## CONTENTS

## 1. INTRODUCTION

The purpose of this foreword is to provide a clear guide to the most significant matters reported in the accounts. It explains the purpose of the financial statements that follow and provides a summary of the County Durham and Darlington Fire and Rescue Authority's (referred to as the Authority throughout this document) financial activities during 2011/12 and its financial position at 31 March 2012.

The Authority was established as a separate corporate body covering the County of Durham and Darlington Borough under the provisions of the Durham Fire Services (Combination Scheme) Order 1996. The Authority comprises Members appointed by Durham County Council and Darlington Borough Council. With effect from 1 April 2004, the Fire and Rescue Authority became a precepting authority as defined under the Local Government Finance Act 1992.

The vision of the Authority is 'Safest People, Safest Places' and three strategic aims support this:

- Protecting and preventing;
- Developing motivated people to deliver effectively; and
- Value through sustainable improvement.

A published and audited statement of accounts is at the heart of ensuring proper accountability for the use of local and national taxpayer's money.

Further to the implementation of a separate principle of corporate governance across the public sector, the Authority now issues an Annual Governance Statement. This statement gives assurance that sound systems of control are in place across the Authority's activities.

## 2. INFORMATION AND FINANCIAL STATEMENTS

The accounts and statements are based on the Code of Practice on Local Authority Accounting in the UK (the Code) 2011/12.

The Code is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/ LASAAC Code Board which is overseen by the Financial Reporting Advisory Board.

The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2011.

This edition of the Code applies to accounting periods commencing on or after 1 April 2011. It supersedes the edition published in December 2009 (the 2010/11 Code).

The overriding requirement of the Code remains that the Statement of Accounts gives a 'true and fair' view of the financial position and transactions of the Authority.

The Authority's Accounts for the year ended 31 March 2012 are set out on the following pages:

**Independent Auditor's Report (page 11) –** the Report of the External Auditor on the Fire Authority's Statement of Accounts for the year ended 31 March 2012.

**Statement of Responsibilities for the Statement of Accounts (page 14)** – this sets out the responsibilities of the Authority and the Treasurer's certificate.

**Movement in Reserves Statement (pages 15-16)**

**Comprehensive Income and Expenditure Account (page 17)** – this discloses the income receivable and expenditure incurred in operating the Authority for the year.

**Balance Sheet (page 18)** – this shows the financial position of the Authority as at 31 March 2012.

**Cash Flow Statement (page 19)** – this summarises the inflows and outflows of cash arising from transactions with other parties for revenue and capital purposes.

**Notes to the Core Financial Statements (pages 20-78)** – this provides further information on significant items.

**Pension Fund Account (pages 79-80)** – this sets out the financial position of the Fire Pension Fund.

## 3. REVIEW OF THE FINANCIAL YEAR 2011/12

The Authority's spending is planned and controlled by a rigorous budget and financial management process. The Authority receives resources direct from the Government in the form of Revenue Support Grant and Non-Domestic Rates with the balance of funding coming from precepts on billing authorities for amounts chargeable to local taxpayers. During 2011/12 the Authority's net revenue spending, which was met from the above sources, was £25.937m, while spending on capital projects totalled £1.860m.

The Authority's general reserve balance at 31 March 2012, which represents the sum set aside to meet unforeseen future circumstances, was £3m, which equates to 10.05% of the 2011/12 Budget Requirement. This is in line with the Authority's policy on reserves which is to maintain broadly general reserves of between 7.5% and 10%, with a maximum general reserve of 15% of the Budget Requirement for the short to medium term.

## 4. COMPARISON OF ACTUAL WITH BUDGET – REVENUE EXPENDITURE

### Revenue Expenditure and Income Summary

Authorities raise taxation to cover expenditure, in accordance with regulations, which is summarised in the Revenue Expenditure and Income Summary. This may be different from the accounting cost of providing services, in accordance with generally accepted accounting practices, which is reflected in the Comprehensive Income and Expenditure Statement.

The estimated net revenue expenditure for 2011/12 to be met from Government Grants and local taxpayers was approved at £29.863m.

The following table summarises the financial position for the year:

| | Original Budget | Actual | Variance |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **Expenditure** | | | |
| Gross Expenditure | 30.673 | 29.501 | 1.172 |
| Income | -0.810 | -3.564 | 2.754 |
| **Net Expenditure** | **29.863** | **25.937** | **3.926** |
| **Financing** | | | |
| Revenue Support Grant | 3.105 | 3.105 | - |
| Redistributed Non-Domestic Rates | 10.044 | 10.044 | - |
| Precept Income | 16.714 | 16.714 | - |
| **Total Financing** | **29.863** | **29.863** | **-** |

**Variances between Original Budget and Actual**

The variances which contributed towards the underspend in 2011/12 are set out in the table below.

| | Overspend or Underspend (-) |
|---|---|
| | **£m** |
| Employees | -0.731 |
| Premises | -0.009 |
| Transport | -0.001 |
| Supplies and Services | -0.301 |
| Contingencies | -0.236 |
| Capital Financing | 0.008 |
| Provisions & write offs | 0.098 |
| Transfers to Earmarked Reserves | 3.926 |
| Income | -2.754 |
| Contributions from Reserves | - |
| | - |

**Explanation of the Major Variances**

**Employees - £0.731m (3.21%) Underspent**
The net underspend relates to the timing of redundancies and the filling of new posts following the service restructure and implementation of new ways of working. Savings have also been made in ill-health retirement costs. Savings were partially offset by expenditure on temporary staff to smooth the transition to the new service structure.

**Supplies and Services - £0.301m (7.59%) Underspent**
The underspend relates to savings against a number of budget headings, including photocopying, printing, mobile telephones, subsistence and the finance service level agreement.

This was achieved as a result of a number of initiatives to reduce costs, together with strict control of non-essential items of expenditure.

**Contingencies - £0.236m (100%) Underspent**
The amounts set aside for contingencies were not required, as a national pay freeze was agreed for 2011/12.

**Provisions and write-offs £0.098m (100%) Overspent**
A provision has been made for the write-off of obsolete stock and a provision has been made for debts where it is assessed that their recovery is doubtful.

