Item 6 (iv)

Tyne and Wear
Fire and Rescue Authority

Audited
Statement of Accounts
2011/2012

Contents

Authority Membership 2011/2012

Chairman
Councillor R. Heron (Sunderland City Council) from 13th June 2011 to 11th June 2012
Councillor T. Wright (Sunderland City Council) up to 12th June 2011 and from 11th June 2012

Vice-Chairman
Councillor N. Forbes (Newcastle City Council)

Councillors
Sunderland City Council

Councillor M. Essl up to 12th June 2011
Councillor M. Forbes
Councillor T. Wright
Councillor D. Trueman
Councillor N. Padgett from 13th June 2011 to 11th June 2012
Councillor Waller from 11th June 2012

Newcastle City Council
Councillor R. Clark up to 12th June 2011
Councillor T. Woodwark up to 12th June 2011
Councillor R. Renton
Councillor H. Stephenson
Councillor D. Ahad

Gateshead MBC
Councillor G. Haley
Councillor P. Mole
Councillor C. Ord

North Tyneside MBC
Councillor D. Charlton up to 12th June 2011
Councillor K. Jordan up to 12th June 2011
Councillor S. Mortimer
Councillor M. Huscroft up to 12th June 2011
Councillor C. Gambling
Councillor T. Mulvenna

South Tyneside MBC
Councillor J. Bell
Councillor M. Clare up to 12th June 2011
Councillor B. Watters
Councillor H.E. McAtominey from 11th June 2012

Independent Members
Mr. G.N. Cook
Mr. J.P. Paterson
Miss G.M. Goodwill

Chief Officers
I. Bathgate, Chief Fire Officer up to 24.02.2012
T. Capeling, Chief Fire Officer from 25.02.2012
M. Page, CPFA MBA, Finance Officer
D. Smith, Clerk to the Authority

Introduction

We are pleased to present the Statement of Accounts for the year 2011/2012 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 continues to have a robust system of internal control in place.

With regard to Corporate Governance, the Authority considers, annually, a review of its Code of Corporate Governance. A report on the annual review was received at a full meeting of the Authority in June 2012. The Code follows the framework recommended by CIPFA / SOLACE and the review specifically assesses the Authority's arrangements for compliance with the Code, which identifies the underlying principles of Corporate Governance – openness and inclusivity, integrity, and accountability. The review found that the Authority continues to have robust and comprehensive arrangements in place but has identified a small number of areas for improvement and development, which will be acted upon during 2012/2013.

In line with guidance issued by CIPFA, the Authority has established a Governance Committee to take on the remit of an Audit Committee. The role of this Committee involves not only approving the Statement of Accounts, but also reviewing arrangements for areas such as risk management, treasury management, the wider internal control environment and also consideration of internal and external audit plans, progress reports and annual reports.

Elsewhere within the Statement of Accounts, an Annual Governance Statement has been included, which confirms that there are sound systems of Internal Control in place. We will also continue to ensure action is taken, where necessary, to maintain and develop the system of Internal Control in the future.

Tom Capeling Chief Fire Officer	Malcolm Page Finance Officer	Dave Smith Clerk to the Authority

Dated: 24th September 2012

Certification of the Statement of Accounts

Statement of Accounts 2011/2012 (Subject to Audit) Certification by the Responsible Finance Officer

As the Tyne and Wear Fire and Rescue Authority's Responsible Finance Officer, I hereby certify that in accordance with the Accounts and Audit Regulations 2011 Regulation 8(1) the Statement of Accounts for 2011/2012 (subject to audit) presents a true and view of the financial position of Tyne and Wear Fire Authority as at 31st March 2012 and its income and expenditure for the year then ended.

Mr M Page
Finance Officer

Dated: 29th June 2012

Audited Statement of Accounts 2011/2012 Certification on behalf of those charged with governance

As Chairman of the Governance Committee held on 24th September 2012, I hereby acknowledge receipt of the audited Statement of Accounts for 2011/2012 by this Committee, in accordance with the Accounts and Audit Regulations 2011 Regulation 8(3)(a), and confirm that the Statement of Accounts was approved at the Governance Committee of 24th September 2012 in accordance with sub-paragraph 8 (3) (b) with regard to the aforementioned Regulations.

Mr. G.N. Cook
Chairman of the Governance Committee

Dated: 24th September 2012

Audited Statement of Accounts 2011/2012 Certification by the Responsible Finance Officer

As the Authority's Responsible Finance Officer, I hereby re-certify the audited statement of accounts for 2011/2012 in accordance with Regulation 8 (1) of the Accounts and Audit Regulations 2011.

Mr M Page
Finance Officer

Dated: 24th September 2012

Foreword by the Finance Officer

This Statement of Accounts shows, in the following pages, the Authority's final accounts for 2011/2012. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012' (based on International Financial Reporting Standards – IFRS), known more commonly as the Code. The Code constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2011, and the Local Government and Housing Act 1989.

Certain financial 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.

2. **Movement in Reserves Statement (MiRS)**
   This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other non-usable reserves.

3. **Comprehensive Income and Expenditure Statement**
   This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

4. **Balance Sheet**
   The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the authority (assets less liabilities) are matched by reserves held by the Authority.

5. **Cash Flow Statement**
   The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period.

6. **Notes (including a summary of significant accounting policies and other explanatory information)**
   The Notes to the financial statements have three significant roles. They:
   - Present information about the basis of preparation of the financial statements and the specific accounting policies used.
   - Disclose information that is required by the Code that is not presented elsewhere in the financial statements.
   - Disclose information that is not presented elsewhere in the financial statements but is relevant to an understanding of them.

7. **Supplementary Statements**

   Firefighter's Pensions – Fund Account, Net Assets Statement and Notes
   These statements summarise the transactions and the net assets relating to the Firefighter's Pension Fund.

Foreword by the Finance Officer (continued)

Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2011/2012 to be met from Government Grants and local taxpayers was approved by the Authority at £56.132 million. This meant that the precept, at the Band D level of Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts, was set at £73.16 for 2011/2012. This represented a Council Tax freeze in 2011/2012 with Council tax remaining at the 2010/2011 level.

The following table summarises the financial position for the year:

	2011/2012 Original Estimate	2011/2012 Revised Estimate	2011/2012 Actual Outturn	2010/2011 Actual Outturn
	£000	£000	£000	£000
Community Safety	9,931	9,844	7,631	8,549
Fire Fighting and Rescue Operations	48,744	49,097	35,028	38,515
Fire Service Emergency Planning	0	0	71	(36)
Corporate and Democratic Core	337	306	301	305
Non Distributed Costs	10	10	326	0
Exceptional Items	0	0	0	(74,280)
Net Cost of Services	59,022	59,257	43,357	(26,947)
Gain / Loss on Disposal	0	0	36	1,945
Cleaning DSO	0	0	(22)	(11)
Interest Payable	0	0	2,897	2,786
Contingencies	183	120	0	0
Interest on Balances	(220)	(220)	(242)	(111)
Pension Interest Cost and Expected Return on Pension Assets	680	680	33,140	35,210
Net Operating Expenditure	59,665	59,837	79,166	12,872
Capital Financing:				
Reversal of Capital Charges and Impairments	(2,575)	(2,575)	(2,493)	(2,627)
Minimum Revenue Provision	1,226	1,216	1,478	1,512
Revenue Contribution to Capital Outlay	555	555	1,117	3,892
Reversal of Loss on Disposal of Fixed Assets	0	0	(36)	(1,945)
	58,871	59,033	79,232	13,704
Contribution to/(from) IAS 19 Pension Reserve	(927)	(928)	(25,200)	43,840
Contribution to/(from)Collection Fund Account	0	0	(241)	(23)
Contribution to/(from) Earmarked Reserves	(257)	(418)	2,722	1,622
	57,687	57,687	56,513	59,143
Revenue Support Grant and Non Domestic Rates	(32,191)	(32,191)	(32,789)	(35,570)
Precepts and Collection Fund	(23,941)	(23,941)	(23,700)	(23,772)
(Increase) / Reduction to Balances in year	1,555	1,555	24	(199)
General Reserve Balance Brought Forward	(2,500)	(2,500)	(2,500)	(2,301)
General Reserve Balance Carried Forward	(945)	(945)	(2,476)	(2,500)
Delegated Surplus			(560)	(560)
DSO/Emergency Planning Reserves			(152)	(276)
Total General Fund Balance			(3,188)	(3,336)

Foreword by the Finance Officer (continued)

Comprehensive and detailed budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the full Authority. These detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure and also include a review of certain other key financial items including Treasury Management and Prudential Indicators. Again this reflects strong and robust financial management in 2011/2012 continuing the Authority's strong track record in this regard.

The table on page 6 shows a small decrease of £24,000 to the General Reserve Balance, this compares to the increase of £7,000 projected at the Authority meeting in June 2012. As a consequence, the General Reserve Balance of the Authority, as at 31st March 2012, has decreased slightly from £2.500 million to £2.476 million.

The principal reasons for the net decrease in year were as follows:

a) Net underspends on a number of budget headings, totalling £1.582 million, included:

- employee costs – an underspend of £1.147 million due to greater staff turnover than anticipated and an increase in the number retirements during the year, combined with the recruitment freeze;
- firefighter ill health retirements – an underspend of £0.080 million as there was only one ill health retirement during 2011/2012;
- premises – an underspend of £0.020 million, primarily in relation to lower utilities costs;
- transport – an underspend of £0.437 million following the decision to purchase outright vehicles previously assumed to be financed through operating leases, so saving on leasing budgets;
- supplies – an underspend of £0.317 million on delegated budgets. The Authority had set aside budget to fund special one off items; these purchases have been able to be managed from within Budget Managers' delegated budgets resulting in an underspend;
- capital financing – a planned increase of £0.492 million due to capital financing increasing to facilitate the outright purchase of vehicles and appliances;
- income – an over recovery of £0.073 million, due principally to a higher demand for training provision from external bodies.

b) Net appropriations to and from various earmarked reserves, totalling £1.400 million, which were agreed by full Authority on 11th June 2012. These include:
    - Contingency Planning Reserve £0.200 million
    - Organisational Change Reserve £0.500 million
    - Medium Term Planning Reserve £0.700 million

c) Transfer of the Emergency Planning Reserve of £0.151 million.

Capital Expenditure and Income

The Authority approved a capital programme for 2011/2012 of £3.371 million, which was subsequently revised to £4.011 million during the year. Actual expenditure for the year was £1.117 million, financed mainly from revenue contributions of £1.031 million and grant funding of £0.086 million.

The net reduction in spending of £2.894 million has arisen due to the following:

- expenditure planned for 2011/2012 of £0.476 million has slipped into 2012/2013. This is mainly due to delays in the procurement of IT equipment and the temperature control system in Fire Training Houses, plus postponed work on the Carbon Management Plan projects;
- the addition to the Capital Programme of equipment totalling £0.140 million and an additional revenue contribution of £0.007 million to existing schemes;
- minor net underspends on a number of schemes of £0.038 million;
- review of the Vehicle Replacement Programme significantly reduced the Capital Programme by £2.527 million.

Foreword by the Finance Officer (continued)

Authority's Current Borrowing and Capital Borrowing Provision

The Capital Programme report, incorporating the Prudential Indicators and the Treasury Management Strategy, was submitted to the Authority meeting on 28th February 2011, which detailed the 2011/2012 borrowing limits for the Authority. All borrowing is undertaken by the Lead Authority (Sunderland City Council) on the Authority's behalf.

The specific borrowing limits set each year related to two of the Prudential Indicators required under the Prudential Code, which was introduced from 1st April 2004. The limits for 2011/2012 were updated at the Authority meeting on 21st November 2011 to reflect the other long term liabilities resulting from the inclusion of the NEFRA PFI notional scheme financing debt as follows:

- Authorised Limit for External Debt for 2011/2012 of £46.363 million;
- Operational Boundary for External Debt for 2011/2012 of £43.363 million.

The Lead Authority administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP). These two Prudential Indicators are monitored on a daily basis and neither limit has been exceeded during 2011/2012. The highest level of external debt incurred by the Authority during 2011/2012 was £42.785 million on 1st April 2011. This includes £25.896 million in relation to the Authority's long term liability PFI Schemes and finance leases as part of IFRS accounting requirements that were introduced in 2011/2012.

Trading Account (Cleaning DSO)

The Authority operates a trading account for its Cleaning function, which came into operation in 1989. Following the abolition of Compulsory Competitive Tendering, with effect from January 2000, there is no longer a statutory requirement to achieve a rate of return. The Cleaning DSO needs to demonstrate Best Value and one method of showing this is through setting and achieving a requirement to break even.

In 2011/2012, the Cleaning DSO recorded a trading surplus of £23,671 (£21,858 excluding adjustments for IAS19 costs) in comparison to £16,144 in 2010/2011 (£10,620 excluding adjustments for IAS19 adjustments). The surplus for 2011/2012 has been added to surpluses accumulated by the DSO in earlier years. This position is detailed further at Note 26 on page 70.

Private Finance Initiative (PFI)

The Authority entered into a contract on 28th March 2003 to provide facilities at 6 new Community Fire Stations, a Service Headquarters and a new Technical Services Centre.

These PFI facilities are located on more effective sites, designed and located to meet the Authority's strategic objectives. Improved community outcomes are being delivered through better engagement with communities through these facilities and the scheme has enabled a major redesign of service delivery.

More recently in June 2009, the Authority entered into a collaborative PFI contract with Northumberland FRA and Durham and Darlington FRA to provide a new Community Fire Station at Tynemouth. The North East Fire and Rescue Authority (NEFRA) contract expires in May 2035.

