been capitalised and included in the balance sheet at cost. These items are being amortised on a systematic basis over their estimated economic lives. Prior to this date expenditure on such items was charged to service revenue accounts in the year in which they were purchased.

## **Tangible Fixed Assets**

28. Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

### **Recognition**

29. 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**

30. 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.
31. Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where known.
32. 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.
33. Vehicles, plant and equipment are valued on the basis of depreciated replacement cost.
34. 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.
35. The valuation of the authority's freehold properties, which comprise the authority's property portfolio, is carried out by external valuers, Donaldsons LLP. The valuation was undertaken 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 (EUUV).
  - 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).
36. Increases in the valuation of assets are taken to the fixed asset restatement account except to the extent they reverse revaluation losses (after adjusting for depreciation) on the same asset that had previously been charged to the Income and Expenditure Account. The reversal of such revaluation losses are credited to the Income and Expenditure Account.
37. Where there is a decrease in the valuation of assets because of any impairment loss then the accounting treatment is set out below.
38. 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**

39. A review for the impairment of fixed assets is made at the end of each year and where there is reason to believe that its value has reduced materially in the period, the valuation is adjusted accordingly.

40. 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 Income and Expenditure Account. Other impairments are recognised in the fixed asset restatement account.

### **Disposals**

41. Disposals of all material assets are at current market value at the date of disposal.
42. The net value of an asset at the time of disposal or decommissioning is written-off to the Income and Expenditure account with the disposal proceeds being credited to the Income & Expenditure account to arrive at the gain or loss on disposal.
43. The following appropriations are made in the Statement of Movement on the Fund Balance:
- An appropriation from the Statement of Movement on the Fund Balance to the Usable Capital Receipt Reserve in respect of capital receipts received during the year. In accordance with statutory/proper practices these amounts remain in the Usable Capital Receipt Reserve until such time as they are allocated to finance other capital expenditure.
  - An appropriation to the Statement of Movement on the Fund Balance from the Capital Financing Account in respect of the net carrying amount of the assets disposed of or decommissioned.
44. 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.

### **Depreciation**

45. 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.
46. Depreciation is not provided for on freehold land or non-operational investment properties.
47. Service revenue accounts are charged with depreciation with a corresponding credit made in the Statement of Movement in the Fund Balance.

### **Charges to the Income and Expenditure Account**

48. Service revenue accounts, as defined in CIPFA's *Best Value Accounting Code of Practice* are charged with depreciation and where required, any related impairment loss (due to clear consumption of economic benefits), for all fixed assets used in the provision of the service.
49. Depreciation for the use of fixed assets and any relevant impairment losses included in the Income and Expenditure Account are credited to the Statement of Movement in the Fund Balance and therefore have a neutral impact on the amounts required to be raised from the council taxpayer.
50. 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 Financing Requirement and this is debited to the Statement of Movement in the Fund balance as it is an amount required to be raised from the council taxpayer.
51. External interest is payable on borrowing from Bristol City Council and is charged to Operating Expenditure in the Income and Expenditure Account.

## **Private Finance Initiative (PFI) scheme**

52. 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.
53. 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.

## Income and Expenditure Account for the Year Ending 31 March 2007

This account summarises the resources that have been generated and consumed in providing services and managing the authority during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2005/2006		2006/2007		
Net Expenditure £'000		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
5,791	Community fire safety	8,727	(740)	7,987
36,576	Fire fighting and rescue operations	36,772	(1,639)	35,133
83	Fire service emergency planning and civil defence	93	(2)	91
363	Corporate and democratic core	432	(3)	429
(273)	Non Distributed Cost	0		0
<b>42,540</b>	<b>Net Cost of Services</b>	<b>46,024</b>	<b>(2,384)</b>	<b>43,640</b>
296	Interest payable and similar charges			376
(202)	Interest and investment income			(443)
13,196	Pension interest cost and Expected return on pension assets			13,585
<b>55,830</b>	<b>Net operating expenditure</b>			<b>57,158</b>
(17,056)	Precepts			(18,076)
(14,198)	General Government Grants			(3,976)
(11,562)	Non-domestic rates redistribution			(19,970)
<b>13,014</b>	<b>Deficit for the Year</b>			<b>15,136</b>

Signed

*Terry Walker*

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**Terry Walker**

**Chair of the Avon Fire Authority**

*Malcolm Shorney*

.....

**Malcolm Shorney**

**Treasurer of the Avon Fire Authority**

## Statement of Movement on the Fund Balance

The Income and Expenditure Account shows the authority's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The Fund Balance compares the authority's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the Fund Balance.

2005/2006 £'000		2006/2007 £'000	Notes
13,014	Deficit for the year on the Income and Expenditure Account	15,136	
(13,764)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(15,386)	7
<u>(750)</u>	<b>Increase in Fund Balance for Year</b>	<u>(250)</u>	
(500)	Fund Balance brought forward	(1,250)	
<u>(1,250)</u>	<b>Fund Balance carried forward</b>	<u>(1,500)</u>	

## Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the authority for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2005/2006 £'000		2006/2007 £'000
13,014	Deficit on the Income and Expenditure Account for the year	15,136
(1,099)	(Surplus) / Deficit arising on revaluation of fixed assets	(22,117)
20,270	Actuarial (gains) and losses on pension fund assets and liabilities	(16,281)
	Other (gains) and losses	
(210)	Unapplied Capital Grants and Contributions	(507)
61	Other (net)	3
<u>32,036</u>	<b>Total recognised (gains) and losses for the year</b>	<u>(23,766)</u>

