



**Tyne and Wear  
Fire and Rescue Authority**

**Audited  
Statement of Accounts  
2007/2008**

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## **Authority Membership 2007/2008**

### ***Chairman***

Councillor P. Gibson (Sunderland City Council) up to 15th June 2008  
Councillor T. Wright (Sunderland City Council) from 16th June 2008

### ***Vice-Chairman***

Councillor T. Cooney (Newcastle City Council)

### ***Councillors***

#### Sunderland City Council

Councillor J. Carthy up to 15th June 2008  
Councillor J. Fletcher up to 15th June 2008  
Councillor M. Forbes  
Councillor R. Heron from 16th June 2008  
Councillor B. Scaplehorn from 16th June 08

#### Newcastle City Council

Councillor R. Clark from 16th June 2008  
Councillor D. James up to 15th June 2008  
Councillor R. Renton  
Councillor T. Woodwark

#### Gateshead MBC

Councillor A. Armstrong  
Councillor D. Bollands  
Councillor D. Boyes

#### North Tyneside MBC

Councillor D. Charlton from 16th June 2008  
Councillor M.J. Huscroft up to 15th June 2008  
Councillor K. Jordan  
Councillor P. McIntyre from 16th June 2008

#### South Tyneside MBC

Councillor J. Anglin up to 15th June 2008  
Councillor J. Bell  
Councillor A. McMillan from 16th June 2008

### ***Independent Members***

Mr. N.G. Cook  
Mr. J.P. Paterson

### ***Chief Officers***

I. Bathgate, Chief Fire Officer  
V. Bowman, Chief Emergency Planning Officer  
K. Beardmore C.P.F.A., Finance Officer  
D. Smith, Acting Clerk to the Authority

## Introduction

We are pleased to present the Statement of Accounts for the year 2007/2008 for the Tyne and Wear Fire and Rescue Authority. A published and audited Statement of Accounts is at the heart of ensuring proper accountability for the use of local and national taxpayers money. We recognise, however, that the Authority's accounts can only tell part of the story. The Authority needs to demonstrate that it is aiming to operate to the highest standard of conduct in accordance with the principles of Corporate Governance and has a robust system of internal control in place.

With regard to Corporate Governance, the Authority considers an annual review of its Code of Corporate Governance, with a report on the annual review being received at a full meeting of the Authority in June 2008. The Code follows the framework recommended by CIPFA / SOLACE. The review assesses the Authority's arrangements for compliance, which identifies the underlying principles of Corporate Governance – openness and inclusivity, integrity, and accountability. The review has found that the Authority has the majority of documentary evidence, processes and measures in place and identified a small number of areas for improvement and development, which will be acted upon during 2008/2009.

In line with guidance issued by CIPFA, the Authority has established the 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, the wider internal control environment and also consideration of internal and external audit plans and annual reports.

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

Clr Tom Wright  
Chairman of the Authority

Iain Bathgate  
Chief Fire Officer

Keith Beardmore  
Finance Officer

David Smith  
Acting Clerk to the Authority

Val Bowman  
Chief Emergency Planning Officer

Dated: 22nd September 2008

## **Certification of the Statement of Accounts**

As Chairman of the Governance Committee held on the 22<sup>nd</sup> September 2008, I hereby acknowledge receipt of the Statement of Accounts for 2007/2008 of this Authority, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Governance Committee of 22<sup>nd</sup> September 2008 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Mr G.N. Cook  
Chairman of the Governance Committee

Dated: 22nd September 2008

## Foreword by the Finance Officer

This Statement of Accounts shows in the following pages the Authority's final accounts for 2007/2008. It has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2007'. The Code of Practice constitutes 'proper accounting practice' under the terms of the Accounts and Audit Regulations 2003, and Amendments to those Regulations in 2006, 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 for the Statement of Accounts**  
This discloses the respective responsibilities of the Authority and the Finance Officer.
2. **Statement of Accounting Policies**  
This discloses the accounting policies that are significant to the understanding of the Statement of Accounts and the Authority's financial position.
3. **Annual Governance Statement**  
This statement sets out the principal arrangements, which are in place to ensure a sound system of internal control is maintained.
4. **The Core Financial Statements**
  - Income and Expenditure Account**  
This statement reports the net cost for the year of all the functions for which the Authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.
  - Statement of Movement on the General Fund Balance**  
The balance on the General Fund is established by applying the relevant statutory provisions, which the Authority needs to take into account when setting local taxes. The Statement of Movement on the General Fund Balance reconciles the outturn position reported on the Income and Expenditure Account to the balance on the General Fund.
  - Statement of Total Recognised Gains and Losses**  
This statement brings together all of the recognised gains and losses of the Authority for the year, and shows the aggregate increase, or decrease, in its net worth.
  - Balance Sheet**  
This shows the balances and reserves available to the Authority, its long-term indebtedness, the fixed and net current assets employed in its operations and summarised information on its fixed assets and its long term and current liabilities.
  - Cash Flow Statement**  
This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
5. **Notes to the Core Financial Statements**  
In addition to the above, further statements are included to show, in more detail, the financial position of the Authority, including summaries of expenditure which are categorised and accounted for in accordance with the Best Value Accounting Code of Practice (BVACOP) requirements, and the accounts of other funds in order to allow comparisons to be made with other similar local authorities.
6. **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.

## Revenue Expenditure and Income Summary

The estimated net revenue expenditure for 2007/2008 to be met from Government Grants and local taxpayers was approved at £56.549 million. This meant that the precept, represented at the Band D level of Council Tax, after allowing for Revenue Support Grant and National Non Domestic Rates receipts, was set at £69.93 for 2007/2008. This represented an increase of 2.4% over the 2006/2007 Band D level of £68.29 (the lowest % increase of any Metropolitan Fire and Rescue Authority).

The following table summarises the financial position for the year:

	2007/2008 Original Estimate £000	2007/2008 Revised Estimate £000	2007/2008 Actual Outturn £000	2006/2007 Actual Outturn £000
Community Safety	7,185	11,020	13,030	9,927
Fire Fighting and Rescue Operations	45,863	44,443	41,809	41,355
Fire Service Emergency Planning	0	0	6	(42)
Corporate and Democratic Core	324	332	304	286
Non Distributed Costs	0	0	870	470
<b>Net Cost of Services</b>	<b>53,372</b>	<b>55,795</b>	<b>56,019</b>	<b>51,996</b>
Balances	(277)	0	0	0
Loss on Disposal of Fixed Assets	0	0	160	0
Cleaning DSO	0	0	(10)	25
Interest Payable	912	912	906	856
Contingencies	2,004	312	0	0
Interest on Balances	(1,000)	(1,678)	(1,764)	(1,392)
Pension Interest Cost and Expected Return on Pension Assets	140	140	28,950	26,890
<b>Net Operating Expenditure</b>	<b>55,151</b>	<b>55,481</b>	<b>84,261</b>	<b>78,375</b>
Capital Financing:				
Reversal of Capital Charges and Impairments	(1,007)	(1,149)	(1,990)	(1,044)*
Minimum Revenue Provision	775	775	772	732*
Revenue Contribution to Capital Outlay	1,630	2,180	1,064	42*
Reversal of Loss on Disposal of Fixed Assets	0	0	(160)	0
	<b>56,549</b>	<b>57,287</b>	<b>83,947</b>	<b>78,105</b>
Contribution to Capital Reserves	0	63	63	61*
Contribution to FRS 17 Pension Reserve	0	0	(28,990)	(25,930)
Contribution to / (from) Earmarked Reserves	0	(731)	2,086	6,411
	<b>56,549</b>	<b>56,619</b>	<b>57,106</b>	<b>58,647</b>
Revenue Support Grant, Non Domestic Rates, Collection Fund and Precepts	(56,549)	(56,549)	(56,549)	(55,041)
<b>Reduction to Balances</b>	<b>0</b>	<b>70</b>	<b>557</b>	<b>3,606</b>
<b>General Fund Balance Brought Forward</b>			<b>(2,742)</b>	<b>(6,348)</b>
<b>General Fund Balance Carried Forward</b>			<b>(2,185)</b>	<b>(2,742)</b>

\* Figures restated for presentational purposes.

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

The above table shows a reduction in General Fund Balances of £0.557 million, which is greater than the £0.070 million reduction projected at the revised estimate stage. The General Fund Balances of the Authority as at 31st March 2008, after taking account of the above, have reduced from £2.742 million to £2.185 million.

The principal reasons for the net reduction in balances of £0.487 million, from the revised estimate, are outlined below:

- a) appropriations to various earmarked reserves, totalling £2.817 million, as agreed by Members at a full Authority meeting on 16th June 2008;
- b) underspendings on a number of budget headings, including:
  - i) premises – an underspend of £0.210 million has arisen, primarily in relation to lower than anticipated utilities and rates costs;
  - ii) insurances – an underspend of £0.240 million has arisen on insurance budgets, reflecting the lower contribution to the provision in 2007/2008;
  - iii) supplies – an underspend of £0.365 million has arisen on delegated budgets where expenditure (including training and equipment) has slipped to reflect the ongoing establishment review and to ensure that best value is obtained for the expenditure;
  - iv) capital financing – an underspend of £1.115 million has arisen as a result of slippage on a number of schemes within the Capital Programme, where the expenditure was planned to be financed through a revenue contribution;
  - v) contingencies – an underspend of £0.310 million has arisen in respect of the ongoing implementation of the establishment structure and due to the use of alternative funding for a recruits course during the year;
  - vi) interest received – additional interest of £0.085 million was received above estimate;
  - vii) Other – minor cost adjustments resulting in a net underspend of £0.005 million.

## **Capital Expenditure and Income**

The Authority approved a capital programme for 2007/2008 of £3.833 million, which was subsequently revised to £2.306 million during the year. Actual expenditure for the year was £1.703 million. Supported Capital Expenditure (SCE(R)), enabled the Authority to borrow £0.639 million to finance capital expenditure, with the balance of £1.064 million being financed from Revenue Contributions.

The underspend of £0.603 million has arisen due to a number of reasons:

- expenditure of £0.682 million planned for 2007/2008 has slipped into 2008/2009, which is due mainly to delays in the procurement of operational equipment (including fireground radios) and on a number of Estates schemes, where the need for specialist advice in relation to some of the schemes has caused delays;
- cost variations, where the total scheme costs for a number of schemes is lower than estimated, by £0.030 million;
- purchase of personal computers (£0.011 million) and vehicles (£0.098 million) during the year. The vehicles were originally included within the Vehicle Replacement Programme (traditionally financed through operating lease) but were purchased outright, and financed by a revenue contribution, following an option appraisal.

The First Review of the Capital Programme 2008/2009, reported to Authority on 16th June 2008, approved £2.802 million of capital expenditure to be spent in 2008/2009.



## **Authority's Current Borrowing and Capital Borrowing Provision**

The Capital Programme report, incorporating Prudential Indicators and Treasury Management Strategy, submitted to the Authority meeting on 19th February 2007, detailed the 2007/2008 borrowing limits for the Authority. This relates to borrowing undertaken by the Lead Authority (Sunderland City Council) on the Authority's behalf.

The specific borrowing limits set related to two of the Prudential Indicators required to be set under the Prudential Code, which was introduced on 1st April 2004. The Authority was required to set borrowing limits for the following three financial years. The limits for 2007/2008 were as follows:

- Authorised Limit for External Debt for 2007/2008 of £26.256 million;
- Operational Boundary for External Debt for 2007/2008 of £22.876 million.

The Lead Authority (Sunderland City Council) administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP). These two Prudential Indicators have been monitored on a daily basis and neither limit has been exceeded during 2007/2008. The highest level of external debt incurred by the Authority during 2007/2008 was £19.219 million on 1st April 2007.

## **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 2<sup>nd</sup> 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 2007/2008, the Cleaning DSO recorded a trading surplus of £14,022 (£10,224 inclusive of FRS 17 costs), which has been added to surpluses accumulated by the DSO in earlier years.

## **Private Finance Initiative**

The Authority entered into a contract on 28th March 2003 to provide 6 new Fire Stations, a Service Headquarters and a new Technical Services Centre. The final facility (Low Fell Community Fire Station) was handed over to the Authority on 27th March 2006.

The PFI contract allowed for changes to works and services to be made by the Authority or the contractor in respect of issues which could not have been anticipated or quantified at contract signature, or changes imposed by external factors for which the Authority has retained responsibility.

## **Accounting for Pensions**

### **Financial Reporting Standard 17**

The Authority's accounts are fully compliant with Financial Reporting Standard 17 (FRS 17). Although FRS 17 is regarded as a complex accounting standard it is based on a simple principle, namely that an organisation should account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. FRS 17 compliance therefore reflects the economic reality of the relationship between an employer and the pension fund.