Accounting for Pensions

International Accounting Standard 19 (IAS19)

The Authority's accounts continue to be compliant with International Accounting Standard 19 (IAS19, formally known as FRS17). Although IAS19 is regarded as a complex accounting standard it is based on a simple

Foreword by the Finance Officer (continued)

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. Inclusion of the pension fund assets and liabilities in the accounts does not mean that the legal title or obligation has passed from the Pension Fund Administrator 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 (through reduced contributions) from a surplus in the Pension Fund.

The last full actuarial valuation of the Pension Fund was carried out as at 31st March 2010 and has been updated by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31st March 2012. The Authority as such continues to comply fully with this Standard and the Accounting Policy 1.13 on Pages 40 to 41 and the Notes to Core Financial Statements provide details of the necessary disclosures required.

In response to the requirements of IAS19 the Firefighters Pension actuarial valuation now includes the value of expected injury awards for active members. The accounts have also been restated for prior years to take into account the increased liability arising from this requirement.

The net overall impact of IAS19 accounting entries is neutral in the accounts, and, in reality, as the Authority is making the necessary pension deficiency payments to address any assessed shortfall in the pension fund by the Actuary over time, then the Balance Sheet net worth is in effect reporting future years deficits, which are being addressed.

The financial health of the Authority is consequently being affected by the accounting requirements in respect of IAS19. However, the Pension Fund Reserve Deficit reflected in the Balance Sheet on Page 30, as assessed by the Actuary, as at 31st March 2012, is being addressed by the Authority in line with government regulations whereby a period of 22 years to correct the deficit position has been agreed. The Authority can meet the assessed deficit with planned and agreed future years contributions based on independent actuarial advice.

Arrangements for Funding and Accounting for Firefighter Pensions

From 1st April 2006, revised arrangements came into effect for funding firefighter pensions, with Fire and Rescue Authorities administering and paying firefighters' pensions through a local firefighters' pension fund.

Together, employee and employer contributions meet the accruing pension liabilities of currently serving firefighters, meaning that Fire and Rescue Authorities meet all of the costs of employing a firefighter, including the cost of future pension liabilities, at the time of employing them.

Ill-health costs are paid by the Authority from its pension fund. Employer payments towards the future cost of ill-health retirements 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. The Authority has invested in health awareness and intervention measures through its Occupational Health Unit and it is pleasing to report that there were no firefighter ill health retirements in 2009/2010 and 2010/2011, and only one such retirement in 2011/2012.

Employee and employer contributions are paid into the pension fund each year, with the fund being topped up by annual Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus is recouped by the Government. The pension fund is ring-fenced to ensure accounting clarity. As such, a Pensions Fund Account and Net Assets Statement are reported as separate supplementary financial statements within the Authority's Statement of Accounts.

Foreword by the Finance Officer (continued)

Major Acquisitions, Capital Works and Disposals during 2011/2012

Acquisitions and Capital Works

The Authority is involved in a number of major capital works projects. The main schemes are listed below, for information, together with the amounts of expenditure incurred during 2011/2012, the total estimated gross cost of each scheme, and the status of the project at the end of the financial year.

Scheme / Project	Expenditure During 2011/2012 £000	Total Estimated Scheme Costs £000	Completed / In Progress as at 31st March 2012
Response Support Replacement Programme	89	89	Completed
Appliance Bay Doors Programme	122	123	Completed
Temperature Control System to Fire Training Houses	21	246	In Progress

Disposals

The Authority has disposed of a portacabin from Wallsend Fire Station in year, for a minimal amount, which was surplus to requirements.

Euro

The adaptation of operational and information systems to accommodate the euro is likely to become a priority for local authorities at some stage in the future. The Authority continues to assess the euro's potential impact on its business affairs. The Authority's Financial Management System however is euro compliant.

Efficiency

The Authority produces a fully costed Integrated Risk Management Plan (IRMP) which reflects local needs and sets out plans to effectively tackle existing and potential risks to communities. The IRMP has been brought in line with the Medium Term Financial Strategy (MTFS) to cover the spending review period. The Plan includes a series of reviews which, if implemented, will generate significant savings. The potential impact of these reviews has been reported to members and has subsequently been built into the MTFS.

The Authority is committed to delivering further efficiency savings through:

- further development of the IRMP;
- following best practice in relation to procurement of goods and services;
- working in collaboration with partners both locally and regionally;
- generating efficiency savings arising from policy and service reviews.

Foreword by the Finance Officer (continued)

Service reviews carried out during 2011/12 have generated savings of £537,000. The bulk of the savings from the IRMP will, however, be made from 1st January 2013 to coincide with the anticipated significant reduction in government funding for 2013/2014 and 2014/2015.

Annual Report and Summary Statement of Accounts

The Authority publishes an Annual Report to highlight its successes over the previous twelve months, including its performance against national indicators and the opinions of external inspectors, as well as outlining details of the improvements introduced to meet the Authority's vision of "Creating the Safest Community".

The latest Annual Report includes a summary of the Statement of Accounts, designed to encourage more people to take an interest in the Authority's financial position in an easy to read format. Further details can be found on the Authority's website at www.twfire.gov.uk.

Authority Performance

The Authority's key strategic priority is to prevent loss of life and injury from fires and other emergencies. In order to achieve this goal, wide ranging community safety services, legislative fire safety services and operational response services are provided to the public of Tyne and Wear. The primary focus is to prevent fires and other emergencies from occurring whilst also ensuring that if they do occur, every attempt is made to limit their impact.

The primary mechanism for achieving this is through the Authority's Strategic Community Safety Plan, which is focused on improving overall community safety through the more effective and efficient use of resources to drive down incidents and respond to them more effectively.

In addition, the Authority continues to work with local schools, businesses, residents and community groups with the overall aim of reducing the risk of injuries and death from fire. The main thrust of community safety, however, is targeted home safety checks, which involve community firefighters and Prevention and Education staff visiting homes to deliver fire safety advice and, where necessary, fit smoke detectors. In a small number of cases, staff will also provide a deep fat fryer (free of charge) where the occupiers are still using a chip pan, and are deemed to be at risk of a kitchen fire.

During 2011/2012, the Service:

- Carried out 30,004 home safety checks (30,327 in 2010/2011).
- Fitted 22,820 smoke alarms (19,229 in 2010/2011).
- Distributed 322 deep fat fryers (449 in 2010/2011).

In 2011/2012 the Authority reported positive performance and improved on a number of key areas relating to operational and organisational performance. This performance is supported by a 1% reduction (from 7951 to 7862) in the total number of fire calls attended in 2011/2012 compared with the previous year. This figure includes a reduction of 57 deliberate fires from a total of 6011 in 2010/2011 to 5954 in 2011/2012.

The continued commitment to reducing loss of life and injury related to fires and other emergency incidents remains a key success factor. In 2011/2012 the Authority continued to report the lowest number of deaths (3 in total) from fires compared with all other metropolitan fire and rescue services.

One of the most significant improvements has been in relation to the number of accidental dwelling fires occurring within the Tyne and Wear area. The figure of 574 fires recorded in 2011/2012 represents a reduction of 11% on the 2010/2011 figure of 649 fires. This is another notable achievement for the Service.

Foreword by the Finance Officer (continued)

Other key areas of improvement when compared with 2010/2011 include:

- 9% reduction in the number of fires involving buildings, vehicles and injuries. (Primary fires).
- 13% reduction in the number of accidental kitchen fires in a dwelling.
- 5% reduction in the number of false alarms from domestic and non domestic premises combined.
- 11% reduction in attendance at special service incidents (eg attendance at road traffic collisions, chemical spills and leaks and animal rescues).
- 0.9 day reduction in the number of shifts/days lost to sickness absence by all staff.

Planned Future Developments

Estates Development Plan

The Authority is undertaking a major review of its property portfolio in conjunction with the Lead Authority and its partners, in response to a range of emerging issues, including:

- the undertaking of various building and alteration works to training structures within the Barmston Training Centre to ensure that the continued operation of essential training facilities meet the changing risk profile of our society;
- the continued alteration of former rest areas to ensure that facilities continue to comply with the developing issues of equality, diversity, dignity and health and safety;
- modifications to our buildings in order to minimise our carbon emissions; the requirement to comply with our organisational targets to reduce our Carbon footprint and to conserve more energy;
- continued modifications to our estate with a proactive preventative maintenance programme; to ensure that our buildings are of a suitable, modern and acceptable standard in order to best deliver our services;
- modifications within appliance bays areas to the lighting and door exit systems in order to align the estate to a single system of operation whilst extending the life of the building components;
- modifications to the West Denton facility in order to modernise and replace existing ageing alarm systems together with a review of the buildings current modular functionality;
- the continuation of securing appropriate land for the future replacement of two community fire stations in the Sunderland district; to comply with meeting the needs of delivering a modern and effective service.

The Authority has retained a Development Reserve to assist in funding the outcome of this major review of the property portfolio over the medium to long term, and specific earmarked reserves have been established to address issues arising from the Carbon Management Plan and equality and diversity measures.

Firelink

The government-supported Firelink project represented a significant investment in radio communications for the fire and rescue service, with the aim of improving resilience and inter-operability within the service and with other blue light services.

Foreword by the Finance Officer (continued)

The government has agreed to continue to meet the remaining capital costs of implementation but following installation of the Firelink radio system, it is expected that ongoing revenue costs be met from individual Fire and Rescue Authorities. This has not yet been quantified.

Financial Outlook for the Authority

The Government announced in their Spending Review 2010 in October 2010, overall reductions to funding of 25% over the 4 year period (2011/2012 to 2014/2015) with reductions being 'back loaded', so more cuts would be made in the last two years of the spending review period to give Fire Authorities more time to plan and implement measures to address the proposed funding reductions.

The two year Local Government Finance Settlement that followed advised that the level of grant received by the Authority for 2012/2013 would be reduced by a further 3.4% (£1.095m) on top of the 9.5% (£2.783m) reduction seen in 2011/2012. This formula grant loss of £1.095m is after floor damping of £2.763m has been taken into account. Without the floor, the grant reduction calculated would have been 12.0% (£3.859m), which is the largest percentage grant reduction of all of the Fire Authorities in the country.

The Government has included the ongoing Council Tax Freeze Grant for 2011/2012 into the formula grant totals (by increasing the Business Rates allocation) for 2012/2013. This would indicate that the Government has benefited from the increase in Business rates income by funding the ongoing Council Tax Freeze Grant for 2011/2012 from this increase, rather than passing the increase in Business Rates on to local government.

The scale of these losses, even with floor protection, is of great concern for the Authority, with a total grant loss of 12.9% over the two year period compared to the overall funding reductions for the Fire Service of 6.5%, (i.e. double the reduction).

A second two year settlement (2013/14 to 2014/15) is expected to be announced during 2012/2013. There are indications that the Government may adopt a new system of grant distribution which may correct the current anomalous position. If not, the Fire Authority potentially faces further significant grant reductions of at least 9.25% in 2013/2014 and 2014/2015, making up the overall 25% decrease set out in the four year Spending Review.

This position is very difficult to accept when the Authority has already embraced the modernisation agenda by achieving greater efficiency savings than required, but is now facing greater grant reductions as a result of the government's failure to recognise this position in the formula grant review, despite lobbying from this and the other metropolitan fire authorities. The potential scale of the cuts that will arise through the use of the existing formula grant distribution mechanism will be such that there will undoubtedly be a detrimental impact on the front line service provided by this Authority even with a change in the grant system.

Against this context of significant grant reductions the Authority has published a Medium Term Financial Strategy (MTFS), which covers the period 2012/2013 to 2014/2015, to:

- provide an analysis of the financial position likely to face the Authority over the medium term and establish approaches to address the Strategic Priorities of the Authority as set out in the current Integrated Risk Management Plan which will achieve value for money in the use of those resources;
- in light of the medium term financial position which the Authority is likely to face, to update the Budget Planning Framework for the preparation of Revenue and Capital Budgets, that are balanced and affordable respectively.
- set out actions to be taken in the short to medium term to mitigate against the significant grant reductions already experienced and to prepare for the expected more significant grant reductions in the latter year and in the future.

Foreword by the Finance Officer (continued)

The Fire Authority is facing a very challenging future, but through its financial planning and policy decisions, actions are being taken to help the Authority ensure that it can still deliver an effective fire service to the residents of Tyne and Wear. Steps will be taken, primarily through the Authority's Integrated Risk Management Plan, to ensure it can respond to the challenges that lie ahead. Extensive work has already begun and will be ongoing over future years.

The outlook beyond 2014/2015 is further grant reductions and continual significant challenges facing the Authority. The Authority has an excellent track record of delivering efficiencies and, through the actions set out in its revised MTFS, remains in a good position financially to meet these difficult challenges.

Malcolm Page CPFA MBA
Finance Officer

Dated: 24th September 2012

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer (the Finance Officer) is the Executive Director of Commercial and Corporate Services of the Lead Authority (Sunderland City Council);

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

- 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 show a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2012.

In preparing this Statement of Accounts, the Finance Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates which were reasonable and prudent;

- complied with the Code, except where disclosed.

The Finance Officer has also:

- kept proper accounting records, which were up to date;

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

The draft accounts are authorised for issue on 29th June 2012.

Malcolm Page CPFA MBA
Finance Officer

Dated: 24th September 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

I have audited the financial statements and the firefighters' pension fund financial statements of Tyne and Wear Fire and Rescue Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The firefighters' pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFAS/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Tyne and Wear Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the financial statements and the firefighters' pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword and the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Tyne and Wear Fire and Rescue Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Tyne and Wear Fire and Rescue

Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Steve Nicklin
District Auditor
Nickalls House
MetroCentre
Gateshead
NE11 9NH
September 2012

Annual Governance Statement

SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Authority has had a Code of Corporate Governance in place since 2003, revised during 2011/12. This Code has been drafted alongside the annual governance review required for the production of this Statement and will be submitted to the Authority and its Governance Committee in June 2012 for approval and adoption. The revised Code will then be made available on the Authority's website (www.twfire.gov.uk) or can be obtained from the Fire and Rescue Service Headquarters.

