



STATEMENT OF ACCOUNTS 2005/06

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EXPLANATORY FOREWORD

1. Originally formed as an independent corporate body on 1 April 1998, as a result of Local Government Reorganisation, Hereford & Worcester Fire and Rescue Authority (the FRA) is now constituted under the Fire and Rescue Services Act 2004. The FRA sets its own budget requirement, receives a share of Non-Domestic Rates and Revenue Support Grant, and issues its own Council Tax Precept.
2. The Statement of Accounts that follows covers the FRA's financial year ending 31 March 2006. They include the Summary Revenue Account (in both subjective and functional formats), the Balance Sheet, the Cash-flow Statement and a schedule detailing the movements in reserves and provisions.
3. The Revenue Account shows day to day running costs (including employees) of the FRA. Expenditure on assets which benefit the FRA over a number of years is dealt with in the capital programme and the value of such assets is recorded in the Balance Sheet. The Balance Sheet shows the value of assets and liabilities at the end of each financial year. The Cash-flow Statement shows the income and expenditure on a cash basis and is reconciled to the Revenue Account and to year on year movements in the Balance Sheet.
4. The accounting policies adopted by the FRA comply with the relevant recommended accounting practice. Certain exceptions to this are specifically referred to later. The FRA's policies are explained fully in the notes to the accounts, which are set out on additional pages. For the purpose of the Statement of Accounts the FRA's expenditure follows the standard classification recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).
5. The FRA's spending is planned and controlled by a process which included regular reporting to both the Service's management team and the FRA's Audit and Budget Committee.

Revenue Budget

6. Available resources for 2005/06 totalled £27.289m, funded as below:

Council Tax Precept	£16.026m
Non-Domestic Rates	£ 8.390m
Revenue Support Grant	£ 2.873m

7. In accordance with the approved Medium Term Financial Strategy, the budget included provision to strengthen balances and to provide for the repayment of Transitional Grant.
8. Towards the end of 2005/06 the FRA was notified of significant sums of additional grant for which it was too late incur expenditure and which are carried to ear-marked resources.
9. The net result of this variation is that there is an additional transfer of £0.062m to general balances. This variation is consistent with monitoring reports presented to the Authority throughout the year. The reasons for the variations are given in the table on the next page:-

£m

Provision for Grant Claw-back	0.203
Wholetime Pay (vacancies earlier in year)	(0.163)
Gas & Electricity Prices	0.141
IPDS	(0.113)
Pensions - retrospective ill Health Charges	0.113
Investment Income	(0.080)
Additional HQ Lease Premium	(0.060)
MOBS - Interim Costs pending RCC	0.030
Insurance Costs	0.018
Un-budgeted Grants:	
New Burdens - Fire Control	(0.074)
Asst Regional Planner	(0.055)
Union Learning Fund	(0.032)
Misc Net Other	0.010
	(0.062)

Exceptional Items

- 10 The revenue account for 2005/06 contains an exceptional item of income in relation to the purchase of the new Headquarters building. Acquisition of the freehold meant that the premium paid by the previous tenant to buy out their long term lease accrued to the FRA. This income was budgeted and matched against the earlier incidence of capital financing costs arising from the earlier acquisition of an existing building, against the build project originally planned.
- 11 The 2004/05 contains the one off costs of Council Tax re-billing arising from the governments decision to cap the Authority in 2004/05.

Capital Programme Budget

12. During 2005/06 £8.746m was spent on new assets or improvements to existing ones. This included completion of the purchase of a single HQ building, improvements at Kingsland, Kington and Ewyas Harold Fire Stations, and the replacement of 8 Fire Appliances.
13. The HQ Project was partly funded, as planned, by accumulated capital receipts and the balance of the programme from long term borrowing.

Balance Sheet

14. At 1 April 2005 the FRA held fixed assets valued at £27.033m. In accordance with the Capital Accounting Code of Practice properties were last re-valued at 31 March 2005, adjusting for disposals, depreciation and capital expenditure. The assets are valued at £33.983m at 31 March 2006.
15. Long Term borrowing has increased by £4.500m to fund the approved capital programme. The borrowing, along with all existing borrowing, was from the Public Works Loans Board (PWLB).
16. The Balance Sheet shows liabilities in respect of the two pension schemes provided for staff. The £3.468m liability on the Local Government Scheme will be covered by the continued level of employer contributions. The Firefighters' scheme is a statutory un-funded one and the significant liability of £198.094m, is a result of this position. There is no requirement, or legal powers, for the FRA to fund this deficit. More details on pensions can be found on pages 19-20 and 27-29.

The Euro

17. The FRA is continuing to consider the impact should the United Kingdom enter the European Monetary Union and adopt the Euro in the near future. During the year no financial commitments relating to European Monetary Union have been entered into.

Corporate Governance Arrangements

18. The FRA is responsible for ensuring that its business is conducted in accordance with relevant legislation and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this accountability, Members and Senior Officers are responsible for putting in place proper procedures for the governance of the FRA's affairs and the stewardship of the resources at its disposal.
19. During 2005/06 the FRA has reviewed the systems and processes it has in place to ensure sound corporate governance and to confirm that they are consistent with the principles outlined in the CIPFA/SOLACE Framework '*Corporate Governance in Local Government: A Keystone for Community Governance.*'
20. Many of the elements of the code had been in place since the creation of the FRA such as: Codes of Conduct, Codes of Practice, Policy Statements, Standing Orders, Financial Regulations and Internal Audit arrangements; and Risk Management arrangements have been strengthened as referred to in the Statement on Internal Control on page 7-9.

Treasurer's Personal Assurance Statement

21. This statement has been given to the Authority's external auditors PricewaterhouseCoopers LLP:
22. I confirm that, to the best of my knowledge and belief and having made appropriate enquiries of other Senior Officers of the Authority, the following representation is given to you in connection with your audit of the Hereford & Worcester Fire and Rescue Authority's financial statement for the period ending 31 March 2006.

Accounting records

23. All the accounting records have been made available to you in accordance with section 6 of the Audit Commission Act 1998 for the purposes of your audit and all the transactions undertaken have been properly reflected and recorded in the accounting records. To the best of my knowledge and belief, reasonable efforts have been made to ensure that records and related information which might materially affect the truth and fairness of, or necessary disclosure in, the financial statements, have been made available to you and no such information has been withheld.

Related Party Transactions

24. Other than stated in the accounts, there are no related party transactions in the period which require adjustment of or disclosure to the financial statements or in the notes thereto.

Law and Regulations

25. I am not aware of any instances of actual or potential breaches of or non-compliance with the laws and regulations governing the transactions of the Authority or that could have a material effect on the financial statements.

26. I am not aware of any irregularities, or allegations of irregularities including fraud, involving management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

Subsequent Events

27. Other than stated in the accounts, there have been no circumstances or events subsequent to the period end which require adjustment to or disclosure in the financial statements or in the notes thereto.