**Transfers to Earmarked Reserves - £3.926m**
The revenue underspend of £3.926m has been transferred to the following earmarked reserves:

- Pensions Reserve £0.191m – To meet any unforeseen pension's costs which may arise as a result of national changes to pension schemes.
- Resilience Reserve £0.100m – To ensure that the Service has sufficient funding to ensure continuity of service provision following an unforeseen event.
- Civil Resilience Reserve £0.102m – The balance of unspent Central Government civil resilience grant which is earmarked for New Dimensions expenditure.
- Insurance Reserve £0.100m – To meet any unexpected increase in the level of excesses paid on insurance claims following the recent decision to increase the policy excess levels in order to reduce premiums.
- Revenue Modernisation Reserve £0.24m – To meet any one off up-front costs associated with service transformation.
- Capital Modernisation Reserve £1.393m – To fund capital expenditure in respect of the estates improvement programme thus avoiding the need to borrow and incur capital financing costs in future years.
- Replacement Mobilisation System Reserve £1.800m – To carry over unspent Central Government grant received at the end of 2011/12 to fund the replacement mobilisation system.

**Income - £2.754m (340%) Over-achieved**
A revenue grant towards the cost of a replacement mobilisation system was received towards the end of 2011/12, which was not included in the Budget. Additional income in relation to one-off grants and increased income generation through charging for services was also received.

## CIPFA'S SERVICE REPORTING CODE OF PRACTICE

A comparison of the original budget with actual compiled in accordance with CIPFA's Service Reporting is shown below:

| | 2010/11 Actual £000 | 2011/12 Original Budget £000 | 2011/12 Actual £000 |
|---|---|---|---|
| **Net Cost of Services** | **33,709** | **28,931** | **29,513** |
| **Exceptional item-past service costs** | -28,110 | **-** | **-** |
| **Other Operating Expenditure** | | | |
| (Gain)/Loss on disposal of fixed assets | 11 | - | 58 |
| **Financing and Investment Income and Expenditure** | | | |
| Interest payable on Debt | 86 | 80 | 80 |
| Interest Payable on Finance leases | 22 | 36 | 27 |
| Interest Payable on PFI Unitary payments | 609 | 851 | 704 |
| Contingent Rents | -21 | - | 12 |
| Pension Interest Costs | 14,500 | - | 14,240 |
| Expected Return on Pension Assets | -730 | - | -820 |
| Interest and Investment Income | -57 | -35 | -78 |
| (Gain)/Loss on Trading Accounts | -42 | - | -30 |
| **Net Operating Expenditure** | **19,977** | **29,863** | **43,706** |
| **Taxation and Non-Specific Grant Income** | | | |
| Recognised Capital Grants and Contributions | -1,600 | | -1,955 |
| Precepts | -16,704 | -16,714 | -16,669 |
| Council Tax Freeze Grant | - | | -417 |
| RSG | -1,842 | -3,105 | -3,105 |
| NNDR | -12,687 | -10,044 | -10,044 |
| **(Surplus)/Deficit for the year** | **-12,856** | **-** | **11,516** |
| Transfer to/(from) Earmarked Reserves from General Fund Balance | 2,231 | | 3,926 |
| Additional amounts required to be debited/(credited) to the General Fund Balance for the year | 10,625 | | -15,442 |
| **(Increase)/Decrease in General Fund Balance for the year** | **-** | **-** | **-** |

## 5. COMPARISON OF ACTUAL WITH BUDGET – CAPITAL EXPENDITURE

**Variances between Original Budget and Actual**

The Authority approved a capital programme for 2011/12 of £3.402m. The actual capital expenditure for the year was £1.860m; £1.542m less than the original budget. The following table analyses the expenditure:

| Project | Original Budget | Actual | Overspend or Underspend (-) |
|---|---|---|---|
| | £m | £m | £m |
| Vehicles, Plant & Equipment | 2.136 | 1.617 | -0.519 |
| Land and Buildings | 1.266 | 0.243 | -1.023 |
| **Total Expenditure** | 3.402 | 1.860 | -1.542 |

**Explanation of Major Variances**

**Vehicles, Plant and Equipment - £0.519m (24.3%) Underspent**
The underspend relates, in the main, to planned expenditure in connection with the Integrated Back Office ICT project which will not commence until 2012/13. In addition, new fire appliances were originally anticipated to be fully completed and delivered during 2011/12. However, delivery will now take place in 2012/13.

**Land and Buildings - £1.023m (80.81%) Underspent**
The underspend relates to delays in progressing the Estate Improvement Programme.

The capital expenditure was financed by Revenue Contributions and Capital Grants.

**Future Capital Commitments**

A significant programme of capital building projects is scheduled for 2012/13 to 2015/16. Existing plans to move headquarters, rebuild and improve facilities in fire stations and provide new training facilities will continue. The Authority also plans to invest in a number of Information Technology projects aimed to improve information management across the organisation. Vehicles and operational equipment will continue to be renewed in accordance with agreed replacement programmes.

**Current Borrowing Facilities and Capital Borrowing Provision**

The Budget Report, incorporating Prudential Indicators and the Treasury Management Strategy, submitted to the Authority meeting in February 2011, detailed the 2011/12 borrowing limits for the Authority.

The specific borrowing limits set related to two of the Prudential Indicators required under the Prudential Code, introduced on 1 April 2004. The limits for 2011/12 were as follows:

- Authorised Limit for External Debt for 2011/12 of £11 million;
- Operational Boundary for External Debt for 2011/12 of £10 million.

## 6. ACCOUNTING FOR POST EMPLOYMENT BENEFITS

### International Accounting Standard (IAS) 19

The Statement of Accounts incorporates the effect of pensions liabilities accrued in order to comply with IAS19. Rather than accounting for the actual expenditure on pensions, an assessment must be made by the Actuary of the costs accruing during the year and this is incorporated within the accounts. The effect of the Standard is to account for the annual movement in the pension liability and total liability of both the unfunded and funded schemes as a result of pension benefits earned by employees at the end of the financial year, which the Authority is potentially committed to pay.