This Statement explains how the Authority has complied with the SOLACE/CIPFA Framework and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework primarily includes systems and processes by which the Authority directs and controls its activities and engages with the community. Further it enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the Authority for the year ended 31st March 2012 and up to the date of approval of the Annual Report and Statement of Accounts.

Annual Governance Statement (continued)

THE GOVERNANCE FRAMEWORK

There is a clear vision of the Authority's purpose and intended outcomes for service users hat is clearly communicated, both within the organisation and to external stakeholders:

- The Strategic Community Safety Plan draws together a shared vision, principles for action and priorities (strategic objectives). For each strategic objective, key targets have been identified. The Plan sets out explicitly the key actions and performance targets for the future, and these are clearly linked with functional/departmental/ district/station service plans and resources. The Plan outlines the Authority's roles and responsibilities, the context in which it operates, what the Strategic Priorities and improvement objectives are, how the Authority will realise its vision, what its performance improvement and monitoring arrangements are, performance indicators and a financial overview. The financial overview section provides background commentary to the issues the Authority has considered in setting the Budget and in preparing the Medium Term Financial Strategy.

- The Authority's Integrated Risk Management Plan (IRMP) 2010/2013 is the Authority's own overarching Plan for recognising the risks within the Authority boundaries that need to be addressed, and providing detail on how those risks are being mitigated.

- Communication of objectives to staff and stakeholders takes place through the following means:

  Wide distribution of the Strategic Community Safety Plan, as well as a summary version, including on the Authority's website and intranet;

  Wide distribution of the Authority's Integrated Risk Management Plan;

  The issue of an Annual Report setting out the Authority's priorities, how the Authority spent money on achieving these during the last financial year, and how successful the Authority has been;

  Through the Authority's Investors in People (IIP) processes;

  Focus groups with members of the public.

Arrangements are in place to review the Authority's vision and its implications for the Authority's governance arrangements:

During 2011/2012, the Strategic Community Safety Plan 2011-2015 and the Integrated Risk Management Plan and all priorities were reviewed to provide a refined, longer-term focus for the Authority.

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

- There are comprehensive annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective.

Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources:

- There are clear and effective performance management arrangements including personal development plans for all staff, which address financial responsibilities and include equality objectives.

- There is regular reporting of performance against key targets and priorities to the Authority's Strategic Management Team, the Governance Committee and the Performance and Review Committee.

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

The roles and responsibilities of all Officers and staff are clearly defined and documented, with clear delegation arrangements and protocols for effective communication:

- Standing Orders and Financial Regulations are in place and these set out how the Authority operates and how decisions are made, including a clear Delegation Scheme.

- The Standing Orders and Delegation Scheme indicates responsibilities for functions and sets out how decisions are made.

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

  - review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Authority's functions;
  - make reports and/or recommendations to the full Authority and/or the Strategic Management Team in connection with the discharge of any functions;
  - consider any matter affecting the Authority; and
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the Authority and/or Strategic Management Team.

Codes of Conduct defining the standards of behaviour for Members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation:

- The following are in place:

  - Members' Codes of Conduct;
  - Employees' Code of Conduct;
  - Registers of Interests, Gifts and Hospitality;
  - Monitoring Officer Protocols.

Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks:

- The City Treasurer of Sunderland City Council is the designated Finance Officer in accordance with Section 151 of the Local Government Act 1972 ensuring lawfulness and financial prudence of decision-making, and is responsible for the proper administration of the Authority's financial affairs.

- The Deputy Clerk is the Authority's Monitoring Officer who has maintained an up-to-date version of the Standing Orders and has endeavoured to ensure lawfulness and fairness of decision making.

- The Authority has in place up to date Financial Procedure Rules and procurement rules which are subject to regular review.

- Written procedures are in place covering financial and administrative matters, as well as HR policies and procedures. These include:

  - Whistle Blowing Policy;
  - Anti Fraud and Corruption Policy;
  - Codes of Conduct;
  - Health and Safety Policy;
  - Compliments, Comments and Complaints Policy;
  - Corporate Risk Management Strategy

- Procurement Strategy;
- Procurement Codes of Practice
- Partnerships procedure;
- Treasury Management Strategy based upon CIPFA's Treasury Management Codes;
- Functional budget management schemes.

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

  - Risk Management Strategy and Policy Statement;
  - Corporate Risk Profile
  - Integrated Risk Management Plan;
  - Risk Management Manual;
  - Nominated Risk Manager;
  - Corporate and Risk Management Groups;
  - Risk Management Training Programme;
  - Partnerships Risk Register;
  - Risk Management Annual Report;
  - Member Risk Champion;

- 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.

- Business Continuity Plans are in place, which are subject to ongoing review, development and testing.

- There are clearly defined capital expenditure guidelines and capital appraisal procedures in place.

- Appropriate project management disciplines are utilised.

- The Authority participates in the National Fraud Initiative and subsequent investigations.

The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities,* are undertaken by members.

The Authority has a Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the Authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anticorruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;

- be satisfied that the Authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;

- to receive and consider (but not direct) internal audit's strategy, plan and monitor performance;

- receive and consider the external audit plan;

- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;

- receive and consider the annual report of internal audit;

- consider the reports of external audit and inspection agencies, including the Annual Audit and Inspection Letter;

- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;

- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit; and

- make recommendations or comments to the Authority as appropriate.

Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members:

- The Deputy Clerk is the Authority's designated Monitoring Officer and a protocol is in place with all Principal Officers, to safeguard the legality of all Authority activities.

- The Authority maintains an Internal Audit Service, provided by Sunderland City Council. An independent annual review of its effectiveness is undertaken which concluded that it operated in accordance with professional standards. Internal audit work is planned on the basis of risk.

Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised:

- The Authority is committed to establishing and maintaining effective reporting arrangements to ensure that, where an individual, whether an employee of the Authority, an Elected Member, or any member of the public, has serious concerns regarding the conduct of any aspect of the Authority's business, they can do so through a variety of avenues, promptly and in a straight forward way.

- The framework in place to ensure the aims of this Policy are met are set out in the 'Whistle Blowing Policy Arrangements' procedure for Authority staff. Members of the public currently raise issues through the Compliments, Comments and Complaints procedure and there is also a whistle blowing policy and procedure for members of the public.

- Monitoring records held by the Deputy Clerk on behalf of Members, and the Chief Fire Officer on behalf of staff and members of the public reveal that the whistle blowing arrangements are being used, and that the Authority is responding appropriately. The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

Arrangements exist for identifying the development needs of members and Principal officers in relation to their strategic roles:

- The Authority has a Members Learning and Development Policy and Programme in place which sets out a clear commitment to Members to provide a range of Learning and development opportunities which will improve their knowledge, skills and abilities in their individual or collective roles in meeting Authority strategic objectives. In addition Members have access to their nominating authority learning and development policies, plans and procedures.

- The Elected Member Learning and Development Strategy aims:

  - To provide a comprehensive Member Development programme;
  - To ensure that all newly Elected Members are properly inducted into the Authority;
  - To ensure that all emerging needs for both individuals and across the board are identified and addressed;
  - To ensure that resources available for Member Development are effectively used.

- The Authority has a Human Resource Strategy to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices and is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual performance review focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation and includes the extent to which an employee understands and supports the values of the Authority.

- The Authority is also an active member of the Regional People Management Group which identifies and delivers regional learning and development whilst also developing regional framework policies for its constituent members.

Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:

- The Authority has a Consultation Strategy which aims to ensure that consultation activity is effectively co-ordinated across the Authority and with partner agencies, impacts on service delivery, and is delivered to a high standard.

- The strategy is complemented by the Community Engagement Strategy which outlines the Authority's approach to consulting with minority and vulnerable sectors of society.

Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the Authority's overall governance arrangements:

- The Authority has published a Partnerships procedure which includes a template for Partnership Agreements and a Partnership Toolkit. The procedure is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and officers to review existing arrangements.

- A Register of Partnerships is maintained. The deliverables of all prospective and existing partnerships is closely measured using a standard framework.

- A review of all partnerships is presented to the Strategic Management Team on an annual basis.

REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by feedback from Members and the work of all senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

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

- The role of the Authority:

    - Elected Members have participated in the annual review of the Authority's Corporate Governance arrangements;
    - The Chair of the Authority, the Chief Fire Officer and the Finance Officer have overseen the review and signed the Annual Governance Statement.

- The role of the Strategic Management Team:

    - The findings of the Annual Governance Review have been reported to the Strategic Management Team for their consideration and approval of the Annual Governance Statement.

- The role of the Governance Committee:

    - The findings of the Annual Governance Review have been reported to the Governance Committee. Under their Terms of Reference the Governance Committee has satisfied themselves that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

- There is a system of scrutiny which allows the Governance Committee and the Performance and Review Committee to:

  - review decisions made or actions taken in connection with the discharge of any of the Authority's functions;
  - make reports and recommendations to the full Authority or the Strategic Management Team in connection with the discharge of any functions;
  - consider any matter affecting the delivery of service; and
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented.

- The role of the Authority's Governance Committee also includes the following:

  - promoting and maintaining high standards of conduct by Members, co-opted members and Officers;
  - monitoring the operation of the Members' Code of Conduct;
  - monitoring the operation of the Authority's Anti-Fraud and Corruption Policy so far as it relates to the actions of Members of the Authority;
  - considering reports and complaints relating to the conduct of Members of the Authority;
  - supporting the Monitoring Officer in his role.

All Area Managers have participated in the annual governance review through carrying out self-assessments relating to their areas of responsibility and have provided Controls Assurance Statements relating to their area of responsibility, having considered the detailed self-assessments.

Internal audit planning processes include consultation with the Principal Officers, reviews of the Strategic Community Safety Plan, Integrated Risk Management Plan and the Corporate Risk Profile. Audit work is risk based audit work and includes risks in relation to the achievement of service objectives, and Internal Audit Services carries out regular systematic auditing of key financial and non-financial systems. The Audit Commission have conducted a review of the effectiveness of Internal Audit Services and concluded that there are robust arrangements in place to comply with the standards of the 2006 CIPFA Code of Practice for Internal Audit.

The Annual Audit and Inspection letter stated that the Authority has maintained the strengths we identified last year in relation to financial planning and reporting, internal control, governance and partnership arrangements. The Letter notes the following key headlines:

- The Authority is well placed in terms of working balances and reserves, with a good track record of delivering to budget and making efficiency savings in excess of national targets.

- The Authority is facing a 25 per cent reduction in grant funding over the next three to four years. Strategic and financial plans have been reworked to deliver the necessary cost reductions whilst maintaining adequate levels of working balances and, so far as possible, avoiding compulsory redundancies.

- Reviews of back office services and property management are well underway. Successful partnership working and PFI schemes also deliver efficiencies.

- The key challenge for the Authority in coming months is to:

  - closely monitor delivery of the 2011/12 budget and take early action if budget savings are not being realized; and

  - monitor service delivery, especially emergency response and preventative work with vulnerable groups, to ensure that safety is maintained during a period of considerable uncertainty and change.

- The Government's regional control room project was abandoned in December 2010. The Authority's West Denton control room has some remaining operational capacity but this is limited and plans are in place to develop options for its replacement which are affordable in the current climate; compatible with existing technology; and deliver to service standards set out in the Integrated Risk Management Plan.

- The organization has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

- The organization is prioritizing its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

- Good governance arrangements are in place for partnership working. These include a regular appraisal of the costs and benefits or individual arrangements.

- At a more operational level, lower cost options have been considered and approved in relation to 'Safetyworks' and vehicle replacement. An efficiency log in each department gives all staff the opportunity to highlight potential savings. The Authority participates in benchmarking clubs and carries out detailed comparisons of costs, activity levels and performance.

- 2010/11 year end performance report confirms that all key improvement plans have been delivered; 50 per cent of key performance indicators have met their target and 91 per cent of these show improvement when compared to the prior year; and performance is now above metropolitan fire service average or better in all areas except the incidence of deliberate fires.

Inevitably there remains some scope for improvement. The Authority has the sixth highest expenditure per head of all fire authorities nationally and most of this money is directed towards front line activities. Back office and management costs as a percentage of the total budget are low and there is significant investment in community safety activities and partnership work.

It is considered that the Annual Audit and Inspection Letter give reassurance that the Authority's overall governance and control arrangements are satisfactory.

Findings of external bodies / audits are collated / monitored by the Strategic Management Team.

ASSURANCE STATEMENTS

The Strategic Management Team, the Authority and the Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an action plan has been agreed for the continuous improvement of the Authority's Corporate Governance and Internal Control Arrangements.