28. The last date at which changes could have been made to these accounts was 20 June 2006.

Mike Weaver
Treasurer to the Fire and Rescue Authority
c/o Worcestershire County Council
County Hall
Spetchley Road
Worcester WR5 2NP

Telephone 01905 766501
E-mail - mweaver@worcestershire.gov.uk

Signed: *Mike Weaver*

Date: *21 June 2006*

Councillor Godfrey Davis
Chairman of the Fire and Rescue Authority

Signed:

Date:

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

1. The Authority is required to:-

- make arrangements for the proper administration of its financial affairs and to ensure that one of its Officers has responsibility for the administration of those affairs. In this Authority, that Officer is the Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets and;
- approve the Statement of Accounts.

The Treasurer's Responsibilities

2. The Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice').

3. In preparing this Statement of Accounts, the Treasurer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent and;
- complied with the Code of Practice.

4. The Treasurer has also:-

- kept proper accounting records which were up to date and;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

- 1.1 The Fire and Rescue Authority (FRA) 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 FRA 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 FRA is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the FRA's functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

- 2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the FRA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The FRA has always maintained a sound system to protect against risks and mitigate their impact upon the Authority. The systems are constantly being reviewed and updated.

3. The Internal Control Environment

- 3.1 The FRA's Internal Control environment comprises the many systems, policies, procedures, operations and reviews to:

3.2 Establish Statutory and Organisational Obligations and Objectives

- The objectives of the FRA, which are informed by the views of the communities served, the Fire and Rescue Services Act, the National Framework Document and other relevant sources, are embodied in the Integrated Risk Management Plan (IRMP) and Best Value Performance Plan (BVPP).
- The FRA has a robust process for establishing priorities using a risk based approach.
- The FRA has an integrated and developing performance management process from individual Watch, Station and departmental plans, through to the overall corporate level.
- In conjunction with external consultants the FRA has reviewed and approved realignment of the planning process to improve linkage between different statutory plans.

3.3 Identify Principal Risks to Achievement of Objectives

- During 2005/06, the FRA reviewed and amended the corporate Risk Register as necessary.
- A similar exercise was carried out for each departmental risk register, in regard to lower level risk, which is linked to the Corporate Risk Register.

3.4 Identify Key Controls to Manage Risk

- The FRA has identified mitigation measures against all identified risk and has, in addition, established:
- A Scheme of Delegation
- A Code of Corporate Governance
- A Code of Conduct for Members and Officers
- Financial Regulations
- Contract Standing Orders
- An Anti-Fraud and Corruption Policy
- An Anti-Money Laundering Policy
- A Whistle Blowing Policy

3.5 Obtain Assurance on the Effectiveness of Controls

- The FRA has carried out a review of the above mentioned processes to ensure that they are both working correctly and relevant to the current environment.
- The FRA has reviewed processes against the comprehensive CIPFA document “The Statement of Internal Control – Practitioners Guide”, and documented the supporting evidence.
- The FRA has a clear and well established Performance Management regime that provides relevant information to Officers and Members on the achievement of Corporate Objectives on a regular basis throughout the year.
- The process of reviewing key financial systems by the Internal Audit provider is a continuous one, and no major weaknesses have been identified in the 2005/06 financial year.
- Budget Monitoring reports have been presented to Members throughout the financial year and have shown that the budget pressures are being controlled within the overall total, and final out-turn is consistent with those reports.
- The Chief Executive and Chair have received assurances from Principal Officers and Risk Owners, that controls are operating as expected.
- The S151 and Monitoring Officers have provided reassurances on their respective areas of statutory responsibility.
- Additionally during 2005/06 the FRA has been subject to an external examination which looked at the effectiveness of the Authority in meeting its objectives. The Charter Mark annual inspection process confirmed that the FRA continued to be effective.

4.0 Significant Internal Control Issues

4.1 Based on the evidence identified in Section 3.5 there are no significant internal control weaknesses identified.

4.2 However the following areas will be subject to additional review during 2006/07.

- Further integration of the Statement with the Code of Corporate Governance
- The role of Internal Audit in the review of Officers’ assurances.
- Continued review of Service Policy Instructions.
- Review of the Employee Code of Conduct.
- Review of Contract Standing Orders, in line with the National Procurement Strategy.
- Continued refinement and testing of Business Continuity arrangements.

.....
Chief Fire Officer/Chief Executive

.....
Chairman of the Fire and Rescue Authority

Date:

AUTHORITY APPROVAL

In accordance with Regulation 10 (3)b of the Accounts and Audit Regulations 2003 I certify that the Audit Committee of the Fire and Rescue Authority approved the Statement of Accounts 2005/06 on 28 June 2006.

.....
Chairman of the Audit Committee

.....
Date

AUDITOR'S REPORT TO HEREFORD & WORCESTER FIRE AND RESCUE AUTHORITY

PWC will provide the final wording of the audit report for 2005/06 on formal completion of the audit.

We have audited the Statement of Accounts on pages 17 to 35 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 12 to 16.

This report is made solely to Hereford & Worcester 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 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Treasurer and Auditors

As described on page 4 (the Statement of Responsibilities) the Treasurer is responsible for the preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2002. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Authority.

We review whether the statement on the system of internal financial control on pages 6-7 reflects compliance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2002. We report if it does not meet the requirements specified by CIPFA/LASAAC or if the statement is misleading or inconsistent with other information we are aware of from our audit of the Statement of Accounts. We are not required to consider whether the statement on internal financial control covers all risks and controls, or to form an opinion on the effectiveness of the Authority's system of internal financial control. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the Statement of Accounts. The other information comprises only the Treasurer's Foreword.

Basis of Audit Opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the Statement of

Accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the Statement of Accounts.

Opinion

In our opinion the Statement of Accounts presents fairly the financial position of Hereford & Worcester Fire and Rescue Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Certificate

We certify that we 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.

Signature:

Date:

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

At the time of presentation of these Accounts the Audit is not formally completed. The External Auditor will give the Audit Opinion when the Accounts are approved by the Audit Committee, and when the Public Inspection period is concluded. Indications are that the Opinion will be un-qualified.

STATEMENT OF ACCOUNTING POLICIES

Code of Practice

1. The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2002, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved by the Accounting Standards Board. The Code defines proper accounting practices based on both statutory and professional accounting requirements. The accounts follow the guidance notes for practitioners, issued by CIPFA, on the application of accounting standards to Fire Authorities.
2. The following sections set out the FRA's general accounting policies which have been followed in 2005/06.