The Balance Sheet discloses a negative Net Worth of the Fire Authority. The reason for this position relates to the pensions liability which requires that the accounts reflect the fact that retirement benefit commitments relating to current employees are recognised in the year which they are earned. The pension liability calculated under IAS19 is £262.45m at 31 March 2012.

### Arrangements for Funding and Accounting for Firefighter Pensions

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

Employer and employee contributions meet the accruing pension liabilities of currently serving firefighters so the Authority meets all costs of employing a firefighter, including the cost of future pension liabilities, at the time of employing them. Monthly contributions are paid into the pension fund and any surplus or deficit on the fund at the end of the financial year is paid back or recovered by Government grant.

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

### Change from Retail Price Index (RPI) to Consumer Price Index (CPI) Indexation

In the UK budget statement on 22 June 2010, the Chancellor announced that, with effect from 1 April 2011, public service pensions would be up-rated in line with the CPI rather than RPI. As CPI is generally lower than RPI, future pension increases are lower than previously expected.

In 2010/11, this change resulted in negative past service costs, of £28.110m which were recorded within the Comprehensive Income and Expenditure Statement as Non Distributed Costs – Exceptional Item.

## 7. PRIVATE FINANCE INITIATIVE (PFI)

The Authority has an operational PFI scheme, incorporating Bishop Auckland and Spennymoor fire stations. The assets included in the Balance Sheet are offset by a liability equal to the initial value of the assets (the capital expenditure provided for by the contactor in pricing the contract). This liability is written-down over the life of the contract by charging part of the annual payments to the contractor against the liability.

## 8. LOOKING AHEAD TO 2012/13

Looking ahead, the Authority's revenue expenditure for 2012/13 is estimated at £30.590m, together with an approved capital programme of £4.687m.

The Authority will face significant reductions in Government funding over the Medium Term Financial Plan period of 2012/13 to 2015/16. The 2012/13 budget has been prepared taking this funding reduction into account. Significant efficiency savings and service transformational savings have been identified to enable the Authority to set a balanced budget.

## 9. ACKNOWLEDGEMENTS

I would like to take this opportunity to thank both officers of the Fire and Rescue Authority and members of staff at Durham County Council who have co-operated to produce this Statement of Accounts.

I hope that this document proves to be both informative and of interest to readers. It is important to try and improve the quality and suitability of information provided and feedback is welcomed. If you have any suggestions or comments on either the format of the report or its contents, or you would like any further information please contact my office:

Telephone 0191 332 4341

E-mail abankhead@ddfire.gov.uk

Write to The Treasurer to County Durham and Darlington Fire and Rescue Authority
Fire and Rescue Service Headquarters
Finchale Road
Framwellgate Moor
Durham
DH1 5JR

**John Hewitt**
**Treasurer to County Durham and**
**Darlington Fire and Rescue Authority**

**If you require this information summarised in other languages or formats, such as Braille, large print or talking tapes, contact: 0191 332 4341**

"إذا كنت بحاجة إلى تلقي خلاصة هذه المعلومات في اللغة العربية فيرجى الاتصال بالرقم 0191 332 4341 "

***Independent auditor's report to the members of County Durham and Darlington Fire and Rescue Authority***

## Opinion on the Authority and Pension Fund financial statements

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

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

## Respective responsibilities of the Treasurer and auditor

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

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of County Durham and Darlington Fire and Rescue Authority as at 31 March 2012 and of its expenditure and income for the year then ended;

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

**Opinion on other matters**

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

**Matters on which I report by exception**

I report to you if:

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

I have nothing to report in these respects.

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

**Respective responsibilities of the Authority and the auditor**

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.
I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

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

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

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

**Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, County Durham and Darlington Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Certificate**

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Cameron Waddell
District Auditor and Engagement Lead

Audit Commission
2nd Floor
Metro Centre
Nickalls House
Gateshead
Tyne and Wear
NE11 9NH

Date: 26 September 2012

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the Fire and Rescue Authority that officer is the Treasurer;
- manage it's affairs to secure economic, efficient and effective use of resources and safeguard it's assets;
- approve the Statement of Accounts.

### The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in UK 2011/12.

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.

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.

### Treasurer's Certificate

I certify that these accounts present a true and fair view of the financial position of the Authority as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

**John Hewitt** **Date 26/09/2012**
**Treasurer to County Durham and Darlington Fire and Rescue Authority**

### Chairman's Certificate

I confirm that these accounts were approved by the Authority at the meeting on 26 September 2012.

**Date 26/09/2012**
**Chairman of the meeting approving the accounts**

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'.

The Surplus/ Deficit (-) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting.

The Net Increase/ Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before discretionary transfers to or from earmarked reserves undertaken by the Authority.

| **Movement in Reserves Statement 2011/12** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **(a)** | **(b)** | **(c)** | **(d)** | **(e)** | **(f)** | **(g)** |
| | **General Fund Balance** | **Earmarked Reserves** | **Capital Grants Unapplied** | **Capital Receipts Unapplied** | **Total Usable Reserves** | **Unusable Reserves** | **Total Authority Reserves** |
| | **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| **Balance at 31 March 2011** | **3,000** | **6,889** | **32** | **-** | **9,921** | **-221,073** | **-211,152** |
| Surplus/Deficit (-) on provision of services | -11,516 | - | - | - | -11,516 | - | -11,516 |
| Other Comprehensive Expenditure and Income | - | - | - | - | - | -6,239 | -6,239 |
| **Total Comprehensive Expenditure and Income** | **-11,516** | **-** | **-** | **-** | **-11,516** | **-6,239** | **17,755** |
| Adjustments between accounting basis and funding under regulations (Note 5.1) | 15,442 | - | 116 | 76 | 15,634 | -15,634 | - |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | 3,926 | - | 116 | 76 | 4,118 | -21,873 | -17,755 |
| Transfers to/from Earmarked Reserves (Note 7.17) | -3,926 | 3,926 | - | - | - | - | - |
| **Increase/Decrease in year** | - | 3,926 | 116 | 76 | 4,118 | -21,873 | -17,755 |
| **Balance at 31 March 2012** | **3,000** | **10,815** | **148** | **76** | **14,039** | **-242,946** | **-228,907** |