Accounting Policy 13 and Notes 4 and 30 to the Core Financial Statements provide details of the necessary disclosures required.

The net overall impact of FRS 17 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, the Balance Sheet net worth is, in effect, reporting future years deficits, against the Pension Fund Reserve.

The financial health of the Authority is consequently being affected by the accounting requirements in respect of FRS 17 but this needs to be taken into context, as the Pension Fund Reserve Deficit reflected in the Balance Sheet, as assessed by the Actuary, as at 31st March 2008 is being addressed by the Authority in line with government regulations (whereby a period of up to 25 years to correct the deficit position has been agreed), which the Authority can meet with planned and agreed future years contributions based on independent actuarial advice.

Analysis of the movement in the Firefighter's Pension Fund liability records a significant gain against 'Past Service Cost'. This gain relates to the introduction of two tier ill health arrangements in the Firefighter's Pension Scheme. These new arrangements reduce the scheme liability, so a gain is recorded in the analysis of movement, and must also be included within Non Distributed Costs in the Authority's Income and Expenditure Account for 2007/2008.

### **Arrangements for Funding and Accounting for Firefighter Pensions**

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

Under the new arrangements, employee and employer contributions meet the accruing pension liabilities of currently serving firefighters. This means 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.

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 supplementary financial statements within the Authority's Statement of Accounts.

## **Major Acquisitions, Capital Works and Disposals during 2007/2008**

### **Acquisitions and Capital Works**

The Authority has not made any major acquisitions of either land or property during 2007/2008.

The Authority is involved in a number of major projects, known as capital works. The main schemes are listed below, for information, which also includes the amounts of expenditure incurred during 2007/2008, the total estimated gross cost of each scheme, and the status of the project at the end of the year.

<b>Scheme / Project</b>	<b>Expenditure During 2007/2008 £000</b>	<b>Total Estimated Scheme Costs £000</b>	<b>Completed / In Progress as at 31st March 2008</b>
Purchase of High Volume Pumping Unit	290	290	Completed
Station Refurbishment Programme	286	434	In Progress
Brigade Training Centre – Security Improvements and Incident Management Training Facilities	9	914	In Progress

## **Disposals**

As part of the Authority's PFI contract, a number of stations were relocated, necessitating exchanges of land between the Fire Authority and the constituent authorities. Accordingly, West Road Fire Station has been written out of the Authority's Balance Sheet. The transaction involved a land exchange with no cash consideration.

## **Changes to the Statement of Recommended Practice (SORP) 2007**

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2007 (SORP) introduced some major changes for 2007/2008. The substantive changes are set out below, for information, although a number of these do not directly affect the Authority's Statement of Accounts for 2007/2008:

- Adoption of Financial Reporting Standards, FRS 25, FRS 26 and FRS 29, which replace the previous accounting standards FRS 4 and FRS 5, with significant changes in the accounting treatment of financial instruments covering the areas of soft loans, borrowings, financial guarantees and investments. Whilst this is one of the main changes arising from the SORP 2007, this does not directly affect the Statement of Accounts 2007/2008 for this Authority as outlined at Accounting Policy 25, on page 30;
- The replacement of the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA) by a Revaluation Reserve and Capital Adjustment Account. This change was trailed in the SORP 2006 and requires a prior year adjustment with the creation of a Revaluation Reserve with an opening balance set to zero. This means that the FARA and CFA balances are transferred to the newly created Capital Adjustment Account as a prior year adjustment, as illustrated at Note 1, on page 46;
- New guidance has been included for accounting for Local Area Agreement grant;
- Additional disclosures are required in respect of charitable trusts consolidated into Group Accounts;
- The SORP has clarified which bodies are governed by it;
- The Application of Accounting Standards has been updated for changes in Accounting Standards, Financial Reporting Standards (FRS's) and Urgent Issue Task Force (UITF) Abstracts made up to 30th September 2006;
- Firefighter Pension Scheme accounting and funding arrangements, adopted in England from 1st April 2006, will apply to all Fire and Rescue Service Authorities in Wales from 2007/2008;
- The Business Improvement Districts Schemes (BIDs) guidance has been amended to include schemes operating in Scotland and Wales;
- The Landfill Allowance Trading Scheme (LATS) has been amended to include the accounting requirements for schemes operating in Northern Ireland.

The Statement of Accounts for 2007/2008 fully complies with the SORP 2007 except where departures from the SORP are noted, including reasons for the departure, where appropriate.

## **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 impact on its business affairs. The Authority's Financial Management System is euro compliant.

## **Comprehensive Performance Assessment**

The result of the Authority's Comprehensive Performance Assessment (CPA) for 2007 was released in the autumn of 2007. With regard to the Authority's Direction of Travel, the Audit Commission rated the Authority as Improving Well, the same rating as achieved in 2006. This is a notable achievement given that the requirements of the CPA process continued to be much more demanding than the previous regime, and 30% of Fire and Rescue Authorities saw their score fall one level or more over the same period.

The Authority received an overall score of '3' (with a score of '4' being the highest possible) for its Use of Resources assessment and, within that subset of scores, the Financial Reporting category was identified as a particular strength, with a score of '4'. The Authority received an overall score of '2' for its Operational Assessment of Service Delivery.

The Authority continues to work to build upon these successes and is actively pursuing a programme of continuous improvement.

## **Efficiency**

The Authority's approach to securing efficiency and value for money is encapsulated in the Authority's Value for Money Framework. The duty to continually examine, evaluate and realise efficiency gains is embedded within the Authority's approach to Corporate and Service strategies and plans, across Authority processes and within its Partnership Arrangements.

The Authority continues to seek and achieve efficiency savings in its budget and spending plans and has an excellent past record of achievement of efficiencies and improving services by using resources effectively.

The Authority has embraced and responded very positively to the requirements presented through the government's national efficiency review, launched by Sir Peter Gershon. To the end of 2007/2008, the Authority's latest estimate for cumulative ongoing efficiency savings that have been identified is £5.1 million (9.9%), considerably in excess of the Government target of 5.67%.

The Authority, however, will face new challenges in achieving further efficiencies as the government, in its Comprehensive Spending Review 2007 (CSR07), has set an overall target for local government, in total, of a further 3% cashable efficiencies for each of the next three years covering 2008/2009 to 2010/2011. An efficiency target of £110 million (equivalent to 1.6% per annum) over the three years of the CSR07 review has been set for the fire and rescue service, nationally.

## **Whole of Government Accounts**

Whole of Government Accounts (WGA) is based on United Kingdom Generally Accepted Accounting Principles, (UK GAAP) and, from 2006/2007, provides a fully audited true and fair view of the Government's financial performance. This is intended to provide increased transparency and accountability to Parliament as well as better quality financial information to underpin funding and investment decisions at local and national level. The Authority has systems in place to meet the appropriate reporting requirements set by government.

## **Single Status**

Following the Single Status Agreement 1997, the Authority continues to work towards implementing its revised Pay and Grading structure for all green book employees, with a planned implementation date of 31st March 2009.

## **Equal Pay Claims**

Following the receipt of legal advice from leading Counsel, the Authority successfully settled two equal pay claims in 2006/2007 on a "without prejudice" basis, where claimants were seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Authority.

Whilst there were no outstanding claims in respect of unequal pay as at 31st March 2007, the Authority made a provision within the accounts for 2006/2007 to enable any proposed settlements to be funded with regard to other employees in similar positions. These potential equal pay claims have been settled during 2007/2008.

There are no outstanding claims in respect of unequal pay as at 31st March 2008, and the Authority does not anticipate that any further claims are likely at this point in time.

## **Annual Report and Summary Statement of Accounts**

After a public consultation, the Authority produced its first Annual Report last year to highlight the Authority's successes over the previous 12 months (including its performance against national indicators and the opinions of its external inspectors) as well as outlining details of the improvements introduced to meet the Authority's vision of "Creating the Safest Community".

The Annual Report also included a summary of the Statement of Accounts for 2006/2007, which the Audit Commission noted "includes a clear and consistent summary of the Statement of Accounts within the context of a review of performance." The quality of the Annual Report contributed significantly to the CPA score of '4' achieved for Financial Reporting.

## **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 the Authority's Integrated Risk Management Plan (IRMP), which is focused on improving overall community safety through the more effective and efficient use of resources achieved through reinvesting efficiency savings into service provision. In line with previous years, significant achievements have been delivered during 2007/2008 through the IRMP Action Planning framework, including:

- Crewing levels on all two-pump stations are now established at 4x4 in line with the IRMP 5-year strategy;
- Carrying out a strategic review of fire and emergency cover, focusing on a feasibility study at Fulwell Fire Station;
- Broadening the skills base within Protection and Technical by employing five female members of staff as Fire Safety Inspectors;
- Appointing three community advocates, to work with local communities and partners to break down cultural and language barriers and increase fire safety awareness among hard to reach groups.

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 home fire risk assessments, which involve community firefighters and community safety 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 2007/2008, the Authority has:

- Carried out approximately 33,500 home fire risk assessments;
- Fitted 29,185 smoke alarms;
- Distributed approximately 4,260 deep fat fryers.

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 1,109 fires recorded in 2007/2008 represents a reduction of 30% on the 2006/2007 figure of 1,593 fires. This is a notable achievement for the service.

With regard to the area of operational response the Authority continues to have one of the fastest responding fire and rescue service's nationally. Last year the Authority's average attendance time for the first fire appliance to arrive at a building fire was 4 minutes 37 seconds, with a second appliance average arrival time of 5 minutes 51 seconds.

During 2007/2008, the Authority attended 12,385 fire calls, a decrease of 13.6% on the number attended in 2006/2007. This figure included a reduction of 1,653 in the number of deliberate fires. There has also been a 23% reduction in the number of injuries arising from accident dwelling fires from 61 in 2006/2007 to 47 in 2007/2008.

Within Tyne and Wear, 87% of households are located in what can be described as 'suburbs and housing estates'. For accidental fires in homes in these areas the Authority's response confined the fire to the room of origin in 94.2% of occasions.

In conclusion, this focused, preventative, and responsive work, is enabling the Authority to achieve its vision "Creating the Safest Community."

## **Planned Future Developments**

### **Estates Development Plan**

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

- a buildings condition survey has been undertaken and consideration is being given to the extent of any future capital investment for buildings to ensure that all buildings are to a standard which secures a modern and effective service operating across all of the facilities;
- the need to consider the development of further suitable community fire station facilities at each of the non-PFI fire stations. This is as a result of the considerable success of the PFI facilities, where the purpose-built, community-focused facilities are enabling the Authority to participate and engage more fully with the community, as well as offering opportunities to deliver enhanced programmes of fire safety advice and training;
- following the short-term relocation of the 'Safety Works' Interactive Community Safety Centre, a further feasibility study will be undertaken to consider the future requirements for the facility, including its location and the programmes of activity that are required;
- the need to ensure that the use of property assets is fully aligned to changes introduced in moving to co-terminosity (aligning with Local Authority boundaries);
- the need to take account of the need to secure environmental sustainability;

- the need to ensure that facilities continue to comply with the developing issues of equality, diversity and health and safety;
- the need to ensure that the provision of training facilities and resources meet the changing risk profile of our society.

The Authority has retained a Development Reserve to assist in funding the outcome of this major review of the property portfolio over the medium term to long term.

### **NEFRA PFI Scheme**

The North East Fire and Rescue Authorities (NEFRA) successfully submitted a collaborative application in January 2004 for Notional Credit Approvals in the 4<sup>th</sup> Round of PFI Initiatives. Within the application, the element directly affecting the Tyne and Wear Fire and Rescue Authority is the replacement of Tynemouth Fire Station with a new community fire station.

The project is currently at the procurement stage, and Collaborative Services Support was appointed as the selected bidder at the Authority meeting on 16th June 2008. Financial close is anticipated in early 2009, when construction of the new community fire station will commence, with completion anticipated by early 2010.

### **Regional Control Centre (FireControl)**

The FireControl business case outlines a need for regional control centres to enhance resilience, support improved performance for fire and rescue services and to deliver value for money. The new Regional Control Centres will be governed and operated by local authority controlled companies, wholly owned by the local Fire and Rescue Authorities in the region.

The Regional Control Centre (RCC) for the North East region, to be situated near the city of Durham, is planned to enter its first full year of operation in 2009/2010, although many of the costs are being met from 2007/2008 onwards, by transitional funding arrangements from government. Details regarding the financial support to be provided by government from 2009/2010 onwards have yet to be determined, as have decisions on the national and regional apportionment of costs. The Authority established a Regional Control Centre Reserve of £350,000 in 2007/2008 to provide a means of offsetting any costs associated with the RCC Project on the basis that the government position does not provide an absolute assurance to the Authority that all additional costs will be funded by government.