Revenue Income and Expenditure

3. The revenue and capital accounts of the FRA are maintained on an accruals basis, thus sums due to, or amounts owing by the FRA in respect of goods and services rendered but not paid for at 31 March are included in the accounts.
 - Creditors are included in the Balance Sheet and charged to the Revenue Account when goods or services have been received but not invoiced at the year end.
 - Debtors are included in the Balance Sheet and Revenue Account where services have been provided but not reimbursed at the year end.
4. Exceptions to this policy are as follows:
 - Utilities (gas, telephone, electricity etc) and other annual fees, where invoices will be accounted for in the year they fall, providing that only 1 annual, 4 quarterly or 12 monthly invoices are charged in any one year.
 - Existing contracts for aerial sites where income will be accounted for in the year it falls providing that only one 12 monthly invoice is charged in any one year. New contracts of a material nature will be treated in accordance with (3) above.
 - Employee expenses paid through payroll where the cut off date for claim is 20th of the month, but where 12 months claims will be included in the revenue account.
 - Individual invoices of less than £500 are accounted for in the year they fall.
5. The FRA purchases some services from Worcestershire County Council and Herefordshire District Council. The cost of these services is included within Agency and Contracted Services in the Revenue Account.
6. Capital charges are included within Gross Operating Expenditure. The purpose of these charges is to ensure the cost of providing and using fixed assets is reflected in the operating cost of the Fire Service. These charges consist of two elements:
 - a notional interest charge (currently 3.5% of current cost valuation), representing the cost of acquiring and holding an asset and;
 - a depreciation charge, representing the value of the asset consumed in the delivery of the service.

Capital Assets

7. All expenditure on the acquisition and/or improvement of fixed assets is capitalised provided that the asset yields a benefit to the FRA for a period of more than one year. However, some relatively immaterial items may be financed from revenue.

8. The Authority operates a *de minimis* level for the capitalisation of vehicles, which is set at £20,000. There is no *de minimis* level for land purchases or building works that enhance or extend the life of the asset.
9. Fixed assets are stated in the Balance Sheet at gross value, net of depreciation where appropriate, reflecting the capital accounting requirements of the Code of Practice.
10. Property assets have been valued by the Chief Valuer of Worcestershire County Council, in accordance with the basis recommended by CIPFA and according to the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS). The latest valuation being at 1 April 2005.
11. Fixed assets are classified as:
 - Operational Assets - those presently used by the Authority to deliver services, or to support their delivery. These assets are further divided into land and buildings, vehicles, plant, furniture and equipment.
 - Non-Operational Assets – which cover 2 asset types:
 - Work in Progress – Assets on which expenditure has been incurred but which are not yet available for use.
 - Pending Disposal – Assets identified for disposal and not in use awaiting sale.
12. Assets have been valued at open market for existing use, or where because of the specialised nature of the asset this could not be assessed, at depreciated replacement cost, subject to the exception that:
 - Short-lived operational assets (ie vehicles, plant and equipment) are valued at historic cost (less depreciation where appropriate) as a proxy for current replacement cost.
 - uncompleted building works, or those completed since the last valuation, are included in the Balance Sheet at historic cost.
13. Depreciation has been calculated on a straight-line basis over the estimated life of the asset, commencing in the year that the asset is brought into use. Although depreciation is calculated on the estimated life of the specific individual asset concerned, approximate average depreciation periods have been as follows:

Buildings	50 years
Operational Vehicles	10/15 years
Ancillary Vehicles	5 years
Equipment	5 years

Depreciation is not charged on assets that are held pending completion of disposal.

14. In accordance with the SORP land and buildings are valued separately and only the latter is depreciated. For a small number of buildings this split is not available and therefore the total value has been depreciated. The total amount of this depreciation charged in 2005/06 is £0.034m (2004/05 £0.038m).

Financing of Capital Expenditure

15. Capital expenditure is funded by borrowing, government grants, capital receipts and revenue contributions. The interest on external borrowing is charged to the Asset Management Revenue Account. A provision for repayment of external borrowing, in

accordance with the Minimum Revenue Provision, is set aside each year as a contribution to the Capital Financing Account.

Redemption of Debt

16. The FRA finances a proportion of its capital investment by raising loans. In accordance with the Local Government and Housing Act 1989, the Revenue Account has been charged with an amount that is sufficient to redeem a specified statutory percentage of outstanding debt. The sum set aside each year is called the Minimum Revenue Provision (MRP). In addition, for shorter life assets such as operational vehicles additional Voluntary Revenue Provision (VRP) is made to ensure that any related debt has been redeemed by the end of the asset life.

Leases

17. Operating leases, which are used to acquire vehicles or equipment as an alternative to capital financing, are accounted for in accordance with SSAP21/FRS9. They are not capitalised and rentals are charged directly to the Revenue Account in the year in which they are incurred.

Capital Receipts

18. Proceeds from the sale of fixed assets may be used to finance other capital expenditure as prescribed by the Local Government and Housing Act 1989, amended by subsequent Statutory Instruments. Individual receipts of less than £10,000 are not classified as capital receipts and are credited to the Revenue Account.

Stocks

19. Stocks, where material, are shown in the Balance Sheet valued at the average purchase price.
20. Vehicle fuel is valued at latest invoice price, which is considered appropriate for this type of stock.
21. Other immaterial stocks, e.g. stationery, are treated as current expenditure and charged directly to the Revenue Account.
22. Some small elements, first aid and electrical items, previously held as stock on the Balance Sheet have now been charged to current expenditure. The value of these stocks is small and the change does not make a material difference to the balance sheet values.

Provisions

23. The FRA holds two provisions to finance future expenditure, in respect of known liabilities, as detailed below:
 - **56 Week Uniformed Pay Year**

Uniformed staff are paid every four weeks, however, every 28 years this results in an additional payment during the financial year. This provision, which ensures that 365 days' pay is charged in each financial year, will ensure funds are available for when this next happens. This will be in 2022/23.
 - **Pension Charges**

Under the new financial arrangements for Firefighter pensions, the FRA is liable to make a contribution to the new Pensions Account in respect of ill health retirements in 2005/06. Although this liability relates to 2005/06, it cannot be paid until the new arrangements come into force on 1 April 2006. The amount is therefore held as a provision.

- **Firefighters Pay Settlement (Rank to Role)**

The provision formally held in respect of Rank to Role backdating has been converted to an earmarked reserve. This is because the amount of the liability is now expected to be significantly lower, but the amount is now less known (see Para 25).