We propose over the coming year to take steps to implement the action plan to further enhance the Authority's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

Tom Wright Chair of the Authority	Tom Capeling Chief Fire Officer	Malcolm Page CPFA MBA Finance Officer

Dated 24th September 2012

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more detail of which are shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts required to be charged to the General Fund Balance. The Net Increase / Decrease before Transfers to / from Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

	General Fund Balance £'000	Earmarked GF Reserves £'000	Capital Receipts Reserve £'000	**Total Usable Reserves £'000**	**Unusable Reserves £'000**	**Total Authority Reserves £'000**
Balance at 31 March 2010 Restated	(3,070)	(25,256)	(3,285)	(31,611)	651,340	619,729
Movement in reserves during 2010/2011						
Surplus or (Deficit) on provision of services	(46,470)	0	0	(46,470)	0	(46,470)
Other Comprehensive Income and Expenditure	0	0	0	0	(34,656)	(34,656)
Total Comprehensive Income and Expenditure	(46,470)	0	0	(46,470)	(34,656)	(81,126)
Adjustments between accounting basis & funding basis under regulations	45,017	0	0	45,017	(45,017)	0
Net Increase / Decrease before transfers to Earmarked Reserves	(1,453)	0	0	(1,453)	(79,673)	(81,126)
Transfers to / from Earmarked Reserves	1,187	(1,187)	0	0	0	0
Increase / Decrease in 2010/2011	(266)	(1,187)		(1,453)	(79,673)	(81,126)
Balance at 01 April 2011	(3,336)	(26,443)	(3,285)	(33,064)	571,667	538,603
Movement in reserves during 2011/2012						
Surplus or (Deficit) on provision of services	**22,677**	**0**	**0**	**22,677**	**0**	**22,677**
Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**38,757**	**38,757**
Total Comprehensive Income and Expenditure	**22,677**	**0**	**0**	**22,677**	**38,757**	**61,434**
Adjustments between accounting basis & funding basis under regulations	**(25,556)**	**0**	**0**	**(25,556)**	**25,556**	**0**
Net Increase / Decrease before transfers to Earmarked Reserves	**(2,879)**	**0**	**0**	**(2,879)**	**64,313**	**61,434**
Transfers to / from Earmarked Reserves	**3,027**	**(3,027)**	**0**	**0**	**0**	**0**
Increase / Decrease in 2011/2012	**148**	**(3,027)**	**0**	**(2,879)**	**64,313**	**61,434**
Balance at 31 March 2012	**(3,188)**	**(29,470)**	**(3,285)**	**(35,943)**	**635,980**	**600,037**

Comprehensive Income and Expenditure Account

The statement shows the accounting costs in the year of providing services in accordance with generally accepted accounting practice, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/2011					2011/2012		
Gross Expenditure	Gross Income	Net Expenditure		Notes	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£'000	£'000	£'000			**£'000**	**£'000**	**£'000**
8,930	381	8,549	Community Safety		**7,998**	**367**	**7,631**
40,688	2,173	38,515	Fire Fighting and Rescue Operations		**36,422**	**1,394**	**35,028**
533	569	(36)	Fire Service Emergency Planning		**202**	**131**	**71**
305	0	305	Corporate and Democratic core		**301**	**0**	**301**
0	0	0	Non Distributed Costs	37	**326**	**0**	**326**
(74,280)	0	(74,280)	Exceptional Items	37	**0**	**0**	**0**
(23,824)	3,123	(26,947)	**Cost of Services**		**45,249**	**1,892**	**43,357**
1,945	11	1,934	Other operating expenditure	7	**36**	**22**	**14**
37,996	111	37,885	Financing and Investment Income and Expenditure	8	**36,037**	**242**	**35,795**
0	0	0	Surplus or Deficit on Discontinued operations		**0**	**0**	**0**
0	59,342	(59,342)	Taxation and Non-Specific Grant Income	9	**0**	**56,489**	**(56,489)**
16,117	62,587	(46,470)	**(Surplus) or Deficit on Provision of Services**		**81,322**	**58,645**	**22,677**
		(386)	Surplus or deficit on the revaluation of fixed assets	21			**3,197**
		(34,270)	Actuarial gains / losses on pension assets / liabilities	37			**35,560**
		(34,656)	**Other Comprehensive Income and Expenditure**				**38,757**
		(81,126)	**Total Comprehensive Income and Expenditure**				**61,434**

Balance Sheet

The Balance Sheet shows the value at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the authority (assets less liabilities) are matched by reserves held by the Authority. Reserves are prepared in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudential level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves holds unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

01 April 2010 Restated £'000	31 March 2011 £'000		Note	**31 March 2012 £'000**
63,378	68,855	Property, Plant and Equipment	10	**64,104**
140	160	Intangible Assets	13	**113**
210	0	Investment Properties	12	**0**
127	38	Long Term Debtors	14	**16**
63,855	69,053	**Long Term Assets**		**64,233**
27,514	27,514	Short Term Investments	14	**27,514**
258	266	Inventories	15	**242**
8,911	9,285	Short Term Debtors	16	**9,232**
1,801	2,647	Cash and Cash Equivalents	17	**8,484**
38,484	39,712	**Current Assets**		**45,472**
(6,890)	(6,536)	Short Term Creditors	18	**(9,783)**
(6,890)	(6,536)	**Current Liabilities**		**(9,783)**
(438)	(174)	Provisions	19	**(211)**
(39,940)	(42,784)	Long Term Borrowing	14	**(41,303)**
0	(1,183)	Donated Assets Account	30	**(994)**
(674,800)	(596,690)	Other Long Term Liabilities	37	**(657,450)**
(715,178)	(640,832)	**Long Term Liabilities**		**(699,958)**
(619,729)	(538,603)	**Net Assets**		**(600,037)**
31,611	33,064	Usable Reserves	6	**35,943**
(651,340)	(571,667)	Unusable Reserves	21	**(635,980)**
(619,729)	(538,603)	**Total Reserves**		**(600,037)**

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made from resources which are intended to contribute towards the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2010/2011 £'000		Notes	**2011/2012 £'000**
(46,470)	Net (surplus) or deficit on the provision of services		**22,677**
* 38,370	Adjust net surplus or deficit on the provision of services for non cash movement		**(32,880)**
(2)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		**(2)**
2,675	Net cash flows from operating activities	22	**2,655**
3,892	Investing activities	23	**1,117**
689	Financing Activities	24	**596**
(846)	**Net increase or decrease in cash and cash equivalents**		**(5,837)**
(1,801)	Cash and cash equivalents at the beginning of the reporting period	17	**(2,647)**
(2,647)	**Cash and cash equivalents at the end of the reporting period**		**(8,484)**

* Non Cash Movement includes Depreciation, Impairment and Amortisations (£4,991k) ((£2,823k) in 2010/2011), Pensions Liability (£25,200k) (£43,840k in 2010/2011) and Loss on Disposal of Non Current Assets (£36k) ((£1,945k) in 2010/2011) and Other Movement (2,652k) ((£1,331k) in 2010/11).

Notes to the Core Financial Statements - Index

Notes to the Income and Expenditure Account
Note 1 – Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/2012 financial year and its position at the year-end of 31st March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2012, and these Regulations require the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 and the Service Reporting Code of Practice 2011/2012, both based on International Financial Reporting Standards (IFRS). CIPFA guidance notes for practitioners have also been referred to and applied where appropriate, particularly in relation to the accounting treatment adopted for Government top up grant in the Firefighter's Pension Fund.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Financial Instruments

Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets
Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is

1.2 Financial Instruments (continued)

measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets
Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority. Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price;
- Other instruments with fixed and determinable payments – discounted cash flow analysis;
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Other Investments
Investments in companies and in marketable securities are shown in the balance sheet at cost. Provision for losses in value is made where appropriate in accordance with the Code of Practice on Local Authority Accounting. No such provisions have been considered necessary at this time.

1.3 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

1.4 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Head of Land and Property. Assets are valued in accordance with the principles of the RICS (Royal Institution of Chartered Surveyors) Appraisals and Valuation Standards. The valuations are supervised by N.Wood, ARICS, of the Authority. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

1.4 Property, Plant and Equipment (continued)

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De Minimis Levels
The Authority also operates a de-minimis level, under which expenditure on fixed assets is charged to revenue as it is incurred. The de-minimis level has been established at a value of £20,000 for the recording of capital assets in respect of properties. The de-minimis level for equipment remains at a value of £10,000. All vehicles are recorded as fixed assets irrespective of cost.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); and
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets has been calculated by taking the asset value at 31st March 2012 less any residual value, divided by life expectancy.

The life expectancy for each asset category falls within the following ranges:

Asset Category	Years
Buildings	15 - 60
Vehicles, plant and furniture	2 - 20

1.4 Property, Plant and Equipment (continued)

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. As no componentised assets have been revalued in 2011/2012 the depreciation method is unchanged from previous years.

A standard list of components that will be used by the Authority is:

- Building structure;
- Mechanical and electrical

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals & Non-current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive

Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against taxpayers, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

1.5 Charges to Revenue for Non-Current Assets

General Fund service revenue accounts, central support services and trading accounts are charged with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which they can be written off;

1.5 Charges to Revenue for Non-Current Assets (continued)

- Amortisation of intangible fixed assets attributable to the service.

The Authority is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement).

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.6 Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. A full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.

1.7 Inventories

Inventories are included in the Balance Sheet at the lower of the cost and net realisable value. The cost of inventories at the year-end are valued at weighted average cost price.

1.8 Cost of Support Services

External support services are provided to the Authority by Sunderland City Council, based upon a scheme approved by the Home Office. Support service costs from Sunderland City Council are charged on an estimated time or actual time spent basis, with the exception of the Financial Resources and Personnel Departments, which are charged on the basis of a Service Level Agreement. External support service costs are allocated to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice.

Internal support services are also charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice. The total absorption costing principle is used, and the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

1.8 Cost of Support Services (continued)

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation;
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

1.9 Provisions

Provisions are made where an event has taken place that gives the Authority an obligation that will probably require settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the probable obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Note 19 on page 60 provides information on the provisions set up by the Authority.

1.10 Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure is to be financed from a reserve, it is charged to the revenue account in that year to score against the Provision of Services, in the Comprehensive Income and Expenditure Account. The reserve is then appropriated back to the General Fund Balance statement in Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Detail on the movement on earmarked reserves during 2011/2012 is provided in note 6 on page 52.

In addition, certain accounts and reserves are maintained to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits do not represent usable resources for the Authority, however, as they are accounting requirements not physical cash reserves. Note 21 on page 61 provides further detail on these reserves.

1.11 Internal Interest

Interest is credited to the General Fund from the Lead Authority's Capital Advances and Borrowing Pool 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.

1.12 Delegated Budgets

The delegated budget scheme allows the carry forward of any under-spending to the following financial year. For 2011/2012, an appropriation has been made into the Budget Carry Forward Reserve for this purpose, as detailed in note 6 on page 52.

1.13 Employee Benefits

Benefits Payable during Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits
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:

Firefighters Pension Scheme
The Firefighters pension scheme is an unfunded, Defined Benefit Scheme. Employer and employee contributions are paid into the pension fund, together with a contribution from the Authority for the cost of ill health early retirements. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments, with any surplus being recouped by Government.

The pension fund is ring-fenced to ensure accounting clarity. As such, a Pensions Fund Account and Net Assets Statement are reported as supplementary financial statements within the Authority's Statement of Accounts.

Local Government Pension Scheme
All non-uniformed staff of the Authority have the right to join the Local Government Pension Scheme (LGPS), which South Tyneside Metropolitan Council administers on behalf of all of the Tyne and Wear local authorities and other admitted bodies. The scheme is classified as a Defined Benefit Scheme based on final pensionable pay and as such must comply with IAS19. This requires the Authority to disclose certain information concerning assets, liabilities, income and expenditure related to the LGPS for its employees.

The liabilities of the pension scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the roll forward method.

1.13 Employee Benefits (continued)

Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds).

The assets of the pension fund attributable to the Authority are included in the Balance Sheet, at their fair value:

- Quoted Securities – current bid price;
- Unquoted Securities – professional estimate;
- Unitised Securities – current bid price;
- Property – market value.

The change in the net pension's liability is analysed into seven components:

- Current Service Costs – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked;
- Past Service Costs – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Interest Costs – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure Income line in the Comprehensive Income and Expenditure Statement;
- Expected Return on Assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure Income line in the Comprehensive Income and Expenditure Statement;
- Gains / Losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Actuarial Gains and Losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
- Contributions paid to the pension fund – cash paid as employers contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with the debits for the cash paid to the pension fund and any amount payable to the fund but un-paid at the year end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.14 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

An analysis of Government Grants and Contributions is provided in Note 30 on page 73.

1.15 Long Term Borrowing

The Lead Authority administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP) and, as such, the Authority does not undertake borrowing in its own name. The amount of borrowing undertaken by the Lead Authority on the Authority's behalf has been recognised within the Long Term Borrowing liabilities within the Statement of Accounts for 2011/2012.

1.16 External Interest

All interest payable on external borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

1.17 Other Investments

Investments in companies and in marketable securities are shown in the Authority's Balance Sheet at cost. Provision for losses are made, where appropriate, in accordance with the Code of Practice on Local Authority Accounting. No such provisions have been considered necessary at this time.

Investments are all made via the Lead Authority's Consolidated Advances and Borrowing Pool.

1.18 Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. The relevant note and information relating to the Authority's PFI scheme is detailed in Note 34 on page 76.

Recognising assets and liabilities
Property used in a PFI and similar contract shall be recognised as an asset or assets of the Fire Authority. A related liability shall also be recognised at the same time. The asset shall be recognised in

1.18 Private Finance Initiative (PFI) and Similar Contracts

accordance with the Code of Practice on Local Authority Accounting; this will be when the asset is made available for use unless the Fire Authority bears an element of the construction risk, which will not be the case where standard PFI contract terms are used. Where the Authority bears the construction risk, it shall recognise an asset under construction prior to the asset being made available for use where it is probable that the expected future benefits attributable to the asset will flow to the Authority. In accordance with the Code of Practice on Local Authority Accounting, separate assets shall be recognised in respect of land and buildings where appropriate. The related liability shall initially be measured at the value of the related asset, and subsequently shall be calculated using the same actuarial method used for finance leases under the Code of Practice on Local Authority Accounting.