## Balance Sheet as at 31 March 2007

31/03/2006 £'000		31/03/2007 £'000	31/03/2007 £'000	Notes
	<b>Fixed assets</b>			
0	Intangible assets		85	8
	Operational assets			
35,585	- Land and Buildings	57,805		
4,534	- Vehicles, Plant and Equipment	5,960		
<u>40,119</u>	Total Operational Assets		63,765	8-12
<u>-</u>	Non-Operational Assets		-	
40,119	<b>Total fixed assets</b>		<u>63,850</u>	
	<b>Current assets</b>			
1,826	Debtors	5,093		15
<u>5,002</u>	Cash and bank	<u>4,077</u>		16
6,828			9,170	
<u>46,947</u>	<b>Total assets</b>		<u>73,020</u>	
	<b>Current liabilities</b>			
(281)	Borrowing repayable within 12 months	(387)		
<u>(2,196)</u>	Creditors	<u>(3,222)</u>		17
(2,477)			(3,609)	
<u>44,470</u>	<b>Total assets less current liabilities</b>		<u>69,411</u>	
	<b>Long-term liabilities</b>			
(6,374)	Long term borrowing	(8,737)		18
(6)	Government grants - deferred	(199)		
(689)	Deferred Liabilities	(632)		
(295)	Creditors - Amounts due over 1 year	(78)		19
(279,528)	Pensions Liability	(278,378)		23
<u>(179)</u>	Provisions	<u>(222)</u>		20
(287,071)			(288,246)	
<u>(242,601)</u>	<b>Total assets less liabilities</b>		<u>(218,835)</u>	
	<b>Financed by:</b>			
44,949	Fixed assets restatement account		66,812	
(12,426)	Capital financing account		(13,434)	
434	Usable capital receipts reserve		687	
(279,528)	Pensions Reserve		(278,378)	23
2,720	Earmarked reserves		3,978	21
1,250	Fund balance		1,500	
<u>(242,601)</u>	<b>Total net worth</b>		<u>(218,835)</u>	

Signed

*Terry Walker*

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**Terry Walker**  
 Chair of the Avon Fire Authority

*Malcolm Shorney*

.....  
**Malcolm Shorney**  
 Treasurer of the Avon Fire Authority

## Cash Flow Statement

2005/2006		2006/2007		Notes
£'000		£'000	£'000	
<b>Revenue Activities</b>				
Cash outflows				
35,940	Cash paid to and on behalf of employees	36,096		
6,045	Other operating costs	6,552		
<u>41,985</u>			42,648	
Cash inflows				
(3)	Rent	(3)		
(17,056)	Precepts received	(18,076)		
(11,562)	Receipts from national non-domestic rate pool	(19,970)		
(14,198)	Revenue Support Grant	(3,976)		
(269)	Other Government Grants	(201)		24 c)
(486)	Cash received for goods and services	(584)		
770	Other revenue cash payments / income	(392)		
<u>(42,804)</u>			<u>(43,202)</u>	
<u>(819)</u>	<b>Revenue Activities Net Cash (Inflow) /Outflow</b>		<u>(554)</u>	24 a)
<b>Returns on Investments and Servicing of Finance</b>				
Cash outflows				
212	Interest paid	296		
Cash inflows				
(199)	Interest received	(425)		
<u>13</u>			<u>(129)</u>	
<b>Capital Activities</b>				
Cash outflows				
1,580	Purchase of Fixed Assets	3,211		
Cash inflows				
(211)	Sales of Fixed Assets	(254)		
(153)	Capital grants received	(281)		
<u>1,216</u>			<u>2,676</u>	
<u>410</u>	<b>Net Cash (Inflow) / Outflow Before Financing</b>		<u>1,993</u>	
<b>Financing</b>				
Cash outflows				
165	Repayments of amounts borrowed	234		
0	Capital element of finance lease rental payments	85		
Cash inflows				
(1,853)	New loans raised	(1,387)		
<u>(1,688)</u>			<u>(1,068)</u>	
<u>(1,278)</u>	<b>Net increase in cash</b>		<u>925</u>	24 b)

## Notes to the Core Financial Statements

### 1. 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 21 years of the joint venture are as follows:

2005/2006 £'000		2006/2007 £'000
392	Total contract payments made	375
	Outstanding undischarged contract obligations:-	
358	Within 1 year	368
368	Between 1 and 2 years	378
379	Between 2 and 3 years	388
9,812	Over 3 years	9,181

### 2. Publicity Expenditure

Section 5 of the Local Government Act 1986 requires local authorities to keep a separate account of publicity expenditure. During 2006/2007 the Authority incurred expenditure totalling £89k, an analysis of which is as follows:

2005/2006 £'000		2006/2007 £'000
	Advertising	
32	Recruitment	42
9	Equalities	1
1	Tender invitations	-
1	Fire Safety	35
2	Other	11
<b>45</b>	<b>Total</b>	<b>89</b>

### 3. 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:

2005/2006 £'000		2006/2007 £'000
40	Allowances	40
1	Travel and subsistence expenses	1
<b>41</b>	<b>Total</b>	<b>41</b>

### 4. 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:

2005/2006		2006/2007
No. of Employees	Remuneration Band	No. of Employees
19	£50,000 - £59,999	13
2	£60,000 - £69,999	3
-	£70,000 - £79,999	2
2	£80,000 - £89,999	-
1	£90,000 - £99,999	1
-	£100,000 - £109,999	1
1	£110,000 - £119,999	-
-	£120,000 - £129,999	1