### **Firelink**

The government-supported Firelink project represents 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.

The project is currently in the first phase of implementation, and the government has provided funding for transitional arrangements for this. Further detailed information is still awaited in terms of the ongoing funding beyond 2008/2009.

### **Firebuy**

In November 2005, the government published the National Procurement Strategy for the Fire and Rescue Service as part of its modernisation agenda. In March 2006, Firebuy Ltd was established as a non-departmental public body to buy equipment nationally for the fire service.

Initial funding has been provided by the government to meet set-up costs, and to safeguard Firebuy Ltd's financial position until the long-term funding arrangements are agreed. A consultation paper in October 2006, issued through the Department for Communities and Local Government (CLG), outlined various options for the future funding of Firebuy Ltd, including the top slicing of Revenue Support Grant and charging subscriptions to Fire and Rescue Authorities. However, at this stage, no decisions have been taken and further detailed information on the future funding arrangements is awaited.

### **Centre of Excellence**

In October 2007, CLG issued a consultation paper on creating a Centre of Excellence to act as an intermediary between the fire and rescue service and the government. The objectives of the proposed Centre of Excellence are to facilitate greater consistency across the fire and rescue service, help drive up standards through sharing best practice, deliver economies of scale, and reduce duplication of effort.

Options with regard to governance and funding arrangements are subject to consultation and are not known at this stage. The likely financial impact has been assessed and reflected in the Authority's Medium Term Financial Strategy.

### **Financial Outlook for the Authority**

The outcome of the Comprehensive Spending Review 2007 saw a tightening of the national funding position in the three years of the review (2008/2009, 2009/2010 and 2010/2011), with this Authority receiving grant increases of 2.40%, 1.26% and 1.10% respectively. There is an expectation from government that Fire and Rescue Authorities will continue to identify and realise efficiency savings over this three-year period.

Against this context, the Authority has published a Medium Term Financial Strategy, which covers the period 2008/2009 to 2012/2013, 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 through its Strategic Plan (and other key strategic documents, such as the Integrated Risk Management Plan) and achieve value for money;
- inform a budget planning framework for each year for the preparation of Revenue and Capital Budgets.

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



## **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 City Treasurer 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 present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2008.

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.

**Keith Beardmore C.P.F.A.**  
**Finance Officer**

**Dated: 22nd September 2008**

# **Independent auditor's report to the Members of the Tyne and Wear Fire and Rescue Authority**

## **Opinion on the financial statements**

I have audited the accounting statements, the firefighters' pension fund accounting statements and related notes of Tyne and Wear Fire and Rescue Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of the Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and firefighters' pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the accounting statements, the firefighters' pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

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

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the firefighters' pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the firefighters' pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword and the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the firefighters' pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

## **Basis of audit opinion**

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

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

## **Opinion**

In my opinion:

The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and

The firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the firefighters' pension fund during the year ended 31 March 2008 and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

*Steve Nicklin  
District Auditor  
Nickalls House  
Gateshead  
NE11 9NH  
22nd September 2008*

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

### **Authority's Responsibilities**

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

### **Auditor's Responsibilities**

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

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Tyne and Wear Fire and Rescue Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### **Best Value Performance Plan**

I have issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/2008 on 19<sup>th</sup> December 2007. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

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

*Steve Nicklin  
District Auditor  
Nickalls House  
Gateshead  
NE11 9NH  
22nd September 2008*

## Statement of Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2007/2008 financial year and its position at the year-end of 31st March 2008. It has been prepared in accordance with the principles of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP) 2007 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) except where disclosed below.

The analysis of service expenditure included in the Income and Expenditure Account reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level.

### 2. Fixed Assets

#### Intangible Fixed Assets

Intangible assets are defined in FRS 10 – Goodwill and Intangible Assets as being non-financial assets that do not result in the creation of a fixed asset to the Authority. For the Tyne and Wear Fire and Rescue Authority, the only category of intangible assets are software licences, where these are assessed as bringing benefits to the Authority for more than one financial year. These assets are included at cost and amortised to services over the life of the software licences, to reflect the pattern of consumption of benefits, and which are estimated to have a useful life of 5 years.

#### Tangible Fixed Assets

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

**Recognition of Fixed Assets:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Authority, and the services that it provides, for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of assets (e.g. repairs and maintenance) is charged to revenue as it is incurred. 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.

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

Operational land and buildings has been valued on a net current replacement cost basis by either:

- Depreciated Replacement Cost where an asset is one which is of a specialised nature or where there is no evidence of market value of suitable comparable properties, or;
- Open Market Value for existing use where there is sufficient evidence of market transactions for that use.

Non-operational assets are fixed assets not directly occupied, used, or consumed in the delivery of services, including investment properties and assets surplus to requirements. They have been included in the Balance Sheet on an open market value basis.

Vehicles, plant, furniture and equipment have been included at historical cost, net of depreciation. Capital projects that are still in progress as at 31st March 2008 are classed as 'fixed assets under construction' and are shown in the Balance Sheet as non-operational assets on an historic cost basis. These assets are transferred to operational assets, on a cost basis, upon completion.

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

**Revaluation Gains and Impairment of Fixed Assets:** a full revaluation of both PFI and non-PFI property assets of the Authority was undertaken as at 1st April 2006, with subsequent revaluations of fixed assets planned on the basis of a three-year rolling programme. Material changes to individual asset valuations are adjusted in the interim, as they occur. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, in future years, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

Asset values may decrease following a review of asset categories for reductions in value, following revaluation or following a reassessment of an asset's value once the historic cost of capital projects has been added to the assets value. In such circumstances this impairment is accounted for by either, charging the loss to the relevant service revenue account where the impairment is attributable to a clear consumption of economic benefits, or writing the loss off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

All assets not subject to depreciation are assessed, in accordance with FRS 11, by the Authority's Valuer each year for any material impairment. No material impairment was assessed in 2007/2008, however, any such impairment would be charged to revenue in the year that it occurred.

As part of the revaluation programme, the valuer makes an assessment of the asset life, the gross value of each asset and also determines a value for use in determining the depreciable amount. The assessment of the depreciable amount is solely carried out to enable depreciation to be calculated and charged to the Income and Expenditure Account. The movement in the gross value of the asset (rather than the value of individual elements that make up the asset value) is used to assess revaluation gains and impairment losses.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts, which are credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against revenue, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are reflected in the Capital Adjustment Account on the Balance Sheet and also in the Statement of Movement on the General Fund Balance.

### **3. Depreciation**

Depreciation is provided for on all assets with a determinable finite life, by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

All buildings have been depreciated in line with Financial Reporting Standard (FRS) 15. Depreciation has not been provided for on non-depreciated land, and this approach complies with the SORP requirements.

Depreciation is calculated on the following bases:

- Operational buildings are depreciated over the anticipated useful life of the asset, which can be any length of time between 1 and 60 years. Where an asset is assessed as having a life in excess of 50 years (but no specific useful life is provided) depreciation is charged over 60 years;
- Vehicles, plant furniture and equipment are depreciated over the anticipated useful life of the asset, generally between 3 and 10 years.

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.

### **4. Charges to Revenue for Fixed Assets**

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;
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there no accumulated gains in the Revaluation Reserve against which they can be written off;
- 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, impairment losses and amortisations are, therefore, replaced by the revenue provision in the Statement of Movement on the General Fund Balance. Capital charges, therefore, have a neutral impact on the amounts required to be raised from local taxation.

### **5. Capital Receipts**

Profits and losses arising from the disposal of capital assets are reflected in the Income and Expenditure Account, in line with the reporting requirements of SORP 2007. Profit and losses will arise where the value of a capital receipt differs from the value of the asset value held in the Authority's fixed assets account. The gain or loss is an accounting entry to reflect proper accounting practice in local authority accounts, however the accounting receipt (profit) or charge (loss) does not impact on the Council Tax, as these entries are reversed out of the Statement in Movement of General Fund Balance. The net book value of the asset disposed of is written off against the Capital Adjustment Account and the Revaluation Reserve, as appropriate.



Capital receipts are included in the Usable Capital Receipts Reserve until utilised to finance capital expenditure or the repayment of debt.

## 6. Debtors and Creditors

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

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

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

In these cases the charges made in the financial year reflect a 12 monthly charge for the service provided.

**b. Wages**

The majority of the Authority's staff (i.e. Firefighters) are paid on a fortnightly basis. This results in 26 payments being incurred for most years, however, a 27<sup>th</sup> payment occurs in every tenth year. In order to smooth the effect of this additional payment, an adjustment has been made in the 2007/2008 accounts to reflect the appropriate cost for 366 days.

**c. Debtors**

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

**d. Prepayments**

Prepayments in the Balance sheet represent sums paid prior to the year-end, which relate to services or activity relevant to the following financial year.

**e. Creditors**

The Authority uses a procurement module within its Financial Management System to account for the bulk of its creditors each year. This means that all orders for goods and services must be processed through the system with the effect that the system now automatically records and identifies all creditors as being both:

- where the goods have been received by 31st March 2008 but not yet invoiced, and;
- where the goods have been received and invoiced but not paid until the following financial year.

This means that there is a significant reduction in the need for manual intervention. The method of accounting for creditors is an important aspect of the Statement of Accounts and the policy adopted by the Authority complies fully with the SORP.

**f. Receipts in Advance**

The Authority occasionally receives funds from third parties, including grants, ahead of their intended use. Such receipts are posted to the Balance Sheet in order that they can be matched in the following year with the expenditure to which they relate.

## 7. Stocks and Stores

All stocks and stores at the year-end are valued at average cost price.

## **8. Overheads and 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 City Treasurer's 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 2007.

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 2007. 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:

- 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.

## **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 revenue account 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 29 to the Core Financial Statements on page 62 provides information on the provisions set up by the Authority.

## **10. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts "below the line" in the Statement of Movement on the General Fund Balance. When expenditure is to be financed from a reserve, it is charged to the revenue account in that year to score against the Net Cost of Services, in the Income and Expenditure Account. The reserve is then appropriated into the General Fund Balance statement to meet this expenditure so that there is no net charge against council tax for the expenditure.

Details on the movement on earmarked reserves during 2007/2008 is provided in note 34 to the Core Financial Statements on page 66.

In addition, certain accounts and reserves are maintained in respect of tangible fixed assets (Capital Adjustment Account and Revaluation Reserve and retirement benefits (FRS 17 Reserve). These do not represent usable resources for the Authority, however, as they are accounting requirements not physical cash reserves. Notes 30, 31 and 32 to the Core Financial Statements provide further detail on these reserves.

## 11. Internal Interest

Interest is credited to the revenue account 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.

## 12. Delegated Budgets

The delegated budget scheme allows the carry forward of any under-spending to the following financial year as earmarked general balances. For 2007/2008, an appropriation has been made into the Budget Carry Forward Reserve for this purpose, as detailed in Note 34 to the Core Financial Statements on page 66.

## 13. Pension Costs

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

### a. Uniformed Staff

The Firefighters pension scheme is an unfunded, Defined Benefit Scheme. 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.

The requirement to recognise the net pensions liability in the Balance Sheet, however, has reduced the reported net worth of the Authority by 940% (2006/2007 1,281%).

### b. Non-Uniformed Staff

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 FRS 17. This requires the Authority to disclose certain information concerning assets, liabilities, income and expenditure related to the LGPS for its employees.

The employer's actual contributions in year are determined on the basis of contribution rates that were re-established to meet 100% of the liabilities of the Pension Fund with effect from 1st April 1993 as a phased return to full funding in accordance with relevant Government Regulations. The last full valuation of the Pension Fund was carried out as at 31st March 2007 and has been updated by independent actuaries to take into account the requirements of FRS 17 in order to assess liabilities as at 31st March 2007. The Authority complies fully with FRS 17 'Accounting for Retirement Benefits', which means that all pension liabilities are now included in the Balance Sheet, which is based on information supplied by the Pension Fund Actuary. Further disclosure information is contained within the Notes to the Core Financial Statements.

The FRS 17 accounting policy reflects the Authority's commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund. The change has had the following effect on the results on the current period:

The overall amount to be met from Government Grants and local taxation has remained unchanged, but the pension costs disclosed for individual services in respect of FRS 17 adjustments are 1.70% lower (3.10% lower for 2006/2007) after:

- replacement of employer's contributions by current service costs and Net Operating Expenditure is 33.37% higher, (32.46% higher for 2006/2007) than it would otherwise have been;
- the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 102%, (2006/2007 102%).