Prepayments
PFI and similar contracts may be structured to require payments to be made (either as part of a unitary payment or a lump sum contribution) before the related property is recognised as an asset on the Balance Sheet. Such payments shall be recognised as prepayments. At the point that the infrastructure is recognised as an asset, the related liability shall also be recognised. The prepayments shall be applied to reduce the outstanding liability.

Depreciation, impairment and revaluation
Once recognised on the Balance Sheet, property under a PFI and similar contract is depreciated, impaired and re-valued in the same way as for any other fixed asset.

MRP (England and Wales)
Assets acquired under a PFI and similar contract that are recognised on the Authority's Balance Sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. The amounts of MRP to be charged to the General Fund for the year shall be in accordance with the appropriate regulations and statutory guidance. Such amounts shall be transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Capital financing requirement
Where PFI contracts or similar arrangements come 'on-Balance Sheet' as a result of the Code of Practice changes, the Capital Financing Requirement will be adjusted to reflect this and the authorised limits and operational boundaries will be set accordingly.

1.19 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) The Authority as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and

1.19 Leases (continued)

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

b) The Authority as Lessor

Finance Leases
Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases
Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure .

1.19 Leases (continued)

line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

1.20 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.

1.21 Interests in Companies and Other Entities

If the Authority has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities this will require group accounts to be prepared. Where there is an interest which is not material any such interests in companies and other entities are then recorded as financial assets at cost, less any provision for losses. Tyne and Wear does not have to prepare group accounts as the interest in North East Fire Control Company Limited is not considered material.

1.22 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

The followings estimations have been made:

Pensions Liabilities
Pensions liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll-forward method. The Pension Fund liabilities have been assessed by Hewitt Associates Limited (LGPS) and by the Government Actuary's Department (Firefighters Pensions), both independent actuaries, who also estimate the Pension position as at 31st March 2012 based on the latest full valuation of the scheme as at 31st March 2012 and their assessments of future movements in the return on pension assets and future pension liabilities. See Note 37 on page 77.

Apportionment of costs for Community Safety
As required by CIPFA's Best Value Accounting Code of Practice, the Authority is required to present its expenditure and income at the mandatory reporting levels, including Community Safety and Fire Fighting and Rescue Operations. The majority of transactions are classified directly as relating to either of these categories, however, the Authority also makes a transfer for the cost of Community Safety related activities undertaken by Fire Fighting staff. This transfer is based on actual activity figures, recorded by the Authority through the year.

The approach to quantifying the transfer uses actual activity figures for home fire risk assessments and fire inspections to estimate the time taken to undertake these community safety activities. This is then

1.22 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors (continued)

applied to an average rate of pay to estimate the total cost to be transferred from Firefighting to Community Safety in the Authority's Income and Expenditure Account.

Utilities
Utilities costs contained within the Cost of Services Expenditure Analysis are calculated using estimation. The final period charge for the financial year is estimated based upon the previous year's consumption for the same period multiplied by the latest price information. An adjustment is made for any significant variances when the actual utilities bills are received.

Creditor Provisions
In a small number of cases, estimation is used to calculate payments outstanding to creditors where the Authority has yet to be billed for services delivered prior to the year-end. The impact of any such estimations is not material to the Authority's Accounts.

1.23 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.24 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

1.25 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Authority's cash and cash equivalents is held within the Lead Authority's bank accounts and investments.

1.26 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

1.26 Contingent Liabilities (continued)

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.27 Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.28 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of precept.

1.29 Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are converted at the spot exchange rate at 31 March. Resulting gains and losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.30 Heritage Assets

The Authority has no heritage assets it needs to report upon. Please see Note 11 Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom (page 57).

1.31 Officer Remuneration

Remuneration refers to all amounts paid to or receivable by an employee of the Authority and includes sums by way of expenses allowances, and the estimated money value of any other benefits received by an employee otherwise than in cash.

The Authority discloses the number of employees whose annual remuneration is over £50,000, broken down in to bandings of £5,000. In addition, remuneration is disclosed by category for senior employees defined as:

- All those whose salary is £150,000 or more;

- All those whose salary is £50,000 or more who meet at least one of the following criteria:
    - statutory chief officers (per section 2(6) of the Local Government and Housing Act 1989 as amended) of the Authority, or
    - non-statutory chief officers (per section 2(7) of the 1989 Act as amended).

Note 2 – Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- Retirement benefit obligations – the Authority recognise and disclose its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS19 'Employee Benefits'. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries and life expectancy amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation. The key assumptions made are set out in Note 37.

- Provisions – provisions are measured at the Finance Officers' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, and are discounted to present value where the effect is material.

- Impairment of property, plant and equipment and computer software – property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See Note 10 on page 55 for further details.

- Depreciation of property, plant and equipment and amortisation of computer software – depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See Note 10 on page 55 for further details.

Note 3 – Assumptions made about the future and major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2012, for which there is a significant risk of material adjustment in the forthcoming financial year, are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £19,622 for every year that useful lives had to be reduced.
Provisions	The Authority has made an insurance provision of £211,112.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £21,111 to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net LGPS pensions liability changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £4.67m. However, the assumptions interact in complex ways.

Note 4 – Events after the balance sheet date

Adjusting Post Balance Sheet Events

There are no Adjusting Post Balance Sheet Events

Non Adjusting Post Balance Sheet Events

There are no Non Adjusting Post Balance Sheet Events

Note 5 – Adjustments between accounting basis and funding basis under regulations

This note recognises the adjustments that are made by the Authority to the Comprehensive Income and Expenditure Statement in the financial year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

	Notes	2011/2012 General Fund Balance £000	2011/2012 Capital Grant Unapplied £000	2011/2012 Movement In Unusable Reserves £000	2010/2011 Movement In Unusable Reserves £000
Adjustments involving the Capital Adjustment Account:					
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>					
Charges for Depreciation and Impairment of non current assets	10 & 13	**(2,682)**		**2,682**	2,823
Capital Grants and Contributions	32	**86**		**(86)**	(21)
Movement in the Donated Assets Account	30	**189**		**(189)**	(196)
Amounts of non current assets written off on disposal/sale as part of gain/loss on disposal	10	**(36)**		**36**	1,945
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>					
Statutory provision for the financing of capital investment		**1,478**		**(1,478)**	(1,512)
Capital expenditure charged against General Fund balances	51	**1,030**		**(1,030)**	(3,871)
Adjustments involving the Pensions Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	37	**(45,470)**		**45,470**	(21,700)
Employer's pensions contributions and direct payments to pensioners payable in the year	37	**20,270**		**(20,270)**	(22,140)
Adjustments involving the Collection Fund Adjustment Account:					
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different to Council Tax income calculated for the year in accordance with statutory requirements	21	**(241)**		**241**	23
Adjustments involving the Accumulating Compensated Absences Adjustment Account:					
Amount of which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	21	**(180)**		**180**	(368)
		(25,556)	**0**	**25,556**	(45,017)

Note 6 – Movements in earmarked reserves

The following table reports the movement on the Authority's Earmarked Reserves during the year.

	Balance at 1st April 2010 £000	Transfers out 2010/2011 £000	Transfers in 2010/2011 £000	Balance at 31st March 2011 £000	Transfers out 2011/2012 £000	Transfers in 2011/2012 £000	Balance at 31st March 2012 £000
General Fund Balance	3,070	0	266	3,336	**(177)**	**28**	**3,187**
Capital Reserves							
Usable Capital Receipts	3,286	0	0	3,286	**0**	**0**	**3,286**
Total Capital Reserves	3,286	0	0	3,286	**0**	**0**	**3,286**
Revenue Reserves							
PFI Smoothing Reserve	4,794	0	525	5,319	**0**	**358**	**5,677**
Insurance Reserve	707	0	180	887	**0**	**203**	**1,090**
Early Retirement Reserve	44	(3)	0	41	**(3)**	**0**	**38**
Development Reserve	14,703	0	0	14,703	**0**	**0**	**14,703**
Contingency Planning Reserve	2,250	0	0	2,250	**0**	**200**	**2,450**
Budget Carry Forward Reserve	795	(598)	608	805	**(646)**	**1,655**	**1,814**
New Dimensions Reserve	363	(10)	29	382	**(6)**	**98**	**474**
Community Safety Reserve	250	0	0	250	**0**	**0**	**250**
Civil Emergency Reserve	200	0	0	200	**0**	**0**	**200**
Regional Control Centre Reserve	350	0	0	350	**0**	**0**	**350**
Carbon Management Plan Reserve	600	(45)	0	555	**(32)**	**0**	**523**
Equality and Diversity Reserve	200	(99)	0	101	**0**	**0**	**101**
Organisational Change Review Reserve	0	0	600	600	**0**	**500**	**1,100**
Medium Term Planning Reserve	0	0	0	0	**0**	**700**	**700**
Total Revenue Reserves	25,256	(755)	1,942	26,443	**(687)**	**3,714**	**29,470**
Total Reserves	31,612	(755)	2,208	33,065	**(864)**	**3,742**	**35,943**

Note 6 Movements in Earmarked Reserves (continued)

The table, overleaf, shows the movement on the Authority's earmarked reserves for the year ended 31st March 2012. Detail on the purpose of each reserve is provided below:

- **PFI Smoothing Reserve -** Government Grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure. This has the effect of smoothing the impact of PFI schemes on the Authority's revenue budget over the lifetime of the scheme.

- **Insurance Reserve -** this reserve is 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;
    - the Municipal Mutual Insurance Scheme of Arrangement reserve that was established in 1993/1994 to cover a possible shortfall in the eventual settlement of claims against MMI.

  The reserve also includes accumulated insurance premium discounts received, arising from the Authority's positive approach to risk management. These sums are retained to offset the cost of further risk management initiatives in future years.

- **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.

- **Development Reserve -** this reserve was created to fund medium term and long term capital and revenue developments.

- **Contingency Planning Reserve -** this reserve was established following a review of the potential liabilities arising from a major industrial dispute. Having considered the principles, criteria and framework upon which the Authority's Business Continuity Strategy should be based, the reserve is intended to ensure that the communities of Tyne and Wear are protected in the event of a major industrial dispute.

- **Budget Carry Forward Reserve -** this reserve is used to fund the slippage of specific items of revenue expenditure.

- **New Dimensions Reserve -** this reserve is used to provide for any adverse effect of planned changes in funding from specific to general grant and to provide resources to meet future specific costs in relation to delivering an appropriate response.

- **Community Safety Reserve -** this reserve was established to deliver community safety initiatives in future years. This follows the success of similar schemes carried out during previous years.

- **Civil Emergency Reserve -** this reserve was established to enable the Authority to respond to a major catastrophic event, either within Tyne and Wear, or another region, where there would likely be additional cost pressures placed upon the Authority (over and above the reimbursement level that might be expected from other Fire Authorities or through the Bellwin scheme). This reserve enables the Authority to deliver the necessary level of support without impacting on its revenue budget.

- **Regional Control Centre Reserve -** this reserve was established to provide a means of offsetting any costs associated with the Regional Control Centre (RCC) project. With the cancellation of the national project suitable provision will need to be made for a replacement command and control system.

Note 6 Movements in Earmarked Reserves (continued)

- **Carbon Management Plan Reserve** - this reserve was established as the Authority is currently working in partnership with the Carbon Trust and other Fire and Rescue Authorities in the region to develop a Carbon Reduction Plan. The implementation of this plan will necessitate some investment in order to make future savings both in carbon emissions and energy bills.

- **Equality and Diversity Reserve** - this reserve was established to support the Authority's commitment to achieve higher equality and diversity recruitment targets and to foster the aim to be seen as an 'employer of choice'.

- **Organisational Change Reserve -** this reserve was created to cover the expected costs following a review of the organisational changes required for the Authority to operate more effectively.

- **Medium Term Planning Reserve -** this reserve was established in this financial year to plan for the impact of government reductions in funding, due to localisation of the business rates retention system and the impact on precepting authorities of localisation of the council tax benefit scheme.