## *MOVEMENT IN RESERVES STATEMENT*

| Movement in Reserves Statement 2010/11 | | | | | | |
|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e) | (f) |
| | General Fund Balance | Earmarked Reserves | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 31 March 2010** | **3,000** | **4,658** | **443** | **8,101** | **-241,933** | **-233,832** |
| Surplus/Deficit (-) on provision of services | 12,856 | - | - | 12,856 | - | 12,856 |
| Other Comprehensive Expenditure and Income | - | - | - | - | 9,824 | 9,824 |
| **Total Comprehensive Expenditure and Income** | **12,856** | **-** | **-** | **12,856** | **9,824** | **22,680** |
| Adjustments between accounting basis and funding under regulations | -10,625 | - | -411 | -11,036 | 11,036 | - |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | 2,231 | - | -411 | 1,820 | 20,860 | 22,680 |
| Transfers to/from Earmarked Reserves | -2,231 | 2,231 | - | - | - | - |
| **Increase/Decrease in year** | - | 2,231 | -411 | 1,820 | 20,860 | 22,680 |
| **Balance at 31 March 2011** | **3,000** | **6,889** | **32** | **9,921** | **-221,073** | **-211,152** |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

| 2010/11 Net Expenditure | Gross Expenditure, gross income and net expenditure of continuing operations | 2011/12 Gross Expenditure | 2011/12 Income | 2011/12 Net Expenditure |
|---|---|---|---|---|
| £000 | | £000 | £000 | £000 |
| 5,557 | Community Fire Safety | 4,226 | -224 | 4,002 |
| 27,920 | Fire Fighting & Rescue Operations | 27,807 | -2,758 | 25,049 |
| 232 | Corporate & Democratic Core | 252 | - | 252 |
| - | Non Distributed Costs | 210 | - | 210 |
| -28,110 | Exceptional item – past service costs | - | - | - |
| **5,599** | **Net Cost of Service** | **32,495** | **-2,982** | **29,513** |
| | **Other Operating Income & Expenditure** | | | |
| 11 | Gain/Loss on disposal of non-current assets (fixed assets) (Note 6.3) | 58 | - | 58 |
| 11 | | 58 | - | 58 |
| | **Financing and Investment Income & Expenditure** | | | |
| 86 | Interest payable on debt | 80 | - | 80 |
| 22 | Interest element of finance leases | 27 | - | 27 |
| 609 | Interest payable on PFI | 704 | - | 704 |
| -21 | Contingent Rents – PFI | 12 | - | 12 |
| 14,500 | Pensions interest costs | 14,240 | - | 14,240 |
| -730 | Expected return on pension assets | - | -820 | -820 |
| -57 | Investment interest income | - | -78 | -78 |
| -42 | Gain /Loss on trading accounts (not applicable to a Service) | 32 | -62 | -30 |
| 14,367 | | 15,095 | -960 | 14,135 |
| | **Taxation & Non-specific Grants Income** | | | |
| -1,600 | Recognised capital grants and contributions | | | -1,955 |
| -16,704 | Precepts (Note 6.15) | | | -16,669 |
| - | Council Tax Freeze Grant | | | -417 |
| -12,687 | NNDR | | | -10,044 |
| -1,842 | RSG | | | -3,105 |
| **-12,856** | **(Surplus) or Deficit on Provision of Services** | | | **11,516** |
| -10,500 | Actuarial gain(-)/loss on pension fund assets and liabilities, and other pension adjustments | | | 6,271 |
| 676 | Deficit(-)/Surplus on revaluation of fixed assets | | | -32 |
| **-9,824** | **Other Comprehensive Income and Expenditure** | | | **6,239** |
| **-22,680** | **Total Comprehensive Income and Expenditure** | | | **17,755** |

**BALANCE SHEET**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories.

The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second categories of reserves are those that the Authority is not able to use to provide services. This category of reserves includes:

- reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold;

- reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| **As at 31 March 2011** | | | **As at 31 March 2012** | |
|---|---|---|---|---|
| **£000** | **£000** | | **£000** | **£000** |
| 124 | | Intangible Assets (Note 7.1c) | 165 | |
| | | **Property, Plant & Equipment** (Note 7.1a & 7.1b) | | |
| 23,630 | | Land & Buildings | 23,111 | |
| 6,125 | | Vehicle, Plant, Furniture & Equipment | 5,905 | |
| 350 | | Surplus Assets | - | |
| 54 | | Assets Under Construction | 536 | |
| 1 | | Long-Term Debtors (Note 7.12) | 1 | |
| | 30,284 | **Total Long-Term Assets** | | 29,718 |
| - | | Assets Held for Sale (Note 7.6) | 434 | |
| 370 | | Inventories (Note 7.7) | 418 | |
| 2,140 | | Short-Term Debtors (Note 7.12) | 4,529 | |
| 10,358 | | Cash & Cash Equivalents (Note 7.14) | 11,913 | |
| | 12,868 | **Total Current Assets** | | 17,294 |
| -142 | | Short Term Borrowing (Note 7.13) | -148 | |
| -4,026 | | Short Term Creditors (Note 7.13) | -3,924 | |
| | -4,168 | **Total Current Liabilities** | | -4,072 |
| | 38,984 | **Total Assets less Current Liabilities** | | 42,940 |
| -6 | | Provisions (Note 7.15) | -3 | |
| -1,548 | | Long-term Borrowing (Note 7.19) | -1,410 | |
| -8,275 | | Deferred Liability – PFI (Note 7.9) | -7,984 | |
| -287 | | Other Deferred Liabilities (Note 7.9) | - | |
| -240,020 | | Pension Liability (IAS19) (Note 7.22) | -262,450 | |
| | -250,136 | Total Long-term Liabilities | | -271,847 |
| | **-211,152** | **Net Assets** | | **-228,907** |
| | 9,921 | **Usable Reserves** (Note 7.16) | | 14,039 |
| | -221,073 | **Unusable Reserves** (Note 7.16) | | -242,946 |
| | **-211,152** | **Total Reserves** | | **-228,907** |