Reserves

24. Since 1 April 2005 the FRA has been permitted to hold general balances, and the Medium Term Financial Plan includes provision to build these up to a prudent level over the next three years. At 31 March 2006 a small reserve is held to meet expenditure which may arise from unforeseen events.
25. In addition the FRA holds several earmarked reserves to meet known future costs or liabilities which have arisen during 2005/06:
 - RMB Reserve – to meet the FRA's agreed share of future costs delayed from 2005/06.
 - Pensions – originally created to match the charge for commutation payments (under the un-funded Firefighter Pension Scheme) to the year of retirement eligibility. Changes to the Financing arrangements for the Scheme introduced from 1 April 2006 remove the need for this reserve. However, uncertainty over the costs of the proposed New Firefighters Pension Scheme, mean that the remaining balance will be held until Scheme details are finalised.
 - IPDS/Training Reserve – to meet the costs of planned training in water rescue techniques, postponed because of adverse weather conditions in 2005/06.
 - Transitional Grant Reserve – in 2004/05 government provided grant to assist with the initial costs of modernisation. This was originally to be repaid in 2005/06. Legal difficulties meant that the government is now recovering the grant by top-slicing 2006/07 and 2007/08 formula grant. This reserve will be brought back into the revenue account in future years to compensate for that artificial reduction in formula grant.
 - Grant Amending Reports Reserve - In 2005/06 the government advised the FRA that it would retrospectively be reducing 2004/05 and 2005/06 grant payments already made. This reserve is to cover the claw-back.
 - New Dimensions Training Reserve - In late 2005/06, the government announced additional funding for continuation training in mass decontamination. The timing of the announcement made it too late to incur expenditure in 2005/06 and the reserve is available to fund planned activity in 2006/07.
 - Rank to Role Reserve – The settlement of the Firefighters pay dispute in 2003 included a commitment to move from payment by rank to payment by role. This process has been a long one and this requires the FRA to provide for the additional costs of possible back-dating of individual claims to 2004/05.
 - Urban Search and Rescue (USAR) Reserve – During 2005/06 the FRA became one of only 19 that the government agreed to provide an Urban Search and Rescue facility. Significant funding was provided in advance of agreement being made with the FRA. This reserve is held to meet agreed costs to be incurred in 2006/07.
 - LPSA Reward Grant Reserve – Following success in achieving targets under Worcestershire Local Public Service Agreement, the FRA has been awarded significant Reward Grant. This is payable over two years and is part reserve and part capital. The revenue element is held in this reserve, pending decisions on actual expenditure to be funded.

Capital Accounting Reserves

26. In accordance with the standard accounting practice, two capital accounting reserves exist as part of the system of capital accounting. These are:

- **The Fixed Asset Restatement Account**

This represents the balance of surpluses or deficits arising on the periodic revaluation of fixed assets.

- **The Capital Financing Account**

This represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and other capital financing transactions.

Grants and Contributions

27. Small revenue grants and other contributions are shown as income in arriving at net revenue expenditure.

Pensions

28. In accordance with FRS17 the Authority recognises the cost of retirement benefits in the Net Cost of Services, when they are earned, rather than when the benefits are actually paid as pensions.

29. However, the charge that is required to be made to the council tax is based on the amount payable in the year. The difference is reversed out of the Revenue Account after Net Operating Expenditure.

REVENUE ACCOUNT FOR 12 MONTHS ENDING 31 MARCH 2006

	Note	2004/05 £000	2005/06 £000
Employee Expenses			
Uniformed		13,860	14,000
Non Uniformed		2,096	2,408
		15,956	16,408
Pensions Current Service Cost			
Firefighters Pension Scheme	3	3,750	4,950
Local Government Pension Scheme	3	316	379
		4,066	5,329
Running Costs			
Other Employee Costs		360	693
Premises Related		959	1,357
Transport Related		1,159	1,320
Supplies and Services		2,513	2,588
Agency and Contracted Services		222	213
Capital Charges		1,791	1,970
		7,004	8,141
GROSS COST OF SERVICE		27,026	29,878
Income		(384)	(644)
Special Grants	2	(682)	(1,016)
NET COST OF SERVICE		25,960	28,218
Firefighters' Pension Scheme - Past Service Cost	3	20	110
Local Government Pension Scheme - Settlement Gain	3	0	(210)
Local Government Pension Scheme - Curtailment Cost	3	3	0
		23	(100)
SUB-TOTAL		25,983	28,118
Transfer from Asset Management Revenue Account	4	(641)	(682)
Interest and Investment Income		(261)	(197)
Pensions Interest Cost and expected return on pension assets		7,355	8,759
NET OPERATING EXPENDITURE		32,436	35,998
Provision for the repayment of loans	5	(911)	(705)
Transfer to(from) Earmarked Reserves	6	763	944
Contribution to/from Pension Reserve		(7,141)	(9,162)
TO BE MET BY GRANTS & TAXATION		25,147	27,075
Revenue Support Grant		(3,640)	(2,873)
National Non-Domestic Rates		(6,996)	(8,390)
Council Tax Precept		(15,162)	(16,026)
(SURPLUS)/DEFICIT FOR THE YEAR		(651)	(214)
Reserves Brought Forward		0	(651)
Reserves Carried Forward		(651)	(865)

REVENUE ACCOUNT FOR 12 MONTHS ENDING 31 MARCH 2006

	2004/05 £000	2005/06 £000
Operations and Rescues		
Firefighting and Rescues	20,861	24,017
Fire control	854	918
Water Supplies	172	172
	21,887	25,107
Community Fire Safety		
Fire Safety Management	653	804
Prevention and Education	766	567
Legislative and Certification	1,359	1,167
	2,778	2,538
Corporate and Democratic Core		
Democratic Representation	206	352
Corporate Management	724	631
	930	983
NET COST OF SERVICE	25,595	28,628
FireFighters' Pension Scheme - Past Service Cost	20	110
Local Government Pension Scheme - Settlement Gain	0	(210)
Local Government Pension Scheme - Curtailment Cost	3	0
Exceptional Item: Council Tax Re-billing Costs	365	0
Exceptional Item: FRAHQ Lease Acquisition Premium	0	(410)
	388	(510)
SUB-TOTAL	25,983	28,118
Transfer from Asset Management Revenue Account	(641)	(682)
Interest and Investment Income	(261)	(197)
Pensions Interest Cost and expected return on pension assets	7,355	8,759
NET OPERATING EXPENDITURE	32,436	35,998
Provision for the repayment of loans	(911)	(705)
Transfer to(from) Earmarked Reserves	763	944
Contribution to/from Pension Reserve	(7,141)	(9,162)
TO BE MET BY GRANTS AND TAXATION	25,147	27,075
Revenue Support Grant	(3,640)	(2,873)
National Non-Domestic Rates	(6,996)	(8,390)
Council Tax Precept	(15,162)	(16,026)
(SURPLUS)/DEFICIT FOR THE YEAR	(651)	(214)
Reserves Brought Forward	0	(651)
Reserves Carried Forward	(651)	(865)

NOTES TO THE REVENUE ACCOUNT

1. Officers' Emoluments

1.1 During the year the number of Staff who received remuneration in excess of £50,000 excluding pension contributions were:

£	2004/05 No. of Staff	2005/06 No. of Staff
50,000 - 59,999	2	3
60,000 - 69,999	2	2
70,000 - 79,999	1	0
80,000 - 89,999	0	1
90,000 - 99,999	1	0

2. Special Grants

2.1 The special grants taken to the Revenue Account in the year are as below:

	2004/05 £000	2005/06 £000
ODPM - New Dimensions Training Grants	182	70
ODPM - New Dimensions USAR Grants	0	514
ODPM - New Dimensions Reimbursement	45	56
ODPM - New Burdens (Fire Control) Grant	59	74
ODPM - Home Fire Safety Initiatives Grant	0	59
Learning and Skills Council Grants	9	0
Use of LPSA Pump Priming Grants*	29	0
LPSA Reward Grant - Revenue Elements	0	209
Use of ODPM IEG2 Grant	31	0
Union Learning Fund Reimbursement	0	34
ODPM - Fire Service Transitional Costs Grant	327	0
	682	1,016