The net overall impact of FRS 17 accounting entries is neutral in the Statement of 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, the Balance Sheet net worth is, in effect, reporting future years deficits, which are being addressed. This consequently has the effect of distorting the real financial health of the Authority's finances.

#### **14. Government Grants**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, and there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched with the expenditure to which they relate.

General Government Grants, not aligned to any particular service, are included as a separate line in the Income and Expenditure Account, including Revenue Support Grant (RSG). National Non Domestic Rates redistribution is also separately disclosed in the Income and Expenditure Account, in accordance with SORP 2007 reporting requirements.

#### **15. Deferred Liabilities**

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 as a deferred liability within the Statement of Accounts for 2007/2008.

This represents a change from the Statement of Accounts for 2006/2007, when the liability was presented as long-term borrowing. A prior-year adjustment, showing the impact of this change on the Statement of Accounts for 2007/2008, is provided at Note 1, on page 46.

#### **16. Redemption of Debt**

The Authority complies with the accounting requirements of the SORP and, in accordance with the Local Government Act 2003, is required to set aside a Minimum Revenue Provision (MRP) for the repayment of debt, undertaken by the Lead Authority on the Authority's behalf. All amounts set aside for the repayment of external loans and to finance capital expenditure are disclosed separately in the Statement of Movement on the General Fund Balance.

For 2007/2008, the Minimum Revenue Provision is based upon 4% of the value of the Authority's Capital Financing Requirement as at 1st April 2007 in accordance with the Prudential Framework (refer to note 12 to the Core Financial Statements on page 52). The Statement of Accounts for 2007/2008 has thus been prepared to fully comply with these requirements.

## **17. External Interest**

All interest payable on external borrowings, undertaken by the Lead Authority on the Authority's behalf, is accrued and accounted for in the Accounts for the period to which they relate on a basis that reflects the overall economic effect of borrowings.

## **18. 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 SORP. No such provisions have been considered necessary at this time.

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

## **19. Long Term Contracts - Private Finance Initiative (PFI)**

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. Payments made by the Authority under a contract are generally charged to revenue to reflect the value of services received in each financial year.

The amounts of any outstanding undischarged obligations arising from long-term contracts such as those relating to a Private Finance Initiative (PFI) Scheme are required to be included as a separate note to the Accounts. The relevant note and information relating to the Authority's PFI scheme is detailed in Note 20 to the Core Financial Statements on Page 58.

### **Prepayments**

A prepayment for services receivable under a contract arises when payments are made, or assets transferred, at the start of the contract, which result in lower unitary payments over the life of the contract. These are accounted for by setting up the contribution as a prepayment for services and writing the balance down to revenue over the life of the contract as services are received to reflect the real economic benefit received at the time it is received.

### **Residual Interests**

Where assets created or enhanced under the PFI scheme are to pass to the Authority at the end of the scheme, at a cost less than fair value, an amount equal to the difference between the fair value and the payment to be made at the end of the contract is to be built up as a long term debtor over the contract life by reducing the amount of unitary payment charged to revenue, reflecting the capital charge element in the Statement of Movement in the General Fund Balance.

### **PFI Credits**

As part of the reforms to Local Government Authority PFI Grant announced by the, then, Office of the Deputy Prime Minister, the Authority has taken the opportunity offered to move to the annuity method of calculation of grant entitlement which is more advantageous to the Authority, than the previously used reducing balance method. This became effective from 1st April 2005. 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.

## **20. Accounting for Leases**

### **Finance Leases**

The Authority accounts for leases as finance leases when, substantially, all the risks and rewards relating to the leased property transfer to the Authority. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable), and;
- a finance charge (charged to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

### **Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to revenue on a fixed amount basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## **21. VAT**

The Income and Expenditure Account excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from it.

## **22. Deferred Charges**

Deferred charges represent expenditure, which may properly be capitalised, but does not result in the creation of a fixed asset to the Authority. Expenditure and associated income is charged to service revenue accounts over a period of time appropriate to the benefit received, generally in the year in which the expenditure is incurred. Deferred charges are not revenue based and are reversed out in the appropriations section of the Statement of Movement on the General Fund Balance in accordance with accounting conventions. Deferred charges, therefore, have a neutral impact on the amounts required to be raised from local taxation.

The Authority had no deferred charges arising for the financial year ended 31st March 2008.

## **23. Related Companies and Group Accounts**

The Authority does not have financial relationships through related companies, joint ventures or joint arrangements. Consequently, no group accounts have been prepared.

## **24. Estimation**

### **Pensions Liabilities**

Pensions liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll-forward method (an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels etc.). 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 2008 based on the latest full valuation of the scheme as at 31st March 2007 and their assessments of future movements in the return on pension assets and future pension liabilities. See note 30 to the Core Financial Statements (page 63).

### **Apportionment of costs for Community Safety**

As required by CIPFAs 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.

### **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.

## **25. Financial Instruments**

With effect from 1 April 2007, local authorities are required to adopt a major change of accounting policy in respect of the way in which they account for financial instruments, in order to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – the Statement of Recommended Practice 2007, issued by the Chartered Institute of Public Finance and Accountancy.

This covers the accounting treatment of all financial instruments, such as loans, investments, soft loans (loans below market value) and financial guarantees, which have been designed to present a higher quality of information on financial instruments, in line with the private sector. In addition, in order to help identify, quantify and inform on the exposure to and management of risk, new "fair value" disclosure requirements have been introduced. This need has arisen in recent years through the high profile failure of a number of financial institutions e.g. Barings, Enron, World Com etc.

This change in accounting standards has meant that most financial instruments (whether borrowing or investment) have, in 2007/08, to be valued on an amortised costs basis using the effective interest rate (EIR) method.

The changes noted above, however, do not apply to the Authority's Statement of Accounts for 2007/2008 due to its arrangements with its Lead Authority (Sunderland City Council), which carries out the Authority's investment and borrowing arrangements on its behalf.

## **26. Events After the Balance Sheet Date**

Where an event after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date occurs, (an adjusting event), the amounts recognised in the Statement of Accounts have to be adjusted to take into account any new information about that adjusting event.

# Annual Governance Statement

## 1 Scope of Responsibility

- 1.1 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.
- 1.2 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.
- 1.3 The Authority has had a Code of Corporate Governance in place since 2003. The Code now requires revision so that it is consistent with the principles of the SOLACE/CIPFA Framework, Delivering Good Governance in Local Government. The new 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 2008 for approval and adoption. The new Code will then be made available on the Authority's website ([www.twfire.gov.uk](http://www.twfire.gov.uk)) or can be obtained from the Fire and Rescue Service Headquarters.
- 1.4 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.

## 2 The Purpose of the Governance Framework

- 2.1 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.
- 2.2 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.
- 2.3 The governance framework has been in place at the Authority for the year ended 31st March 2008 and up to the date of approval of the Annual Report and Statement of Accounts.

## 3 The Governance Framework

- 3.1 **There is a clear vision of the Authority's purpose and intended outcomes for service users that 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/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, CPA framework 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) 2007/2008 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;
  - advertisements in local and Council newspapers.

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

During 2007/2008, the Strategic Community Safety Plan 2008-2013 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.

### **3.3 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.
- 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.

### **3.4 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 Policy and Review 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;
  - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the Authority and/or Strategic Management Team.

**3.5 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.

**3.6 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 and development.
  - 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.

**3.7 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 Annual Governance Statement, 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;
- make recommendations or comments to the Authority as appropriate.

**3.8 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.

**3.9 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, although an action point for 2008/2009 is to provide 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.

**3.10 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 that identifies that the need to enable and support the organisation in managing the performance of all of its employees through effective policies, procedures and working practices is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal 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.
- The Authority is a member of the Regional Equality and Diversity Steering Group which provides strategic direction and advice in terms of equality and diversity including improving community engagement for fire and rescue authorities.

**3.11 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.

**3.12 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.

## **4 Review of Effectiveness**

4.1 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.

4.2 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;
  - 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 Principle 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.

- Under the Comprehensive Performance Assessment, the most recent corporate assessment states that:

*The Authority is improving well in areas that it has identified as priorities and those important to local communities. Over two thirds of its performance indicators improved in 2006/07 with significant progress being made in reducing fire related injuries and false alarms. The Authority has achieved sustained high levels of smoke alarm ownership, but dwelling fires remain static. The Authority has made a clear shift from response into community safety. Community safety initiatives have been targeted at areas identified as high risk. The Authority contributes to wider community outcomes through effective partnership working and uses its involvement to identify communities at risk of exclusion. There are arrangements in place to improve value for money, and has delivered significant efficiency savings. The Authority has improved its performance management, communications and member engagement. There are robust workforce development and training arrangements in place and rank to role has been fully implemented. The Authority has made limited progress, in improving its poor workforce diversity. The Authority recognises the challenges that remain and has plans in place to address these.*

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

## 5 Assurance Statements

- 5.1 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.
- 5.2 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.

Cllr Tom Wright  
Chairman of the Authority

Iain Bathgate  
Chief Fire Officer

Keith Beardmore  
Finance Officer

David Smith  
Acting Clerk to the Authority

Val Bowman  
Chief Emergency Planning Officer

22<sup>nd</sup> September 2008

## Income and Expenditure Account

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

	Notes	2007/2008 Gross Expenditure £000	2007/2008 Gross Income £000	2007/2008 Net Expenditure £000	2006/2007 Net Expenditure £000
Community Safety		13,587	(557)	13,030	9,927
Fire Fighting and Rescue Operations		43,406	(1,597)	41,809	41,355
Fire Service Emergency Planning		568	(562)	6	(42)
Corporate and Democratic Core		304	0	304	286
Non Distributed Costs		870	0	870	470
<b>Net Cost of Services</b>	1-12	<b>58,735</b>	<b>(2,716)</b>	<b>56,019</b>	<b>51,996</b>
Loss on Disposal of Fixed Assets	13			160	0
Cleaning DSO	14			(10)	25
Interest Payable				906	856
Interest and Investment Income				(1,764)	(1,392)
Pension Interest Cost and Expected Return on Pensions Assets	4			28,950	26,890
<b>Net Operating Expenditure</b>				<b>84,261</b>	<b>78,375</b>
Precept Income				22,412	21,733
Collection Fund Surplus/(Deficit)				200	243
Revenue Support Grant				4,877	5,453
Non Domestic Rate Income				29,060	27,612
<b>(Surplus)/Deficit For The Year</b>				<b>27,712</b>	<b>23,334</b>



## Statement of Movement on the General Fund Balance

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

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

The General Fund Balance compares the Authority's spending against the precept that it levied for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

	Notes	2007/2008 £000	2006/2007 £000
(Surplus)/Deficit for the year on the Income and Expenditure Account		27,712	23,334
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	15&16	(27,155)	(19,728)
<b>(Increase) / Decrease in General Fund Balance for the year</b>		<b>557</b>	<b>3,606</b>
General Fund Balance brought forward		(2,742)	(6,348)
<b>General Fund Balance carried forward</b>		<b>(2,185)</b>	<b>(2,742)</b>

## Statement of Total Recognised Gains and Losses

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

	<b>Notes</b>	<b>2007/2008</b> <b>£000</b>	<b>2006/2007</b> <b>£000</b>
(Surplus)/Deficit for the year on the Income and Expenditure Account		27,712	23,334
(Surplus)/Deficit arising on revaluation of Fixed Assets	31	(4,564)	(594)
Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	17	(95,440)	(38,710)
<b>Total Recognised (Gains)/Losses for the year</b>		<b>(72,292)</b>	<b>(15,970)</b>