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

**Indirect Method**

| 2010/11 | OPERATING ACTIVITIES | 2011/12 |
|---|---|---|
| **£000** | | **£000** |
| -12,856 | Net (surplus) or deficit on the provision of services | 11,516 |
| 10,148 | Adjustments to net surplus or deficit on the provision of services for non-cash movements | -13,410 |
| 23 | Adjust for items received in the net surplus or deficit on the provision of services that are investing and financing activities | 77 |
| **-2,685** | **Net cash flows from operating activities** | **-1,817** |
| 322 | Investing Activities (Note 8.2) | -290 |
| 500 | Financing Activities (Note 8.3) | 552 |
| -1,863 | **Net ( increase) or decrease in cash and cash equivalents** | -1,555 |
| 8,495 | Cash and cash equivalents at the beginning of the reporting period | 10,358 |
| **10,358** | **Cash and cash equivalents at the end of the reporting period (Note 8.14)** | **11,913** |

## 1 ACCOUNTING POLICIES

### 1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2011, which require accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS).

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

### 1.2 Accruals of Income and Expenditure

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

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

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

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

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

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

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### 1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more that 24 hours. Cash equivalents are investments that mature within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### 1.4 Exceptional Items

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

### 1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

### 1.6 Charges to Revenue for Non-Current Assets

The Comprehensive Income and Expenditure Statement is debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the Authority
- revaluation and impairment losses on assets used by the Authority where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the Authority.

The Authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, revaluation, impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### 1.7 Employee Benefits

**Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees. They are recognised as an expense in the year in which the employee renders service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave) earned by an employee but not taken before the year end. The accrual is charged to the surplus or deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. They are charged on an accruals basis to the Net Cost of Service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or making an offer to encourage voluntary redundancy.

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

**Post Employment Benefits**

Employees of the Authority are members of three separate pension schemes:

- The 1992 Fire Pension Scheme for Firefighters which is unfunded
- The 1996 Fire Pension Scheme for Firefighters which is unfunded
- The Local Government Pension Scheme, administered by Durham County Council.

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority.

**Discretionary Benefits (Local Government Pension Scheme)**

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

**The Fire Pension Scheme for Firefighters**

The Firefighter's Pension Scheme for fire officers is an unfunded defined benefit final salary scheme administered by County Durham and Darlington Fire and Rescue Authority, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Under the Firefighter's Pension Scheme Order 2006, if the amounts receivable by the pension fund for the year are less than amounts payable, the Fire Authority must annually transfer an amount to meet the deficit to the pension fund. This cost is then met by Central Government. If, however, the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Fire Authority. This surplus is then repaid to Central Government.

**The Local Government Pension Scheme**

The Local Government Pension Scheme for support staff, administered by Durham County Council, is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The change in the net pensions liability is analysed into seven components:

- **Current Service Cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **Past Service Cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **Interest Cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Expected Return on Assets** – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Gains or losses on settlements and curtailments** – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve
- **Contributions paid to the Durham County Council Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

The Authority recognises the costs of retirement benefits in the Net Cost of Services section of the Comprehensive Income and Expenditure Account 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 in the Movement in Reserves Statement. The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### 1.8 Events after the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

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

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

### 1.9 Financial Instruments

#### Financial Liabilities

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

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

**Financial Assets**

Financial assets are classified into two types:

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

***Loans and Receivables***

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

***Available-for-Sale Assets***

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price.

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

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

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

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

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

### 1.10 Government Grants and Contributions

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

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

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

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

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

### 1.11 Property, Plant and Equipment

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

**Recognition**

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

**Measurement**

Property, Plant and Equipment are initially measured at historic cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use.

Property, Plant and Equipment 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). Property, Plant and Equipment are classified into the following groupings:

- Operational Assets — Land and buildings<br>Vehicles, plant and equipment
- Non–Operational Assets — Assets under construction<br>Surplus assets held for disposal<br>Assets Held for Sale

Property, Plant and Equipment are then carried in the Balance Sheet using the following measurement bases:

- Operational land and buildings and other operational assets at fair value, determined as the amount that would be paid for the assets in its existing use;
- Surplus assets held for disposal at fair value, determined as the amount that would be paid for the assets in its existing use;

- Assets under construction at depreciated historical cost until brought into commission.

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

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

Increases in valuations are matched by a credit to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

**Impairment**

An assessment is made at the year end to determine whether an asset may be impaired. If it may, and any possible differences are estimated to be material, the recoverable amount of the Property, Plant and Equipment is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, the accounting entries are as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated balance).

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

**Disposals and Non-current Assets Held for Sale**

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

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

Property, Plant and Equipment that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When Property, Plant and Equipment is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal, so netted off against the carrying value of the asset at the time of disposal. The written-off value of the disposal is appropriated to the Capital Adjustment Account in the Movement in Reserves Statement so as not to impact on Council Tax. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Receipts from disposal of Property, Plant and Equipment are categorised as Capital Receipts and credited to the Usable Capital Receipts Reserve to finance new capital investment.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment 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. Freehold land, assets with an estimated life in excess of 50 years and Assets Under Construction are not depreciated.

Annual depreciation is calculated on a straight line basis as valuation less residual value, divided by the estimated useful life of the asset. The useful lives of properties vary from 15 to 100 years; and that of vehicles, plant and equipment between 5 and 15 years. In rare cases, certain specialised equipment may be attributed a longer useful economic life.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

### 1.12 Donated Assets

Donated assets received by the Authority are recognised immediately on receipt at fair value as Property, Plant and Equipment. The opposite entry to this transaction (i.e. the gain to the Authority on receipt of the asset) is recognised as income in the relevant service line in the Comprehensive Income and Expenditure Statement. The Code notes that the exception to this is to the extent that the Authority might not meet the conditions attached to the donated asset. In such circumstances, the income relating to the assets will need to be recognised in the Donated Asset Account. The income will subsequently be recognised in the Comprehensive Income and Expenditure Statement when the Authority has satisfied the conditions of donation.