### 5. Related Party Transactions

The Code of practice requires disclosure of material transactions with 'related parties'. For 2006/2007 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 – (£27,958k)
- 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 - (£6,545k) and as a provider of financial services to the Fire Authority – amount including the cost of servicing existing debt but excluding new borrowing - (£796k), new borrowing – (£2,747k)
  - Bath & North East Somerset as a billing authority responsible for collecting council tax on behalf of the Fire Authority for its area - (£3,217k) and as the authority responsible for administering the Avon Pension Fund, with contributions paid over in respect of Fire Authority employees – (£9,789k)
  - North Somerset (£3,767k) and South Gloucestershire (£4,546k) 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 - (£9,737k)

## 6. 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 £61k (£53k in 2005/06) details of which are as follows:

2005/2006 £'000		2006/2007 £'000
53	Fees payable with regard to external audit services carried out by the appointed auditor	61
-	Fees payable in respect of other services provided by the appointed auditor	-

7. **Reconciling items in the Statement of Movement on the Fund Balance**

2005/2006 £'000		2006/2007 £'000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the Fund Balance for the year</b>	
(2,009)	Depreciation and impairment of fixed assets	(1,613)
188	Government Grants Deferred amortisation	91
(20,004)	Net charges made for retirement benefits in accordance with FRS17	(22,047)
<b>(21,825)</b>	<b>Total</b>	<b>(23,569)</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the Fund Balance for the year</b>	
234	Minimum revenue provision for capital financing	297
0	Capital expenditure charged in-year to the Fund Balance	181
7,370	Employer's contributions payable to the Pensions Account and retirement benefits	6,916
<b>7,604</b>		<b>7,394</b>
	<b>Transfers to or from the Fund Balance that are required to be taken into account when determining the Movement on the Fund Balance for the year</b>	
85	Voluntary revenue provision for capital financing	36
372	Net transfer to or from earmarked reserves	753
<b>457</b>		<b>789</b>
<b>(13,764)</b>	<b>Net additional amount required to be credited to the Fund balance for the year</b>	<b>(15,386)</b>

## 8. Summary of Capital Expenditure and Fixed Asset Disposals

### Tangible Fixed Assets

Details of the value of assets held at 31 March 2007 are shown in the table below together with movements in the year:

2005/2006		2006/2007			Investment Properties
Total £'000		Land & Buildings £'000	Vehicles & Equipment £'000	Total £'000	£'000
47,964	<b>Gross Book Value at 1 April 2006 (2005)</b>	38,213	12,283	<b>50,496</b>	-
2,424	Additions	1,366	2,029	<b>3,395</b>	-
(1,542)	Disposals	(294)	(747)	<b>(1,041)</b>	-
1,650	Revaluation & Restatements	21,939	16	<b>21,955</b>	-
<b>50,496</b>	<b>Gross Book Value at 31 March 2007 (2006)</b>	<b>61,224</b>	<b>13,581</b>	<b>74,805</b>	<b>0</b>
(9,524)	<b>Accumulated depreciation at 1 April 2006(2005)</b>	(2,628)	(7,749)	<b>(10,377)</b>	-
(2,009)	Depreciation for the year	(832)	(781)	<b>(1,613)</b>	-
1,156	Depreciation on assets sold	41	909	<b>950</b>	-
<b>(10,377)</b>	<b>Accumulated depreciation at 31 March 2007 (2006)</b>	<b>(3,419)</b>	<b>(7,621)</b>	<b>(11,040)</b>	<b>0</b>
<b>40,119</b>	<b>Net Book Value at 31 March 2007 (2006)</b>	<b>57,805</b>	<b>5,960</b>	<b>63,765</b>	<b>0</b>

The figure for depreciation on assets sold in the above table includes £162k in respect of an adjustment related to the 2005/06 accounts.

### Intangible Fixed Assets

2005/2006 £'000		2006/2007 £'000
-	<b>Gross Book Value at 1 April 2006 (2005)</b>	-
-	Additions	85
-	Disposals	-
-	Revaluation & Restatements	-
<b>0</b>	<b>Gross Book Value at 31 March 2007 (2006)</b>	<b>85</b>
-	<b>Accumulated amortisation at 1 April 2006 (2005)</b>	-
-	Amortisation for the year	-
-	Amortisation on assets disposed	-
<b>0</b>	<b>Accumulated amortisation at 31 March 2007 (2006)</b>	<b>0</b>
<b>0</b>	<b>Net Book Value at 31 March 2007 (2006)</b>	<b>85</b>

## 9. 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.

2005/2006 £'000		2006/2007 £'000
5,679	Opening Capital Financing Requirement	7,591
	Capital Investment	
2,424	Operational Assets	3,480
	Sources of finance	
-	Capital Receipts	-
(193)	Government grants and other contributions	(284)
(319)	Revenue Provision	(514)
<u>7,591</u>	Closing Capital Financing Requirement	<u>10,273</u>
	Explanation of movements in year	
680	Increase in underlying need to borrow (supported by Government financial assistance)	673
1,232	Increase in underlying need to borrow (unsupported by Government financial assistance)	2,009
<u>1,912</u>	Total long term borrowing at 31 March 2007 (2006)	<u>2,682</u>

During the year the Authority submitted and was successful in its tender for the acquisition of new workshop premises at Avonmouth. As at the 31 March a deposit of £0.2m had been paid in respect of these premises with a balance of around £2.0m excluding VAT due to be paid during 2007/08.

## 10. Capital Financing - Minimum Revenue Provision

Under the Prudential Code 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:

2005/2006 £'000		2006/2007 £'000
	<b>Capital Financing Requirement as at 1 April:</b>	
38,606	Fixed assets	40,119
(43,850)	Fixed asset restatement account	(44,948)
10,923	Capital financing account	12,426
-	Government Grants deferred	(6)
<b>5,679</b>	<b>Capital Financing Requirement</b>	<b>7,591</b>
(165)	Adjustment Factor A	(165)
<b>5,514</b>	<b>Adjusted Capital Financing Requirement</b>	<b>7,426</b>
221	MRP	297
13	Additional amount in respect of SCA repayment	14
85	Finance Leases - Voluntary MRP Contributions	22

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 with the last payment being made during the year. It has therefore been 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.