# Balance Sheet

As at 31st March

	Notes	31st March 2008		31st March 2007 (Restated)	
		£000		£000	
<b>Fixed Assets</b>					
<b>Intangible Fixed Assets</b>			34		42
<b>Tangible Fixed Assets</b>					
Operational Assets:					
Operational Land and Buildings		37,033		33,482	
Vehicles, Plant, Furniture and Equipment		<u>2,555</u>	39,588	<u>2,262</u>	35,744
Non Operational Assets:					
Assets Under Construction		759		318	
Surplus Assets held for Disposal		<u>308</u>	<u>1,067</u>	<u>468</u>	<u>786</u>
<b>Total Fixed Assets</b>	18 & 19		<b>40,689</b>		<b>36,572</b>
<b>Long Term Debtors</b>					
Residual Interest in PFI Scheme	20		209		120
Pre-payments re PFI Scheme	20		595		623
Other	21		<u>17</u>		<u>18</u>
<b>Total Long Term Assets</b>			<b>41,510</b>		<b>37,333</b>
<b>Current Assets</b>					
Stocks and Stores	22	273		298	
Debtors	23	1,430		4,194	
Payments in Advance	24	1,102		0	
Short Term Investments	25	24,142		22,082	
Cash at Bank		9,074		7,899	
Cash in Hand (Officers' Imprests)		<u>3</u>	<b>36,024</b>	<u>2</u>	<b>34,475</b>
<b>Current Liabilities</b>					
Creditors	26	(3,365)		(3,824)	
Receipts in Advance	27	<u>(270)</u>	<b>(3,635)</b>	<u>0</u>	<b>(3,824)</b>
<b>Total Assets Less Current Liabilities</b>			<b>73,899</b>		<b>67,984</b>
Deferred Liabilities	28		(19,163)		(19,298)
Provisions	29		(693)		(485)
Liability related to Defined Benefit Pension Scheme	30		(475,740)		(542,190)
<b>Total Assets Less Liabilities</b>			<b>(421,697)</b>		<b>(493,989)</b>
<b>Reserves</b>					
Revaluation Reserve	31		4,549		0
Capital Adjustment Account	32		17,769		18,005
Usable Capital Receipts	33		3,285		3,285
Earmarked Reserves :	34				
PFI Smoothing Reserve		4,791		4,522	
Insurance Reserve		761		671	
Early Retirement Reserve		50		53	
Development Reserve		14,535		13,621	
Contingency Planning Reserve		2,250		2,250	
Budget Carry Forward Reserve		1,933		1,269	
New Dimensions Reserve		355		400	
Community Safety Reserve		250		250	
Innovation Fund Reserve		30		200	
Civil Emergency Reserve		200		200	
Regional Control Centre Reserve		<u>350</u>	25,505	<u>0</u>	23,436
General Fund Balances :	35				
General Reserve		2,185		2,742	
Delegated Surplus		560		560	
DSO Accumulated Surplus	14	57		43	
Emergency Planning Reserve		<u>133</u>	2,935	<u>130</u>	3,475
FRS 17 Pension Reserve	30		(475,740)		(542,190)
<b>Total Net Worth</b>			<b>(421,697)</b>		<b>(493,989)</b>

## Cash Flow Statement

	Notes	2007/2008 £000	2006/2007 £000
<b>Revenue Activities</b>			
<b>Cash Outflows</b>			
Cash Paid to and on behalf of Employees		57,290	55,726
Other Operating Cash Payments		<u>12,851</u>	<u>12,647</u>
		70,141	68,373
<b>Cash Inflows</b>			
Precept Income/Collection Funds Surplus		(22,612)	(21,976)
National Non Domestic Rate Receipts from Pool		(29,060)	(27,612)
Revenue Support Grant		(4,877)	(5,453)
Other Government Grants	44	(13,067)	(11,196)
Cash Received for Goods and Services		(2,362)	(1,958)
Other Operating Cash Receipts		<u>(2,277)</u>	<u>(1,964)</u>
		(74,255)	(70,159)
		<u>(4,114)</u>	<u>(1,786)</u>
<b>Returns on Investments and Servicing of Finance</b>			
<b>Cash Outflows</b>			
Interest Paid		903	856
Interest Element of Finance Lease		3	3
<b>Cash Inflows</b>			
Interest Received		<u>(1,764)</u>	<u>(1,392)</u>
<b>Net Cash Flow from Revenue Activities</b>	39	<u>(4,972)</u>	<u>(2,319)</u>
<b>Capital Activities</b>			
<b>Cash Outflows</b>			
Purchase of Fixed Assets		1,601	1,797
<b>Cash Inflows</b>			
Sale of Fixed Assets		<u>0</u>	<u>(3,127)</u>
<b>Net Cash Flow before Financing</b>	40	<u>(3,371)</u>	<u>(3,649)</u>
<b>Management of Liquid Resources</b>			
Liquid Resources	42	2,060	16,408
<b>Financing</b>			
<b>Cash Outflows</b>			
Repayments of Amounts Borrowed	43	769	728
Capital Element of Finance Lease	40	5	5
<b>Cash Inflows</b>			
New Long Term Loans Raised	43	(639)	(1,742)
<b>(Increase) / Decrease in Cash and Cash Equivalents</b>	41	<b>(1,176)</b>	<b>11,750</b>

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## Notes to the Core Financial Statements

### 1. Prior Period Adjustment

Arising from the changes in the SORP 2007, the previous years accounts have been amended. The purpose of this note is to provide meaningful comparators, which will aid the reader in interpreting the financial statements and help explain the adjustments necessary in order to comply with the new accounting requirements.

The Balance Sheet figures for 31st March 2007 have been adjusted from those included in the Statement of Accounts for 2006/2007 as noted, below:

#### Capital Accounting

To accommodate the implementation of the Revaluation Reserve, the Revaluation Reserve and Capital Adjustment Account replace the Fixed Asset Restatement Account (FARA) and Capital Financing Account (CFA). The credit balances of £12,453,097 and £5,551,751 on the FARA and CFA respectively at 31st March 2007 have been written off to the Capital Adjustment Account with a resulting credit balance of £18,004,848. The Revaluation Reserve has been included in the Balance Sheet with a zero balance. The closing balance on the Revaluation Reserve at 31st March 2008, therefore, shows revaluation gains accumulated since 1st April 2007.

#### Deferred Liability

The Lead Authority (Sunderland City Council) administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool 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 as a Deferred Liability within the Statement of Accounts for 2007/2008. This represents a change from the Statement of Accounts 2006/2007, when the liability was presented as both short-term and long-term borrowing.

	<b>Balance Sheet 31st March 2007 £000</b>	<b>Restated Balance Sheet 31st March 2007 £000</b>
Capital Accounting:		
Fixed Asset Restatement Account	12,453	0
Capital Financing Account	5,552	0
Revaluation Reserve	0	0
Capital Adjustment Account	0	18,005
	<b>18,005</b>	<b>18,005</b>
Liabilities:		
Long Term Borrowing	18,444	0
Short Term Borrowing	775	0
Deferred Liability	79	19,298
	<b>19,298</b>	<b>19,298</b>

## 2. Subjective Summary

This note reflects the expenditure and income of the Tyne and Wear Fire and Rescue Authority for the year ended 31st March 2008. The analysis reflects the requirements of the BVACOP, where internal recharges have been allocated to the service recipient and ensures that this expenditure appears only once in the accounts and that it reflects the total cost principle of BVACOP. This treatment eliminates double counting of the same recharges, and has been applied consistently for both 2007/2008 and 2006/2007.

	2007/2008		2006/2007	
	£000	%	£000	%
<b>Expenditure</b>				
Employee Expenses	48,728	49.52	45,038	47.34
Premises Related Expenses	1,696	1.72	2,411	2.53
Transport Related Expenses	1,699	1.73	1,619	1.70
Supplies, Services and Other Expenses	9,131	9.28	8,558	9.00
Capital Charges	4,892	4.97	2,684	2.82
Cleaning DSO Reserve	57	0.06	43	0.05
Contribution to Provisions	391	0.40	575	0.60
Contribution to Earmarked Reserves	2,069	2.10	6,543	6.88
Contribution to Capital Reserves	90	0.09	87	0.09
Delegated Budget C/Fwd	560	0.57	560	0.59
Contribution to Emergency Planning Reserve	133	0.14	130	0.14
Pension Interest Cost and Expected Return on Pension Asset	28,950	29.42	26,890	28.26
	<b>98,396</b>	<b>100.00</b>	<b>95,138</b>	<b>100.00</b>
<b>Income</b>				
Government Grants	4,298	4.37	4,492	4.72
Other Grants, Reimbursements and Contributions	1,401	1.42	911	0.96
Customer and Client Receipts	1,894	1.93	1,832	1.93
Interest on Revenue Balances	1,764	1.79	1,392	1.46
Revenue Support Grant	4,877	4.96	5,453	5.73
National Non Domestic Rates	29,060	29.54	27,612	29.01
Precept	22,412	22.78	21,733	22.84
Collection Fund Net Surplus/(Deficit)	200	0.20	243	0.26
Cleaning DSO Appropriation Account	43	0.04	68	0.07
Contribution from Capital Reserves	27	0.03	26	0.03
Reversal of Impairment Charges	841	0.85	0	0.00
Reversal of Loss on Disposal of Fixed Asset	160	0.16	0	0.00
Reversal of Depreciation Charges	1,149	1.17	1,044	1.10
Insurance Provision	33	0.03	0	0.00
Delegated Budget B/Fwd	560	0.57	722	0.76
Contribution from Emergency Planning Reserve	130	0.13	74	0.08
Contribution from FRS 17 Pension Reserve	28,990	29.46	25,930	27.26
Decrease in General Balances	557	0.57	3,606	3.79
	<b>98,396</b>	<b>100.00</b>	<b>95,138</b>	<b>100.00</b>



### 3. Long Term Contracts – Private Finance Initiative (PFI)

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.

The Authority accounts for the net amount of the unitary charge for the PFI contract but reduced by the effect of the PFI Credit Government grant support received in the financial year to which it relates. The Authority is committed to making further payments estimated at £96.098 million over the remaining term of the 25 year contract, but this figure is reduced by the impact of the PFI Credits, which has been estimated at totaling £59.227 million worth of central government grant support over the same period as the contract.

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

<b>Period</b>	<b>Unitary Payments</b>	<b>PFI Credits - Government Grant</b>	<b>Net Cost</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
2007/2008	4.044	2.804	1.240
2008/2009	3.966	2.804	1.162
2009/2010 - 2012/2013	16.345	11.215	5.130
2013/2014 - 2017/2018	21.610	14.018	7.592
2018/2019 - 2022/2023	23.081	14.018	9.063
2023/2024 - 2027/2028	24.745	14.018	10.727
2028/2029 - 2029/2030	6.351	3.154	3.197
<b>Totals (2008/2009 to 2029/2030)</b>	<b>96.098</b>	<b>59.227</b>	<b>36.871</b>

### 4. Pensions

The Authority participates in two pension schemes, both of which are defined benefit 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 Local Government Pension Scheme for non-uniformed employees, administered by South Tyneside Metropolitan Borough Council. This is a funded scheme meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The pension costs that are charged to the Authority's accounts in respect of non-uniformed staff are equal to the contributions paid to the funded pension scheme for those employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The total of these costs in 2007/2008 was £378,257 (2006/2007 - £373,405), which represented 7.41% (2006/2007 – 6.79%) of pensionable pay. These costs have been determined on the basis of contribution rates that were re-established to meet 100% of the liabilities for the Pension Fund. The Fund's actuary, based on triennial actuarial valuations, the last review being 31st March 2007, determines the contribution rate. The employer's contributions certified by the actuary to the Fund in respect of the period 1st April 2008 to 31st March 2011 is 13.6% of pensionable pay for each year.

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

### FRS 17 Disclosures

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Income and Expenditure Account with accounting entries shown in the Statement of Movement on General Fund Balance. The following transactions have been made during the year:

	Local Government Pension Scheme		Firefighters Pension Scheme		Total	
	2007/2008 £000	2006/2007 £000	2007/2008 £000	2006/2007 £000	2007/2008 £000	2006/2007 £000
Net Cost of Services:						
Current Service Costs	(1,260)	(1,110)	(16,000)	(17,020)	(17,260)	(18,130)
Past Service Costs	(270)	(70)	(600)	(420)	(870)	(490)
<b>Impact on Net Cost of Services</b>	<b>(1,530)</b>	<b>(1,180)</b>	<b>(16,600)</b>	<b>(17,440)</b>	<b>(18,130)</b>	<b>(18,620)</b>
Net Operating Expenditure:						
Interest Costs	(1,550)	(1,330)	(28,750)	(26,710)	(30,300)	(28,040)
Expected return on assets in the scheme	1,350	1,150			1,350	1,150
<b>Impact on Net Operating Expenditure</b>	<b>(200)</b>	<b>(180)</b>	<b>(28,750)</b>	<b>(26,710)</b>	<b>(28,950)</b>	<b>(26,890)</b>
Amounts to be met from Government Grants and Local Taxation:						
<b>Movement on Pensions Reserve</b>	320	130	28,670	25,800	28,990	25,930
Actual amount charged against Council Tax for pensions in the year:						
Employer's contributions payable to the scheme	<b>(1,410)</b>	<b>(1,230)</b>			<b>(1,410)</b>	<b>(1,230)</b>
Retirement benefits payable to pensioners			<b>(16,680)</b>	<b>(18,350)</b>	<b>(16,680)</b>	<b>(18,350)</b>

## 5. Finance and Operating Leases

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

	2007/2008		2006/2007	
	Operating Leases £000	Finance Leases £000	Operating Leases £000	Finance Leases £000
Capital value of assets acquired	836	0	0	0
Total lease rentals paid	849	8	765	8
Liability for remaining period rentals	2,737	89	2,476	97

The total liability can be analysed as follows:

Obligations payable in 2008/2009	721	8	634	8
Obligations payable between 2009/2010 and 2012/2013	1,597	32	1,588	32
Obligations payable thereafter	419	49	254	57
	<b>2,737</b>	<b>89</b>	<b>2,476</b>	<b>97</b>

## 6. Publicity Account

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

	2007/2008 £000	2006/2007 £000
Recruitment Advertising	59	26
Other Advertising	6	5
Other Publicity	449	227
	<b>514</b>	<b>258</b>

## 7. Members Allowances

The amount paid to Authority members during the year was:

	2007/2008 £000	2006/2007 £000
Total Member's Allowances Paid	65	60

## 8. Officers Emoluments

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

Remuneration Band	2007/2008 Number of Employees	2006/2007 Number of Employees
£50,000-£59,999	6	8
£60,000-£69,999	2	1
£70,000-£79,999	0	0
£80,000-£89,999	0	0
£90,000-£99,999	3	2
£100,000-£109,999	1	1
£110,000-£119,999	0	0
£120,000-£129,999	0	1

## 9. External Audit Fees

	2007/2008 £000	2006/2007 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	76	72
Fees payable in respect of other services provided by the appointed auditor	1	1
	<b>77</b>	<b>73</b>

## 10. Related Party Transactions

The Statement of Recommended Practice requires the disclosure of any material transactions with related parties to ensure that stakeholders are aware when these transactions take place and the amount and implications of such transactions.