Note 7 – Other operating expenditure

2010/2011 £000		**2011/2012 £000**
1,945	(Gain) /Loss on Disposal of Fixed Assets	**36**
(11)	Cleaning DSO Surplus for the year	**(22)**
1,934	**Total**	**14**

Note 8 – Financing and investment income and expenditure

2010/2011 £000		**2011/2012 £000**
2,786	Interest Payable	**2,897**
35,210	Pension Interest Cost and Expected Return on Pensions Assets	**33,140**
(111)	Interest and Investment Income	**(242)**
37,885	**Total**	**35,795**

Note 9 – Taxation and non specific grant income

2010/2011 £000		**2011/2012 £000**
(23,772)	Council Tax Income	**(23,700)**
(31,060)	Non Domestic Rate Income	**(24,590)**
(4,510)	Non Ringfenced Government Grants	**(8,199)**
(59,342)	**Total**	**(56,489)**

Note 10 – Property, Plant and Equipment

Movement on Balances 2011/2012

	Land & Buildings	Vehicles, Plant Furniture & Equipment	Assets Under Construction	TOTAL	PFI Assets included in Property Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2011	**62,894**	**16,316**	**762**	**79,972**	**32,840**
Additions	**391**	**710**	**16**	**1,117**	**73**
Donations	**0**	**0**	**0**	**0**	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	**(3,197)**	**0**	**0**	**(3,197)**	**(3,197)**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Service	**0**	**0**	**0**	**0**	**0**
Derecognition - Disposals	**(36)**	**0**	**0**	**(36)**	**0**
Other Movements in Cost or Valuation	**0**	**0**	**0**	**0**	**0**
At 31 March 2012	**60,052**	**17,026**	**778**	**77,856**	**29,716**
Accumulated Depreciation and Impairment					
At 1 April 2011	**3,138**	**7,437**	**542**	**11,117**	**1,240**
Depreciation	**1,020**	**1,615**	**0**	**2,635**	**530**
Depreciation written out to Revaluation Reserve on the Provision of Service	**0**	**0**	**0**	**0**	**0**
Impairment losses/(reversals) recognised in the Revaluation Reserve	**0**	**0**	**0**	**0**	**0**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Service	**0**	**0**	**0**	**0**	**0**
At 31 March 2011	**4,158**	**9,052**	**542**	**13,752**	**1,770**
Net Book Value at 31st March 2011	**59,756**	**8,879**	**220**	**68,855**	**31,600**
Net Book Value at 31st March 2012	**55,894**	**7,974**	**236**	**64,104**	**27,946**

Note 10 – Property, Plant and Equipment (continued)

Movement on Balances 2010/2011

	Land & Buildings	Vehicles, Plant Furniture & Equipment	Assets Under Construction	TOTAL	PFI Assets included in Property Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2010 (Restated)	**58,782**	**10,641**	**1,362**	**70,785**	**26,873**
Additions	**5,104**	**3,056**	**74**	**8,234**	**4,550**
Donations	**0**	**2,619**	**0**	**2,619**	**0**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	**407**	**0**	**0**	**407**	**395**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Service	**(92)**	**0**	**0**	**(92)**	**(43)**
Derecognition - Disposals	**(1,981)**	**0**	**0**	**(1,981)**	**0**
Other Movements in Cost or Valuation	**674**	**0**	**(674)**	**0**	**1,065**
At 31 March 2011	**62,894**	**16,316**	**762**	**79,972**	**32,840**
Accumulated Depreciation and Impairment					
At 1 April 2010 (Restated)	**2,238**	**4,627**	**542**	**7,407**	**561**
Depreciation	**1,168**	**2,810**	**0**	**3,978**	**679**
Depreciation written out to Revaluation Reserve on the Provision of Service	**(22)**	**0**	**0**	**(22)**	**0**
Impairment losses/(reversals) recognised in the Revaluation Reserve	**(246)**	**0**	**0**	**(246)**	**0**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Service	**0**	**0**	**0**	**0**	**0**
At 31 March 2011	**3,138**	**7,437**	**542**	**11,117**	**1,240**
Net Book Value at 31st March 2010	**56,544**	**6,014**	**820**	**63,378**	**26,312**
Net Book Value at 31st March 2011	**59,756**	**8,879**	**220**	**68,855**	**31,600**

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Land and Buildings - 20 – 60 years
- Vehicles, Plant and Equipment - 5 – 15 years

Capital Commitments

At 31 March 2012, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/2013 and future years budgeted to cost £4.713m (As at 31 March 2011 £4.135m). The major commitments are:

- IT Equipment including Replacement Command and Control System (£1.478m)
- Carbon Management Plan (£0.462m)
- Low Activity Station Project (£0.30m)
- Temperature Control System for Hot Fire Structures (£0.246m)

Note 10 – Property, Plant and Equipment (continued)

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by the Lead Authority and valuations of Land and Buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

	Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Total £'000
Carried at historical cost	534	17,026	17,560
Valued at fair value as at:			
31 March 2012	(2,842)	0	(2,842)
31 March 2011	8,610	0	8,610
31 March 2010	0	0	0
31 March 2009	53,750	0	53,750
Total Cost or Valuation	**60,052**	**17,026**	**77,078**

Note 11 – Heritage Assets

The Authority has no Heritage Assets as at 31st March 2012 which it needs to report.

Note 12 – Investment properties

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

2009/2010 £'000	2010/2011 £'000		**2011/2012 £'000**
308	210	Balance at the start of the year	**0**
(98)	(210)	Disposals	**0**
210	0	Balance at the end of the year	**0**

Note 13 – Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The integral assets include both purchased licences and software.

All software is given a finite useful life, based on assumptions of the period that the software is expected to be of use to the Authority. The useful life for all software is deemed to be 5 years. The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £47,155 was charged to revenue in 2011/2012.

Note 13 – Intangible Assets (continued)

The movement on Intangible Asset balances during the year is as follows:

	2011/2012 Total £'000	2010/2011 Total £'000
Balance at start of year:	**160**	140
Additions during the year	**0**	56
Amortisation for the period	**(47)**	(36)
Net carrying amount at the year end	**113**	160
Comprising of		
Gross carrying amounts	**236**	236
Accumulated amortisation	**(123)**	(76)
Net carrying amount at the year end	**113**	160

Note 14 – Financial Instruments

Categories of Financial Instruments

	Long Term			Current		
	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000	**31 March 2012 £'000**	31 March 2011 £'000	31 March 2010 £'000
Investments						
North East Fire Control Company Ltd *	**0**	0	0	**0**	0	0
Loans and receivables	**0**	0	0	**27,514**	27,514	27,514
Total Investments	**0**	0	0	**27,514**	27,514	27,514
Debtors						
Financial assets carried at contract amount	**16**	38	127	**9,232**	9,285	8,911
Total Debtors	**16**	38	127	**9,232**	9,285	8,911
Borrowings						
Financial liabilities at amortised costs **	**(16,213)**	(16,889)	(17,593)	**0**	0	0
Total Borrowings	**(16,213)**	(16,889)	(17,593)	**0**	0	0
Other Long Term Liabilities						
PFI and finance lease liabilities	**(25,090)**	(25,896)	(22,347)	**0**	0	0
Total Other Long Term Liabilities	**(25,090)**	(25,896)	(22,347)	**0**	0	0
Creditors						
Financial liabilities carried at contract amount	**0**	0	0	**(9,783)**	(6,536)	(6,890)
Total Creditors	**0**	0	0	**(9,783)**	(6,536)	(6,890)

Note 14 – Financial Instruments (continued)

* The North East Fire Control Company Limited (NEFCCL) was incorporated on 24th January 2007 as a private company limited by guarantee, with its principal activity being the operation of a fire control centre for the North East region. The members of the company are Cleveland Fire Authority, Durham and Darlington Fire and Rescue Authority, Northumberland County Council and Tyne and Wear Fire and Rescue Authority. NEFCCL has no assets and all expenditure (which is not material to the accounts) is fully funded from Government. The Authority has considered the impact upon its accounts and has concluded that Group Accounts are not required, as the interest in this company does not constitute a material interest.

Following notification that the Regional Control Centre (RCC) project was to end, as the project requirements could not be delivered to an acceptable timeframe, the existence of the company is no longer required. Currently the company has no staff and is not trading, however the CLG have not confirmed when the company is to be officially wound up. Communities and Local Government will continue to fund any residual costs so there are no financial implications for the Authority.

** The analysis of maturity of borrowing and disclosures on credit risk, market risk and liquidity risk are not required to be included in the accounts. All borrowing and investments for the Authority is carried out by the lead authority, Sunderland City Council who bears all risks. These issues are considered in more detail in the Authority's Treasury Management Strategy.

Note 15 – Inventories

	Consumable Stores		Maintenance Materials		Total	
	2011/2012	2010/2011	**2011/2012**	2010/2011	**2011/2012**	2010/2011
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Balance Outstanding at start of year	**185**	172	**81**	86	**266**	258
Purchases	**761**	828	**106**	109	**866**	937
Recognised as an expense in the year	**(757)**	(812)	**(102)**	(111)	**(858)**	(923)
Written off balances	**(2)**	(2)	**(30)**	(4)	**(32)**	(6)
Balance outstanding at the year-end	**187**	186	**55**	80	**242**	266

Note 16 – Short Term Debtors

2009/2010 £'000	2010/2011 £'000		**2011/2012 £'000**
3,614	3,180	Central government bodies	**3,416**
362	150	Other local authorities	**148**
1	2	NHS bodies	**2**
1	77	Public corporations and trading funds	**23**
4,933	5,876	Other entities and individuals	**5,643**
8,911	9,285	**Total**	**9,232**

Note 17 – Cash and cash equivalents

The balance of cash and cash equivalents is and up of the following elements:

209/2010 £'000	2010/2011 £'000		**2011/2012 £'000**
3	3	Cash held by the Authority	3
1,798	2,644	Bank Current Accounts	8,481
1,801	2,647	**Total**	**8,484**

Note 18 – Short-Term Creditors

2009/2010 £'000	2010/2011 £'000		**2011/2012 £'000**
(1,661)	(2,735)	Central government bodies	**(5,951)**
(1,807)	(1,405)	Other local authorities	**(1,956)**
0	(8)	NHS bodies	**(8)**
(14)	(39)	Public corporations and trading funds	**(69)**
(3,408)	(2,349)	Other entities and individuals	**(1,799)**
(6,890)	(6,536)	**Total**	**(9,783)**

Note 19 – Provisions

	Insurance Provision £'000
Balance at 1 April 2010	(438)
Additional provisions made in 2010/2011	(186)
Amounts used in 2010/2011	450
Balance at 31 March 2011	(174)
Additional provisions made in 2011/2012	**(451)**
Amounts used in 2011/2012	**414**
Balance at 31 March 2012	**(211)**

Note 20 – Usable Reserves

Movements in the Authority’s usable reserves are detailed in Note 6 – Movements in Earmarked Reserves on pages 52 to 54.

Note 21 – Unusable Reserves

2009/2010 Restated £'000	2010/2011 £'000		**2011/2012 £'000**
4,627	5,013	Revaluation Reserve	**1,815**
19,145	19,977	Capital Adjustment Account	**20,042**
(674,800)	(596,690)	Pensions Reserve	**(657,450)**
76	53	Collection Fund Adjustment Account	**(187)**
(388)	(20)	Accumulated Absence Account	**(200)**
(651,340)	(571,667)	**Total Unusable Reserve**	**(635,980)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are;

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation, or;
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2010/2011 £000		**Movement during the year**	**2011/2012 £000**
4,627	Balance at 1 April		**5,013**
429	Upward Revaluations of Assets	**1**	
(43)	Downward Revaluation of Assets and Impairment Losses not charged to the Surplus/Deficit on the Provision of Services	**(3,198)**	**(3,197)**
5,013	**Balance at 31 March**	**(3,197)**	**1,815**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 on page 51 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Note 21 – Unusable Reserves (continued)

2010/2011 £000		2011/2012 £000
19,145	**Balance at 1 April**	**19,977**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(2,738)	Charges for depreciation and impairment of non-current assets	**(2,635)**
(49)	Revaluation losses on Property, Plant and Equipment	**0**
(36)	Amortisation of intangible assets	**(47)**
(1,945)	Amount of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	**(36)**
14,377		**17,259**
	Capital financing applied in the year;	
21	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have applied to capital financing	**86**
1,512	Statutory provision for the financing of capital investment charged against the General Fund balance	**1,478**
3,871	Capital expenditure charged against the General Fund balance	**1,030**
196	Movement in the Donated Asset Account credited to the Income and Expenditure Statement	**189**
19,977	**Balance at 31 March**	**20,042**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2010/2011 £'000		2011/2012 £'000
(674,800)	**Balance at 1 April**	**(596,690)**
34,270	Actuarial gains and loses on pensions assets and liabilities	**(35,560)**
21,700	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	**(45,470)**
22,140	Employers pensions contributions and direct payments to pensioners payable in the year	**20,270**
(596,690)	**Balance at 31 March**	**(657,450)**

Note 21 – Unusable Reserves (continued)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010/2011 £'000		2011/2012 £'000
(76)	**Balance at 1 April**	**(54)**
23	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	**241**
(54)	**Balance at 31 March**	**187**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2010/2011 £'000		2011/2012 £'000
(388)	**Balance at 1 April**	**(20)**
388	Settlement or cancellation of accrual made at the end of the preceding year	**20**
(20)	Amounts accrued at the end of the current year	**(200)**
(20)	**Balance at 31 March**	**(200)**

Note 22 – Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

2010/2011 £'000		2011/2012 £'000
(111)	Interest received	**(242)**
2,786	Interest paid	**2,897**
2,675	**Net Cash Flows from Operating Activities**	**2,655**

Note 23 – Cash Flow Statement – Investing Activities

2010/2011 £'000		2011/2012 £'000
3,892	Purchase of property, plant and equipment, investment property and intangible assets	**1,117**
3,892	**Net cash flows from investing activities**	**1,117**

Note 24 – Cash Flow Statement – Financing Activities

2010/2011 £'000		2011/2012 £'000
(21)	Other receipts and financing activities	**(86)**
704	Repayments of short and long term borrowing	**676**
6	Other payments and financing activities	**6**
689	**Net cash flows from financing activities**	**596**

Note 25 – Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements, in particular;

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Authority's principal departments recorded in the budget reports for the year is as follows:

Note 25 – Amounts Reported for Resource Allocation Decisions (continued)

Departmental Income and Expenditure 2011/2012

	Community Safety £'000	Fire Fighting and Rescue Operations £'000	Fire Service Emergency Planning £'000	Corporate and Democratic Core £'000	Non Distributed Costs £'000	Total £'000
Fees and Charges	122	89	25	0	0	236
Government grants	0	1,254	0	0	0	1,254
Other Grants, reimbursements and contributions	245	51	106	0	0	402
Total Income	367	1,394	131	0	0	1,892
Employee expenses	5,117	23,133	122	4	326	28,702
Other Service expenses	565	3,370	80	252	0	4,267
Support services	2,316	9,919	0	45	0	12,280
Total Expenditure	7,998	36,422	202	301	326	45,249
Net Expenditure	7,631	35,028	71	301	326	43,357

Note 25 – Amounts Reported for Resource Allocation Decisions (continued)

Departmental Income and Expenditure 2010/2011

	Community Safety £'000	Fire Fighting and Rescue Operations £'000	Fire Service Emergency Planning £'000	Corporate and Democratic core £'000	Non Distributed Costs £'000	Total £'000
Fees and Charges	139	750	31	0	0	920
Government Grants	0	1,350	0	0	0	1,350
Other Grants, reimbursements and contributions	242	73	538	0	0	853
Total Income	381	2,173	569	0	0	3,123
Employee expenses	5,933	26,245	450	7	(74,280)	(41,645)
Other Service expenses	640	3,935	83	252	0	4,910
Support services	2,357	10,508	0	46	0	12,911
Total Expenditure	8,930	40,688	533	305	(74,280)	(23,824)
Net Expenditure	8,549	38,515	(36)	305	(74,280)	(26,947)

Note 25 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation of Departmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Account

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the provision of services included in the Comprehensive Income and Expenditure Account.

