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Authority Membership 2005/2006

Chairman:
Councillor P. Young (Sunderland City Council)

Vice-Chairman
Councillor T. Cooney (Newcastle City)

Councillors

D. Bollands (Gateshead MBC)

T Woodwark (Newcastle City)

K W Jordan (North Tyneside MBC)

J. O'Neil (Gateshead MBC)

M J Huscroft (North Tyneside MBC)

Mrs. M. Forbes (Sunderland City Council)

R Reynolds (South Tyneside MBC)

Mrs. D. James (Newcastle City)

D Richardson (Sunderland City Council)

R. Renton (Newcastle City)

Mrs. I. Rippeth (Gateshead MBC)

P Gibson (Sunderland City Council)

J. Bell (South Tyneside MBC)

Chief Fire Officer
R. Bull

Chief Emergency Planning Officer
V.Bowman

Finance Officer
K. Beardmore C.P.F.A.

Introduction

We are pleased to present the Statement of Accounts for the year 2005/2006 for the Tyne and Wear Fire and Rescue Authority. A published and audited Statement of Accounts is at the heart of ensuring proper accountability for the use of local and national taxpayers money. We recognise, however, that the Authority's accounts can only tell part of the story. The Authority needs to demonstrate that it is aiming to operate to the highest standard of conduct in accordance with the principles of Corporate Governance and has a robust system of internal control in place.

With regard to Corporate Governance, the authority reviewed its code of Corporate Governance in March 2006. The Code follows the framework recommended by CIPFA / SOLACE. This code has been used to assess the Authority's arrangements for compliance with the three underlying principles of Corporate Governance – openness and inclusivity, integrity, and accountability. This demonstrates that the Authority has the majority of documentary evidence, processes and measures in place. Where further developments, to comply with the code, are required, the Authority will take appropriate action.

Elsewhere within the Statement of Accounts, a Statement on the System of Internal Control has been included. This Statement confirms that there are sound systems in place. We will continue to ensure action is taken where necessary to maintain and develop the system of internal control.

R Bull	V Bowman	Cllr P Gibson
Chief Fire Officer	Chief Emergency Planning Officer	Chairman of the Authority

Dated: 26th June 2006

Certification of the Statement of Accounts

As Chairman of the Authority Meeting held on the 26th June 2006, I hereby acknowledge receipt of the Statement of Accounts for 2005/2006 by this Authority, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Authority of 26th June 2006 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Signed:
Dated: 26th June 2006

Foreword by the Finance Officer

This Statement of Accounts shows in the following pages the Authority's final accounts for 2005/2006. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2005'. The Code of Practice constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2003, and the Local Government and Housing Act 1989.

Certain statements are required to be prepared under the Code of Practice as follows:

1. **Statement of Responsibilities**
   This discloses the respective responsibilities of the Authority and the Finance Officer for the accounts.

2. **Statement of Accounting Policies**
   This discloses the accounting policies that are significant to the understanding of the Statement of Accounts.

3. **Statement on the System of Internal Control**
   This statement sets out the principal arrangements that are in place to ensure a sound system of internal control is maintained.

4. **Consolidated Revenue Account**
   This statement brings together the cost of the services for which the Authority is responsible and shows how the expenditure was financed.

5. **Consolidated Balance Sheet**
   This shows the balances and reserves available to the Authority; its long term indebtedness; the fixed and net current assets employed in its operations and summarised information on assets held.

6. **Statement of Total Movement in Reserve**s
   This brings together all the recognised gains and losses of the Authority during the period, and identifies those that have and have not been recognised in the Consolidated Revenue Account.

7. **Cash Flow Statement**
   This consolidated statement summarises the inflows and outflows of cash arising from transactions arising with third parties for revenue and capital purposes.

Foreword by the Finance Officer (Continued)

Revenue Expenditure and Income

The estimated net revenue expenditure to be met from local taxpayers was approved at £20,704,711. Band D council tax, after allowing for RSG and NNDR was set at £65.38.

The following table summarises the financial position for the year:

	2005/06 Original Estimate £000	2005/06 Revised Estimate £000	2005/06 Actual Outturn £000	2004/05 Actual Outturn £000
Community Fire Safety	5,491	5,447	8,184	4,091
Fire Fighting & Rescue Operations	53,186	54,285	45,977	44,938
Fire Service Emergency Planning and Civil Defence	0	0	(52)	(12)
Corporate and Democratic Core	338	347	328	300
Non Distributed Cost	335	20	568	635
NET COST OF SERVICES	**59,350**	**60,099**	**55,005**	**49,952**
Add / (Deduct) Balances	(639)	(602)	0	0
Cleaning DSO	0	0	(22)	58
Contingencies/Interest on Balances	935	(151)	(940)	(648)
Pension Interest Cost and Expected Return on Pensions Asset	0	300	24,370	21,520
	59,646	**59,646**	**78,413**	**70,882**
Transfer from Delegated Balances			61	313
Transfer from Asset Management Rev A/C			(303)	(335)
Insurance Fund			65	(998)
Pension Reserve			1,385	3,481
PFI Smoothing Reserve			2,321	1,840
Early Retirement Reserve			(3)	0
Contribution to FRS 17 Pension Reserve			(22,990)	(18,640)
Contribution to Capital Reserve			(267)	(261)
	59,646	**59,646**	**58,682**	**56,282**
RSG, Non Domestic Rates and Precepts	59,646	59,646	59,722	57,217
REDUCTION / (INCREASE) TO BALANCES	**0**	**0**	**(1,040)**	**(935)**

Quarterly reports are made to the Authority which detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure.

The general balances of the Authority as at 31st March 2006 after taking account of the above increase to balances, have increased by £1,039,787 from £5,379,758 to £6,419,545.

Foreword by the Finance Officer (Continued)

The increase in balances can be attributed to the following: -

	£000
Staffing Savings / Seconded Officers	299
Interest on Balances	450
Leasing	130
Capital Financing Savings	123
Other Items	38
	1,040

Capital Expenditure and Income

The Authority approved a capital programme for 2005/2006 of £2.235 million, which was subsequently revised to £0.852 million during the year. Actual expenditure for the year was £0.671 million, with the main areas of spending summarised below:

	£000
Replacement Communications Programme	10
Equipment – Operational and Information Technology	403
Minor Works Programme	124
Vehicles, Plant and Equipment	45
Occupational Health Unit	19
Community Safety Facilities	20
BMS	43
Life Skills Centre	7
	671

The capital expenditure was financed as follows:

	£000
Borrowing	671
	671

The slippage of £1.56 milion is largely a result of the delayed completion of the implementation of the PFI facilities. This, particularly, affected the planned alterations to the Occupational Health Unit premises and the PFI Firehouses Bullet Payment. Additional delays also occurred following difficulties in appointing contractors in respect of adaptations to Stations Echo and Golf for Community Safety Centres. Delays in the tendering process have resulted in slippage in the conversion of the existing Technical Services Centre to a Life Skills Centre under the Safety Works initiative.

Borrowing Facilities

The Lead Authority (Sunderland City Council) administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP). As at 31 March 2006, the Authority has borrowing totalling £18.210 million.

Trading Account

The Authority operates a Cleaning Trading Account, which came into operation in 1989. Following the abolition of Compulsory Competitive Tendering with effect from 2nd January 2000, there is no longer a statutory requirement to achieve a rate of return. The Trading Account now needs to demonstrate Best Value and one method of showing this is through setting and achieving a requirement to break even. The Trading Account achieved this target during 2005/2006.

Foreword by the Finance Officer (Continued)

FMS Development

As disclosed in the Statement of Accounting Policies and the Statement on the System of Internal Control, which is used by the Fire and Rescue Service and Emergency Planning Service, Sunderland City Council, the Lead Authority, successfully implemented a new Financial Management System (SAP) with effect from 1st June 2004. This major development involved not only replacement of the General Ledger Financial System but also incorporated a number of key developments to automate and integrate the

outdated in-house stores, costing and purchase ordering systems. This development was implemented on time and brings with it many improvements to both the financial management and the operational efficiency of the finance function within the Authority.

A post implementation review was undertaken by the external auditor in 2005/2006 and I am pleased to report the following main conclusion:

“The Council has adopted robust arrangements for implementing its new FMS system” and their report provided reassurance that the implementation was well managed. Given the size of the FMS project, the lack of recommendations can be viewed as an endorsement of the implementation process followed by the Authority.

Private Finance Initiative

The Authority entered into a contract in March 2003 to provide 6 new Fire Stations, a Service Headquarters and a new Technical Services Centre. The construction programme commenced in May 2003 but because of the financial and commercial trading difficulties of the parent company (Jarvis plc) of the contractor, the construction programme suffered from significant delays that resulted in significant cost increases.

During the year, the Authority engaged in discussions with Barclays Bank plc, who are providing senior debt for the project, in order to agree a set of proposals including a programme for completion. These discussions culminated in the Authority entering into a Support Deed for the scheme in January 2006. As part of this agreement the equity holders and Barclays Bank plc undertook to provide significant additional finance, whilst the Authority undertook to contribute £500,000 towards the construction costs of the scheme, funded from savings that have accrued to the Authority as a consequence of the delay. The Authority contribution was conditional, principally in relation to the delivery of all of the new facilities including snagging and demolition works. The contract expires in May 2029.

The construction programme is now complete, with only snagging and demolition works remaining. The final facility (Low Fell Fire Station) was handed over to the Authority on 27th March 2006.

Developments in Accounting for Pensions

The accounts continue to be fully compliant with Financial Reporting Standard 17 (FRS17) however because this area is very complex in nature I have set out below the background to this important Reporting Standard and how it’s requirements have been gradually phased into the Authority’s Statement of Accounts in accordance with best accounting practice.

Full FRS17 reporting was required, for the first time in 2003/2004, in order to comply with the requirements of the Statement of Recommended Practice (SORP) as recommended by the Chartered Institute of Public Finance and Accountancy.

FRS17 replaced SSAP 24 ‘Accounting for Pension Costs’ which most local authorities did not comply with, and it was also never fully incorporated into the SORP, because of the implications for council tax of compliance. Authorities generally used to make pension charges to the revenue account based on employer’s pension contributions payable and payments made to pensioners in the year they related to rather than benefit entitlements earned by employees.