* provided by Herefordshire and Worcestershire County Councils

3. Pension Arrangements

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

3.2 The Authority participates in two schemes:

- The Firefighters' Pension Scheme – open to Wholetime uniformed staff. This is a statutory unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities and cash has to be generated to meet the actual pensions payments as they eventually fall due.
- The Local Government Pension Scheme – subject to qualifying criteria, open to other staff. This scheme is administered by Worcestershire County Council and is a funded scheme. The Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- 3.3 We recognise the cost of retirement benefits in the Net Cost of Service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax precept is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Revenue Account after Net Operating Expenditure. Transactions made in the Revenue Account in the year are shown in the table below:

	Firefighters Pension Scheme		Local Government Pension Scheme	
	2004/05 £000	2005/06 £000	2004/05 £000	2005/06 £000
Net Cost of Services:				
current service cost	3,750	4,950	316	379
past service cost	20	110	0	(210)
curtailment cost	0	0	3	0
Net Operating Expenditure				
interest cost	7,290	8,650	381	477
expected return on assets in the scheme	0	0	(316)	(368)
Amount charged against Grants and Taxation in the year				
movement on pensions reserve	(7,091)	(9,247)	(50)	85
Actual Amount charged against Grants and Taxation in the year				
retirement benefits payable to pensioners	4,911	5,684	0	0
Employees contributions	(1,076)	(1,050)	0	0
Net Transfer Values etc	134	(171)	0	0
employers contributions	0	0	334	363
Net Charge to Revenue Account	3,969	4,463	334	363

4. Asset Management Revenue Account

- 4.1 This Account provides a mechanism for the FRA to offset the impact of capital charges in arriving at the total level of expenditure to be financed by grants and taxation.

- 4.2 The 2005/06 Account is detailed below:

		2004/05 £000	2005/06 £000
Income	Capital Charges	(1,457)	(1,970)
	Capital Charges - Impairment	(334)	0
		(1,791)	(1,970)
	Credit from Govt Grants Deferred	(1)	(1)
	(1,792)	(1,971)	
Expenditure	Provision for Depreciation	679	907
	Additional Depreciation - Impairment	334	0
	External Interest Charges	138	382
		1,151	1,289
Credit to Revenue Account		(641)	(682)

5. Provision for Repayment of External Loans

- 5.1 The FRA is required by statute to set aside a minimum revenue provision for the redemption of debt. This calculation is the greater of 4% of the capital financing requirement at the start of the year or 4% of the adjusted credit ceiling at 1 April 2005. The extent to which this amount is not covered by depreciation charges is

represented in the Revenue Account by the provision for repayment of external loans as detailed overleaf:

	2004/05 £000	2005/06 £000
Minimum Revenue Provision	101	201
Amount Charged as Depreciation	(679)	(907)
Additional Depreciation - Impairment	(334)	0
Amortization from Govt Grants Deferred Account	1	1
	(911)	(705)

6. Transfers to/(from) Earmarked Reserves

6.1 The FRA holds 9 earmarked reserves as described in paragraph 25 of the Statement of Accounting Policies on page 15. The movement shown here represents a net transfer to these Reserves as detailed in paragraph 16 of the Notes to the Balance Sheet on page 30.

7. Leases

7.1 The FRA has entered into Operating Leases for the provision of emergency and ancillary vehicles. The total rentals paid to lessors on all leases in the year totalled £582,139 (2004/05 £529,845).

7.2 The estimated future obligation under these operating lease agreements is shown in the table below.

	£000
2006/07	543
2007/08	491
2008/09	453
2009/10	301
2010/11	230
2011/12	152
2012/13	99
2013/14	24
2014/15	12
	2,305

8. Agency Services

8.1 Up to September 2005 the FRA carried out work as an agent to a number of local authority departments for the provision of fire extinguisher maintenance services, for which it was reimbursed. The total income from these sources to 31 March 2006 was £32,353 (2004/05 - £80,975). Material cost associated with this arrangement totalled £12,714 (2004/05 - £28,737), and the FRA employed 2 staff to carry out the work. On cessation of the contract, the staff were redeployed to other vacant posts.

9. Publicity

9.1 Section 5 of the Local Government Act 1986 requires the FRA to maintain a separate account of expenditure on a wide range of publicity activities. The expenditure shown overleaf is included within the revenue account:

	2004/05	2005/06
	£	£
Staff Advertising	17,319	56,280
General Advertising	2,254	9,277
	19,573	65,557

10. Related Party Transactions

10.1 The Clerk to the Fire and Rescue Authority has been the Chief Executive of Herefordshire Council or the Head of Legal Services at the same Authority. The Treasurer to the Fire and Rescue Authority is the Director of Financial Services of Worcestershire County Council, (which also administers the Local Government Pension Scheme). The FRA shares services with both these bodies and costs are included in the Revenue Account. The extent and value of these transactions is shown in the table below. Some of the Legal costs associated with capital schemes or disposal of assets are not recorded in the Revenue Account but are charged against capital costs or capital receipts as appropriate.

Service	Related Party	2004/05	2005/06
		£000	£000
Legal Services	Herefordshire Council	61	51
Committee Services	Herefordshire Council	27	32
Cleaning Management	Herefordshire Council	12	14
		100	97
Financial Services	Worcestershire County Council	11	11
Internal Audit	Worcestershire County Council	12	14
Payroll and Pensions	Worcestershire County Council	43	59
Scientific Services	Worcestershire County Council	7	9
Property Services	Worcestershire County Council	11	12
		84	105
		184	202

11. External Audit Fees

11.1 The Audit Commission has appointed PricewaterhouseCoopers LLP to be the Fire and Rescue Authority's External Auditors, and for 2005/06 the following fees were incurred in respect of external audit, statutory inspection and other services.