### 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 8. Support services received total £539,961 (£498,179 in 2006/2007).

## 11. North East Fire and Rescue Regional Management Board

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

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

The Authority has contributed £12,000 to the RMB during 2007/2008 (£24,752 in 2006/2007).

A local Authority Controlled Company (LACC) was established in August 2007 in order to undertake the Regional Control Centre functions for the North East region. The LACC will not become operational until the 2009/2010 financial year, and there is no financial impact arising from the LACC to report in the Authority's Statement of Accounts for 2007/2008. Construction of the Regional Control Centre has been financed by CLG and does not appear in these accounts.

## 12. Minimum Revenue Provision

For 2007/2008, the Minimum Revenue Provision is based upon 4% of the value of the Capital Financing Requirement as at 1st April 2007. The Accounting Policy number 16 on page 27 provides more detail on accounting for MRP and the provision set out below complies with the requirements of the SORP.

	<b>%</b>	<b>2007/2008 £000</b>	<b>2006/2007 £000</b>
Statutory MRP	4.00	772	732

## 13. Loss on Disposal of Fixed Assets

As part of the Authority's PFI contract, a number of stations were relocated, in some cases necessitating exchanges of land between the Fire Authority and its constituent authorities. Accordingly, West Road Fire Station has been written out of the Authority's Balance Sheet in 2007/2008. As there was no cash consideration for this land, the accounts reflect a loss on disposal.

	<b>Asset Value 1st April 2007 £000</b>	<b>Disposal Proceeds £000</b>	<b>Gain / Loss on Disposal £000</b>
West Road Fire Station, Newcastle	160	0	160
	<b>160</b>	<b>0</b>	<b>160</b>

## 14. Trading Services

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

	2007/2008 £000	2006/2007 £000
<b>Income</b>		
Charges to other accounts of the Authority	216	200
<b>Expenditure</b>		
Labour	186	204
Materials	11	14
Overheads	5	7
<b>Total Expenditure</b>	<b>202</b>	<b>225</b>
<b>Surplus / (Deficit) for the year</b>	<b>14</b>	<b>(25)</b>
<b>Appropriation Account</b>		
	2007/2008 £000	2006/2007 £000
Balance at start of year	43	68
Surplus / (deficit) for the year	14	(25)
<b>Balance as at end of year</b>	<b>57</b>	<b>43</b>

In 2007/2008, the Cleaning DSO recorded a trading surplus of £14,022 (£10,224 inclusive of FRS 17 costs), which has been added to surpluses accumulated by the DSO in earlier years.

## 15. Statement of Movement on General Fund Balance

The Income and Expenditure Account shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated for the year ended 31st March 2008. However, the Authority is required to raise council tax on a different basis, the main differences being:

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

The Statement of Movement on General Fund Balance compares the Authority's spending against the precept that is raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the movement on the General Fund Balance.

## 16. Statement of Movement on General Fund Balance - Reconciliation

	2007/2008 £000		2006/2007 £000	
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund balance for the year</b>				
Depreciation and Impairment of fixed assets	(1,990)		(1,044)	
Net loss on sale of fixed assets	(160)		0	
Net charges made for retirement benefits in accordance with FRS 17 (Firefighter's Pension Fund)	(45,350)		(44,150)	
Net charges made for retirement benefits in accordance with FRS 17 (Tyne and Wear Pension Fund)	(1,730)		(1,360)	
	<u>                    </u>	(49,230)	<u>                    </u>	(46,554)
<b>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund balance for the year</b>				
Minimum Revenue Provision for capital financing	772		732	
Capital Expenditure in-year charged to the General Fund (RCCO)	1,064		42	
Employer's contributions payable to the Firefighter's Pension Fund and retirement benefits payable direct to pensioners	16,680		18,350	
Employer's contributions payable to the Tyne and Wear Pension Fund and retirement benefits payable direct to pensioners	1,410		1,230	
	<u>                    </u>	19,926	<u>                    </u>	20,354
<b>Transfers to or from the General Fund balance that are required to be taken into account when determining the movement on the General Fund balance for the year</b>				
Appropriations to reserves:				
Pension Reserve	0		(11,921)	
PFI Smoothing Reserve	269		361	
Budget Carry Forward Reserve	664		1,269	
New Dimensions Reserve	(45)		400	
Innovation Fund Reserve	(170)		200	
Civil Emergency Reserve	0		200	
Community Safety Reserve	0		250	
Early Retirement Reserve	(3)		(2)	
Delegated Balances	0		(162)	
Insurance Fund	90		(86)	
DSO Reserve	14		(25)	
Emergency Planning Revenue Reserve	3		56	
Development Reserve	914		13,621	
Contingency Planning Reserve	0		2,250	
Regional Control Centre Reserve	<u>350</u>	2,086	<u>0</u>	6,411
Appropriations to Capital Reserves:				
Build up of Residual Interest in PFI schemes	90		90	
Deferred PFI debtors	<u>(27)</u>	63	<u>(29)</u>	61
<b>Movement</b>		<b>(27,155)</b>		<b>(19,728)</b>

## 17. Actuarial Gain on Pension Reserve

The actuarial gains identified as movements on the Pensions Reserve in 2007/2008 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2008.

Actuarial Gains Reflected in the Pension Reserve	2007/2008 £000	2006/2007 £000	2005/2006 £000	2004/2005 £000	2003/2004 £000
<b>Differences between the expected and actual return on assets</b>					
Firefighters Pension Scheme	0	0	0	0	0
Local Government Pension Scheme	(2,850)	(110)	2,450	440	1,520
	(2,850)	(110)	2,450	440	1,520
<b>Differences between actuarial assumptions about liabilities and actual experience</b>					
Firefighters Pension Scheme	5,490	7,020	(970)	(1,390)	(3,520)
Local Government Pension Scheme	(1,460)	(60)	20	(390)	(20)
	4,030	6,960	(950)	(1,780)	(3,540)
<b>Change in demographic and financial assumptions used to estimate liabilities</b>					
Firefighters Pension Scheme	81,000	31,650	(75,350)	(99,530)	(40,850)
Local Government Pension Scheme	5,100	210	(2,100)	(3,020)	(270)
	86,100	31,860	(77,450)	(102,550)	(41,120)
<b>Gain / Loss</b>	<b>87,280</b>	<b>38,710</b>	<b>(75,950)</b>	<b>(103,890)</b>	<b>(43,140)</b>
Additional Gain – Ill Health Arrangements	8,160	0	0	0	0
<b>Gain / Loss</b>	<b>95,440</b>	<b>38,710</b>	<b>(75,950)</b>	<b>(103,890)</b>	<b>(43,140)</b>
Actuarial Gains as Percentage of Assets or Liabilities	2007/2008 %	2006/2007 %	2005/2006 %	2004/2005 %	2003/2004 %
<b>Differences between the expected and actual return on assets</b>					
Firefighters Pension Scheme	0.00	0.00	0.00	0.00	0.00
Local Government Pension Scheme	(15.30)	(0.60)	14.30	3.30	12.90
<b>Differences between actuarial assumptions about liabilities and actual experience</b>					
Firefighters Pension Scheme	1.20	1.50	(0.20)	(0.31)	(1.08)
Local Government Pension Scheme	(5.30)	(0.20)	0.10	(1.70)	(0.10)
<b>Change in demographic and financial assumptions used to estimate liabilities</b>					
Firefighters Pension Scheme	18.20	6.10	(13.80)	(22.30)	(12.00)
Local Government Pension Scheme	18.30	0.70	(7.90)	(13.10)	(1.50)

## 18. Capital

### Capital Expenditure and Income

The Authority approved a capital programme for 2007/2008 of £3.833 million, which was subsequently revised to £2.306 million during the year. Actual expenditure for the year was £1.703 million, with the main areas of spending summarised below:



	<b>2007/2008 £000</b>
Equipment - Operational and Information Technology	1,061
Property Improvement Schemes	642
	<b>1,703</b>

The capital expenditure was financed as follows:

	<b>2007/2008 £000</b>
Borrowing	639
Revenue Contribution to Capital Outlay	1,064
	<b>1,703</b>

### Capital Financing Requirement

	<b>2007/2008 £000</b>	<b>2006/2007 £000</b>
<b>Capital Financing Requirement as at 1st April</b>	<b>19,309</b>	<b>18,299</b>
Capital Investment:		
Operational Assets	1,155	1,186
Non-operational Assets	548	598
Sources of Finance:		
Sums set aside from Revenue	(1,836)	(774)
<b>Capital Financing Requirement as at 31st March</b>	<b>19,176</b>	<b>19,309</b>
Explanation of movements in year:		
Increase in underlying need to borrow (supported by Government Financial Assistance)	(133)	1,010
<b>Increase / (Decrease) in Capital Financial Requirement</b>	<b>(133)</b>	<b>1,010</b>

## 19. Fixed Assets

### Valuation

The assets of the Authority have been valued by Mr. N. Wood M.R.I.C.S., Valuation Manager, Sunderland City Council (valuation certificate dated 9th May 2008), on the bases referred to in the Statement of Accounting Policies (Page 21).

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

All assets are maintained within the General Fund.

## Movement of Fixed Assets

	Other Land & Buildings	Vehicles, Plant & Equipment	Intangible Assets	Assets Under Construction	Surplus Assets held for Disposal	TOTAL
	£000	£000	£000	£000	£000	£000
<b>Gross Book Value as at 31st March 2007</b>	<b>33,997</b>	<b>4,518</b>	<b>42</b>	<b>318</b>	<b>468</b>	<b>39,343</b>
Revaluations and Restatement	4,386	0	0	0	0	4,386
Impairment	(1,091)	(81)	0	(18)	0	(1,190)
Reclassification	89	0	0	(89)	0	0
Additions	217	938	0	548	0	1,703
Disposals	0	0	0	0	(160)	(160)
<b>Gross Book Value as at 31st March 2008</b>	<b>37,598</b>	<b>5,375</b>	<b>42</b>	<b>759</b>	<b>308</b>	<b>44,082</b>
<b>Depreciation as at 31st March 2007</b>	<b>515</b>	<b>2,256</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,771</b>
Depreciation on Revalued Assets	(178)	0	0	0	0	(178)
Depreciation on Impaired Assets	(329)	(20)	0	0	0	(349)
Depreciation for the year	557	584	8	0	0	1,149
<b>Depreciation as at 31st March 2008</b>	<b>565</b>	<b>2,820</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>3,393</b>
<b>Net Book Value as at 31st March 2007</b>	<b>33,482</b>	<b>2,262</b>	<b>42</b>	<b>318</b>	<b>468</b>	<b>36,572</b>
<b>Net Book Value as at 31st March 2008</b>	<b>37,033</b>	<b>2,555</b>	<b>34</b>	<b>759</b>	<b>308</b>	<b>40,689</b>

## Intangible Assets

Intangible assets represent expenditure which does not result in a tangible fixed asset but where the Authority controls the economic benefits arising from the expenditure. FRS 10 requires authorities to capitalise Intangible Assets and amortise the cost of these purchases to revenue over the life of the asset.

There were no acquisitions of Intangible Assets, including Software Licences, purchased during 2007/2008.