Foreword by the Finance Officer (Continued)

The adoption of the new standard means that local authority accounts not only comply with UK GAAP but also meet International Accounting Standards Board (ASB) requirements, two years earlier than listed companies which had to comply with the new standard from 1st January 2005. FRS17 was introduced into local authority accounts in three phases commencing in 2001/2002 when a memorandum note to the accounts was required to disclose the authority's net asset or liability

conferred under defined benefit schemes which includes the Local Government Pension Scheme and the Firefighters Pension Scheme.

In 2002/2003 the accounts were required to show, in addition to the note to the accounts already set out, the movement in the year on the net asset / liability relating to defined benefit schemes, analysed across different classification of gains and losses as defined by FRS17.

Finally, 2003/2004 saw full adoption of the Standard including recognition of the net asset / liability, the inclusion of a pensions reserve in the Balance Sheet and accounting entries in the Consolidated Revenue Account for movements in the asset / liability relating to defined benefit schemes. The new requirements represented a very substantial change in the way that retirement benefits were accounted for by local authorities although the net impact of adopting FRS17 has a neutral effect on the council tax level.

Although FRS17 is regarded as a complex accounting standard it is based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. FRS17 is a better reflection of the economic reality of the relationship between an employer and the pension fund than the previous standard it replaces, SSAP 24. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the trustee to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme.

Future Changes to Accounting for Pensions

From 1st April 2006, Fire and Rescue Authorities will continue to administer and pay firefighters pensions, as well as any future pensions for new entrants, but will do so from a new separate local firefighters pension fund.

The underlying principle of the new arrangements is that employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The purpose of the employee and employer contribution rates under the new arrangements is to meet the accruing pension liabilities of currently serving firefighters. This means that Fire and Rescue Authorities will meet all the costs of employing a firefighter, including the cost of future pension liabilities, at the time of employing them.

Early ill-health retirements are possible under the 1992 Scheme and remain possible under the 2006 Scheme also. From 1st April 2006, ill-health provisions will be paid from authorities' new pension fund. To ensure equity between FRAs, employer payments towards the future cost of ill-health retirements will come from a combination of a flat rate employer contribution applicable to all authorities and from an individual charge payable by the relevant authority where an ill-health retirement occurs.

Revised employer and employee contribution rates will apply with effect from 1st April 2006. These rates have been set using the SCAPE (Superannuation Contributions Adjusted for Past Experience) methodology, which adjusts for changes in mortality, trends in pay, shifts in retirement ages, and the incidence of ill-health retirement.

Foreword by the Finance Officer (Continued)

Employee and employer contributions will be paid into the pension fund, with the fund being topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund will be recouped by Government. Overall, the change to the financial arrangements for firefighters pensions is cost neutral to central Government.

The pension fund will appear as a separate income and expenditure statement in an Authority's Statement of Accounts, with a separate Balance Sheet also required. The pension fund will be ring-fenced to ensure accounting clarity.

Whilst the impact of the new regulations will be considerable in 2006/2007, there is no impact on the Authority's Accounts for 2005/2006.

The Pensions Reserve was created in 2001/2002 to even out the impact of future year's firefighters pension liabilities. The Pension Account within the revenue account is ringfenced with any year-end balances being transferred to the reserve. The new funding arrangements for firefighter pensions are at a very early stage and may be subject to a further review in the near future. The position will be closely monitored and decisions taken with regard to the future and level of this reserve as appropriate.

Changes to the Statement of Recommended Practice (SORP) 2005.

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2005 (SORP) introduced the following main changes to the Statement of Accounts for 2005/2006:

- Requirement to publish a Statement on Internal control (SIC) in accordance with Regulation 4(2) of the Accounts and Audit Regulations 2003;

- Other minor accounting changes in line with Financial Reporting Standards (FRS's) and Urgent Issues Taskforce Abstracts (UITA's) issued up to 30th September 2004.

The Statement of Accounts (Subject to Audit) and Accounting Policies of the Authority for 2005/2006 fully complies with the Statement of Recommended Practice 2005 with any departures from the SORP being fully documented, including the reasons for the departure, where appropriate.

K. Beardmore CPFA
Finance Officer

Independent Auditor's Report to the Members of the Tyne and Wear Fire and Rescue Authority

Opinion on the financial statements

I have audited the financial statements of the Tyne and Wear Fire and Rescue Authority for the year ended 31st March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the re[illegible]ted notes. These financial statements have been prepared under the accounting policies [illegible] them.

This report i[illegible]ear Fire and Rescue Authority in accordance with Part II of th[illegible]o other purpose, as set out in paragraph 36 of the S[illegible]ities of Audit[illegible] Audited Bodies prepared by the Audit Commission[1].

Res[illegible]esponsibilitie[illegible]ef Finance Officer and auditors

The Ch[illegible] for preparing the financial statements in accordance with applicable [illegible] the Statement of Recommended Practice on Local Authority Accounting in [illegible]gdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to aud[illegible]ents in accordance with relevant legal and regulatory requirements an[illegible]diting (UK and Ireland).

I report to you my [illegible] to whether th[illegible]al statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Ac[illegible] in the United Kingdom 2005.

I review whether the statem[illegible] con[illegible] compliance with CIPFA's guidance (insert title and date). I report if [illegible]y with [illegible] practices specified by CIPFA or if the statement is misleading o[illegible]stent [illegible]er i[illegible]n I am aware of from my audit of the financial statements. I am n[illegible]red to co[illegible] I considered, whether the statement on internal control covers all risk[illegible]ot required to form an opinion on the effectiveness of the Authority's co[illegible]cedures or its risk and control procedures

I read other information published [illegible] the financial state[illegible]ther it is consistent with the audited financial statements. This ot[illegible] [the Explanatory Foreword]. I consider the implications for [illegible]f any [illegible]nt misstatements or material inconsistencies with the fi[illegible] My [illegible]bilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Au[illegible]de of Audit Practice issued by te Audit Commission and Internationa[illegible]s on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes e[illegible]n, on a test basis, of evidence relevant to the amounts and disclosures in the financial sta[illegible]ts. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

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

Auditor
Address
Date

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

1. 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 (the Finance Officer) is the City Treasurer of the Lead Authority (Sunderland City Council);

2. to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

3. to approve the Statement of Accounts.

The Finance Officer's Responsibilities

The Finance Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2006.

In preparing this statement of accounts, the Finance Officer has:

1. Selected suitable accounting policies and then applied them consistently;

2. Made judgements and estimates that were reasonable and prudent;

3. Complied with the Code, except where disclosed.

The Finance Officer has also:

1. Kept proper accounting records, which were up to date;

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

K. Beardmore CPFA
Finance Officer

Dated: 26th June, 2006

Statement of Accounting Policies

1. General Principles

The Accounts have been prepared in accordance with the principles of the Code of Practice on Local Authority Accounting in United Kingdom: A Statement of Recommended Practice (SORP) 2005 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) except where disclosed below. The analysis of service expenditure included in the Consolidated Revenue Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level.

2. Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefit to the Authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the 1995 Code of Practice on Local Authority Accounting. Different categories of fixed assets have been valued on different bases as follows:

The majority of the operational properties have been classified as specialised properties, that is these properties are rarely, if ever, sold on the open market in their existing use, and valued by the Depreciated Replacement Cost (DRC) method. This method of valuation estimates the gross replacement cost of the land and buildings, less an allowance, to reflect the age, condition, economic, functional and environmental obsolescence factors, which may result in the existing property being worth less than a new replacement building.

The exceptions are a number of sites acquired for new facilities, which have now been developed under a Private Finance Initiative (PFI) scheme. These areas of land are classified as operational assets and their value should be assessed on an Existing Use Value (EVU) basis.

DRC valuations assume the current use will continue for the foreseeable future, and the use will remain viable, financially or otherwise.

An Open Market Value for Alternative Use (OMVAU) has not been provided for comparison with the DRC valuations, but it is probable that an OMVAU valuation will be lower than the DRC valuation.

The non-operational properties have been valued on a Market Value (MV) basis.

In light of the Private Finance Initiative, which has impacted significantly on the Authority's asset portfolio, a full revaluation has been undertaken of the property assets of the Authority during 2005/2006. The surpluses arising on the revised valuation of these fixed assets have been credited to the Fixed Asset Restatement Account. Subsequent revaluations of fixed assets are planned on the basis of a five year rolling programme.

Capital projects that are still in progress as at 31st March are classed as 'fixed assets under construction' and are shown in the balance sheet as non-operational assets on an historic cost basis. These assets are transferred to operational assets on completion.

From 1 April 1994, assets acquired under finance leases are also capitalised in the Authority's accounts, together with the liability to pay future rentals.

The Authority has reviewed its "de minimis" level and this has now been established at a value of £20,000 for the recording of capital assets in respect of properties in the balance sheet. The “de minimis” level for equipment remains at a value of £10,000. All vehicles are recorded in the balance sheet.

3. Depreciation

Depreciation is provided for on a straight-line basis for all fixed assets with a finite useful life.

Operational buildings are depreciated over the anticipated useful life of the asset, which can be any length of time between 1 and 60 years. Where an asset is assessed as having a life in excess of 50 years depreciation is charged over 60 years.

Vehicles, plant furniture and equipment are depreciated over the anticipated useful life of the asset, generally between 3 and 10 years.

All assets, not subject to depreciation, are assessed each year for any material impairment, by the Authority’s Valuer, in accordance with FRS 11. No material impairment was assessed in 2005/2006, however any such impairment would be charged to revenue in the year that it occurred.

4. Capital Charges to Revenue

The Authority's revenue account is charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge based on the value at which the fixed assets are included in the balance sheet. The notional rates of interest used are 3.5% for those fixed assets included in the balance sheet at current value and 4.95% for infrastructure assets and community assets, which are included in the balance sheet at historic cost.