### 1.13 Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licences) is capitalised when it will bring benefits to the Authority for more than one financial year.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

### 1.14 Basis of Valuation of Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value and include uniforms, catering stock, smoke alarms, furniture stock, stationery, oil, diesel and vehicle spares.

The cost of inventories is assigned using the weighted average costing formula.

### 1.15 Accounting for Leases – Authority as Lessee

#### (a) Finance Leases

The Authority accounts for leases as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Authority.

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the asset (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.

- A finance charge (debited to Net Operations Expenditure in the Comprehensive Income and Expenditure Account as the rent becomes payable).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term, if this is shorter than the asset's estimated useful life.

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

**(b) Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the Comprehensive Income and Expenditure Account as an expense of the services benefiting from use of the leased assets. Charges are made on a straight-line basis over the term of the lease.

### 1.16 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SerCoP). The total absorption costing principle is used, where 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 multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCoP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 1.17 Private Finance Initiative (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value, based on the cost to purchase the Property, Plant and Equipment, is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

The annual amounts payable to the PFI operators are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge of 8.05% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### 1.18 Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For example, potential legal liabilities arising from claims.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service.

#### Provisions for Back Pay Arising from Unequal Pay Claims

The Authority has made a provision of £87,112 in 2011/12 for the costs of settling claims for back pay arising from a national settlement for Retained Duty System (RDS) staff who claimed to have been unfavourably treated in accordance with the Scheme of Conditions of Service – the Grey Book. The settlement applies to all RDS staff with service between 1 July 2010 and 30 June 2011 and is the full and final settlement in respect of any such claims.

**Contingent Liabilities**

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

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

**Contingent Assets**

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

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

### 1.19 Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

The Authority's Policy for reserves is that the Authority will:

- Set aside sufficient sums in Earmarked Reserves as it considers prudent to do so.
- Aim to maintain, broadly, General Reserves of between 7.5% and 10% of the Budget Requirement, currently between £2.2m and £3.0m respectively, with a maximum General Reserve of 15% of the Budget Requirement for the short to medium term.

Earmarked reserves relating to Pensions, Revenue Modernisation, Capital Modernisation, Resilience, Civil Resilience, Insurance, Replacement Mobilisation System and Community Safety were held as at 31 March 2012 together with a General Revenue Reserve.

### 1.20 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

### 1.21 VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### 1.22 Group Accounts

The Authority does not have any undertakings that are subject to the preparation of group accounts.

### 1.23 Council Tax Income

The Code requires that the Council Tax income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes a Collection Fund Adjustment Account to reflect the Collection Fund relationship between the Authority and Billing Authorities. The offset to this account is included in debtors/creditors. Debtor and creditor accounts are also included in the Balance Sheet to reflect the amounts due from Council Tax payers.

## 2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October 2010) by the Code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the Standard was 1 July 2011, but we are not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Authority.

## 3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 the Authority has had to make certain judgements about uncertainty of future events.

There is a high degree of uncertainty about future levels of funding for fire authorities. However, it has been determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of the need to reduce levels of service provision.

## 4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

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

### 4.1 Property, Plant and Equipment

**Uncertainty**

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

**Effect if actual results differ from assumptions**

If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.

It is estimated that the annual depreciation charge for buildings would increase by approximately £0.030m for every year that useful lives had to be reduced.

### 4.2 Pension Liability

**Uncertainty**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Actuaries are engaged to provide the Authority with expert advice about the assumptions to be applied.

**Effect if actual results differ from assumptions**

The effects of changes in individual assumptions on the total pension liability can be measured. Examples of how changes in assumptions would impact upon the Firefighters' pension liability are shown in the table below.

| Change in assumption * | Increase in Liability | |
|---|---|---|
| | % | £m |
| **Rate of return :** | | |
| in excess of earnings - reduction of 0.5% per annum | 2.5 | 6.365 |
| in excess of pensions – reduction of 0.5% per annum | 7.5 | 19.094 |
| **Pensioner mortality** | | |
| pensioners living (on average) 2 years longer | 4.0 | 10.183 |

* Opposite changes in assumptions would produce equal and opposite changes in the liability.

## 5 MOVEMENT IN RESERVES STATEMENT

### 5.1 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

| 2011/12 | USABLE RESERVES | | | |
|---|---|---|---|---|
| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 |

| | | | | |
|---|---|---|---|---|
| Charges for depreciation and impairment of non-current assets | -1,630 | | | 1,630 |
| Amortisation of Intangible Assets | -55 | | | 55 |
| Capital Grants and Contributions | 1,955 | | -95 | -1,860 |
| Revenue expenditure funded from capital under statute (REFCUS) (Income) | 21 | | -21 | |
| Revenue expenditure funded from capital under statute (REFCUS) (Income) | 11 | | | -11 |
| Revenue expenditure funded from capital under statute (REFCUS) (Expenditure) | -11 | | | 11 |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure | -58 | | | 58 |
| Transfer of cash proceeds credited as part of the gain on disposal to the Comprehensive Income & Expenditure Statement | | -76 | | 76 |
| Statutory provision for the financing of Capital Investment | 513 | | | -513 |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure | -19,540 | | | 19,540 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 3,380 | | | -3,380 |
| Adjustments by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements | -45 | | | 45 |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 17 | | | -17 |
| **Total Adjustments** | **-15,442** | **-76** | **-116** | **15,634** |