	2004/05	2005/06
Accrued Fees payable to PricewaterhouseCoopers:	£000	£000
in respect of external audit services	56	50
in respect of consultancy services	0	32
	56	82

12. Members Allowances

12.1 The total amount paid to Members as Allowances under the adopted scheme was £43,727. (2004/05 £40,820).

BALANCE SHEET AS AT 31 MARCH 2006

	Not e	2004/05 £000	2005/06 £000
Operational Fixed Assets			
Land and Buildings	1-3	25,358	30,884
Vehicles Plant & Equipment	1-3	757	2,163
		26,115	33,047
Non-Operational Fixed Assets			
Assets under construction	1-3	648	0
Assets awaiting disposal	1-3	270	936
		918	936
TOTAL FIXED ASSETS		27,033	33,983
Current Assets			
Cash In Hand		6	7
Cash at Bank	4	5,497	4,422
Stocks and Work in Progress	5	149	136
Debtors and Prepayments	6	910	1,356
		6,562	5,921
Current Liabilities			
Creditors	7	(1,446)	(2,682)
		(1,446)	(2,682)
NET CURRENT ASSETS		5,116	3,239
Long Term Liabilities			
Long Term Borrowing	8	(4,669)	(9,169)
Provisions	9	(444)	(488)
Liability related to Defined Benefit Pension Schemes	10	(163,738)	(201,562)
		(168,851)	(211,219)
		(168,851)	(211,219)
NET ASSETS		(136,702)	(173,997)
		(136,702)	(173,997)
REPRESENTED BY:			
Fixed Asset Restatement Account	11	27,840	26,951
Capital Financing Account	11	(3,205)	(2,393)
Government Grants Deferred	12	42	41
		(163,738)	(201,562)
Pensions Reserve	13	()	()
Unapplied Government Grants	14	51	233
Useable Capital Receipts Reserve	15	894	0
Earmarked Reserves	16	763	1,868
Revenue Reserve	16	651	865
		(136,702)	(173,997)
		(136,702)	(173,997)

Treasurer to the Fire and Rescue Authority: *Mike Weaver*

Date: *21 June 2006*

NOTES TO THE BALANCE SHEET

1. Movement of Fixed Assets

	Land and Buildings £000	Vehicles Plant and Equipment £000	Non- Operationa I Assets £000	TOTAL
Gross Book Value at 31 March 2005	25,358	4,546	918	30,822
Cumulative Depreciation to 31 March 2005	0	(3,789)	0	(3,789)
Net Book Value at 31 March 2005	25,358	757	918	27,033
Re-statements and Adjustments	(275)	0	0	(275)
Reclassification of Assets	(288)	0	288	0
Additions in year	6,842	1,904	0	8,746
Depreciation for year	(423)	(484)	0	(907)
Asset Impairment	0	0	0	0
Net Book Value of Disposals	(330)	(14)	(270)	(614)
Revaluations	0	0	0	0
Net Book Value at 31 March 2006	30,884	2,163	936	33,983

Summary

Gross Book Value at 31 March 2006	31,307	6,348	936	38,591
Cumulative Depreciation to 31 March 2006	(423)	(4,185)	0	(4,608)
Net Book Value at 31 March 2006	30,884	2,163	936	33,983

1.1 Details of capital expenditure incurred during the year are as follows:

	2004/05 £000	2005/06 £000
New Buildings and Adaptations	704	6,842
Vehicles (including fitted equipment)	0	1,523
IT and Communication Equipment	37	323
Other Equipment	0	58
Total Capital Expenditure	741	8,746

- 1.2 Fixed assets are represented in the Balance Sheet at current value, with the exception of additions occurring since the last revaluation, which are held at historic cost, net of depreciation where appropriate. Assets disposed of have been written-out at their net book value.

2. Financing Capital Expenditure

2.1 Capital expenditure was financed as follows:

	2004/05 £000	2005/06 £000
Credit Approvals/LT Borrowing	76	7,230
Capital Receipts	625	1,516
Specific Government Grant	44	0
	745	8,746

3. Details of Assets Owned

	31 March 2005	31 March 2006
Buildings		
Fire Stations	27	27
Training and Development Centre	1	1
HQ Sites	3	1
Workshops	1	1
Supplies	1	1
Houses - in use as offices	5	5
Houses - in use (residential)	9	7
Houses - vacant pending disposal	2	0
HQ Buildings awaiting disposal	0	0
Vehicles		
Operational Vehicles	48	55
Ancillary Vehicles	26	15

- 3.1 Due to the de-minimise limit applied to vehicle capital purchase (see Accounting Policies) not all vehicles listed above are included in the Fixed Assets on the Balance Sheet. In addition a significant part of the fleet has been acquired under operational leases, or supplied by ODPM. For information this is shown below:

	31 March 2005	31 March 2006
Operational Vehicles - ODPM	3	4
Operational Vehicles - Leased	21	21
Ancillary Vehicles - Leased	76	84

4. Cash at Bank

- 4.1 Any surplus or overdrawn cash balances remaining on a daily basis are included as part of Worcestershire County Council's (WCC) treasury management activities. Funds are invested in short-term deposits with a range of banks and other financial institutions in accordance with the Treasury Management Policy of the FRA. At 31 March 2006 £4.422m. (31 March 2005 £5.497m) was invested with WCC.

5. Stocks and Work in Progress

	31 March 2005 £000	31 March 2006 £000
Uniforms	59	54
Fuel	17	16
Vehicle Stores	68	66
Extinguishers	5	0
	149	136

The stock of extinguishers has been disposed of as the FRA no longer provides an extinguisher maintenance service. The cost of the written off stock has been charged to the Revenue Account.

6. **Debtors**

	31 March 2005 £000	31 March 2006 £000
Sundry Debtors	581	986
Prepayments	329	370
	910	1,356

7. **Creditors**

	31 March 2005 £000	31 March 2006 £000
Government Departments	378	416
Sundry Creditors	1,068	2,268
	3,451	2,684

8. **Long Term Borrowing**

	31 March 2005 £000	31 March 2006 £000
Loan Source		
Public Works Loans Board	4,669	9,169
	4,669	9,169
Analysis by Maturity		
Between 1 and 2 years	100	1,311
Between 2 and 5 years	311	525
Between 5 and 10 years	525	434
Over 10 years	3,733	6,899
	4,669	9,169

9. **Movement in Provisions**

	56 Week Pay £000	Rank to Role £000	Pension Charges £000	Total £000
Balance at 1 April 2005	283	161	0	444
Transfers to Revenue Account	0	0	0	0
Transfers to Earmarked Reserves	0	(161)	0	(161)
Transfers from Revenue Account	92		113	205
Balance at 31 March 2006	375	0	113	488

- 9.1 The purpose and nature of these provisions are disclosed in paragraph 23 of the Statement of Accounting Policies on pages 14-15.

10. Retirement Benefits

10.1 Note 2 to the Revenue Account contains details of the Authority's participation in the Local Government Pension Scheme (administered by Worcestershire County Council) and the Firefighters' Pension Scheme, in providing retirement benefits.

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

	Firefighters' Pension Scheme		Local Government Pension Scheme		TOTAL	TOTAL
	31 March 2005	31 March 2006	31 March 2005	31 March 2006	31 March 2005	31 March 2006
	£000	£000	£000	£000	£000	£000
Estimated Scheme Liabilities	(160,460)	(198,094)	(8,667)	(10,605)	(169,127)	(208,699)
Estimated Scheme Assets	0	0	5,389	7,137	5,389	7,137
Net Asset/(Liability)	(160,460)	(198,094)	(3,278)	(3,468)	(163,738)	(201,562)

10.3 The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total net liability of £201.562m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £173,997m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

- The deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary.
- Finance is only required to be raised to cover Firefighters' pensions when the pensions are actually paid.

10.4 For the Local Government Scheme liabilities 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 liabilities were assessed by Mercer Human Resource Consulting Ltd, who are an independent firm of actuaries.