In order to disclose the Authority’s net operating expenditure, capital charges need to be reversed out and replaced by depreciation and external interest payable. This is performed in the Asset Management Revenue Account.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to earmarked reserves are disclosed separately as appropriations in the Consolidated Revenue Account, below net operating expenditure. Capital charges therefore have a neutral impact on the amounts required to be raised from local taxation.

5. Capital Receipts

Profits and losses arising from the disposal of capital assets are excluded from the revenue account in line with current legal provisions. The net book value of the asset disposed of is written off against the Fixed Asset Restatement Account.

6. Debtors and Creditors

The new Financial Management System implemented during 2004/2005 provides commitment accounting functionality. At the end of the year, outstanding commitments, where goods and/or services have not been received, are transferred to the following year. Relevant income items received within the first two weeks of the following year, together with any further known outstanding items, are included in the accounts for 2005/2006.

The treatment of expenditure and income, which relates to periods that span the 31st March year-end requires further explanation:

a. Periodical Payments relating to periods not ending on 31st March

In these cases the charges made in the financial year reflect a 12 monthly charge for the service provided e.g. four quarters accounts are included.

b. Wages for Weeks not ending exactly on 31st March

The majority of the Authority's staff (i.e. Firefighters) are paid on a fortnightly basis. This results in 26 payments being incurred for most years. In every tenth year, however, 27 payments fall. This happened in 1996/1997. An apportionment has been made to this cost to charge only that part, which relates to this financial year.

c. Debtors

The debtors in the balance sheet represent sums due to the Authority which had not been paid by the year-end, and which are regarded as collectable.

d. Creditors

Revenue transactions are recorded on a system of receipts and payments during the year.

The Authority's Financial Management System identifies all creditors as being both commitments (where the goods have been received by 31st March 2006 but not yet invoiced) and creditor payments (where the goods have been received and invoiced but not paid until the following financial year), automatically within the system.

7. Stocks, Stores and Work in Progress

All work in progress, stocks and stores at the year-end are valued at average cost price.

8. Cost of Support Services

Support services are provided to the Authority based upon a scheme approved by the Home Office, as follows: -

Gateshead MBC - Central Purchasing
Sunderland City Council - All other services

Support service costs from Sunderland City Council (with the exception of the City Treasurer's and Personnel Departments, which are charged on the basis of a Service Level Agreement) are charged on estimated time or actual time spent.

9. Provisions and Reserves

Provisions represent sums set aside for liabilities or losses, which will probably arise and for which a reliable estimate can be made. A provision counts as expenditure in the year in which the earmarking takes place.

A reserve is created by appropriation "below the line" in the Consolidated Revenue Account after the Net Operating Outturn has been calculated. When revenue expenditure is incurred for which the reserve was created, the expenditure is charged to the revenue account and the reserve is credited as an appropriations "below the line" to finance the expenditure. 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.

The insurance provision (Note 12, Page 35) is based on the full cost of known claims.

10. Internal Interest

Interest is credited to the revenue account based on cash flow and fund balances. The amounts are calculated using 7-day money market rates in accordance with guidance contained within the SORP.

11. Delegated Budgets

The delegated budget scheme allows the carry forward of any under-spending to the following financial year as provisions for specific future spending plans or as earmarked general balances.

12. Pension Costs

The pension costs that are charged to the Authority's accounts can be divided into two types of pension arrangements, both of which have different accounting treatments which are set out below for information:

a. Uniformed Staff

The Firefighters pension scheme is an unfunded, defined benefit scheme. In 2005/2006 the Authority met the net cost of annual pensions less firemen's contributions from its annual revenue budget, together with the net effect of transfer values paid and received. Lump sum payments are also met from the annual revenue budget. From 2001/2002 a Pension Reserve has been operated to smooth as far as possible the increasing pension liabilities.

b. Non-Uniformed Staff

The Local Government Pension Scheme, which is a funded defined benefit scheme, is available to non-uniformed staff. The pension costs that are charged to the Authority's accounts in respect of non-uniformed staff are equal to the contributions paid to the funded pension scheme for those employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

FRS 17 places further duties on the Local Authorities to disclose within their accounts liabilities for pension schemes for which they are responsible. The liabilities are to be determined as at 31st March of each year using assumptions and methodologies consistent with those set out in FRS 17. The purpose of the pensions disclosure is to provide clear information on the impact of the Authority's obligation to fund the retirement benefits of its staff on its financial position and performance. Even where this obligation is discharged through a pension fund the Authority remains responsible for the employers contributions set at a level to ensure the liabilities of the fund can be met.

By the Authority fully complying with the requirements of FRS 17 since 2003/2004, the cost of retirement benefits and associated liabilities are recognised in the actual statements as well as detailed in certain notes.

Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which the Authority was directly responsible. The new policies better reflect our commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

The change has had the following effects on the results of the prior and current periods:

- The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 3.54% lower (7.23% lower for 2004/2005) after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 31.26% higher (30.06% higher for 2004/2005) than it otherwise would have been.

- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 1122% (1229% for 2004/2005).

13. Government Grants

Revenue government grants are accrued and credited to income in the same period in which the related expenditure was charged. Where the precise amount is not known at the accounting date they are estimated and provided for in the accounts based on all known facts available. Where grants are received in advance they are treated as creditors and no account is made in the revenue account until the conditions of the grants have been satisfied. General government grants in the form of Revenue Support Grant and Business Rates Redistribution are disclosed separately in the Consolidated Revenue Account.

Grants, contributions and donations received to finance the acquisition of fixed assets are accounted for using one of the prescriptions of SSAP 4. i.e. where sums have been received in relation to assets which will not be depreciated (e.g. Land) the balance is written off directly to the Capital Financing Account.

14. External Interest

All interest payable on external borrowings is accrued and accounted for in the accounts for the period to which they relate, on a basis that treatment reflects the overall economic effect of borrowings. Interest receivable is also accrued and accounted for in the accounts of the period to which they relate.

15. Redemption of Debt

The Authority complies with the accounting requirements of the SORP and, in accordance with the Local Government and Housing Act 1989, is required to set aside a Minimum Revenue Provision (MRP) for the repayment of debt. All amounts set aside for the repayment of external loans and to finance capital expenditure are disclosed separately in the Consolidated Revenue Account below net operating expenditure.

16. Other Investments

Investments are all made via Sunderland City Council's Consolidated Advances and Borrowing Pool.

17. Long Term Contracts

The amounts of any outstanding undischarged obligations arising from long-term contracts such as the Private Finance Initiative (PFI) are required to be included as a separate note to the Consolidated Revenue Account. The relevant note and information relating to the Authority's PFI scheme is detailed in Note 9, Page 27.

18. Accounting for Leases

Rental payments under operating leases are fully charged to service revenue accounts in the year that they are incurred based on a fixed amount rental basis.

Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability) with the finance charge being allocated and charged to revenue over the term of the lease.

In 2005/2006 all existing leases were subject to a SSAP21 / FRS5 assessment to ensure full compliance with the SORP. Following this review it was found that the treatment of existing leases in the Authority's Accounts was correct.

Statement on the System of Internal Control

1. Scope of Responsibility

Tyne and Wear Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty 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 the Authority's functions and which includes arrangements for the management of risk.

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;
- 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 has been in place at the Authority for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and accords with proper practice.

3. The Internal Control Environment

The Authority's system of internal control is based upon the following key elements:

Establishment of Organisational Objectives

- The Standing Orders, Financial Regulations, Delegation Scheme and Terms of Reference have been adopted which sets out how the Authority operates and how decisions are made.
- The Deputy Clerk to the Authority is the Authority's designated Monitoring Officer and a protocol is in place regarding the legality of all of the Authority activities.
- There are comprehensive and well managed consultation arrangements in place, contained within the consultation strategy.
- The Strategic Plan sets out explicitly the planned key actions and performance targets for the future, and these are clearly linked with departmental and station annual plans and resources.
- Linked planning and budgeting systems are in place which are subject to regular review to ensure that they remain fit for purpose.
- Communication of objectives to staff and stakeholders takes place through our consultation strategy and publication of the Strategic Plan.

Corporate Governance Arrangements

- A Local Code of Corporate Governance has been adopted in accordance with guidance issued by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CPIFA) which is published on the Authority's Internet and will be published on the Intranet when that site goes 'live'. This code has assessed the Authority's arrangements for compliance with the three underpinning principles of corporate governance – openness and inclusivity; integrity and accountability.

- A system of scrutiny is in place which allows the Governance Committee to:

    - to provide independent assurance of the internal control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process, and

    - to promote and maintain high standards of conduct by the members of the Authority.

- For the relevant accounting period, the Fire and Rescue Authority acted as the Audit Committee with formal Terms of Reference.

- Corporate Governance training is made available to all Members.

- There are annual reviews of the Local Code of Corporate Governance to ensure that it is up to date and effective, and the methodology for these reviews has been agreed by the Authority.

Performance Management Arrangements

- There are clear and effective performance management arrangements in place which ensure that staff who are responsible for internal controls are aware of their responsibilities and identified training given as appropriate.

- Regular reporting of performance against key targets and priorities to the Authority's Strategic Management Team and the Authority as appropriate.

Identification of Risks to Achievement of Objectives

- There are robust and well embedded risk management processes in place, including;

    - Risk Management Strategy and Policy Statement;
    - Corporate Risk Profile;
    - Nominated Corporate Risk Manager;
    - Risk Management Training Programme;
    - Discrete Risk Profiles produced for certain major initiatives/projects;
    - Establishment and operation of a risk management fund;
    - Authority wide use of a Risk Register and Planner.

Key Controls to Manage Principal Risks

- The Finance Officer is the designated Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

- The Authority has in place Standing Orders, including procedures for letting contracts, financial regulations, procedure manuals covering financial and administrative matters, as well human resource policies and procedures. Policies and procedures cover:

    - Integrated Risk Management Plan

- Strategic Plan
- Corporate Risk Profile
- Whistle Blowing Policy;
- Anti Fraud and Corruption Policy;
- Code of Conduct;
- Members Code of Conduct
- Corporate Health and Safety Policy;
- Corporate Complaints Policy;
- Corporate Procurement Strategy;
- Treasury Management Strategy based upon CIPFA's Treasury Management Code;
- Budget management schemes.