Comparatives for 2010/11 are as follows:

| **2010/11** | **USABLE RESERVES** | | | |
|---|---|---|---|---|
| | **General Fund Balance** | **Capital Receipts Reserve** | **Capital Grants Unapplied** | **Movement in Unusable Reserves** |

| | £000 | £000 | £000 | £000 |
|---|---|---|---|---|
| Charges for depreciation and impairment of non-current assets | -2,601 | | | 2,601 |
| Amortisation of Intangible Assets | -17 | | | 17 |
| Capital grants and contributions applied | 1,600 | | -19 | -1,581 |
| Revenue expenditure funded from capital under statute (REFCUS) (Income) | 73 | | | -73 |
| Revenue expenditure funded from capital under statute (REFCUS) (Income) | -430 | | 430 | |
| Revenue expenditure funded from capital under statute (REFCUS) (Expenditure) | -73 | | | 73 |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure | -11 | | | 11 |
| Transfer of cash proceeds credited as part of the gain on disposal to the Comprehensive Income & Expenditure Statement | | -24 | | 24 |
| Use of capital receipts reserve to finance new capital expenditure | | 24 | | -24 |
| Statutory provision for the financing of Capital Investment (MRP) | 472 | | | -472 |
| Capital expenditure charged against the General Fund (RCCO) | 269 | | | -269 |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure | 7,610 | | | -7,610 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 3,777 | | | -3,777 |
| Adjustments by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements | -51 | | | 51 |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 7 | | | -7 |
| **Total Adjustments** | **10,625** | **-** | **411** | **-11,036** |

## 6 COMPREHENSIVE INCOME AND EXPENDITURE

### 6.1 SERVICE REPORTING CODE OF PRACTICE

The statement has been compiled in accordance with the CIPFA Service Reporting Code of Practice 2011/12 (SerCoP), which establishes 'proper practice' with regard to consistent financial reporting. The SerCoP sets out the service expenditure analysis which local authorities are required to use to present their Net Cost of Services from 2011/12. SerCoP replaces the Best Value Code of Practice 2010/11 (BVACOP).

The Code seeks to provide a means for the aggregation of costs on a comparable total cost basis. Total cost includes appropriate shares of capital charges and overheads.

### 6.2 NON DISTRIBUTED COSTS – EXCEPTIONAL ITEM

The SerCoP treats pension costs, relating to past service, as non distributed costs.

In 2010/11, the negative past service costs of £28.110m were shown as an exceptional item. These were caused by basing annual pension increases on Consumer Price Index (CPI) rather than Retail Price Index (RPI). There are no exceptional items relating to negative past service costs in 2011/12.

### 6.3 LOSS ON THE DISPOSAL OF FIXED ASSETS

In accordance with the Code, any gain or loss on disposal of an asset is to be included in the Comprehensive Income and Expenditure Account. The gain or loss is shown as a reconciling item in the Movement in Reserves Statement. The loss shown in the Comprehensive Income and Expenditure Account for 2011/12 amounts to £0.058m.

### 6.4 CORPORATE AND DEMOCRATIC CORE

Corporate and Democratic Core comprises two elements – democratic representation and management (DRM) and Corporate Management (CM). DRM includes all aspects of member’s activities and officer input in the provision of advice and support. CM includes those activities that provide the infrastructure that allows services to be provided.

### 6.5 MEMBERS’ ALLOWANCES

Members’ allowances are paid under a scheme introduced by the Fire & Rescue Authority in December 2003. Expenses for conference and other non-routine meetings are also paid by the Fire and Rescue Authority.

The total amounts for allowances and expenses paid in relation to Members are as follows:

| | 2010/11 | 2011/12 |
|---|---|---|
| | **£000** | **£000** |
| Members’ Allowances Paid | 64 | 60 |

### 6.6 EMPLOYEE REMUNERATION

In accordance with the Accounts and Audit (England) Regulations 2011, disclosure is required for employees whose remuneration, excluding pension contributions, during the period exceeded £50,000.

Individual remuneration details are required for senior employees; in the case of County Durham and Darlington Fire and Rescue Authority, the senior employees are the Chief Executive and Directors. In accordance with the Regulations, senior employees are included by job title.

| 2011/12 | | | | | | |
|---|---|---|---|---|---|---|
| | **Salary (including fees & allowances)** | **Expense Allowances** | **Benefits in Kind (e.g. Car Allowances)** | **Total Remuneration excluding pension contributions** | **Pension contributions** | **Total Remuneration including pension contributions** |
| | **£** | **£** | **£** | **£** | **£** | **£** |
| Chief Executive – S. Johnson | 141,400 | - | 4,032 | 145,432 | 18,470 | 163,902 |
| Director of Community Safety* | 18,264 | 264 | 736 | 19,264 | 3,890 | 23,154 |
| Director of Community Protection | 105,904 | 136 | 4,765 | 110,805 | 21,411 | 132,216 |
| Director of Corporate Resources | 89,848 | - | 5,515 | 95,363 | 11,411 | 106,774 |
| | **355,416** | **400** | **15,048** | **370,864** | **55,182** | **426,046** |

*The Director of Community Safety retired in June 2011.

Comparative figures for 2010/11 are as follows:

| 2010/11 | | | | | | |
|---|---|---|---|---|---|---|
| | **Salary (including fees & allowances)** | **Expense Allowances** | **Benefits in Kind (e.g. Car Allowances)** | **Total Remuneration excluding pension contributions** | **Pension contributions** | **Total Remuneration including pension contributions** |
| | **£** | **£** | **£** | **£** | **£** | **£** |
| Chief Executive – S. Johnson | 164,986 | 3 | 4,032 | 169,021 | 29,747 | 198,768 |
| Director of Community Safety | 126,351 | 581 | 5,370 | 132,302 | 26,913 | 159,215 |
| Director of Organisational & People Development | 83,082 | 715 | 4,714 | 88,511 | 16,208 | 104,719 |
| Director of Corporate Resources | 92,091 | 0 | 4,246 | 96,337 | 17,753 | 114,090 |
| | **466,510** | **1,299** | **18,362** | **486,171** | **90,621** | **576,792** |

Other employees, whose remuneration is in excess of £50,000, are included within the bandings of £5,000.

| ***Remuneration Band*** | **Number of Employees** | |
|---|---|---|
| | **2010/11** | **2011/12** |
| £50,000-£54,999 | 3 | 10 |
| £55,000-£59,999 | 6 | 2 |

| | | |
|---|---|---|
| £60,000-£64,999 | 2 | 1 |
| £65,000-£69,999 | - | 1 |
| £70,000-£74,999 | - | - |
| £75,000-£79,999 | 1 | - |
| £80,000-£84,999 | - | - |
| £85,000-£89,999 | - | - |
| £90,000-£94,999 | - | - |
| £95,000-£99,999 | - | - |
| £100,000-£104,999 | - | - |
| £105,000-£109,999 | 1 | - |

**Please note**: payments within the 2011/12 salary bands include any redundancy costs paid in the 2011/12 financial year.