## Analysis of Land and Buildings

	31st March 2008 (Numbers)	31st March 2007 (Numbers)
Fire Stations - Operational	10	10
Fire Stations - Non Operational	1	2
Training Centre	1	1
Technical Services Centre	1	1

## 20. Long Term Debtors - PFI

### Residual Interest in PFI Scheme

In March 2003, the Authority entered into a PFI scheme for the provision of new operational facilities. The contract expires in May 2029 and a long term debtor has been established which will be used to build up the residual interest in the facilities so that by the end of the contract term the residual interest is recorded as an asset at its expected fair value. An interest rate for fixed assets of 3.5% has been used to determine the profiling for each years accounting entries, as recommended by CIPFA. The estimated capital value of the assets that will transfer to the Authority in 2029 is £3,046,980.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	120	32
Movement	89	88
<b>Balance as at 31st March</b>	<b>209</b>	<b>120</b>

### Pre-Payments for PFI Scheme

A long term debtor has been established to reflect pre-payments made to the contractor as part of the PFI Scheme. The effect of these pre-payments is to reduce the unitary charge due to the contractor. As a consequence, the debtor is released to revenue over the life of the contract in order that an appropriate level of unitary charge is reflected in the Income and Expenditure Account for each year.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	623	608
Movement	(28)	15
<b>Balance as at 31st March</b>	<b>595</b>	<b>623</b>

## 21. Long Term Debtors - Other

This Balance represents amounts due to be recovered from two current pensioners, where an overpayment of pension entitlement was made during 2005/2006. Amounts are being recovered on an annual basis.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	18	20
Movement	(1)	(2)
<b>Balance as at 31st March</b>	<b>17</b>	<b>18</b>

## 22. Stocks and Stores

All stocks and stores are valued at average price.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	298	292
Movement	(25)	6
<b>Balance as at 31st March</b>	<b>273</b>	<b>298</b>

## 23. Debtors

The following Debtors reflect sums due to the Authority within one year, which are regarded as collectable.

	31st March 2008 £000	31st March 2007 £000
Amounts falling due in less than one year:		
Sundry debtors	1,400	3,180
Pension prepayments	0	984
Employee loans	30	30
	<b>1,430</b>	<b>4,194</b>

## 24. Payments in Advance

The Payments in Advance represent sums paid prior to the year-end, which relate to services or activity relevant to the following financial year.

	31st March 2008 £000	31st March 2007 £000
Sundry prepayments	47	0
Pension prepayments	1,055	0
	<b>1,102</b>	<b>0</b>

## 25. Short Term Investments

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

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	22,082	5,674
Investment during year	2,060	16,408
<b>Balance as at 31st March</b>	<b>24,142</b>	<b>22,082</b>

## 26. Creditors

The following Creditors represent the value of outstanding payments in respect of goods and services utilised during 2007/2008.

	31st March 2008 £000	31st March 2007 £000
Sundry Creditors	2,918	2,995
Payroll Creditors	447	829
	<b>3,365</b>	<b>3,824</b>

## 27. Receipts in Advance

The Receipts in Advance represent funds received prior to the year-end, which have been received ahead of their intended use.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	0	0
Movement	270	0
<b>Balance as at 31st March</b>	<b>270</b>	<b>0</b>

## 28. Deferred Liabilities

### Total Deferred Liabilities

	31st March 2008 £000	31st March 2007 £000
Borrowing undertaken by the Lead Authority	19,089	19,219
Finance Leases	74	79
	<b>19,163</b>	<b>19,298</b>

### a) Borrowing undertaken by the Lead Authority

The lead Authority administers all of the Authority's borrowing through its Consolidated Advances and Borrowing Pool (CABP), see Accounting Policy 15 on page 27. The table, below, shows the amount of borrowing undertaken by the Lead Authority on the Authority's behalf.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	19,219	18,206
Movement	(130)	1,013
<b>Balance as at 31st March</b>	<b>19,089</b>	<b>19,219</b>

### b) Finance Leases

The following values of vehicles are held under finance leases, accounted for as part of Operational Fixed Assets. Outstanding obligations to make payments under these finance leases (excluding finance costs) as at 31st March 2008, accounted for as part of deferred liabilities, are as follows:

	2007/2008 £000	2006/2007 £000
<b>Gross Book Value as at 1st April</b>	93	93
Revaluations and Restatement	0	0
Additions	0	0
Disposals	0	0
<b>Gross Book Value as at 31st March</b>	<b>93</b>	<b>93</b>
<b>Depreciation as at 1st April</b>	14	9
Depreciation for the year	5	5
<b>Depreciation as at 31st March</b>	<b>19</b>	<b>14</b>
<b>Net Book Value as at 1st April</b>	<b>79</b>	<b>84</b>
<b>Net Book Value as at 31st March</b>	<b>74</b>	<b>79</b>
Obligations falling due:		
Obligations payable in 2008/2009	8	8
Obligations payable between 2009/2010 and 2012/2013	32	32
Obligations payable thereafter	50	57
<b>Total</b>	<b>90</b>	<b>97</b>

## 29. Provisions

### Total Provisions

	31st March 2008 £000	31st March 2007 £000
Insurance Provision	302	456
Equal Pay Provision	0	29
PFI Utilities Provision	391	0
	<b>693</b>	<b>485</b>

#### a) Insurance Provision

The Provision reflects sums required to meet the assessed liabilities for claims outstanding as at 31st March 2008, as identified by the Authority's independent valuers.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	456	552
Expenditure during the year:		
Premiums and Expenses	313	346
Settlement of Claims	121	296
	<u>434</u>	<u>642</u>
	22	(90)
Income during the year:		
Contributions from the General Fund	280	546
<b>Balance as at 31st March</b>	<b>302</b>	<b>456</b>

#### b) Equal Pay Provision

Following the receipt of legal advice from leading Counsel, the Authority successfully settled two equal pay claims in 2006/2007 on a "without prejudice" basis, where claimants were seeking financial redress in respect of periods when unequal pay is alleged to have been applied by the Authority.

Whilst there were no outstanding claims in respect of unequal pay as at 31st March 2007, the Authority made a provision within the accounts for 2006/2007 to enable any proposed settlements to be funded with regard to other employees in similar positions. These potential equal pay claims have been settled during 2007/2008.

There are no outstanding claims in respect of unequal pay as at 31st March 2008, and the Authority does not anticipate that any further claims are likely at this point in time.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	29	0
Movement	(29)	29
<b>Balance as at 31st March</b>	<b>0</b>	<b>29</b>

### c) PFI Utilities Provision

The PFI contract provides for a review of utility costs two years following service commencement at each of the new PFI facilities. A provision has been established, based on the best estimate for the likely impact of this review.

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	0	0
Movement	391	0
<b>Balance as at 31st March</b>	<b>391</b>	<b>0</b>

## 30. FRS 17 Disclosures as at 31st March 2008

Note 4 to the Core Financial Statements contains details of the Authority's participation in the Local Government Pension Scheme (Tyne and Wear Pension Fund, administered by South Tyneside Metropolitan Borough Council) and the Firefighters Pension Scheme in providing Uniformed and non-Uniformed employees with retirement benefits.

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31st March 2008 are as follows:

	Local Government Pension Scheme		Firefighters Pension Scheme		Total	
	2007/2008 £000	2006/2007 £000	2007/2008 £000	2006/2007 £000	2007/2008 £000	2006/2007 £000
<b>Net Pension Asset</b>						
<b>Estimated Employer Assets (A)</b>	18,650	19,230	-	-	18,650	19,230
<b>Total Value of Liabilities(B)</b>	(27,810)	(28,860)	(466,580)	(532,560)	(494,390)	(561,420)
<b>Net Pension Asset (A) - (B)</b>	<b>(9,160)</b>	<b>(9,630)</b>	<b>(466,580)</b>	<b>(532,560)</b>	<b>(475,740)</b>	<b>(542,190)</b>

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total liability of £475.740 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative balance of £421.697 million. However, the position must be considered in the context of the arrangements for funding the deficit:

- If necessary, the deficit on the Tyne and Wear Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary;
- Finance is only required to be raised to cover the uniformed pensions when these pensions are actually paid. Liabilities for the Firefighters Pension Scheme have been assessed using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Government Actuary's Department (GAD) was appointed by the Authority to assist with the assessment of accrued pension liabilities under the Firefighters Pension Scheme for the year ended 31 March 2008.



Liabilities for the Tyne and Wear Pension Fund have been assessed on an actuarial basis using the projected unit method (an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.). The Fund's liabilities have been assessed by Hewitt Associates Limited, an independent firm of actuaries, estimates for the Pension Fund being based on the latest full valuation of the scheme as at 31st March 2007. The main assumptions used in their calculations have been:

Assumptions	Local Government Pension Scheme		Firefighters Pension Scheme	
	2007/2008	2006/2007	2007/2008	2006/2007
	% per annum	% per annum	% per annum	% per annum
Price Increase	3.7	3.2	3.7	3.4
Salary Increase	5.2	4.7	5.2	4.9
Pension Increase	3.7	3.2	3.7	3.4
Discount rate	6.8	5.3	6.9	5.4
Rate of increase to deferred pensions	3.7	3.2	-	-

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

Assets (Employer)	Long Term	2007/2008	2006/2007
	Return	%	%
	% per annum		
Equities	7.6	63.7	67.1
Government Bonds	4.6	11.0	13.5
Corporate Bonds	6.8	8.9	7.6
Property	6.6	10.4	10.1
Other	6.0	6.0	1.7
<b>Total</b>	<b>7.0</b>	<b>100.0</b>	<b>100.0</b>

The above figures have been provided by Hewitt Associates Limited, actuaries to the Local Government Pension Scheme (administered by South Tyneside Metropolitan Borough Council) and the Government Actuary Department (GAD) using information provided by the scheme and assumptions determined by the Authority in conjunction with the actuary. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values. The actuarial review of the Firefighters Pension Scheme takes no account of Firefighters Pension Scheme Circular - FPSC 5/2008, which revised the commutation factors used in calculating the lump sums payable under the Firefighters Pension Scheme 1992, however, an accrual has been made in the Statement of Accounts for the value of additional payments due to firefighters arising from the Circular.

### 31. Revaluation Reserve

The Revaluation Reserve was created in 2007/2008 in accordance with capital accounting requirements to record the accumulated gains on the fixed assets arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

This Reserve is also debited with amounts equal to the part of depreciation charges on assets that have been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of assets carried in the Balance Sheet is greater because they are carried at revalued amounts, rather than depreciated historical cost.

Whilst these gains arising from revaluations increase the net worth of the Authority, they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

	<b>2007/2008</b> <b>£000</b>
Balance as at 1st April 2007	0
Upward Revaluations	4,564
Excess of current cost over historic cost depreciation	(15)
<b>Balance as at 31st March 2008</b>	<b>4,549</b>

## 32. Capital Adjustment Account

The Capital Adjustment Account is a new account created in 2007/2008 in accordance with capital accounting requirements. The balance as at 1st April 2007 has been created from the balances that existed on the, now, defunct Fixed Asset Restatement Account and the Capital Financing Account, as illustrated at Note 1 to the Core Financial Statements, on page 46.

The Capital Adjustment Account accumulates as debits by the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments, or written off on disposal and it accumulates as credits the resources that have been set aside to finance the capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition, such as deferred charges. The balance on the account represents the timing difference between the amount of the historical cost of fixed assets that has been consumed, and the amount that has been financed in accordance with statutory requirements.