- Service Continuity plans are in place, although these are being further developed.

- There is a Register of Interests procedure in place.

- There is a Delegation Scheme in place.

- Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job descriptions and person specifications.

- The Authority maintains an Internal Audit Service which operates in accordance with professional standards, and internal audit work is planned on the basis of risk.

- There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports which indicate financial performance against forecasts.

- There are clearly defined capital expenditure guidelines in place.

- Appropriate project management disciplines are utilised.

- Through reviews by the Audit Commission and other external agencies the Authority constantly seeks ways of securing continuous improvement. The Authority has professional and objective relationships with these external inspectorates.

4. Review of Effectiveness

The Authority has 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 managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors in the Annual Audit and Inspection Letter to Members and other review agencies in other reports.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes:

- The role of the Monitoring Officer in:

  - Maintaining an up-to-date version of the Constitution and ensuring that it is widely available for consultation by members, staff and the public; and
  - Ensuring lawfulness and fairness of decision making.

- For the relevant accounting period, the Fire and Rescue Authority acted as the Audit Committee with formal Terms of Reference.

- The work of Internal Audit is based upon a Strategic Audit Plan which covers all areas of activity and the associated risks and is updated to reflect new initiatives, risk areas and legislation. The annual audit plan is drawn up and resources are allocated to reflect the level of assessed risk in each area.

- There is regular systematic auditing of key financial and non-financial systems.

- The Audit Commission's Annual Audit and Inspection Letter for 2004/2005 states "Our detailed review of Internal Audit indicated that a high quality service is provided with some areas of improvement. Officers are aware of the issues and plans are in place to address them".

- Senior Managers have participated in the review of the Local Code of Corporate Governance through self assessments relating to their areas of responsibility.

- Area Managers have provided Controls Assurance Statements relating to their area of responsibility.

- Regular reporting of performance against key targets and priorities to the Authority's Strategic Management Team and the Authority/Committees as appropriate.

Whilst the Internal Audit of the Authority has concluded that, based on the work undertaken, overall throughout the Authority there are sound systems in place, the internal control system can always be improved. We will ensure that any recommendations for improvement arising from internal audits to the control system are implemented.

Richard Bull
Chief Fire Officer

Val Bowman
Chief Emergency Planning Officer

Ged Fitzgerald
Clerk to the Authority

Keith Beardmore
Finance Officer

Peter Gibson
Chairman

Dated 26th June 2006

Consolidated Revenue Account
Year ended 31st March 2006

	2005/06 Expenditure £000	2005/06 Income £000	2005/06 Net Expenditure £000	2004/05 Net Expenditure £000
Community Fire Safety	9,268	1,084	8,184	4,091
Fire Fighting & Rescue Operations	52,438	6,461	45,977	44,938
Fire Service Emergency Planning and Civil Defence	524	576	(52)	(12)
Corporate and Democratic Core	344	16	328	300
Non Distributed Cost	568	0	568	635
Net Cost of Services	63,142	8,137	55,005	49,952
Interest Receivable	0	940	(940)	(648)
Transfer from Asset Management Revenue Account	0	303	(303)	(335)
Pensions interest cost and expected return on pensions asset	24,370	0	24,370	21,520
NET OPERATING EXPENDITURE	87,512	9,380	78,132	70,489
Appropriations				
Transfers to/from General Reserves :				
Delegated Surplus	722	713	9	291
Civil Defence Revenue Reserve	74	22	52	22
Cleaning DSO Reserve	67	89	(22)	58
Insurance Reserve	757	728	29	(1027)
Insurance Provision	552	516	36	29
Pension Reserve	1,385	0	1,385	3,481
PFI Smoothing Reserve	2,321	0	2,321	1,840
Reserve for Early Retirement	0	3	(3)	0
Contribution to/from the FRS17 Pension Reserve	0	22,990	(22,990)	(18,640)
Contributions to/from Capital Reserves :				
Provision for Repayment of External Loans	0	267	(267)	(261)
AMOUNT TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXPAYERS	93,390	34,708	58,682	56,282
This was financed by:				
Revenue Support Grant		26,279	(26,279)	(26,925)
National Non Domestic Rates		12,515	(12,515)	(10,397)
Precept Income (inc. Late Rating Adjs.)		20,705	(20,705)	(19,657)
Collection Fund Surplus/(Deficit)		223	(223)	(238)
(SURPLUS)/DEFICIT FOR THE YEAR	93,390	94,430	(1,040)	(935)
General Fund Balance at Start of Year			(5,380)	(4,445)
GENERAL FUND BALANCE AT END OF YEAR			(6,420)	(5,380)

Notes to the Consolidated Revenue Account

1. Subjective Summary

The analysis reflects the requirements of the BVACOP where internal recharges have been allocated to the service recipient and ensures that this expenditure appears only once in the accounts and that it reflects the total cost principle of BVACOP. It eliminates double counting of the same recharges. This treatment has been applied consistently for both 2005/2006 and 2004/2005.

	2005/2006 £000	%	2004/2005 £000	%
Expenditure				
Employee Expenses	53,621	56.78	48,494	55.35
Premises Related Expenses	2,092	2.22	1,636	1.87
Transport Related Expenses	1,701	1.80	1,564	1.79
Supplies, Services & Other Expenses	3,764	3.99	3,574	4.08
Agency & Contracted Services	594	0.63	97	0.11
Capital Charges	2,100	2.22	2,142	2.44
Contributions to Pension Reserve	1,385	1.47	3,481	3.97
Cleaning DSO Reserve	68	0.07	89	0.10
Insurance Provision	578	0.61	618	0.71
Contribution to Earmarked Reserves	2,321	2.46	2,420	2.76
Underspend on Delegated Budget C/Fwd	796	0.84	735	0.84
Pensions Interest cost and expected return on Pension Asset	24,370	25.81	21,520	24.56
Increase in General Balances	1,040	1.10	1,246	1.42
	94,430	100.00	87,616	100.00
Income				
Government Grants	3,088	3.27	2,333	2.66
Other Grants, Reimbursements & Contributions	4,245	4.50	4,599	5.25
Customer & Client Receipts	1,535	1.63	1,202	1.37
Interest on Revenue Balances	940	0.99	648	0.74
Revenue Support Grant	26,279	27.83	26,925	30.73
National Non Domestic Rates	12,515	13.25	10,397	11.87
Precept	20,705	21.93	19,657	22.44
Collection Fund Net Surplus/(Deficit)	223	0.24	239	0.27
Cleaning DSO Appropriation Account	89	0.09	31	0.04
Transfer from Asset Mgmt Revenue Account	303	0.32	335	0.38
Contribution from Capital Reserves	267	0.28	261	0.30
Contribution from Reserve for Early Retirement	3	0.00	0	0.00
Insurance Provision	513	0.54	1,616	1.84
Underspend on Delegated Budget B/Fwd	735	0.78	422	0.48
Contribution from FRS 17 Pension Reserve	22,990	24.35	18,640	21.27
Decrease in General Balances	0	0.00	311	0.36
	94,430	100.00	87,616	100.00

2. Trading Services

The Authority is required to publish the results of services it operates on a trading basis. The Cleaning Trading Account continues to be maintained on a trading basis and is included in the Best Value Accounting Code of Practice Cost of Service analysis.

	2005/2006 £000	2004/2005 £000
Income		
Charges to Other Accounts of the Authority	317	346
Expenditure		
Labour	180	225
Materials	90	55
Transport and Plant	1	5
Overheads	9	3
Total Expenditure	**280**	**288**
Surplus for the Year	**37**	**58**

Appropriation Account

	£000	£000
Balance at Start of Year	89	31
Surplus for the Year	37	58
	126	89
Utilisation of Surplus in the Year	58	0
Balance at End of Year	**68**	**89**

3. Pensions

Uniformed Staff

In 2005/2006, the net cost of pensions and other benefits amounted to £14.83m (2004/2005 - £13.14m), representing 53.41% (2004/2005 – 47.78%) of pensionable pay.

Non Uniformed Staff

The pension costs that are charged to the Authority's accounts in respect of non-uniformed staff are equal to the contributions paid to the funded pension scheme for those employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The total of these costs in 2005/2006 was £293,660 (2004/2005 - £411,581), which represented 5.87% (2004/2005 – 8.72%) of pensionable pay. These costs have been determined on the basis of contribution rates that were re-established to meet 100% of the liabilities for the Pension Fund. The Fund's actuary, based on triennial actuarial valuations, the last review being 31st March 2004, determines the contribution rate. The employer's contributions certified by the actuary to the Fund in respect of the period 1st April 2005 to 31st March 2008 is 233% of the employer's contribution for each year.

As part of the terms and conditions of employment of its employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has 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, both of which are defined benefit scheme:

- The Local Government Pension Scheme for non-uniformed employees, administered by South Tyneside Metropolitan Borough Council. This is a funded scheme meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- The Firefighters Pension Scheme for uniformed employees. This is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be provided to meet actual pensions payments as they eventually fall due.

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	Local Government Pension Scheme		Fire-fighters Pension Scheme	
	2005/06 £000	2004/05 £000	2005/06 £000	2004/05 £000
Net Cost of Services:				
Current Service Costs	(830)	(810)	(14,260)	(10,490)
Past Service Costs	(70)	(30)	(450)	(600)
Net Operating Expenditure:				
Interest Costs	(1,230)	(1,180)	(24,070)	(21,170)
Expected return on assets in the scheme	930	830		
Amounts to be met from Government Grants and Local Taxation				
Movement on Pensions Reserve	190	290	22,800	18,360
Actual amount charged against council tax for pensions in the year:				
employers' contributions payable to scheme	(1,010)	(900)		
retirement benefits payable to pensioners			(15,980)	(13,900)

Note 19 to the Consolidated Balance Sheet contain details of the assumptions made in estimating the figures included in this Note. Note 2 to the Statement of Total Movements in Reserves, details the costs that have arisen through the estimates made in preparing figures for previous years, having to be revised.