2010/2011 Restated £'000		2011/2012 £'000
(26,996)	Net expenditure in the portfolio analysis.	**43,357**
0	Net expenditure of services and support services not included in the analysis.	**0**
49	Amounts in the Comprehensive Income and Expenditure Account not reported to management in the analysis.	**0**
0	Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement.	**0**
(26,947)	**Cost of Service in the Comprehensive Income and Expenditure Analysis**	**43,357**

Note 25 – Amounts Reported for Resource Allocation Decisions (continued)

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis or portfolio income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

2011/2012

	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	638	14,321	0	14,959	205	15,164
Interest and investment income	0	0	0	0	2,392	2,392
Income from council tax	0	0	0	0	56,489	56,489
Government grants and contributions	1,254	2,371	0	3,625	0	3,625
Total Income	1,892	16,692	0	18,584	59,086	77,670
Employee expenses	28,702	8,821	0	37,523	35,453	72,976
Other service expenses	4,267	7,871	0	12,138	22	12,160
Support service recharges	12,280	0	0	12,280	0	12,280
Depreciation, amortisation and impairment	0	0	0	0	0	0
Interest Payments	0	0	0	0	2,895	2,895
(Gain)/loss on Disposal of Fixed Assets	0	0	0	0	36	36
Total Expenditure	45,249	16,692	0	61,941	38,406	100,347
Surplus or deficit on the provision of services	43,357	0	0	43,357	(20,680)	22,677

Note 25 – Amounts Reported for Resource Allocation Decisions (continued)

2010/2011

	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges and other service income	1,773	15,089	0	16,862	204	17,066
Interest and investment income	0	0	0	0	1,911	1,911
Income from council tax	0	0	0	0	59,342	59,342
Government grants and contributions	1,350	3,288	0	4,638	0	4,638
Total Income	3,123	18,377	0	21,500	61,457	82,957
Employee expenses	(41,645)	9,847	0	(31,798)	37,185	5,387
Other service expenses	4,861	8,530	0	13,391	20	13,411
Support service recharges	12,911	0	0	12,911	0	12,911
Depreciation, amortisation and impairment	0	0	49	49	0	49
Interest Payments	0	0	0	0	2,784	2,784
(Gain)/loss on Disposal of Fixed Assets	0	0	0	0	1,945	1,945
Total Expenditure	(23,873)	18,377	49	(5,447)	41,934	36,487
Surplus or deficit on the provision of services	(26,996)	0	49	(26,947)	(19,523)	(46,470)

Note 26 – Trading Operations

The Authority is required to publish the financial results of services it operates on a trading account 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. In 2011/2012, the Cleaning DSO recorded a trading surplus of £23,671 (£21,858 excluding adjustments for IAS19 costs) (£10,620 in 2010/2011, £16,144 excluding adjustments for IAS19 adjustments), which has been added to surpluses accumulated by the DSO in earlier years.

	2011/2012 £000	2010/2011 £000
Income		
Charges to other accounts of the Authority	**205**	204
Expenditure		
Labour	**161**	171
Materials	**15**	12
Overheads	**5**	5
Total Expenditure	**181**	188
Surplus / (Deficit) for the year	**24**	16

Appropriation Account

	2011/2012 £000	2010/2011 £000
Balance at start of year	**91**	75
Surplus / (deficit) for the year	**24**	16
Balance as at end of year	**115**	91

Note 27 – Members Allowances

The amount paid to Authority members during the year was:

	2011/2012 £000	2010/2011 £000
Total Member's Allowances Paid	**68**	74

Note 28 – Officers' Remuneration

The number of employees, whose remuneration, excluding pension contributions, was £50,000 or more in bands of £5,000:

Remuneration Band	**2011/2012 Number of Employees**	2010/2011 Number of Employees
£50,000-£54,999	**5**	5
£55,000-£59,999	**16**	16
£60,000-£64,999	**7**	7
£65,000-£69,999	**1**	1
£70,000-£74,999	**4**	4
£75,000-£79,999	**2**	2
£80,000-£84,999	**0**	0
£85,000-£89,999	**0**	0
£90,000-£94,999	**0**	1
£95,000-£99,999	**1**	0
£100,000-£104,999	**0**	0
£105,000-£109,999	**0**	0
£110,000-£114,999	**0**	1
£115,000-£119,999	**2**	1
£120,000-£124,999	**0**	0
£125,000-£129,999	**0**	0
£130,000-£134,999	**0**	0
£135,000-£139,999	**0**	0
£140,000-£144,999	**0**	1
£145,000-£149,999	**1**	0
£150,000-£154,999	**0**	0
£155,000-£159,999	**0**	0
	39	39

The tables overleaf discloses the specific remuneration information in relation to 'Senior' officers. The senior officers are those who are involved in influencing and making strategic decisions and developing policies for the organisation. For Tyne and Wear Fire and Rescue Authority, this is the Chief Fire Officer, the Deputy Chief Fire Officer and the two Assistant Chief Fire Officers.

In accordance with the regulations, officers whose salary is £50,000 or more per year, but less than £150,000 are listed individually by way of job title. Officers whose salary is £150,000 or more per year are also identified by name. The disclosure is made for 2011/2012 and 2010/2011 in the following categories:

- salaries, fees and allowances;
- bonuses;
- expenses allowance;
- compensation for loss of employment;
- benefits in kind;
- employees pension contributions.

Note 28 – Officers' Remuneration (continued)

Post Holder Information	Salary (Including Fees and Allowances)	Benefits in Kind	Total Remuneration excluding Pension Contributions 2010/2011	Pension Contributions	Total Remuneration including Pension Contributions 2010/2011
2011/2012					
Senior Officer Emoluments exceeding £150,000					
Chief Fire Officer - Iain Bathgate	138,950	7,655	**146,605**	29,595	**176,200**
Senior Officer Emoluments exceeding £50,000 but less than £150,000					
Deputy Chief Fire Officer - Human resources	117,988	1,916	**119,904**	25,157	**145,061**
Assistant Chief Fire Officer - Community Safety	110,659	4,247	**115,874**	23,677	**139,551**
Assistant Chief Fire Officer - Strategy and Performance	93,534	2,505	**96,039**	12,714	**108,753**

Post Holder Information	Salary (Including Fees and Allowances)	Benefits in Kind	Total Remuneration excluding Pension Contributions 2009/2010	Pension Contributions	Total Remuneration including Pension Contributions 2009/2010
2010/2011					
Senior Officer Emoluments exceeding £150,000					
Chief Fire Officer - Iain Bathgate	136,611	7,655	**144,266**	29,099	**173,365**
Senior Officer Emoluments exceeding £50,000 but less than £150,000					
Deputy Chief Fire Officer - Human resources	116,119	1,916	**118,035**	24,734	**142,769**
Assistant Chief Fire Officer - Community Safety	109,289	4,247	**113,536**	23,279	**136,815**
Assistant Chief Fire Officer - Strategy and Performance	91,910	2,505	**94,415**	12,500	**106,915**

Note 29 – External Audit Costs

Tyne and Wear Fire Authority has incurred the following costs in relation to the audit of the Statement of Accounts and for non-audit services provided by the Authority's external auditors.

	2011/2012 £000	2010/2011 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	**68**	62
Fees payable in respect of other services provided by the appointed auditor	**1**	1
	69	63

Note 30 – Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/2012:

	2011/2012 £000	2010/2011 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax Income	**23,700**	23,795
Non Domestic Rate Income	**24,590**	31,060
Non Ringfenced Government Grants	**8,199**	4,510
	56,489	59,365
Credited to Services		
PFI Grant	**3,358**	3,288
Regional Control Centre Grant	**0**	334
New Dimensions	**985**	972
New Burdens Grant	**112**	44
New Risks	**157**	0
	4,612	4,638

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2011/2012 £000	2010/2011 £000
Capital Grants Receipts in Advance		
Fire Capital Grant	**3,218**	1,705
Diversity and Equality Grant	**34**	69
	3,252	1,774
Donated Assets Account		
New Dimensions Equipment	**994**	1,183
	994	1,183

Note 31– Related Parties

The ‘Code of Practice on Local Authority Accounting in the United Kingdom 2010/2011’ 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.

Central Government
Central Government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the Note 30 on page 73 on reporting for resource allocation decisions.

Authority Members: Disclosures in respect of members’ interests are required to be reported. After consultation with Members there are no disclosures to report.

Chief Officers: Disclosures in respect of Chief Officers’ interests are also required to be reported. After consultation with Chief Officers there are no disclosures to report.

Other Relevant Information: Details of the Authority’s transactions with Sunderland City Council for provision of support services are shown in the appropriate sections of the Income and Expenditure Account as disclosed in Accounting Policy 1.8 on page 38. The cost of Support services received by the Authority total £591,150 (£596,319 in 2010/2011).

Note 32 – Capital Expenditure and Capital Financing

The total amount of capital expenditure in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

Note 32 – Capital Expenditure and Capital Financing (continued)

	2011/2012 £000	2010/2011 £000
Opening Capital Financing Requirement	**19,612**	16,726
Capital Investment:		
Property, Plant and Equipment	**1,117**	8,234
Intangible Assets	**0**	56
Sources of Finance		
Government grants and other contributions	**(86)**	(21)
Sums set aside from		
Direct Revenue Contributions	**(1,030)**	(3,871)
MRP	**(1,478)**	(1,512)
Closing Capital Financing Requirement	**18,135**	19,612
Explanation of movements in year:		
Assets acquired under PFI contracts	**0**	4,398
Minimum Revenue Provision	**(1,478)**	(1,512)
Increase / (Decrease) in Capital Financial Requirement	**(1,478)**	2,886

Note 33 – Leases

Authority as Lessee

Finance Leases

The Authority has acquired a number of buildings and vehicles under finance leases.

	2011/2012 £000	2010/2011 £000
Other Land and Buildings	**502**	513
Vehicle, Plant, Furniture and Equipment	**483**	636
	985	1,149

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

Note 33 – Leases (continued)

	2011/2012 £'000	2010/2011 £'000
Finance Lease Liabilities (NPV of future lease payments):		
Current	**19**	19
Non - Current	**90**	108
Finance costs payable in future years	**1,408**	1,554
Minimum lease payments	**1,517**	1,681

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		**Finance Lease Liabilities**	
	2011/2012 £'000	2010/2011 £'000	**2011/2012 £'000**	2010/2011 £'000
Not later than one year	151	172	19	19
Later than one year and not later than five years	448	487	66	68
Later than five years	918	1,022	24	40
	1,517	1,681	**109**	127

Operating Leases

The Authority has acquired a number of vehicles by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	2011/2012 £'000	2010/2011 £'000
Not later than one year	**295**	313
Later than one year and not later than five years	**446**	632
Later than five years	**4**	110
Minimum lease payments	**745**	1,055

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £396,126.31 (2010/2011 £594,168).

Note 34 – Private Finance Initiatives and Similar Contracts

In March 2003, the Authority entered into a PFI contract to provide 6 new Fire Stations, a Service Headquarters and a new Technical Services Centre. The contract expires in May 2029.

In June 2009, the Authority entered into a collaborative PFI contract with Northumberland FRA and Durham and Darlington FRA to provide a new Community Fire Station at Tynemouth. The North East Fire and Rescue Authority (NEFRA) contract expires in May 2035.

The estimated contract payments for the PFI and NEFRA contracts are analysed over the life of the contract, as shown in the table below.

Note 34 – Private Finance Initiatives and Similar Contracts (continued)

	2011/2012	2012/2013 - 2015/2016	2016/2017 - 2020/2021	2021/2022 - 2025/2026	2026/2027 - 2030/2031	2031/2032 - 2035/2036	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Finance Lease Creditor Repayment	663	2,929	5,035	8,087	5,907	1,204	**23,825**
Finance Lease Creditor Interest	2,262	8,385	8,718	5,705	1,601	230	**26,901**
Lifecycle Maintenance Costs	51	219	306	346	392	305	**1,619**
Contingent Rentals	66	265	409	630	663	20	**2,053**
Operating Costs	1,521	6,978	10,280	11,573	1,512	1,112	**32,976**
PFI Grant	(3,358)	(13,432)	(16,789)	(16,789)	(8,728)	(1,732)	**(60,828)**
Total Expenditure	**1,205**	**5,344**	**7,959**	**9,552**	**1,347**	**1,139**	**26,546**

Note 35 – Impairment Losses

During 2011/12, the Authority had no impairment loss (£245,640 in 2010/2011).

Note 36 – Termination Benefits

The Authority terminated the contracts of a number of employees in 2011/2012, incurring liabilities of £86,282 (£2,409 in 2010/2011).

Note 37 – Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment 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 post employment schemes:

- The Firefighters Pension Scheme for uniformed employees is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities. The cost of pension payments is met from employer and employee contributions, with the balance being funded by the government through a top-up grant. The employer's contributions to the Firefighters Pension Fund Account was 21.3% in respect of the 1992 Scheme and 11.0% in respect of the 2006 Scheme.
- The Local Government Pension Scheme for non-uniformed employees, administered by South Tyneside Metropolitan Borough Council 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.