10.5 For the Firefighters' Scheme the Authority has used the model provided by the Government Actuary's Department (GAD), to assess the liabilities.

10.6 The main assumptions used in the calculations are shown on the next page.

	Firefighters Pension Scheme		Local Government Pension Scheme	
	2004/05	2005/06	2004/05	2005/06
Rate of inflation	2.9%	3.2%	2.9%	2.9%
Rate of increase in salaries	4.4%	4.7%	4.4%	4.4%
Rate of increase in pensions	2.9%	3.2%	2.9%	2.9%
Rate for discounting liabilities	5.4%	4.9%	5.4%	4.9%

- 10.7 The Firefighters Pension Scheme has no assets to cover its liabilities. Assets in the Local Government Pension Scheme 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:

	Average Return 2004/05	Average Return 2005/06	Proportion 31st March 2005	Proportion 31st March 2006
Equities	7.5%	7.0%	80%	82%
Government Bonds	4.7%	4.3%	13%	12%
Other Bonds	5.5%	4.9%	6%	5%
Other Assets	5.4%	4.5%	1%	1%
			100%	100%

11. Movements in Capital Accounting Reserves

	Fixed Asset Restatement Account £000	Capital Financing Account £000
Balance at 1 April 2005	27,840	(3,205)
Revaluation and Restatement	(275)	
Use of Capital Receipts		1,516
Write out of assets disposed	(614)	
Transfer from Govt Grants Deferred		1
Provision for repayment of loans		(705)
Balance at 31 March 2006	26,951	(2,393)

12. Government Grants Deferred

- 12.1 Where assets are funded by specific government grant, it is required that accounting for the grant takes place over the life of the asset, in line with the depreciation charge on the asset created. In 2004/05 grant was received in relation to the IRU accommodation works at Hereford.

	£000
Balance at 1 April 2005	42
Grant Received in year	0
Applied in year	(1)
Balance at 1 April 2006	41

13. Movement in Pensions Reserve

- 13.1 An analysis of the movement on the Pension Reserve is shown on the next page.

	Firefighters' Scheme		Local Government Scheme		TOTAL
	£000		£000		£000
Balance at 31 March 2005	(160,460)		(3,278)		(163,738)
Current Service Cost	(4,950)		(379)		(5,329)
Contributions	0		367		367
Past Service Settlement/Gain	(110)		210		100
Transfers In	(1,179)		0		(1,179)
Pensions Paid	6,585		0		6,585
Net Interest/Return on Assets	(8,650)		(109)		(8,759)
	(168,764)		(3,189)		(171,953)
Actuarial Loss/Gain					
Asset Gain	N/A		1,043		1,043
Liability Gain/Loss	(820)		(315)		(1,135)
Change in Assumptions	(28,510)		(1,007)		(29,517)
	(29,330)		(279)		(29,609)
Balance at 31 March 2006	(198,094)		(3,468)		(201,562)

13.2 The change in assumptions largely relates to a reduction in the discount rate used in the actuarial calculations

14. Movements in Unapplied Grant

	HFSI £000	IEG £000	LPSA £000	TOTAL £000
Balance at 1 April 2005	32	19	0	51
Grant Received in Year	32	0	209	241
Used to Finance Capital Expenditure	(59)	0	0	(59)
Balance at 31 March 2006	5	19	209	233

14.1 Un-spent grant in relation to the Home Fire Safety Initiative (HFSI), electronic government (IEG) and LPSA Reward Grant – Capital Element.

15. Movements in Useable Capital Receipts

	Capital Receipts £000
Balance at 1 April 2005	894
Net Proceeds from sale of Fixed Assets	622
Used to Finance Capital Expenditure	(1,516)
Balance at 31 March 2006	0

16. Movements in Revenue Reserves

	Balance at 31 March 2005 £000	from Provision £000	from Rev Acct £000	to Rev Acct £000	Balance at 31 March 2006 £000
Earmarked Reserves					
Pensions Reserve	716			(516)	200
RMB Costs Reserve	26		5		31
IPDS/Training Reserve	21		23	(21)	23
Transitional Grant Repay't Reserve	0		327		327
Grant Amending Report Reserve	0		203		203
LPSA Reward Grant Reserve	0		209		209
New Dimensions Training Reserve	0		70		70
Rank to Role Reserve	0	161	169		330
Urban Search and Rescue Reserve	0		475		475
	763	161	1,481	(537)	1,868
General Balances	651		214		865

16.1 The purpose and nature of these provisions are disclosed in paragraph 23 of the Statement of Accounting Policies on pages 14-15.

17. Contingent Liabilities

17.1 There are no contingent liabilities.

18. Related Party Transactions

18.1 During the year transactions with related parties, not disclosed elsewhere in the Statement of Accounts, were as follows:-

- **Worcestershire County Council Pension Fund**
Employer's pension contributions paid by the Authority to the Worcestershire County Council Pension Fund totalled £0.363m. (04/05 £0.334m)
- **Fire Authority Members**
No members of the Fire and Rescue Authority or members of their immediate family or household declared any positions of influence.
- **Service Senior Officers**
No Senior Officers within the Service or members of their immediate family or household declared any positions of influence.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

1. The table on the next page brings together details of all the reserves that are included in the Balance Sheet and described in the Statement of Accounting Policies (paragraphs 23-26) and the Notes to the Balance Sheet (paragraphs 9, 11-16). They are split into Revenue and Capital Reserves.
2. Details of the movements in individual Earmarked Reserves are shown in paragraph 16 of the Notes to the Balance Sheet on page 30.
3. The table on the next page shows both Accounting and Useable Reserves. The total Useable Reserves at 31 March each year are summarised below:

	31 March 2005		31 March 2006	
	£000	£000	£000	£000
Revenue				
Unapplied Grant	51		233	
Earmarked Reserves	763		1,868	
General Reserve	651	1,465	865	2,966
Capital				
Unapplied Capital Receipts		894		0
		2,359		2,966

STATEMENT OF TOTAL MOVEMENT IN RESERVES

	CAPITAL RESERVES					REVENUE RESERVES			TOTAL ALL RESERVES
	Fixed Asset Restatement Account	Capital Financing Account	FRS17 Pensions Reserve	Government Grant Deferred	Capital Receipts	General Reserve	Earmarked Reserves	Unapplied Govt Grant	
TYPE	ACCOUNTING	ACCOUNTING	ACCOUNTING	ACCOUNTING	USEABLE	USEABLE	USEABLE	USEABLE	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2005	27,840	(3,205)	(163,738)	42	894	651	763	51	(136,702)
Revenue Account Surplus/(Deficit)						214			214
Transfer to/from Revenue Account							944	(59)	885
Receipt of Grant								241	241
Transfer from Provision							161		161
Financing of Capital Expenditure		1,517		(1)	(1,516)				0
Provision for Repayment of Loans		(705)							(705)
Proceeds from Sale of Assets					622				622
Write out of Assets Disposed	(614)								(614)
Revaluation of Assets	(275)								(275)
Appropriation from Pension Reserve			(9,162)						(9,162)
Employee Contributions - FFPS			1,050						1,050
Other items - FFPS			(103)						(103)
Actuarial Gains/Losses			(29,609)						(29,609)