4. Asset Management Revenue Account

The transactions in the account during the year were as follows:

	2005/06 £000	2004/05 £000
Income		
Charges for the Use of Fixed Assets	(2,094)	(2,141)
Expenditure		
Provision for Depreciation	997	980
External Interest Paid	794	826
Balance to the Consolidated Revenue Account	(303)	(335)

5. Publicity Account

Section 5(i) of the Local Government Act 1986 requires local authorities to keep an account of their expenditure on publicity.

	2005/06 £000	2004/05 £000
Employees	171	135
Running Expenses	30	33
Advertising for Staff	44	15
General Publicity / Promotion	50	4
	295	187

6. Members Allowances and Officers' Emoluments

Members Allowances

The amount paid to Authority members during the year was:

	2005/06 £000	2004/05 £000
Total Members Allowances Paid	59	60

Officers Emoluments

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were:

Remuneration Band	2005/06 Number of Employees	2004/05 Number of Employees
£50,000 - £59,999	6	7
£60,000 - £69,999	0	-
£70,000 - £79,999	0	2
£80,000 - £89,999	2	1
£90,000 - £99,999	1	-
£100,000 - £109,999	1	1

7. External Audit Fees

	2005/06 £000	2004/05 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	50	50
Fees payable in respect of other services provided by the appointed auditor	0	22

8. Related Party Transactions

The Statement of Recommended Practice requires the disclosure of any material transactions with related parties to ensure that stakeholders are aware when these transactions take place and the amount and implications of such transactions. Relevant disclosures include the provision of support services as disclosed in Note 8 to the Statement of Accounting Policies and Government Grants, which is shown in the Notes to the Cash Flow Statement. In terms of support services, the value of those received from Sunderland City Council total £436,523 (£421,439 in 2004/05) and those received from Gateshead MBC was nil (£30,000 in 2004/05). Disclosures in respect of members' interests are also required to be reported. After consultation with Members there are no disclosures to report.

9. Long Term Contracts

The Authority entered in to a contract in March 2003 to provide 6 new Fire Stations, a Service Headquarters and a new Technical Services Centre. The construction programme commenced in May 2003 but because of the financial and commercial trading difficulties of the parent company (Jarvis plc) of the contractor, the construction programme suffered from significant delays that resulted in significant cost increases.

During the year, the Authority engaged in discussions with Barclays Bank plc, who are providing senior debt for the project, in order to agree a set of proposals including a programme for completion. These discussions culminated in the Authority entering into a Support Deed for the scheme in January 2006. As part of this agreement the equity holders and Barclays Bank plc undertook to provide significant additional finance, whilst the Authority would contribute £500,000 towards the construction costs of the scheme, funded from savings that have accrued to the Authority as a consequence of the delay. The Authority contribution was conditional, principally in relation to the delivery of all of the new facilities including snagging and demolition works. The contract expires in May 2029.

The construction programme is now complete, with only snagging and demolition works remaining. The final facility (Low Fell Fire Station) was handed over to the Authority on 27th March 2007.

The expected Unitary Charges over the remainder of the 25 year contract term are as follows (assuming inflation of 2.5% per annum):

2006/2007 £3.595 million
2007/2008 to 2011/2012 £14.765 million
2012/2013 to 2016/2017 £19.403 million
2017/2018 to 2021/2022 £20.584 million
2022/2023 to 2026/2027 £21.919 million
2027/2028 to 2029/2030 £14.654 million

The contract payments are partly supported by Government grant assistance based on Private Finance Initiative (PFI) credits of £29.770 million. As part of the reforms to Local Authority PFI Grant announced by ODPM, the Authority has taken the opportunity offered to move to the annuity method of calculation of grant entitlement. This became effective from 1st April 2005. The following shows the expected receipt of grant over the remaining contract period.

2006/2007 £2.804 million
2007/2008 to 2011/2012 £11.215 million
2012/2013 to 2016/2017 £14.018 million
2017/2018 to 2021/2022 £14.018 million
2022/2023 to 2026/2027 £14.018 million
2027/2028 to 2029/2030 £8.761 million

10. Regional Management Board

The Regional Management Board (RMB) is presently constituted as a joint committee under sections 101 and 102 of the Local Government Act 1972. Representatives of the Northumberland, Cleveland, Durham and Darlington and Tyne and Wear Fire and Rescue Authorities make up the joint committee. Each of the constitutional authorities are joint signatories to an Agreement which details the constitution, voting powers, political group aspects, corporate governance, financial aspects, advice and support arrangements.

The purpose of the RMB is to accomplish improvement in the Fire and Rescue Service through its work in the following key areas:

- Integrate common and specialist services;
- Put in place effective resilience plans for large scale emergencies;
- Introduce regional personnel and human resource functions;
- Develop a regional approach to training;
- Establish regional control centres;
- Introduce regional procurement within the context of a national procurement strategy.

The Authority has provided defined delegated powers to the RMB for particular policy issues and to promote and consider the business case for specific regional initiatives on a collaborative basis, through a designated lead authority or alternative responsible body, for consideration and approval by Constituent Authorities.

The Authority has contributed £31,364 to the RMB during 2005/2006.

11. Finance and Operating Leases

The Authority uses various equipment and vehicles e.g. water tenders, which are financed under the terms of an operating lease. The following is a summary of transactions involving leases.

	2005/2006		2004/2005	
	Operating Leases £000	Finance Leases £000	Operating Leases £000	Finance Leases £000
Capital Value of Assets acquired	158	0	38	93
Total lease rentals paid	872	8	1,037	12
Liability for remaining primary period rentals	3,220	106	3,875	114

The total liability can be analysed as follows:

	2005/2006		2004/2005	
	Operating Leases £000	Finance Leases £000	Operating Leases £000	Finance Leases £000
Leasing expiring in 1 years time	748	8	764	8
Leasing expiring in 2 to 5 years time	2,007	33	2,338	33
Leasing expiring in 6 years and over	465	65	773	73
	3,220	106	3,875	114

Consolidated Balance Sheet

As at 31st March

	Note	31st March 2006 £000	31st March 2006 £000	31st March 2005 £000	31st March 2005 £000
FIXED ASSETS	(1)				
Operational Assets					
Operational Land & Buildings		33,797		30,144	
Vehicles, Plant & Furniture		2,361	36,158	1,185	31,329
Non Operational Assets			3,085		2,162
			39,243		33,491
Long Term Debtors	(2)		20		11
Residual Interest in PFI scheme	(3)		32		9
TOTAL LONG TERM ASSETS			39,295		33,511
CURRENT ASSETS					
Stocks & Stores	(4)	292		415	
Debtors	(5)	2,162		2,091	
Short Term Investments	(6)	5,674		3,555	
Cash at Bank		19,649		16,016	
Cash in Hand (Officers' Imprests)		2	27,779	2	22,079
CURRENT LIABILITIES					
Short Term Borrowing		731		719	
Creditors	(7)	3,302	(4,033)	2,406	(3,125)
TOTAL ASSETS LESS CURRENT LIABILITIES			63,041		52,465
Long Term Borrowing	(8)		(17,479)		(17,550)
Deferred Liabilties	(9)		(84)		(93)
Insurance Provision	(10)		(552)		(516)
Liability related to defined benefit pension scheme			(554,970)		(456,030)
TOTAL ASSETS LESS CURRENT LIABILITIES			**(510,044)**		**(421,724)**
RESERVES					
Fixed Asset Restatement Account	(11)		15,953		9,851
Capital Financing Account	(12)		5,627		5,920
Usable Capital Receipts	(13)		198		198
Earmarked Reserves					
Insurance Reserve	(14)		757		728
Pension Reserve	(15)		10,892		9,507
Reserve for Early Retirements	(16)		55		58
PFI Smoothing Reserve			4,161		1,840
General Reserves					
General Fund			6,420		5,380
Delegated Surplus			722		713
DSO			67		89
Civil Defence Revenue Reserve			74		22
FRS 17 Pensions Reserve	(17)		(554,970)		(456,030)
TOTAL NET WORTH			**(510,044)**		**(421,724)**

Notes to the Consolidated Balance Sheet

1. Movement on Fixed Assets

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Non Operational Assets £000	TOTAL £000
Gross Book Value 31st March 2005	32,027	2,931	2,162	37,120
Revaluations & Restatement	1,300	0	1,393	2,693
Reclassification	470	0	(470)	0
Additions	0	1,467	0	1,467
Disposals	0	0	0	0
Gross book value 31st March 2006	33,797	4,398	3,085	41,280
Depreciation b/fwd	1,883	1,746	0	3,629
Depreciation on Revalued Assets	(1,883)	0	0	(1,883)
Depreciation for the year	0	291	0	291
Balance at 31st March 2006	0	2,037	0	2,037
Net Book Value at 31st March 2006	**33,797**	**2,361**	**3,085**	**39,243**

The assets of the Authority have been valued by Mr. D. Bevan B.Sc. M.R.I.C.S. Senior Estates Surveyor, Sunderland City Council (valuation certificate dated 8th June 2006), on the bases referred to in the Statement of Accounting Policies (Page 13).

Non-operational Assets are transferred to Operational Assets upon completion.

The accounts reflect two sites previously classified as non-operational which have now been re-classified as operational during 2005/2006.

All assets are maintained within the General Fund.

The Authority purchased assets totalling £0.671 million in 2005/2006. These assets were financed using borrowing.

At 31st March 2006 the Authority had approved £3.465 million of capital expenditure, which will be spent in 2006/2007.

An analysis of fixed assets is:

	31st March 2006 (Nos.)	31st March 2005 (Nos.)
Fire Stations - Operational	9	18
Fire Stations - Non-Operational	5	0
Training Centre	1	1
Technical Services Centre	1	1

2. Long Term Debtors

	31st March 2006 £000	31st March 2005 £000
Amounts falling due after one year :		
Car Loans to employees	0	11
Recovery of Overpaid Pensions	20	0
	20	**11**

3. Long Term Debtor – Residual Interest in PFI Scheme

The Authority entered into a PFI scheme for the provision of new operational facilities. The contract expires in May 2029 and a long term debtor has been established which will be used to build up the residual interest in the facilities so that by the end of the contract term the residual interest is recorded as an asset at its expected fair value. The use of the notional interest rate for fixed assets of 3.5% as recommended by CIPFA has been used to determine the profiling for each years accounting entries. The estimated capital value of the assets which will transfer to the Authority in 2029 is £3,046,980.