## 11. 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 31/03/2006		Number as at 31/03/2007
	<b>Land and buildings</b>	
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
3	Fire Houses	1
	<b>Vehicles and Equipment</b>	
49	Operational Vehicles	54
70	Ancillary Vehicles	78
19	Compressors	20
11	Trailers etc	13

## 12. Assets held under finance leases

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 Income and Expenditure account and Statement of Movement in the Fund balance during the year.

2005/2006 £'000		2006/2007 £'000
85	Total rentals paid	85
	Analysis of charges in the Financial Statements	
0	Finance Charge - (Income and Expenditure Account)	30
85	MRP (including voluntary contributions) - (Statement of Movement in the Fund Balance)	55

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.

Details of the assets held under finance leases and accounted for as part of Tangible Fixed Assets are as follows:

2005/2006 Vehicles & Equipment £'000		2006/2007 Vehicles & Equipment £'000
-	<b>Gross Book Value at 1 April 2006 (2005)</b>	830
830	Additions	-
-	Disposals	-
-	Revaluation & Restatements	-
<u>830</u>	<b>Gross Book Value at 31 March 2007 (2006)</b>	<u>830</u>
-	<b>Accumulated depreciation at 1 April 2006 (2005)</b>	-
-	Depreciation for the year	(69)
-	Depreciation on assets disposed	0
<u>0</u>	<b>Accumulated depreciation at 31 March 2007 (2006)</b>	<u>(69)</u>
<u>830</u>	<b>Net Book Value at 31 March 2007 (2006)</b>	<u>761</u>

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2007 are as follows:

2005/2006 £'000		2006/2007 £'000
	Outstanding undischarged leasing obligations:-	
140	Within 1 year	57
57	Between 1 and 2 years	60
60	Between 2 and 3 years	62
573	Over 3 years	510
<u>830</u>	Total Liabilities at 31 March 2007 (2006)	<u>689</u>

### 13. Operating Lease Rentals

The amounts paid in respect of operating leases in 2005/06 and 2006/07 and the amounts outstanding in respect of future years, are as follows:

2005/2006 £'000		2006/2007 £'000
522	Total rentals paid	472
	Outstanding undischarged leasing obligations:-	
462	Within 1 year	452
452	Between 1 and 2 years	431
431	Between 2 and 3 years	353
1,150	Over 3 years	798

### 14. Fixed Asset Valuation

The freehold properties which comprise the Authority's property portfolio were reviewed by external valuers, Donaldsons LLP, 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 were that there was a net increase in the value of freehold properties of £21.9m, the majority of which related to the Authority's Temple Back site (£14.4m). These net increases have been included within the accounts for 2006/07.

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:

	<u>Years</u>
Buildings	30
Fire Appliances	8-17
Other Vehicles	6-10
Compressors	6
Trailers etc	5-12
Communication equipment	12
Computer equipment	5
Other equipment	5-10

#### 15. Debtors

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

2005/2006 £'000		2006/2007 £'000
175	Government departments	2,620
1,400	Other local authorities	2,052
251	Sundry debtors	421
<u>1,826</u>		<u>5,093</u>

#### 16. 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:

2005/2006 £'000		2006/2007 £'000
4,964	Cash at bank	4,061
38	Imprests	16
<u>5,002</u>		<u>4,077</u>

#### 17. Creditors

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

2005/2006 £'000		2006/2007 £'000
(598)	Government departments	(675)
(211)	Other local authorities	(152)
(1,387)	Sundry creditors	(2,395)
<u>(2,196)</u>		<u>(3,222)</u>

18. **Analysis of Borrowing**

The loans outstanding have been raised through Bristol City Council. Loans repayable during 2007/2008 are shown as short term borrowing in the Balance Sheet. The maturity of long term loans is as follows:

2005/2006		2006/2007
£'000		£'000
256	Between 1 and 2 years	371
708	Between 2 and 5 years	1,027
1,004	Between 5 and 10 years	1,455
4,406	Over 10 years	5,884
<u>6,374</u>	Total long term borrowing at 31 March 2007 (2006)	<u>8,737</u>

19. **Creditors – Amounts due over 1 year**

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

2005/2006		2006/2007
£'000		£'000
(295)	Government departments	(78)
-	Other local authorities	-
-	Sundry creditors	-
<u>(295)</u>		<u>(78)</u>

20. **Provisions**

	01 April 2006 £'000	Receipts in year £'000	Payments in year £'000	31 March 2007 £'000
Fire Hydrants	100	40	18	122
Training	73	0	73	0
AMP\Building Investigative works	6	0	6	0
Legal expenses	0	100	0	100
	<u>179</u>	<u>140</u>	<u>97</u>	<u>222</u>

a. Fire Hydrants

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

b. Training Provision

This provision was written back to the Income and Expenditure Account during the year.

c. AMP\Building Investigative works

A provision was created for works associated with the Authority's asset management plan (AMP) and building investigative works. The balance of this provision was utilised during the year.

d. Legal expenses

A provision has been created in respect of potential legal costs during 2007/08.