	<b>2007/2008</b> <b>£000</b>
Balance as at 1st April 2007	18,005
Excess of current cost over historic cost depreciation	15
Build up of Residual Interest in PFI schemes	90
Revenue Contribution to Capital	1,064
Minimum Revenue Provision	772
Depreciation	(1,149)
Impairment	(841)
Disposals	(160)
Deferred PFI debtors	(27)
<b>Balance as at 31st March 2008</b>	<b>17,769</b>

### 33. Usable Capital Receipts

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

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	3,285	198
Capital receipts in year from sale of assets	0	3,127
	3,285	3,325
Less contribution to PPP scheme	0	(40)
<b>Balance as at 31st March</b>	<b>3,285</b>	<b>3,285</b>

### 34. Movement on Specific Revenue Reserves

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

	31st March 2007 £000	Movement £000	31st March 2008 £000
PFI Smoothing Reserve	4,522	269	4,791
Insurance Reserve	671	90	761
Provision for Early Retirements	53	(3)	50
Development Reserve	13,621	914	14,535
Contingency Planning Reserve	2,250	0	2,250
Budget Carry Forward Reserve	1,269	664	1,933
New Dimensions Reserve	400	(45)	355
Community Safety Reserve	250	0	250
Innovation Fund Reserve	200	(170)	30
Civil Emergency Reserve	200	0	200
Regional Control Centre Reserve	0	350	350
	<b>23,436</b>	<b>2,069</b>	<b>25,505</b>

The table, above, shows the movement on the Authority's earmarked reserves for the year ended 31st March 2008. 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 MMI 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 ongoing 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 in 2006/2007 to fund medium term and long term capital and revenue developments.
- **Contingency Planning Reserve** - this reserve was established in 2006/2007 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** – initially established in 2006/2007, this reserve is used to fund the slippage of specific items of revenue expenditure.
- **New Dimensions Reserve** - this reserve was established in 2006/2007 to be used in future years to provide for any adverse effect of planned changes in funding from specific to general grant in 2008/2009 and to provide resources to meet future specific costs in relation to delivering an appropriate Urban Search and Rescue response.
- **Community Safety Reserve** – initially established in 2006/2007, this reserve was established to deliver community safety initiatives in future years. This follows the success of similar schemes carried out during previous years.
- **Innovation Fund Reserve** - this reserve was established in 2006/2007 to provide funding to develop a range of fire prevention initiatives in future 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 in 2007/2008 to provide a means of offsetting any costs associated with the Regional Control Centre project on the basis that the position of Communities and Local Government does not provide an absolute assurance to the Authority that all additional costs will be funded by them.

### 35. General Fund Balances

	31st March 2007 £000	Movement £000	31st March 2008 £000
General Reserve	2,742	(557)	2,185
Delegated Surplus	560	(0)	560
DSO	43	14	57
Emergency Planning Reserve	130	3	133
	<b>3,475</b>	<b>(540)</b>	<b>2,935</b>

The principal reasons for the net decrease in General Fund Balances of £0.540 million are outlined below:

- a) appropriations to various earmarked reserves, totalling £2.817 million, as agreed by Members;
- b) underspends on a number of budget headings, including:
  - i) premises – an underspend of £0.210 million has arisen, primarily in relation to lower than anticipated utilities and rates costs;
  - ii) insurances – an underspend of £0.240 million has arisen on insurance budgets, reflecting the lower provision in the Authority’s Accounts for 2007/2008;
  - iii) supplies – an underspend of £0.365 million has arisen on delegated budgets where expenditure (including training and equipment) has slipped to reflect the ongoing establishment review and to ensure best value is obtained for the expenditure;
  - iv) capital financing – an underspend of £1.115 million has arisen as a result of slippage on a number of schemes within the Capital Programme, where the expenditure was planned to be financed through a revenue contribution;
  - v) contingencies – an underspend of £0.300 million has arisen in respect of the ongoing implementation of the establishment structure and where provision to fund a recruits course during the year was not drawn down;
  - vi) interest received – additional interest £0.085 million was received above estimate;
  - vii) DSO and Emergency Planning – minor underspends totalling £0.017 million;
  - viii) other – minor cost adjustments resulting in a net underspend of £0.015 million.
- c) use of General Fund and Delegated Balances totalling £0.070 million.

### 36. Contingent Liabilities

The Authority had no contingent liabilities as at 31st March 2008.

### 37. Statement of Accounts – Authorisation for Issue

The Statement of Accounts were authorised for issue by the Finance Officer, Keith Beardmore, on 22<sup>nd</sup> September 2008. Accordingly, this is the date up to which events after the Balance Sheet date have been considered.

### 38. Post Balance Sheet Events

Where an event after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date occurs, (an adjusting event), the amounts recognised in the Statement of Accounts have to be adjusted to take into account any new information about that adjusting event.

There are no post Balance Sheet Events, either adjusting or non-adjusting, as at 30th June 2008, or subsequently.

### 39. Reconciliation of Deficit to Net Cash Flow

	2007/2008 £000		2006/2007 £000	
(Surplus) / Deficit for the Year	27,712		23,334	
Non Cash Transactions :				
Depreciation and Impairment	(1,990)		(1,044)	
Excess of MRP over Depreciation	0		0	
Direct Revenue Funding	0		42	
Net Movement in reserves and provisions	(29,348)		(25,930)	
Other:				
Loss on Disposal of Fixed Asset	(160)		0	
Use of Provision	150	(31,348)	66	(26,866)
Items on an Accruals Basis :				
Increase / (Decrease) in Stocks	(25)		6	
Increase / (Decrease) in Debtors	(1,663)		1,714	
(Increase) / Decrease in Creditors	352	(1,336)	(507)	1,213
<b>Net Cash Flow from Revenue Activities</b>	<b>(4,972)</b>		<b>(2,319)</b>	

### 40. Reconciliation of Net Cash Flow to Movement in Debt

	2007/2008 £000		2006/2007 £000	
Increase/(Decrease) in Cash during the Year	1,176		(11,750)	
Increase/(decrease) in Liquid Resources	2,060		16,408	
(Increase)/Decrease in Financing	130		(1,013)	
	<b>3,366</b>		<b>3,645</b>	
Net Debt as at 1st April	10,762		7,117	
Net Debt as at 31st March	14,128		10,762	
	<b>(3,366)</b>		<b>(3,645)</b>	

#### 41. Increase/(Decrease) in Cash and Cash Equivalents

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	7,901	19,651
Movement	1,176	(11,750)
<b>Balance as at 31st March</b>	<b>9,077</b>	<b>7,901</b>

#### 42. Increase/(Decrease) in Liquid Resources

	2007/2008 £000	2006/2007 £000
Balance as at 1st April	22,082	5,674
Movement	2,060	16,408
<b>Balance as at 31st March</b>	<b>24,142</b>	<b>22,082</b>

#### 43. (Increase)/Decrease in Financing

	31st March 2008 £000	31st March 2007 £000
Balance as at 1st April	(19,219)	(18,206)
Movement	130	(1,013)
<b>Balance as at 31st March</b>	<b>(19,089)</b>	<b>(19,219)</b>

#### 44. Analysis of Government Grants

	2007/2008 £000	2006/2007 £000
Communities and Local Government (CLG)	13,067	11,196

## 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.

	2007/2008 £000		2006/2007 £000	
<b>Contributions Receivable</b>				
From employers				
- normal	(5,697)		(5,663)	
- early retirement	(374)		(403)	
From members	<u>(2,989)</u>	(9,060)	<u>(2,942)</u>	(9,008)
<b>Transfers In</b>				
Individual transfers in from other schemes		(195)		(176)
<b>Benefits Payable</b>				
Pensions	13,826		12,873	
Commutations and lump sum retirement benefits	3,279		4,621	
Lump sum death benefits	<u>60</u>	17,165	<u>21</u>	17,515
<b>Payments to and on account of leavers</b>				
Individual transfers out to other schemes		8		649
		<u>7,918</u>		<u>8,980</u>
<b>Net amount payable/receivable before top up grant receivable/amount payable to sponsoring department</b>				
Top-up grant receivable/amount payable to sponsoring department		(7,918)		(8,980)
<b>Net amount payable/receivable for the year</b>		<b>0</b>		<b>0</b>



## Firefighter's Pensions Net Assets Statement

	2007/2008 £000	2006/2007 £000
<b>Net Current Assets and Current Liabilities</b>		
Pension top-up grant (receivable from) / due to sponsoring department	(134)	(856)
Pre-paid pension benefits	1,055	984
Outstanding commutation payments	487	0
	<b>1,408</b>	<b>128</b>

## **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.

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.

### ***Acquired Operation***

Operations comprise services and divisions of service as defined in BVACOP. Acquired operations are those operations of the local authority that are acquired in the period.

### ***Actuarial Gains and Losses***

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

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

### ***Agency Services***

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

### ***Assets***

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

### ***Audit Commission***

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

### ***Balance Sheet***

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

### ***Balances***

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

### ***BVACOP***

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

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

### **Capital Charge**

The charge to the services for the use of fixed assets.

### **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 Revenue Account in respect of the minimum revenue provision and interest on money borrowed together with leasing rentals.

### **Capital Financing Requirement**

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

### **Capital Grants**

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

### **Capital Receipts**

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

### **Class of Fixed Assets**

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

Operational assets;

- Land and Buildings;
- Vehicles, Plant and Furniture.

Non-operational assets.

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

### **Consistency**

The 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 Approvals**

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

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

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

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

**Credit Ceiling**

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

**Creditors**

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

**Current Service Cost (Pensions)**

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

**Debt Outstanding**

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

**Debtors**

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

**Deferred Charges**

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

**Defined Benefit Scheme**

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

**Defined Contribution Scheme**

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

**Depreciation**

The measure of the 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, effluxion 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.

**Formula Spending Shares (FSS's)**

This is the amount of revenue expenditure calculated annually by the Secretary of State for each authority as being the amount to be incurred to provide a standard level of service. The total FSS for each authority is used for distributing the amount of Revenue Support Grant determined by Central Government each year.

**FRS 1 – Cash Flow Statements**

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

**FRS 3 – Reporting Financial Performance**

The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2004/2005



is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of fundamental errors or changes in accounting policies.

#### ***FRS 4 – Capital Instruments***

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

#### ***FRS 8 – Related Party Disclosures***

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

#### ***FRS 11 – Impairment of Fixed Assets***

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

#### ***FRS 12 - Provisions, Contingent Liabilities and Contingent Assets***

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

#### ***FRS 15 – Tangible Fixed Assets***

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

#### ***FRS 17 – Retirement Benefits***

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

#### ***FRS 18 – Accounting Policies***

This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

#### ***General Fund***

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

#### ***Going Concern***

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

**Government Grants**

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

**Impairment**

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

**Income**

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

**Infrastructure Assets**

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.

**Investments (Pension Fund)**

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

**Leasing**

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

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

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

**Lender Option Borrower Option Loans (LOBO)**

Many local authorities use LOBO Instruments as part of their overall borrowing portfolio. The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). CIPFA and the Audit Commission have looked closely into how to account for LOBO's. The inclusion of options within LOBO's means the loans effectively become variable

rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

***Liabilities***

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

***Liquid Resources***

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

***Loans Outstanding***

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

***London Inter Bank Bid Rate (LIBID)***

The rates of interest being bid on the London Money Market for various time periods.

***Long Term Contracts***

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

***Minimum Revenue Provision***

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

***National Non-Domestic Rate (NNDR)***

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

***Net Book Value***

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

***Net Current Replacement Cost***

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

***Net Debt***

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

***Net Realisable Value***

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

***Non-Operational Assets***

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services 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.

### **Rate of Return on Capital**

The profit of the authority's DSO expressed as a percentage of the value of capital employed.

### **Related Parties**

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

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

Examples of related parties of an authority include:

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

Examples of related parties of a pension fund include its:

- Administrating authority and its related parties;
- Scheduled bodies and their related parties, and;
- Trustees and advisors.

These lists are not intended to be comprehensive.

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

- Members of the close family, or the same household, and;

- Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

### ***Related Party Transaction***

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

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

This list is not intended to be comprehensive.

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

### ***Renewals Accounting***

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

### ***Research and Development***

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

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

### ***Reserves***

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

### ***Residual Value***

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

### ***Retirement Benefits***

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

- An employer's decision to terminate an employee's employment before the normal retirement date, or;

- An employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### **Revenue Balances**

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

### **Revenue Contributions**

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

### **Revenue Expenditure**

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

### **Revenue Support Grant (RSG)**

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

### **Scheme Liabilities**

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

### **Settlement**

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

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

### **Specific Grants**

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

### **Statements of Recommended Practice (SORPs)**

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

### **Statements of Standard Accounting Practice (SSAPs)**

Statements prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authority accounts and any departure must be disclosed in the published accounts.

### **Stocks**

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.

### ***Supported Capital Expenditure***

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

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

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

Under the Prudential Framework, the facility to undertake what is known as ‘unsupported borrowing’ is available. However, in deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- The prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- The effect on the revenue budget of any additional costs incurred.

### ***Total Cost***

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

### ***Trading Account***

The term is used to cover activities previously known as Direct Labour Organisations (DLOs), established under the Local Government, Planning and Land Act 1980, and Direct Service Organisations (DSOs) established under the Local Government Act 1988.

### ***Unapportionable Central Overheads***

These are overheads for which no user benefits and should not be apportioned to services.

### ***Unsupported Borrowing***

Under the Prudential Framework, the facility to undertake what is known as ‘unsupported borrowing’ is available. This is borrowing to fund capital expenditure where no support or provision is made by the government to fund this borrowing. In deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- The prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;
- The effect on the revenue budget of any additional costs incurred.

### ***Useful Life***

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

### ***Vested Rights***

In relation to a defined benefit scheme, these are:

- For active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- For deferred pensioners, their preserved benefits;
- For pensioners, pensions to which they are entitled.

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