	Amount as at 1st April 2005 £000	Add New Provision £000	Amount as at 31st March 2006 £000
PFI Residual Interest	9	23	32

4. Stocks & Stores

	31st March 2006 £000	31st March 2005 £000
General Stock	292	415

5. Debtors

	31st March 2006 £000	31st March 2005 £000
Amounts falling due in less than one year:		
Sundry debtors	1,451	1,398
PFI prepayments	608	640
Employee loans	103	53
	2,162	**2,091**

6. Short Term Investments

The Pension Reserve was set up during 2001/2002 as a method of smoothing the impact of the peak in lump sum payments over subsequent years. Originally funded by a one-off contribution from reserves, it is adjusted annually depending on the pension requirements for that year, and the resulting balance invested.

7. Creditors

	31st March 2006 £000	31st March 2005 £000
Sundry Creditors	2,250	1,484
Payroll Creditors	1,052	922
	3,302	**2,406**

8. Long Term Borrowing

The table below shows the source and maturity analysis of loans outstanding.

	Value as at 31st March 2006 £000	Value as at 31st March 2005 £000
Local Authority Borrowing	(17,479)	(17,550)
Source of Loan		
Public Works Loan Board	(12,671)	(10,863)
Mortgage Loans	(4,210)	(5,852)
11.75% Stock	(584)	(815)
3% Funded Debt	(14)	(20)
	(17,479)	**(17,550)**
An Analysis of loans by maturity		
Maturing in 1-2 years	(6)	(4)
Maturing in 2-5 years	(2,010)	(1,558)
Maturing in 5-10 years	(802)	(899)
Maturing in more than 10 years	(14,661)	(15,089)
	(17,479)	**(17,550)**

As borrowing for the Authority is consolidated within the borrowing undertaken by the Lead Authority, Sunderland City Council, the above analysis of borrowing over loan types and periods is based on the consolidated borrowing undertaken by Sunderland City Council.

9. Deferred Liabilities – Finance Leases

The following values of vehicles are held under finance leases, accounted for as part of Operational Fixed Assets.

	Vehicles, Plant and Equipment £000's
Gross Book Value 31st March 2005	93
Revaluations & Restatement	0
Additions	0
Disposals	0
Gross book value 31st March 2006	93
Depreciation b/fwd	0
Depreciation for the year	9
Balance at 31st March 2006	9
Net Book Value at 31st March 2006	**84**

Outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31st March 2006, accounted for as part of deferred liabilities, are as follows:

	Vehicles, Plant and Equipment £000's
Obligations payable in 2006/2007	5
Obligations payable between 2007/2008 and 2010/2011	22
Obligations payable thereafter	57
Total Liabilities at 31st March 2006	**84**

10. Insurance Provision

The Provision covers certain insurance risks up to agreed limits. Above these limits, cover continues to be maintained through the Insurance market. The balance at 31st March 2006 represents the estimated value of claims awaiting settlement.

	£000	£000
Balance as at 1st April 2005		516
Expenditure during the year:		
Premiums and Expenses	349	
Settlement of Claims	164	513
		3
Income during the year:		
Contributions from the General Fund	549	549
Balance as at 31st March 2006		**552**

11. Fixed Asset Restatement Account

This reserve was created for the first time in 1995/1996 in accordance with the capital accounting requirements. Revaluations of fixed assets are written off to this account.

	£000
Balance at 1st April 2005	9,851
Revaluations	6,079
Disposals	0
Build up of residual interest in PFI schemes	23
Balance at 31st March 2006	**15,953**

12. Capital Financing Account

This reserve was created for the first time in 1995/1996 in accordance with the capital accounting requirements. Depreciation and external interest charges on loans are charged to the account. The balance on the account is transferred to/from the Consolidated Revenue Account in the year in which it occurs.

	£000
Balance as at 1st April 2005	5,920
Minimum revenue provision (less depreciation provision) - refer to note below.	(267)
Deferred PFI debtor	(26)
Balance as at 31st March 2006	**5,627**

Note to MRP line
The entry in respect of the Minimum Revenue Provision in the Consolidated Revenue Account can be analysed as follows:

Provision for the Repayment of External Loans

	£000
Minimum Revenue Provision	731
	731
less depreciation charge	998
	(267)

13. Usable Capital Receipts

These are capital receipts that have not been used to finance capital expenditure or to repay debt.

	£000
Balance as at 1st April 2005	198
Capital receipts in year from sale of assets	0
	198
less utilised to repay debt in 2005/2006	0
less contribution to PPP scheme	0
Balance as at 31st March 2006	**198**

14. Insurance Reserve

This reserve relates to additional capital held to protect the Authority from any unexpected volatility, potential future changes in legislation that could be retrospective, any unknown exposures that may arise in the future and the MMI Scheme of Arrangement reserve that was established in 1993/1994 to cover a possible shortfall in the eventual settlement of claims against MMI.

15. Pension Reserve

This reserve was created in 2001/2002 to even out the impact of future year's firefighters pension liabilities. The Pension Account within the revenue account is ringfenced with any year-end balances being transferred to the reserve. The new funding arrangements for firefighter pensions are at a very early stage and may be subject to a further review in the near future. The position will be closely monitored and decisions taken with regard to the future and level of this reserve as appropriate.

16. Early Retirement Reserve

This reserve was established in order to cover future compensatory added years payments, associated with an early retirement during 2002/2003. This has ensured that the costs are covered in the year of retirement and will not lead to on-going revenue implications. The reserve will be reduced each year as payments are made to the Tyne and Wear Pension Fund.

17. FRS 17 Disclosures at 31st March 2006

Note 3 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pension Scheme (Tyne and Wear Pension Fund, administered by South Tyneside Metropolitan Borough Council) and the Firefighters Pension Scheme in providing Uniformed and non-Uniformed employees with retirement benefits.

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March are as follows:

	Local Government Pension Scheme		Fire-fighters Pension Scheme		Total	
Net Pension Asset	**2005/06 £000**	**2004/05 £000**	**2005/06 £000**	**2004/05 £000**	**2005/06 £000**	**2004/05 £000**
Estimated Employer Assets (A)	17,170	13,250	-	-	17,170	13,250
Total Value of Liabilities(B)	26,710	22,970	545,430	446,310	572,140	469,280
Net Pension Asset (A) - (B)	**(9,540)**	**(9,720)**	**(545,430)**	**(446,310)**	**(554,970)**	**(456,030)**

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £555 million has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative balance of £510 million. However, the position must be considered in the context of the arrangements for funding the deficit:

- If necessary, the deficit on the Tyne and Wear Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary

- Finance is only required to be raised to cover the uniformed pensions when these pensions are actually paid. Liabilities for the Firefighters Pension Scheme have been assessed using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Government Actuary's Department (GAD) was appointed by the Authority to assist with the assessment of accrued pension liabilities under the Firefighters Pension Scheme for the year ended 31 March 2006.

Liabilities for the Tyne and Wear Pension Fund have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Fund's liabilities have been assessed by Hewitt, Bacon and Woodrow Limited, an independent firm of actuaries, estimates for the Pension Fund being based on the latest full valuation of the scheme as at 31st March 2004.

The main assumptions used in their calculations have been:

	Local Government Pension Scheme		Fire-fighters Pension Scheme	
Assumptions	**2005/06 % per annum**	**2004/05 % per annum**	**2005/06 % per annum**	**2004/05 % per annum**
Price Increase	3.0	2.9	3.2	2.9
Salary Increase	4.5	4.4	4.7	4.4
Pension Increase	3.0	2.9	3.2	2.9
Discount rate	4.9	5.3	4.9	5.4
Rate of increase to deferred pensions	4.9	5.3	-	-

The Firefighters Pension Scheme has no assets to cover its liabilities. Assets in the Tyne and Wear Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

Assets (Employer)	**Long Term Return % per annum**	**2005/06 %**	**2004/05 %**
Equities	7.3	68	65
Government Bonds	4.3	12	15
Corporate Bonds	4.9	9	10
Property	6.3	9	8
Other	4.6	2	2
Total	**6.6**	**100**	**100**

The above figures have been provided by Hewitt, Bacon and Woodrow Limited, actuaries to the Local Government Pension Scheme (administered by South Tyneside Metropolitan Borough Council) and the Government Actuary Department (GAD) using information provided by the scheme and assumptions determined by the Authority in conjunction with the actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

18. Post Balance Sheet Events

Private Finance Initiative
As part of the Private Finance Initiative arrangements, the disposal of the Authority's former headquarters at Pilgrim Street, Newcastle was completed in May 2006. This disposal generated a capital receipt of £3m that will be reflected in the Authority's Accounts for 2006/2007.

19. Contingent Liability – Equal Pay Claims and Single Status Developments

The Single Status national implementation agreement requires all authorities to implement a pay and grading review for all green book employees by 31st March 2007. The Authority is currently working towards this.

The Authority has received a small number of equal pay claims. The Authority is mounting a strenuous defence of the claims and has appointed leading Counsel. However, if the Authority were to lose the cases there would be a financial impact on the authority and options would then be considered regarding the Authority's response.

Statement of Total Movement in Reserves

This statement brings together all the recognised gains and losses of the Authority for the year.