## 21. Reserves

### Fixed Asset restatement account

2005/06 £'000		2006/2007 £'000
<b>43,850</b>	<b>Balance at 1 April 2006 (2005)</b>	<b>44,949</b>
1,650	Gains / losses on revaluation of fixed assets	21,954
(551)	Amounts written off fixed asset balances for disposals	(91)
<b>44,949</b>	<b>Balance at 31 March 2007 (2006)</b>	<b>66,812</b>

The fixed asset restatement account reflects the amount by which the value of the authority's assets have been revised following revaluation and the amounts written of fixed asset balances for disposal.

### Capital Financing Account

2005/06 £'000		2006/2007 £'000
<b>(10,924)</b>	<b>Balance at 1 April 2006 (2005)</b>	<b>(12,426)</b>
(2,009)	Depreciation and impairment of fixed assets	(1,613)
188	Government grants deferred amortisation	91
234	Minimum revenue provision for capital financing	297
-	Capital expenditure charged in-year to the fund balance	181
85	Voluntary revenue provision for capital financing	36
<b>(12,426)</b>	<b>Balance at 31 March 2007 (2006)</b>	<b>(13,434)</b>

The Capital Financing account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and 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.

### Usable Capital Receipts

2005/06 £'000		2006/2007 £'000
<b>223</b>	<b>Balance at 1 April 2006 (2005)</b>	<b>434</b>
211	Amounts receivable	253
-	Amounts applied to finance new capital investment	-
<b>434</b>	<b>Balance at 31 March 2007 (2006)</b>	<b>687</b>

Proceeds from the disposal of fixed assets are credited to the capital receipts reserve and remain in this reserve until utilised to finance new capital expenditure.

## Other Earmarked Reserves

	1 April 2,006 £'000	Receipts in year £'000	Payments in year £'000	31 March 2,007 £'000
Gambia appliance reserve	16	0	3	13
Pensions Reserve	2,048	0	0	2,048
Arson Task Force (grant)	30	0	0	30
Capital Programme Contributions	200	0	0	200
Future Budget Pressures	373	396	0	769
Home Fire Initiative	53	0	53	0
Lansdown development works	0	51	0	51
IT consultancy support	0	56	0	56
IRMP	0	250	0	250
Capital Grants unapplied	0	844	283	561
	<b>2,720</b>	<b>1,597</b>	<b>339</b>	<b>3,978</b>

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. Pension Reserve

A reserve in respect of fire fighters pensions has been created to fund future potential liabilities arising under the new scheme. Utilisation of this reserve has been incorporated into the Authority's medium term financial plan.

c. 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.

d. Capital Programme Contributions

As indicated in note 9 the Fire Authority was successful during the year in acquiring new workshop premises. The relocation of the workshops during 2007/08 may 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.

e. 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.

f. Home Fire Initiative

As part of the Government's modernisation of the fire service, capital grant was received during 2005/06 in respect of the home fire safety initiative. The funding received was for this initiative only and was utilised on this scheme during 2006/07.

g. Lansdown development works

A reserve from the additional income generated from the rental of training facilities at Lansdown has been set aside for required development works. This will be utilised during 2007/08.

h. IT consultancy support

The Authority is in the process of reviewing its IT provision and has sought tenders from IT consultants to assist in this process. A sum has been set aside to meet the expected costs of these consultants and will be utilised during 2007/08.

i. IRMP

The authority continues to develop its Integrated Risk Management Plan to meet the changes required as part of Central Government's modernisation agenda. A sum has been set aside to meet the one-off costs of introducing new initiatives and this will be utilised in 2007/08.

j. Capital grants unapplied

The time scales involved in obtaining planning permission for the development of Nailsea Fire Station to accommodate Central Government's Urban Search and Rescue initiative resulted in capital grants received towards the funding of this project not being utilised at the year end. Planning permission was granted during 2006/07 and it is anticipated that these grants will be utilised during 2007/08.

22. **Authorisation of Accounts for issue**

The date that the financial statements are authorised for issue is 29 June 2007. This is the date that the financial statements are required to be approved by the authority and signed by the Chair and Treasurer of the Fire Authority. Events that occur after this date will not be recognised in the Statement of Accounts.

23. **Retirement Benefits**

**Participation in Pension Schemes**

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

The authority participates in two pension schemes:

- Local Government Pension Scheme

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.

- Fire fighters scheme

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

As highlighted in the explanatory foreword significant changes to the arrangements for financing fire fighters pensions came into effect from April 2006. The Authority was required to set up a new ring fenced 'Pensions Account' from which pension payments, retirement lump sums and transfers out have been made. The Pensions account is 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 employer contribution rate is determined by central government.

### Transactions Relating to Retirement Benefits

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge required to be met from council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	Local Government Pension Scheme		Fire Fighters Scheme	
	2006/07 £'000s	2005/06 £'000s	2006/07 £'000s	2005/06 £'000s
<b>Income and Expenditure Account</b>				
Net Costs of Services:				
Current Service Costs	(670)	(542)	(7,792)	(6,539)
Past service Costs	-	273	-	-
Net Operating Expenditure:				
Interest Costs	(848)	(787)	(13,493)	(13,046)
Expected Return on Assets in the Scheme	756	637	-	-
<b>Net Charge to the Income and Expenditure Account</b>	<b>(762)</b>	<b>(419)</b>	<b>(21,285)</b>	<b>(19,585)</b>
<b>Statement of Movement in the Fund Balance</b>				
Reversal of net charges made for retirement benefits in accordance with FRS17	762	419	21,285	19,585
<b>Actual amount charged against the Fund Balance for pensions in the year:</b>				
Employers contributions payable to the scheme	572	458		
Retirement benefits payable to pensioners			6,344	6,912

## Assets and Liabilities in relation to Retirement Benefits

The estimated underlying assets and liabilities for retirement benefits at 31 March that are included in the Authority's financial statements are as follows:

2005/06		2006/07		
		Local Government Scheme	Fire Fighters Scheme	Total
Total		£'000	£'000	£'000
12,145	Share of market value of assets in Avon Pension Fund	13,316		13,316
(291,673)	Liabilities	(17,461)	(274,233)	(291,694)
(279,528)	Net Liability	(4,145)	(274,233)	(278,378)

The movements in the estimated net liabilities during 2006/07 are as follows:

	Local Government Scheme	Fire Fighters Scheme	Total
	£'000	£'000	£'000
Net deficit at beginning of year	(4,889)	(274,639)	(279,528)
Current Service Cost	(670)	(7,792)	(8,462)
Employer Contributions\Payments	572	6,344	6,916
Past Service Cost\Curtailment Cost	0	0	0
Net Interest\Return on Assets	(92)	(13,493)	(13,585)
Actuarial gain \ (loss)	934	15,347	16,281
Net deficit at end of year	(4,145)	(274,233)	(278,378)

The net liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total net liability of £278m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a negative overall balance of £219m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- the deficit on the fire fighters scheme will be made good by annual contributions by central government to the ring fenced "Pensions Account" together with revised future employer contributions as determined by central government.

### Basis for Estimating Assets and Liabilities

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%	3.1%
Rate of increase in salaries	4.15%	4.35%
Rate of increase in pensions	2.9%	3.1%
Rate for discounting scheme liabilities	4.9%	5.4%

The actuary has not carried out any specific investigations in relation to whether the average age of the membership has increased, but does not believe that there have been substantial changes since the 2004 valuation. For any employers who are not admitting new entrants to the Fund, the average age can be expected to increase gradually over time. The proportion of employees opting to take a commuted lump sum has been assumed to be 50%.

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%	3.1%
Rate of increase in salaries *	3.9%	4.6%
Rate of increase in pensions	2.9%	3.1%
Rate for discounting scheme liabilities	4.9%	5.4%

\* plus a salary scale to allow for promotional effects.

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 2006			Assets at 31 March 2007			
£'000	Rate of Return			£'000	Rate of Return	
	%	%			%	
9,267	76.3%	7.0%	Equities	10,280	77.2%	7.5%
1,737	14.3%	4.3%	Government Bonds	1,704	12.8%	4.7%
862	7.1%	4.9%	Other Bonds	1,039	7.8%	5.4%
0	0.0%	-	Property	0	0.0%	-
279	2.3%	4.5%	Cash\Liquidity	293	2.2%	5.25%
<b>12,145</b>			<b>Total</b>	<b>13,316</b>		

As the Fire fighters scheme is an unfunded scheme there are no assets to cover its liabilities.

### Actuarial Gains and Losses

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

The actuarial gain identified as movements on the Pension Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007:

	Local Government Scheme									
	2002/03		2003/04		2004/05		2005/06		2006/07	
	£'000s	%	£'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	(43)	0.3
Differences between actuarial assumptions about liabilities and actual					(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	977	5.6
	<u>(2,300)</u>		<u>1,122</u>		<u>(2,883)</u>		<u>(80)</u>		<u>934</u>	

	Fire Fighters Scheme									
	2002/03		2003/04		2004/05		2005/06		2006/07	
	£'000s	%	£'000s	%	£'000s	%	£'000s	%	£'000s	%
Differences between actuarial assumptions about liabilities and actual	(10,389)	6.1	(14,460)	7.5	2,805	1.2				
Changes in the demographic and financial assumptions used to estimate liabilities	2,956	1.7			(40,468)	16.7	(20,190)	7.4	15,347	5.6
	<u>(7,433)</u>		<u>(14,460)</u>		<u>(37,663)</u>		<u>(20,190)</u>		<u>15,347</u>	

## 24. Notes relating to the Cashflow Statement

- a) Reconciliation of net deficit on the Income and Expenditure Account to the revenue activities net cash flow in the Statement

2005/2006 £'000		2006/2007 £'000
13,014	Deficit (Surplus) on revenue account for the year	15,136
	Non-cash transactions	
90	(Increase) \ decrease in provisions	(43)
(2,009)	Depreciation	(1,613)
188	Government Grants deferred amortisation	91
(12,634)	FRS 17 - Retirement benefits adjustments	(15,131)
319	Minimum and voluntary revenue provision	333
0	Revenue Contributions to Capital Outlay	181
	Items on an accruals basis	
(1,122)	Increase \ (decrease) in debtors	3,269
957	(Increase) \ decrease in creditors	(808)
	Items shown under another classification in cashflow	
154	Increase in capital creditors	269
382	Increase in Capital Financing debtor	(1,960)
199	Interest received	425
0	Investment Income	0
(165)	Capital – Principal	(234)
(212)	Capital – Interest	(296)
0	Finance Lease - Capital element	(140)
0	Finance Lease - Interest element	(30)
20	Net cash movement in other reserves	(3)
<u>(819)</u>	<b>Net Cash from Revenue Activities</b>	<u>(554)</u>

- b) Reconciliation of Movement in Cash

	Balance 1/4/2006 £' 000	Balance 31/3/2007 £' 000	Movement in the year £' 000
Cash at bank	4,964	4,061	903
Cash held in imprest accounts	38	16	22
	<u>5,002</u>	<u>4,077</u>	<u>925</u>

- c) An analysis of government grants received is shown in the table below:

2005/2006 £'000		2006/2007 £'000
200	Arson Task Force	0
36	New Dimension	225
33	Fire Control Project	53
0	Fire Pevention	204
0	Miscellaneous	0
<u>269</u>	<b>Total</b>	<u>482</u>

## Fire Fighters Pension Fund Account

As detailed in the explanatory forward, significant changes have been introduced from April 2006 in the financial arrangements for the uniformed fire fighters pension scheme.