Transactions Relating to Post-employment Benefits

The Authority recognises the cost of retirement benefits in the reported 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 post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement, including Past Service Costs which are treated as Non Distributed Costs, and are removed from the General Fund Balance via the Movement in Reserves Statement during the year:

Note 37 – Defined Benefit Pension Schemes (continued)

	Local Government Pension Scheme		Firefighters Pension Scheme		Total	
	2011/2012	2010/2011	**2011/2012**	2010/2011	**2011/2012**	2010/2011
	£000	£000	**£000**	£000	**£000**	£000
Comprehensive Income and Expenditure Statement						
Current Service Costs	**(1,270)**	(1,510)	**(10,820)**	(15,860)	**(12,090)**	(17,370)
Past Service Costs	**(120)**	4,870	**(120)**	69,410	**(240)**	74,280
Impact on Cost of Services	**(1,390)**	(3,360)	**(10,940)**	53,550	**(12,330)**	56,910
Interest Costs	**(2,380)**	(2,290)	**(32,910)**	(34,720)	**(35,290)**	(37,010)
Expected return on assets in the scheme	**2,150**	1,800	**0**	0	**2,150**	1,800
Comprehensive Income and Expenditure Statement	**(230)**	(490)	**(32,910)**	(34,720)	**(33,140)**	(35,210)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(1,620)**	2,870	**(43,850)**	18,830	**(45,470)**	21,700
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement						
Actuarial Gains and Losses	**(5,960)**	480	**(29,600)**	33,790	**(35,560)**	34,270
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(7,580)**	3,350	**(73,450)**	52,620	**(81,030)**	55,970
Movement in Reserves Statement						
or Deficit for the Provision of Services for post employment benefits in accordance with the Code	**5,930**	(4,990)	**54,830**	(73,120)	**60,760**	(78,110)
Actual amount charged against General Fund Balance for pensions in the year:						
Employer's contributions payable to the scheme	**(1,650)**	(1,640)			**(1,650)**	(1,640)
Retirement benefits payable to pensioners			**(18,620)**	(20,500)	**(18,620)**	(20,500)

Note 37 – Defined Benefit Pension Schemes (continued)

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £35.560m.

Reconciliation of present value of the scheme liabilities:

	Local Government Pension Scheme		Firefighters Pension Scheme		Total	
	2011/2012	2010/2011	**2011/2012**	2010/2011	**2011/2012**	2010/2011
	£000	£000	**£000**	£000	**£000**	£000
1 April	**43,750**	44,970	**581,080**	654,200	**624,830**	699,170
Current Service Cost	**1,270**	1,510	**10,820**	16,020	**12,090**	17,530
Interest Cost	**2,380**	2,290	**32,910**	34,720	**35,290**	37,010
Contributions by scheme participants	**450**	500	**2,760**	0	**3,210**	500
Actuarial gains and losses	**4,270**	380	**29,600**	(33,790)	**33,870**	(33,410)
Benefits Paid	**(1,160)**	(1,030)	**(21,380)**	(20,660)	**(22,540)**	(21,690)
Past service costs	**120**	(4,870)	**120**	(69,410)	**240**	(74,280)
31 March	**51,080**	43,750	**635,910**	581,080	**686,990**	624,830

Reconciliation of present value of scheme assets:

	Local Government Pension Scheme		Firefighters Pension Scheme		Total	
	2011/2012	2010/2011	**2011/2012**	2010/2011	**2011/2012**	2010/2011
	£000	£000	**£000**	£000	**£000**	£000
1 April	**28,140**	24,370	**0**	0	**28,140**	24,370
Expected rate of return	**2,150**	1,800	**0**	0	**2,150**	1,800
Actuarial gains and losses	**(1,690)**	860	**0**	0	**(1,690)**	860
Employers Contributions	**1,600**	1,580	**0**	0	**1,600**	1,580
Contributions by scheme participants	**450**	500	**0**	0	**450**	500
Benefits Paid	**(1,110)**	(970)	**0**	0	**(1,110)**	(970)
31 March	**29,540**	28,140	**0**	0	**29,540**	28,140

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy.

Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected return on equity investments reflect long-term real rates of return experienced in the respective markets.

In 2010/11, the change in the up-rating method of public service pensions from Retail Prices Index (RPI) to Consumer Prices Index (CPI) had the effect of reducing Tyne and Wear Fire Authority's liabilities in Tyne & Wear Pension Fund by £4.870m and by £69.410m for the Firefighters Pension Fund. This was recognised as a past service gain in accordance with guidance set down in UITF Abstract 48 and was treated as an exceptional item in the Comprehensive Income and Expenditure Account in line with accounting policy 1.24. This was a one-off gain for 2010/11. The past service costs in 2011/12 have been disclosed as Non Distributed Costs in line with the normal practice set out in accounting policy 1.13.

Note 37 – Defined Benefit Pension Schemes (continued)

The actual return on scheme assets in the year was £0.460m (2010/2011 £2.66m)

	2006/2007	2007/2008	2008/2009 Restated	2009/2010 Restated	2010/2011	**2011/2012**
	£000	£000	£000	£000	£000	**£000**
Present value of scheme liabilities						
Firefighters Pension Scheme	(532,560)	(466,580)	(452,590)	(654,200)	(581,080)	**(635,910)**
Local Government Pension Scheme	(28,860)	(27,810)	(31,850)	(44,970)	(43,750)	**(51,080)**
	(561,420)	(494,390)	(484,440)	(699,170)	(624,830)	**(686,990)**
Fair value of scheme assets						
Firefighters Pension Scheme	0	0	0	0	0	**0**
Local Government Pension Scheme	19,160	18,590	16,490	24,370	28,140	**29,540**
	19,160	18,590	16,490	24,370	28,140	**29,540**
Surplus/(Deficit) in the scheme	(542,260)	(475,800)	(467,950)	(674,800)	(596,690)	**(657,450)**

The liabilities show the underlying commitments that the authority has in the long run to pay post employment (retirement) benefits. The total liability £686.990m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a positive balance sheet of £657.450m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £1.27m.

Basis for Estimating Assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years depend on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Aon Hewitt Limited, an independent firm of actuaries and Firefighters Pension Scheme liabilities has been assessed by the Government Actuary Department. Both estimates for the Authority fund being based on the latest full valuation of the scheme as at 1 April 2010.

Note 37 – Defined Benefit Pension Schemes (continued)

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Firefighters Pension Scheme	
	2011/2012	2010/2011	**2011/2012**	2010/2011
Long-term expected rate of return on assets in the scheme:				
Equity Investments	**8.10%**	8.40%	N/A	N/A
Government Bonds	**3.10%**	4.40%	N/A	N/A
Corporate Bonds	**3.70%**	5.10%	N/A	N/A
Property	**7.60%**	7.90%	N/A	N/A
Other	**8.10%**	8.40%	N/A	N/A
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	**21.6 years**	21.5 years	**23.4 years**	23.4 years
Women	**23.8 years**	23.7 years	**25.3 years**	25.3 years
Longevity at 45 for future pensioners:				
Men	**23.4 years**	23.3 years	**26.5 years**	26.3 years
Women	**23.7 years**	25.6 years	**28.3 years**	28.0 years
Rate of inflation	**2.60%**	2.80%	**2.50%**	3.00%
Rate of increase in salaries	**5.10%**	5.20%	**4.70%**	5.30%
Rate of increase in pensions	**2.60%**	2.80%	**2.50%**	3.00%
Rate for discounting scheme liabilities	**4.80%**	5.40%	**4.90%**	5.70%
Take-up of option to convert annual pension into retirement lump sum	**75.00%**	75.00%	**90.00%**	90.00%

The Firefighters Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2012		31 March 2011	
	Long Term Return %	Fund Assets %	Long Term Return %	Fund Assets %
Equity investments	**8.1**	**68.5**	8.4	68.0
Government Bonds	**3.1**	**7.1**	4.4	7.0
Other Bonds	**3.7**	**11.6**	5.1	11.7
Property	**7.6**	**9.2**	7.9	8.1
Cash	**1.8**	**1.9**	1.5	1.2
Other Assets	**8.1**	**1.7**	8.4	4.0
Average Long Term Expected Rate of Return	**7.1**	**100.0**	7.6	100.0

Note 37 – Defined Benefit Pension Schemes (continued)

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions reserve in 2011/2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012.

	2006/2007 %	2007/2008 %	2008/2009 %	2009/2010 Restated %	2010/2011 %	2011/2012 **%**
Difference between expected and actual return on assets as a percentage of Total Assets (%)	(0.57)	(15.28)	(29.65)	21.79	(3.06)	5.72
Experience (Gains) and losses on Liabilities as a percentage of total liabilities (%)	(1.24)	(0.81)	(1.13)	(1.32)	(4.98)	0.37

Note 38 – Contingent Liabilities

The Authority has no contingent liabilities as at 31st March 2012.

Supplementary Statements

Firefighter's Pensions Fund Account

The financial statements summarise the transactions and the net assets relating to the Firefighter's Pension Fund. The amounts that must be debited and credited to the Pension Fund Account are specified by regulation.

	2011/2012 £000		2010/2011 £000	
Contributions Receivable				
From employers				
- normal	**(5,138)**		(5,681)	
- early retirement	**(85)**		0	
From members	**(2,756)**	**(7,979)**	(3,033)	(8,714)
Transfers In				
Individual transfers in from other schemes		**(111)**		(159)
Benefits Payable				
Pensions	**17,458**		16,538	
Commutations and lump sum retirement benefits	**3,904**		4,075	
Lump sum death benefits	**56**	**21,418**	57	20,670
Payments to and on account of leavers				
Individual transfers out to other schemes		**0**		0
Net amount payable/receivable before top up grant receivable/amount payable to sponsoring department		**13,328**		11,797
Top-up grant receivable/amount payable to sponsoring department		**(13,328)**		(11,797)
Net amount payable/receivable for the year		**0**		0

Supplementary Statements (continued)

Firefighter's Pensions Net Assets Statement

	2011/2012 £000	2010/2011 £000
Net Current Assets and Current Liabilities		
	3,028	2,985
Pension top-up grant (receivable from) / due to sponsoring department		
Pre-paid pension benefits	**1,525**	1,430
Outstanding commutation payments	**0**	0
Cash Overdrawn due to the General Fund	**(4,553)**	(4,368)
	0	0

Notes to the Firefighter's Pensions Statements

1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain. CIPFA guidance notes for practitioners have also been referred to and applied where appropriate.

The financial statements summarise the transactions of the scheme and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2. Accounting Policies

The principal accounting policies are as follows:

Contributions

Contributions represent the total amounts receivable from the Authority and the pensionable employees. The employer's contributions are made at rates determined by the Government Actuaries Department, at a nationally applied rate of 21.3% for the 1992 Firefighters' Pension Scheme (11.0% for employees' contributions), and 11.0% for the 2006 Firefighters' Pension Scheme (8.5% for employees' contributions).

In addition to these contribution payments, the Authority is also required to make payments into the Pension Fund in respect of ill-health retirements, when they are granted.

No provision is made in the accounts for employees' and employer's contributions relating to sums due on pay awards not yet settled.

Benefits and refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer values

Transfer values are those sums paid to, or received from, other pension schemes, and the Firefighters' Pension Scheme outside England, for individuals, and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

3. Fund's Operations

New financial arrangements came into effect from 1st April 2006 for both the 1992 and the new 2006 Firefighters' Pension Schemes. The new financial arrangements had no impact on the terms and conditions of each scheme.

Both Firefighters' schemes are statutory, unfunded pension schemes, with the benefits from both schemes being defined and guaranteed in law. Both schemes are contracted out of the State Second Pension (S2P) and must provide benefits at least as good as most members would have received had they been members of S2P. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

Prior to 1st April 2006, the Authority administered and paid firefighters' pensions on a 'pay-as you-go' basis, which meant that employees' contributions were paid into the authority's operating account from which pension awards were made. Following the change in financial arrangements on 1st April 2006, the Authority has continued to administer and pay firefighters' pensions, but this is now from a new separate local firefighters' pension fund.

Employee contributions and new employer's contributions are paid into the Pension Fund from which pension payments are made. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments, with any surplus in the fund being recouped by Government. The fund is, therefore, balanced to nil each year by receipt of pension top-up grant or by paying the surplus back to Government. The underlying principle is that employer and employee contributions together will meet the full cost 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 fund has no investment assets.

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 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.

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.

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. Inventories). 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.

Capital Expenditure
Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Charges
The annual charge to the Income and Expenditure Statement 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 principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

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 contingent liability is either:
(a) A possible obligation 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, or;
(b) As a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsible.

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 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 cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Consumption includes the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset

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.

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
Fixed Assets that are inalienable 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.

International Accounting Standard (IAS) 19
IAS19 sets out the treatment of pensions and other forms of retirement benefits in an organisation's statutory accounts. The main features of IAS19 are the valuation of assets and liabilities relating to pensions and other retirement benefits and their recognition and disclosure in the financial statements.

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 – this is a type of lease, usually computer equipment, office equipment or vehicle where the balance of risks and rewards of holding the asset remains with the lessor. The asset remains the property of the lessor and the lease costs are revenue expenditure to the Authority.

Finance Leases - are leases that transfer substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

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).

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.

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 or for the service or strategic objectives of the authority. Examples of non-operational assets include; investment properties and assets that are surplus to requirements, pending their sale It should be noted that

the incidence of rental income does not necessarily mean that the asset is an investment property; it would be deemed an investment property only if the asset is held solely for investment purposes and does not support the service or strategic objectives of the authority and rental income is negotiated at arms length.

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 or for the service or strategic objectives of the authority.

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.

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.

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.

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
The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stock 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.

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.