Year ended 31st March 2006

	Notes	2005/06 £000	2005/06 £000	2004/05 £000	2004/05 £000
Surplus/(deficit) for the year:					
- General Fund		1,040		935	
add back Movements on specific Revenue Reserves	1	(95,169)		(117,888)	
deduct Appropriation from Pensions Reserve		(22,990)		(18,640)	
Actuarial gains and losses relating to pensions	2	(75,950)		(103,890)	
Total increase/(decrease) in revenue resources			**(193,069)**		**(239,483)**
Increase/(decrease) in useable capital receipts		0		6	
Increase/(decrease) in unapplied capital grants and contributions		0		0	
Total increase/(decrease) in realised capital resources			**0**		**6**
Gains/(losses) on revaluation of fixed assets		6,079		(1,630)	
Build up of residual interest in PFI schemes		23		9	
Impairment losses on fixed assets due to general changes in prices		0		0	
Total increase/(decrease) in unrealised value of fixed assets	3		**6,102**		**(1,621)**
Value of assets sold, disposed of, or decommissioned					
Capital receipts set aside		0		0	
Revenue resources set aside		(267)		(261)	
Deferred PFI debtor		(26)		634	
Movement on Government Grants Deferred		0			
Total increase/(decrease) in amounts set aside to finance capital investment	4		**(293)**		**373**
Increase / (Decrease) on the Pension Reserve			**98,940**		**122,530**
TOTAL RECOGNISED GAINS AND LOSSES			**(88,320)**		**(118,195)**

Notes to the Statement of Total Movements on Reserves

(1) Movement on Specific Revenue Reserves

These amounts represent items which have been charged to or credited to the Consolidated Revenue Account, but which do not represent a net loss/gain, but rather a transfer of unapplied revenue resources.

	Appropriation to / from Revenue £000	Actuarial Gains/Losses Pensions £000	Movement £000	Balance brought fwd 31 March 2005 £000	Balance carried fwd 31 March 2006 £000
Insurance Reserve	29		29	728	757
Pension Reserve	1,385		1,385	9,507	10,892
Provision for Early Retirements	(3)		(3)	58	55
Delegated Surplus	9		9	713	722
DSO Reserve	(22)		(22)	89	67
FRS17 Pension Reserve	(22,990)	(75,950)	(98,940)	(456,030)	(554,970)
PFI Smoothing Reserve	2,321		2,321	1,840	4,161
Civil Defence Revenue Reserve	52		52	22	74
	(19,219)	**(75,950)**	**(95,169)**	**(443,073)**	**(538,242)**

(2) Actuarial Gain on Pension Reserve

The actuarial gains identified as movements on the Pensions Reserve in 2005/2006 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006.

Fire Fighters Pension Scheme

	2005/06 £000	2005/06 %	2004/05 £000	2004/05 %	2003/04 £000	2003/04 %
Differences between the expected and actual return on assets	-	-	-	-	-	-
Differences between actuarial assumptions about liabilities and actual experience	(970)	(0.20)	(1,390)	(0.31)	(3,520)	(1.08)
Changes in the demographic and financial assumptions used to estimate liabilities	(75,350)	(13.80)	(99,530)	(22.30)	(40,850)	(12.00)
	(76,320)		**(100,920)**		**(44,370)**	

Local Government Pension Scheme						
	2005/06 £000	2005/06 %	2004/05 £000	2004/05 %	2003/04 £000	2003/04 %
Differences between the expected and actual return on assets	2,450	14.30	440	3.30	1,520	12.90
Differences between actuarial assumptions about liabilities and actual experience	20	0.10	(390)	(1.70)	(20)	(0.10)
Changes in the demographic and financial assumptions used to estimate liabilities	(2,100)	(7.90)	(3,020)	(13.10)	(270)	(1.50)
	370		(2,970)		1,230	

(3) Movement in unrealised value of fixed assets

This movement represents the net revaluation of fixed assets, as disclosed in Note 1 to the balance sheet.

(4) Total Movement in amounts set aside to finance capital investment

	2005/06 Capital Financing Reserve £000	2004/05 Capital Financing Reserve £000
Capital receipts set aside in year		
- reserved and voluntary receipts set aside	0	0
- usable receipts applied	0	0
Total capital receipts set aside in year	0	0
Revenue resources set aside in year		
- capital expenditure financed from revenue	0	0
- reconciling amount for provisions for loan repayment	267	261
Total revenue resources set aside in year	267	261
Grants applied to capital investment in year	0	0
Deferred PFI debtor	26	(634)
Amounts credited to the asset management revenue account in year	0	0
Total movement on Government Grants Deferred Account	26	(634)
Total increase/(decrease) in amounts	293	(373)
Balance brought forward at 1st April	(5,920)	(5,546)
Balance carried forward at 31st March	(5,627)	(5,919)

The Capital Financing Account represents the amounts set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between the amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

Revenue resources set aside in the year includes all sources of revenue financing and capital financing in the year financing by government grant.

Cash Flow Statement

	Note	2005/06 £000	2005/06 £000	2004/05 £000	2004/05 £000
REVENUE ACTIVITIES					
Cash Outflows					
Cash paid to and on behalf of employees		54,949		50,984	
Other Operating Costs		7,799		9,160	
			62,748		60,144
Cash Inflows					
Precept Income/Collection Funds Surplus		(20,928)		(19,896)	
Non Domestic Rate Income		(12,515)		(10,397)	
Revenue Support Grant		(26,279)		(26,925)	
Other Government Grants	4	(3,088)		(2,323)	
Cash Received for Goods & Services		(1,535)		(1,213)	
Other Revenue Cash Payments/Income		(4,961)		(4,598)	
			(69,306)		(65,352)
	1		(6,558)		(5,208)
Servicing of Finance					
Cash Outflows					
Interest Paid			794		862
Cash Inflows					
Interest Received			(726)		(648)
Net Cash Flow from Revenue Activities			(6,490)		(4,994)
Capital Activities					
Cash Outflows					
Purchase of Fixed Assets			677		1,095
Cash Inflows					
Sale of Fixed Assets			0		(648)
Net Cash Flow before Financing			(5,813)		(4,547)
Management of Liquid Resources					
Increase (Decrease) in Short Term Deposits	3		2,119		153
Financing					
Cash Outflows					
Repayments of Amounts Borrowed			732		719
Cash Inflows					
New Loans Raised			(671)		(1,002)
Capital Receipts Applied			0		0
Other Capital Financing			0		0
(Increase)/Decrease in Cash & Cash Equivalents	2		(3,633)		(4,677)

Notes to the Cash Flow Statement

(1) Reconciliation of Deficit to Net Cash Flow

	£000	£000
Deficit / (Surplus) for the Year		(1,040)
Non Cash Transactions		
Add Minimum Revenue Provision	267	
Contribution to/from Reserves and Provisions	(4,273)	
Other	(564)	(4,570)
Items on Accruals Basis		
Decrease in Stocks	(123)	
Increase in Debtors	71	
Increase in Creditors	(896)	(948)
Net Cash Flow from Revenue Activities		**(6,558)**

(2) Increase/Decrease in Cash and Cash Equivalents

Movement	31/03/2006 £000	31/03/2005 £000	2005/06 £000
Cash in Hand	19,651	16,018	3,633
Increase in Cash and Cash Equivalents			**3,633**

(3) Increase/Decrease in Liquid Resources

Movement	31/03/2006 £000	31/03/2005 £000	2005/06 £000
Short Term Investments	5,674	3,555	2,119
Increase in Cash and Cash Equivalents			**2,119**

(4) Analysis of Government Grants

	2005/06 £000	2004/05 £000
Civil Defence	0	464
Office of the Deputy Prime Minister (ODPM)	3,088	1,859
	3088	**2323**

Glossary of Terms

Accrual
A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end date of the period for which the accounts are prepared.

Accounting Policies
Those principles, bases, conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting

assets, liabilities, gains, losses and changes to reserves

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Acquired Operation
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. Acquired operations are those operations of the local authority that are acquired in the period.

Actuarial Gains and Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or
- the actuarial assumptions have changed.

Agency Services
Services that are performed by or for other authorities or bodies, where the authority/body responsible for the service reimburses the authority carrying out the work for the cost of the work carried out.

Asset Management Revenue Account
An account the Authority maintains under capital accounting requirements. Depreciation and external interest charges on loans are charged to the account. Capital charges for the use of fixed assets are credited to the account. The balance on the account is transferred to/from the consolidated revenue account in the year in which it occurs.

Assets
Items of worth which are measurable in terms of money (value). Current assets are ones that may change in value on a day-to-day basis (e.g. Stocks and Stores). Fixed assets are tangible assets that yield benefit to the Authority and the services it provides for a period of more than one year.

Audit Commission
Is an independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to local authorities.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at a specific date usually at the end of an accounting period.

Balances
The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General Fund or any other fund.

BVACOP
The Best Value Accounting Code of Practice was developed from the key principles established from the Local Government Act 1999 (Sections 5 and 6). It aims to: -

a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty to secure and demonstrate Best Value in the provision of services to the community.
b) Facilitate accurate comparison between both services and authorities.
c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
d) Represent best practice.

Capital Charge
The charge to the services for the use of fixed assets. As a minimum, the capital charge must cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet.

Capital Expenditure
Expenditure on the acquisition or provision of tangible assets which have a long term value to the Authority, e.g. land, purchase of existing buildings, erecting new buildings, purchase of furniture and equipment.

Capital Financing Charges
The annual charge to the Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

Capital Financing Requirement
The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.

Capital Grants
Grants received towards capital expenditure on a particular service or project.

Capital Receipts
Money received from the sale of land or other capital assets. For non-housing authorities capital receipts are held by the authority and can be used to pay for any kind of capital expenditure, to repay debt, to meet premiums on early debt repayments and to meet liabilities under credit arrangements.

Class of Fixed Assets
The classes of fixed assets required to be included in the accounting statements are:

Operational assets

- Land and Buildings
- Vehicles, Plant and Furniture

Non-operational assets

Further analysis of any of these items should be given if it is necessary to ensure fair presentation.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Consolidated Balance Sheet
The combined fund balance sheets of an authority, excluding trust funds.

Constructive Obligation
An obligation that derives from an authority's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities and
- as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

Contingent Liability
A condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

Contingencies
Sums set aside as a provision for liabilities which may arise in the future but which cannot be determined in advance.

Corporate and Democratic Core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax
The form of local taxation operated from April 1993, based on properties.

Credit Approvals
The amount, as notified by Central Government, of capital expenditure which may be financed by loan, leasing or other forms of credit. There are two types of credit approvals: basic credit approvals (BCAs) and supplementary credit approvals (SCAs).

Basic Credit Approvals - BCAs are issued by the Secretary of State before the beginning of the financial year and are only available for use in the relevant year for which they are issued. Each authority received a single BCA and under normal circumstances BCA may be used for any type of capital expenditure.