Balance at 31 March 2006	26,951	(2,393)	(201,562)	41	0	865	1,868	233	(173,997)

CASH-FLOW STATEMENT FOR 12 MONTHS ENDING 31 MARCH 2006

	Notes	2004/05		2005/06	
		£000	£000	£000	£000
REVENUE ACTIVITIES					
Cash Outflow	Employees	20,312	25,092	21,932	26,659
	Other	4,780		4,727	
Cash Inflow	Council Tax Precept	(15,162)		(16,026)	(28,991)
	Share of National Non-Domestic Rates	(6,996)		(8,390)	
	Revenue Support Grant	(3,640)		(2,873)	
	Other Government Grants	(468)		(927)	
	Goods and Services	(433)		(741)	
	Other Contributions	0	(26,699)	(34)	
Net Cash-flow from Revenue Activities			(1,607)		(2,332)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE					
Cash Outflow	Interest Paid	123		346	115
Cash Inflow	Interest Received	(220)	(97)	(231)	
CAPITAL ACTIVITIES					
Cash Outflow	Purchase of Fixed Assets	751		8,652	7,791
Cash Inflow	Capital Receipts	(265)	486	(608)	
Cash Inflow	Capital Grants			(253)	
Net Cash-flow Before Financing			(1,218)		5,574
FINANCING					
Cash Outflow	Loans Repaid	100		100	(4,500)
Cash Inflow	Loans Raised	(2,100)	(2,000)	(4,600)	
NET CHANGE IN CASH AND CASH ALTERNATIVES			(3,218)		1,074

NOTES TO THE CASH-FLOW STATEMENT

1. Reconciliation of Revenue Account to Revenue Activities Cash Flow

	2004/05		2005/06	
	£000	£000	£000	£000
Deficit/(Surplus) on Revenue Account	(653)		(214)	
Transfer from/(to) Earmarked Reserves	(763)	(1,416)	(944)	(1,158)
Less: Non-Cash Transactions				
Minimum Revenue Provision (MRP) change in provisions	101		201	
	(28)	73	205	406
Less: Items on an Accruals Basis				
change in debtors	(97)		(476)	
change in creditors	330		1,116	
change in stocks/WIP	(18)	215	13	653
Less: Servicing of Finance		(97)		115
Net Cash-Flow: Revenue Activities		(1,607)		(2,332)

2. Reconciliation of Movement in Cash

	Balance 31 March 2005 £000	Balance 31 March 2006 £000	Change in the year £000
Cash In Hand	6	7	1
Cash at Bank	5,497	4,422	(1,075)
Cash Overdrawn	0	0	0
	5,503	4,429	(1, 074)

3. Reconciliation of Net Cash Flow to the Movement in Net Debt

	2004/05 £000	2005/06 £000
Net Debt at Start of Year	(384)	834
Change in Debt Financing	(2,000)	(4,500)
Change in Cash at Bank	3,218	(1,075)
Change in Cash in Hand	0	1
Net Debt at End of Year	834	(4,740)

4. Analysis of Net Debt

	Balance 31 March 2005 £000	Balance 31 March 2006 £000	Change in the year £000
Cash in Hand	6	7	1
Cash at Bank	5,497	4,422	(1,075)
Short Term Debt	0	0	0
Long Term Debt	(4,669)	(9,169)	(4,500)
	834	(4,740)	(5,574)

5. Government Grants

5.1 Government grants received and included in the Cash Inflow from Revenue Activities are shown on the next page.

Government Grant Received	2004/05 £000	2005/06 £000
Transitional Grant	(327)	0
New Dimensions Training Grant	(74)	(70)
New Dimensions Re-imburement	(33)	(29)
New Dimensions USAR Grant	0	(514)
New Burdens (Fire Control) Grant	0	(71)
Home Fire Safety Initiatives Grant	(32)	(32)
LPSA Reward Grant	0	(209)
Learning and Skills Council Grants	(2)	(2)
	(468)	(927)

GLOSSARY OF TERMS

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Budget

A statement of the FRA's policy expressed in financial terms.

BVACoP

This is an abbreviation given for the Best Value Accounting Code of Practice. This set out to modernise the system of local authority accounting and reporting to meet the demands of the Best Value legislation.

Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure, which adds to and not merely, maintains the value of existing fixed assets.

Capital Receipts

Income from the sale of assets. Such income may only be used to repay loan debt or to finance new capital expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Creditors

Amounts owed by the FRA for which payment has not been made by the end of the financial year.

Debtors

Amounts due to the FRA but unpaid at the end of the financial year.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.

Fixed Assets

Tangible assets that yield benefits to the FRA for a period of more than one year.

FRS

This is an abbreviation for Financial Reporting Standards that are set by the Accounting standards board.

HFSI

Home Fire Safety Initiative. An ODPM funded scheme to increase the number of Home Fire Safety Checks and Smoke Alarm installations nationally.

IEG

Implementing Electronic Government. A name for the process devised by ODPM where Local Authorities were required to produce detailed plans identifying the costs of moving toward the government targets on e-government. This was to be funded by 3 annual

grant payments. Having completed the 3 plans, there was a change of policy and ODPM determined that only 1 year's grant would be paid to Fire and Rescue Authorities.

IPDS

Integrated Personal Development System. An integrated approach to developing personnel to achieve maximum potential for the individual and the organisation.

IRU

Incident Response Unit. Two vehicles provided by ODPM to enable the Service to respond with trained personnel to any major incident requiring mass decontamination.

LASAAC

This is an abbreviation for the Local Authority (Scotland) Accounts Advisory Committee.

Long Term Borrowing

Loans raised to finance capital spending which have still to be repaid.

LPSA

Local Public Service Agreement. A partnership arrangement with Worcestershire County and Herefordshire Councils.

ODPM

Office of the Deputy Prime Minister. The Government department that was responsible for aspects of Local Authority and Fire and Rescue Authority activity in 2004/05 and 2005/06.

Operational Leasing

A method of financing the acquisition of assets, notably equipment, vehicles, plant, etc, which involves the payment of a rental by the user for a period which is normally substantially less than the useful economic life of the asset.

Provision

A liability or loss which is likely or certain to be incurred but uncertain as to the amount or date when it will arise.

Reserve

An amount set aside for purposes falling outside the definition of a provision.

Revenue Expenditure and Income

Expenditure and income arising from the day to day operation of the FRA.

RMB

Regional Management Board. A joint arrangement with the 4 other Fire and Rescue Authorities in the government's West Midlands Region to co-ordinate joint working to improve efficiency and effectiveness.

SORP

This is an abbreviation given for the 'Statement of Recommended Practice' issued by CIPFA and LASAAC incorporating the Code of Practice on Local Authority Accounting in the United Kingdom.