Details of the transactions during the year on the fire fighters Pension Account which is managed by the Authority are as follows:

2005/2006 £'000		2006/2007 £'000
	<b>Income</b>	
	Employer	
-	Basic contributions (21.3%)	(4,144)
-	Ill health retirement contributions	(392)
-	Employee Contributions	(2,156)
-	Transfer Values in from other schemes	(212)
<b>0</b>	<b>Total</b>	<b>(6,904)</b>
	<b>Expenditure</b>	
-	Pension payments	7,211
-	Commutation of pensions and lump-sum retirement	1,941
<b>0</b>	<b>Total</b>	<b>9,152</b>
<b>0</b>	<b>Net expenditure</b>	<b>2,248</b>
	<b>Amount receivable from Central Government</b>	
-	Pension grant top-up - Amount received	(1,277)
-	Pension grant top-up - Amount due	(971)
<b>0</b>	<b>Balance</b>	<b>0</b>

### Net assets statement

The assets and liabilities of the pensions account as at 31 March 2007 are as follows:

31/03/2006 £'000		31/03/2007 £'000
	<b>Current assets</b>	
	Debtors - Central Government	971
<b>0</b>		<b>971</b>
	<b>Current liabilities</b>	
	Creditors	
	Cash and Bank	(971)
<b>0</b>		<b>(971)</b>
<b>0</b>	<b>Net assets</b>	<b>0</b>

### Notes to the Pensions Fund Account

The Pensions Fund Account has been compiled in accordance with the Recommended Accounting Practice of the Pension SORP issued by CIPFA. The Income and Expenditure has been accounted for on an accruals basis with the exception of amounts disclosed for 'Transfer Values' from or to other schemes which have been accounted for on a cash basis.

The fund statements do not take account of liabilities to pay pensions and other benefits after the year end. Information on the liabilities determined for the scheme in accordance with FRS 17 are shown in note 23 to the core financial statements.

## 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 2007 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, Integrated Risk Management Plan (IRMP), Corporate Plan and Medium Term Financial Plan (MTFP). There will also be a year end Best Value Report. Its current capital programme was considered as part of the budget making process.

The budget took account of its priorities, particularly in relation to the need to relocate the workshops. The budget also includes a number of efficiency items as included in the return to DCLG which helps to address value for money requirements. The Authority's financial goals and targets as well as risks and mitigation were clearly spelt out in the Budget Report.

A capital programme was approved, by the Authority, together with provision for prudential borrowing of £9.4m 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 Improvement 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. This will be subject to review and also builds on the Authority's continuity of service developments.

## *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 has its own Treasurer who 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.

Since the initial CPA, the Fire Authority set itself an ambitious Improvement Plan with 73 action points, 67 of which have been completed on or ahead of schedule with the remaining 6 expected to be completed as planned.

Efficiencies have been identified as part of the budget and DCLG 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 of Combined Fire Authorities for council tax levels. The Audit Commission fee includes work related to value for money issues.

The Authority's sickness levels continue to receive close attention. 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 additional staff availability offers an increasing opportunity 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 anticipated 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.

Value for money has been enhanced by:

- Inclusion in the budget of funds to enable the Authority to respond adequately to the CPA requirements via its action plan.
- Crewing some Urban Search and Rescue expenditure from existing resources.
- Contracting arrangements including savings afforded by the contract with Bristol City Council to provide financial services.
- Improved attendance statistics.
- Improved performance information.
- Reduced ill health retirements
- Focused Community Fire Safety activities met largely by the utilisation of existing resources.
- Significant achievement of efficiency gains

- Risk management – including major financial risks with mitigation discussed at the Fire Authority’s budget setting meetings.
  - Integrated Risk Management Plan – targeted at the Authority’s Operational Requirements
- and
- Asset planning – e.g. 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:

- A methodology based on the principles of PRINCE 2 is now being used as a project management tool for major projects.

## VI Risk Management

A corporate risk register is in place and is reviewed by the Service Management Team on a regular basis. Further refinement is in hand under the auspices of the Improvement Unit, who have been working with a private sector advisor. Guidance, clarification and training have also been provided to managers to ensure that risk management is more effective at the business planning and project level. 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 Integrated Risk Management Plan (IRMP) 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.

There are also regular meetings of the Risk Assessment Working Group (RAWG), a sub-group of the LRF. Avon and Somerset Constabulary 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 has been approved and published.

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 Service Management Board
- Items contained within the Authority's IRMP
- Success against financial goals and targets together with financial risks and mitigation.

## *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.

The Forum has adjusted its standing agenda to concentrate on three main issues, 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.

These improvements have enabled performance at the local level to improve. Business plans now contain much smarter targets and these are used as the basis for reviewing progress locally. A specific group has been set-up within Service delivery to ensure poor performance trends in key indicators are addressed before they become too significant.

## **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. 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 including items included in reports from the internal and external auditors.

The key issues are listed below, with proposed actions:

### i) Service Assessment

In terms of the day to day fire service, the Authority was judged to be good with a 3 star rating (out of a possible 4) which indicates that the Authority is performing well.

### ii) Audit Commission's Assessment of the Authority

The main messages are:

#### a) Direction of Travel – “improving well”

Good progress has been made to implement the post CPA Improvement Plan, Performance management processes have been updated, and recording and reporting systems and data quality improved. Good plans are in place to drive future improvement and the Authority is seeking to increase its capacity to deliver them effectively. However, measuring outcomes from the Authority's initiatives needs extending.