Supplementary Credit Approvals - any Government Minister may issue an SCA for utilisation in relation to a particular category of expenditure or scheme which is ringfenced and specific in nature. SCAs can, now, be used within a two year period from when they are issued, which was a measure introduced by the government to give more flexibility in their use and to ensure the resource was actually used.

The system of capital funding through credit approvals was abolished in the Local Government Act 2003 and replaced by funding through Supported Capital Expenditure (Revenue).

Credit Ceiling
Is a measure of the difference between the authority's total liabilities in respect of capital expenditure financed by credit and the provision that has been made to meet those liabilities.

Creditors
Amounts owed by the Authority for goods and services provided where payment has not been made at the date of the balance sheet.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

Debt Outstanding
Amounts borrowed to finance capital expenditure that are still to be repaid.

Debtors
Sums of money due to the Authority but not received at the date of the balance sheet.

Deferred Charges
Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. Deferred charges are charged to revenue in the year in which the expenditure is incurred or are written down annually over an appropriate period where the expenditure provides a continuing benefit to the authority.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Discontinued Operations
Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued if all of the following conditions are met:

- the termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;
- the activities related to the operation have ceased permanently;
- the termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting in either form its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations;
- the assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Discretionary Benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits)(Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

Emoluments
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Estimation Techniques
The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gain losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured: where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Exceptional Items
Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Rate of Return on Pension Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure
Amounts paid by the Authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment - expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for (in which case the supplier is a creditor of the Authority).

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fees and Charges
Income arising from the provision of services.

Formula Spending Shares (FSS's)
This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for

each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

FRS 1 – Cash Flow Statements
Requires the Authority to prepare a cash flow statement in a manner prescribed by the FRS. Cash flows are increases or decreases of cash, cash being cash in hand and deposits repayable on demand less overdrafts repayable on demand.

FRS 3 – Reporting Financial Performance
The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2004/2005 is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of fundamental errors or changes in accounting policies.

FRS 4 – Capital Instruments
This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the authority's sources of finance and associated costs, commitments and potential commitments.

FRS 8 – Related Party Disclosures
FRS 8 exists to ensure that accounting statements contain the disclosures necessary to draw attention to the fact that reported performance and results may have been affected by the existence of related parties and by material transaction with them.

FRS 11 – Impairment of Fixed Assets
FRS 11 seeks to ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, that impairment losses are measured and recognised on a consistent basis and that sufficient information is disclosed in the statements to enable users to understand the impact of impairments on the financial position of the Authority.

FRS 12 - Provisions, Contingent Liabilities and Contingent Assets
The objective of this standard is to ensure that provisions (liabilities of uncertain timing or amount) are recognised only when they actually exist at the balance sheet date. A provision may only be recognised in the Authority's accounts when there is an obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle this obligation and a reliable estimate can be made of the amount of this obligation. A contingent liability or asset is not recognised on the balance sheet, although where these are material they are disclosed in the notes to the accounts.

FRS 15 – Tangible Fixed Assets
This standard sets out the principles of accounting for tangible fixed assets. The objective is to ensure that these assets are accounted for on a consistent basis in terms of their carrying amount and depreciation policies.

FRS 17 – Retirement Benefits
FRS 17 sets out the accounting treatment for retirement benefits such as pensions during retirement. The standard aims to show the value of benefits accrued and the value of assets set aside to meet these costs. For 2004/2005 the Consolidated Revenue Account shows the effects of over/under funding of pension liabilities within the net cost of services.

FRS 18 – Accounting Policies
This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are

reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

General Fund
This accounts for the services of the Authority. The net cost is met by the Council Tax, Government Grants and National Non Domestic Rates.

Going Concern
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Impairment
A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Income
Amounts due to the Authority for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment - income is deemed to have been earned once the goods or services have been supplied even if the payment has not been received (in which case the recipient is a debtor to the authority).

Infrastructure Assets
These are inalienable assets; expenditure on which is recoverable only by continued use of the asset created.
Examples of such assets are highways, footpaths, bridges, water and drainage facilities.

Intangible Fixed Assets
These are non financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

Interest Cost (Pension)
For a defined benefit scheme, the expected increase during the period is the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (Pension Fund)
The investments of the pension fund will be accounted for in the statements of that fund. However authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

Leasing
The method of financing the provision of various capital assets to discharge the Authority's functions outside normal borrowing procedures but within criteria laid down in the Local Authorities (Capital Finance) Regulations 1990. There are different types of leases available of which the following are most commonly used:

Operating Leases - may generally be described as those which do not provide for the property in the asset to transfer to the local authority and where "the authority estimates on the commencement date" that the value of the asset on the termination date of the lease will be equal to or greater than 10% of its value at the commencement date. The full definition of an operating lease is set out in Regulation 6 of the Local Authorities (Capital Finance) Regulations 1990. Operating leases are exempt from classification as a credit arrangement if the necessary criteria are satisfied.

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Lender Option Borrower Option Loans (LOBO)
Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.

Liquid Resources
Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Loans Outstanding
The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

London Inter Bank Bid Rate (LIBID)
The rates of interest being bid on the London Money Market for various time periods.

Long Term Contracts
A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long term contracts if they are sufficiently material to the activity of the period.

Minimum Revenue Provision
Is the minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the Local Government Act 1989.

National Non-Domestic Rate (NNDR)
With effect from April 1990 all non-domestic properties were revalued and the Government determines a national rate poundage every year which is applicable to all local authorities. Local authorities will continue to collect the non-domestic rate but the proceeds are pooled and distributed by Central Government on the basis of an authority's adult population.

Net Book Value
The amount at which fixed assets are included in the balance sheet, that is their historical cost of current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost
The cost of replacing or recreating a particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net Realisable Value
The open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-Operational Assets
Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operational Assets
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Past Service Costs
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Post Balance Sheet Events
Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept
The amount levied by the Tyne and Wear Fire and Rescue Authority which is collected by the Tyne and Wear District Council's on their behalf.

Prior Year Adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants. Allowing where appropriate for future increases and:
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provisions
These are sums set aside to meet liabilities or losses which it is anticipated will be incurred but where the amount and / or the timing of such costs is uncertain.

Provision for Credit Liabilities
Amount that is set aside from sales of capital assets, European grants and revenue to repay debt. The requirement to report on provision for credit liabilities was removed in the Local Government Act 2003.

Private Finance Initiatives (PFI)
PFI's are method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority pays for the use of the asset by means of a unitary charge and can acquire the asset after this term if included in the terms of the contract. Up until this point the Authority does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these arrangements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the scheme.

Prudence
The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Prudential Framework
One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Authority before the start of the relevant financial year as part of their budget setting process.

Public Works Loan Board (PWLB)
A Central Government agency, which lends money to Local authorities at lower interest rates than those generally available from the private sector. Local Authorities are able to borrow a proportion of their requirements to finance capital spending from this source.

Rate of Return on Capital
The profit of the authority's DLO/DSO's expressed as a percentage of the value of capital employed.

Related Parties
Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- central government;
- local authorities and other bodies precepting or levying demands on the Council Tax;
- its subsidiary and associated companies;
- its joint ventures and joint venture partners;
- its members;
- its chief officers; and
- its pension fund.

Examples of related parties of a pension fund include its:

- administrating authority and its related parties;
- scheduled bodies and their related parties; and
- trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual, or a member of there close family or the same household, has a controlling interest.

Related Party Transaction
A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for, a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, Rents and payable of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

Renewals Accounting
Where renewals accounting is adopted, the level of annual expenditure required to maintain the operating capacity of the infrastructure asset is treated as depreciation charged for the period. Actual expenditure is capitalised as incurred. Renewals accounting may only be used for infrastructure assets.

Research and Development
Expenditure falling into one or more of the following broad categories:

- pure (or basic) research: experimental work undertaken primarily to acquire knowledge.
- applied research: original investigation undertaken to gain knowledge towards a specific practical objective.
- development: use of knowledge to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improve substantially those already produced or installed.

Reserves
These are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

Residual Value
The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- an employer's decision to terminate an employee's employment before the normal retirement date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Balances
These are the accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce the Council Tax, or held to be applied in future years.

Revenue Contributions
The method of financing capital expenditure directly from revenue. The Authority may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

Revenue Expenditure
Expenditure incurred on the day to day running of the Authority, the costs principally include employee expenses, capital financing charges and general running costs.

Revenue Support Grant (RSG)
A grant paid by Central Government to every Local Authority to help to finance its expenditure generally and not specific services. The grant helps to bridge the gap between Council Tax and NNDR income on one hand and the total assessment of the Authority's need to spend on the other. The payment of RSG attempts to ensure that differences in spending needs and resources between authorities are equalised, in order to permit each authority to support a standard level of spending.

Scheme Liabilities
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement
An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrecoverable annuity contract sufficient to cover vested benefits: and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Specific Grants
Government grants to Local Authorities in aid of particular services, e.g. community fire safety.

Statements of Recommended Practice (SORPs)
Statements agreed by the Accounting Standards Board (established by the major accounting bodies) setting out the current best accounting practice.

Statements of Standard Accounting Practice (SSAPs)
Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be

disclosed in the published accounts.

Stocks
Comprises the following categories:
- goods or other assets purchased for resale
- consumable goods
- raw materials and components purchased for incorporation into products for sale
- products and services in intermediate stages of completion
- long term contract balances
- finished goods

Supported Capital Expenditure
Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by government.

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. However, in deciding upon whether to undertake unsupported borrowing regard is required to be had to:
- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

Total Cost
The total cost of a service or activity includes all costs, which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

Trading Account
The term is used to cover activities previously known as Direct Labour Organisations (DLOs), established under the Local Government, Planning and Land Act 1980, and Direct Service Organisations (DSOs) established under the Local Government Act 1988.
Unapportionable Central Overheads
These are overheads for which no user benefits and should not be apportioned to services.

Unsupported Borrowing
Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:
- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- the effect on the revenue budget of any additional costs incurred.

Useful Life
The period over which the authority will derive benefits from the use of a fixed asset.

Vested Rights
In relation to a defined benefit scheme, these are:
- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;

- for deferred pensioners, their preserved benefits:
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.