#### b) Operational Service Assessment – “adequate performance”

Overall the Avon Fire & Rescue Service is performing well and service delivery is supported by effective performance management arrangements. However, outturns for best value performance indicators have affected the overall result of the service assessment and, to the extent that they are within the control of the Authority, merit further review.

c) Use of Resources – “performing well”

The Authority manages its finances well and provides value for money. Plans have been developed to further improve services and additional resources are being put in place to deliver these improvements.

We issued an unqualified opinion on the Authority’s 2005/06 financial statements. We also judged that the Authority had adequate arrangements in place for achieving value for money.

d) Further meetings continue to take place between officers and the Audit Commission and work will be put in hand during the year to address the issues raised by the Audit Commission and to look particularly at weaker areas. Some of this work is already in hand.

iii) Internal Audit

Discussions with Internal Audit have recognised significant improvement in a number of areas. Particular issues raised include:

- Risk management – there is now a corporate risk strategy, main financial risks with mitigation, explanation of rating scales and levels of action appropriate to risk, although further improvements will be made to more closely match risks to objectives in the next planning cycle. New training for members is also planned for the current year.
- A number of policy priorities are currently under production under the auspices of the Human Resources Manager.
- A partnership manager has also been appointed who will address concerns in this area.
- A Performance Management Strategy, including target setting guidance, is being produced. Performance Management Systems were considered as “Good” by Internal Audit.

iv) General

- The Authority will continue to work, through the Service Management Team, within its own resources and with its internal and external auditors to review existing control issues and matters which arise during the year in order to enhance its procedures.
- Further work will take place to reduce sickness levels, as indicated elsewhere in this statement.

- The budget was prepared including a risk analysis with mitigation, as well as setting out the Authority’s financial goals and targets. These are subject to constant monitoring.

**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.

Several productive meetings have been held between the internal and external auditors and officers of the Authority.

Internal Audit have further developed their risk based approach to planning 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*  
 .....

## Avon Fire Authority - Statement of Internal Control (SIC) – Action Plan

Internal Control Issue		Action	Responsible Person	Timescale
1.	Data Quality	Work with managers and Internal Audit to ensure improvements where necessary. In particular, consider as part of new contract from April 08. Set up a BVPI forum to ensure control measures are implemented and managers are accountable for data.	Director of Service Improvement / Performance Information Manager	In accordance with Audit recommendations Monthly SMT Performance Management Forum Contract April 08
2.	Finance Monitoring	Ensure regular reports to Members outlining main pressures and balances and, where necessary, use of reserves and remedial action. Control of new budget to meet Fire Authority requirement and Government controls.	Treasurer	On-going New budget – December \ January
3.	Staff Sickness	Monitor and report as part of Performance management practices and procedures. Review and enhance policies, regular reports to Members, return to work interviews, measurement of changes. Staff development and improved managerial accountability	Director of Human Resources and People Development	In accordance with the HR Directors Business Plan Monthly SMT Performance Management Forum Fire Authority reports
4.	Risk Management	Regular review of risks in line with AFRS policy, SMB/SMT to monitor, internal meetings to identify risks, introduce interventions and control measures. Review financial risk and mitigation in budget report.	SMB / Director of Service Improvement / Strategic Development Manager	Review of register in line with policy  On-going process of embedding policy  New budget – December/January
5.	Service Assessment	Pursue improvements to identified areas for direction of travel by enhancing performance management processes and performance indicators, business planning, initiative logging and project management. Target to improve overall score. Internal review to consider issues. Produce Partnership framework and guidance. Regular reviews of progress on Direction of Travel and OASD Action plans.	Director of Service Improvement / Improvement Co-ordination Manager	In accordance with Audit recommendations, frameworks and prescribed timescales  Early 2008
6.	Integrated Risk Management Plan	Training for managers. Discussion with Avon and Somerset Local Resilience Forum as a major strategic partnership. Success against financial goals, targets and IRMP action plan.	ACFO – Risk Reduction	In accordance with IRMP action plan
7.	Performance Management	Focus on: <ul style="list-style-type: none"> <li>• Performance figures - BVPIs/ LPis and Management information</li> <li>• Improvements to the reporting of figures</li> <li>• Monitor progress through SMT</li> <li>• Regularly review changes to Performance Management Forum and member engagement</li> <li>• Regional Performance Management benchmarking and capacity building</li> <li>• Update on future Assessments and audits</li> <li>• Progress to be reported regularly to Fire Authority</li> </ul>	Director of Service Improvement and Strategic Development Manager/ Performance Improvement Manager	Monthly SMT Quarterly Performance management meeting Regular BVPI meetings

# **Independent auditor's report to the Members of Avon Fire Authority**

## **Opinion on the financial statements**

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

This report is made solely to 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 Treasurer and auditor**

The Treasurer's responsibilities for preparing the financial statements, including the Firefighters' pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements and the Firefighters' pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006: the financial position of the Authority and its income and expenditure for the year; and

the financial transactions of its Firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

## **Basis of audit opinion**

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

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

## **Opinion**

In my opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended; and

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

Signed: 

B. Bethell  
District Auditor  
The Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol BS34 8SR

Date: 21 September 2007

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

#### **Authority's Responsibilities**

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

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

## **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for fire and rescue 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 having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in December 2006, I am satisfied that, 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 2007.

## **Best Value Performance Plan**

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

**Certificate**

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

Signed: *B. Bethell*

B. Bethell  
District Auditor  
The Audit Commission  
Westward House  
Lime Kiln Close  
Stoke Gifford  
Bristol BS34 8SR

Date: 21 September 2007