## 6.7 EXIT PACKAGES

The numbers and total cost of exit packages agreed in 2010/11 and 2011/12 are set out below:

| Exit Package cost band | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages agreed | | Total cost of exit packages agreed | |
|---|---|---|---|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 |
| £0-£20,000 | 4 | - | 6 | - | 10 | - | 70,996 | - |
| £20,001-£40,000 | - | - | 4 | - | 4 | - | 129,187 | - |
| £40,001-£60,000 | - | - | 5 | - | 5 | - | 246,346 | - |
| £60,001-£80,000 | - | - | - | - | - | - | - | - |
| £80,001-£100,000 | - | - | 1 | - | 1 | - | 83,191 | - |
| **Total** | **4** | **-** | **16** | **-** | **20** | **-** | **529,720** | **-** |

## 6.8 TERMINATION BENEFITS

The Authority made the decision to terminate the contracts of a number of employees in 2010/11. Payments in relation to the termination of these contracts have been made in 2010/11 and 2011/12. The value of the termination payments charged to services in 2010/11 was £495,052 and in 2011/12 was £44,262.

The table below analyses the payments made:

| | 2010/11 | 2011/12 |
|---|---|---|
| | £ | £ |
| Corporate Services | 300,841 | 24,357 |
| Organisational and People Development | 134,624 | 15,063 |
| Community Safety | 59,587 | 4,842 |
| | **495,052** | **44,262** |

## 6.9 EXTERNAL AUDIT FEES

The accounts of the Authority are audited by the Audit Commission. In accordance with the Code, authorities are required to disclose payment of fees. The fees payable to the Audit Commission for 2010/11 and 2011/12 are set out below:

| | 2010/11 | 2011/12 |
|---|---|---|

| | £000 | £000 |
|---|---|---|
| Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor | 65 | 60 |
| Fees payable to the Audit Commission for certification of grant claims | - | - |
| Fees payable in respect of other services provided by the appointed auditor | - | - |
| | **65** | **60** |

### 6.10 MINIMUM REVENUE PROVISION (MRP)

The Local Authorities Capital Finance and Accounting (England) (Amendment) Regulations 2011 requires the Authority to provide for an amount of MRP which it considers to be prudent. MRP has been prepared on the basis of 4% of the capital finance requirement at the end of the preceding year.

The MRP relating to the Private Finance Initiative scheme and finance leases has been calculated as a sum equivalent to the principal repayment of the outstanding liability.

### 6.11 OPERATING LEASES

The Authority has acquired a fleet of cars by entering into operating leases with typical lives of 3 years.

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

| | 31 March 2011 £000 | 31 March 2012 £000 |
|---|---|---|
| Within one year | 93 | 125 |
| Later than one year and not later than five years | 56 | 156 |
| Later than 5 years | - | - |
| | **149** | **281** |

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £204,574 (2010/11: £160,330).

### 6.12 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the SerCoP.

The Code recommends that, where appropriate, “segmental” reporting information is detailed. Reporting segments are those used by resource decision makers when determining budgets and financial control. With regard to County Durham and Darlington Fire and Rescue Authority, as the costs relate to one major type of service expenditure, segmental reporting is not identified.

### 6.13 REGIONAL MANAGEMENT BOARD (RMB)

County Durham and Darlington Fire and Rescue Authority was previously a member of the North East Fire and Rescue Regional Management Board; a joint committee which was created to take forward the regional dimension of the fire and rescue modernisation agenda. The other authorities comprising the RMB were Cleveland Fire and Rescue Authority, Northumberland County Council Fire and Rescue Service, and Tyne and Wear Fire and Rescue Authority. The accounts of the RMB were administered by Cleveland Fire and Rescue Authority. All expenditure incurred by the RMB was fully met by contributions from the four constituent authorities.

During 2010/11 the RMB was dissolved and the balance held by the RMB was distributed to the four constituent Fire Authorities.

County Durham and Darlington's contributions and receipts for 2010/11 and 2011/12 were:

| | 2010/11 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Contributions | - | - |
| Receipts | -23 | - |
| | -23 | - |

### 6.14 GRANT INCOME

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

| | 2010/11 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| Private Finance Initiative | 989 | 1,130 |

| | | |
|---|---|---|
| Home Office | 500 | - |
| DCLG | - | 1,378 |
| **Credited to Services** | **1,489** | **2,509** |
| Revenue Support Grant | 1,842 | 3,105 |
| National Non-Domestic Rates | 12,687 | 10,044 |
| Council Tax Freeze Grant | - | 417 |
| Donated Assets | 812 | - |
| Capital Grants | 788 | 1,955 |
| **Credited to Taxation and Non-Specific Grant Income** | **16,129** | **15,521** |
| **Total Grant Income** | **17,618** | **19,672** |

## 6.15 RELATED PARTIES

The Authority is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence or be controlled/ influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority may have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. Transactions should be disclosed where material to either the organisation or individual with whom the transaction has been incurred.

### Central Government

Central Government has effective control over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties. Grants received from Government Departments are included within the Comprehensive Income & Expenditure Statement. An analysis of Government grants is shown above in Note 6.14.

### Members

Members of the Authority have direct control over the Authority's financial and operating policies. Details of transactions relating to members' interests are recorded in the Register of Members' Interest which is accessible on the Authority's website. Following a review of the register and the Related Party Transactions Declarations, it was established that there were no material related party transactions involving members.

The total of members' allowances paid in 2011/12 is shown in Note 6.5 above.

A number of Members of the Authority are also Members of Durham County Council and Darlington Borough Council. It is not considered that there have been any material transactions that could have been affected by this relationship.

### Officers

Colette Longbottom, Clerk to the Authority during 2011/12, is also Head of Legal and Democratic Services for Durham County Council.

Jeff Garfoot. Treasurer of the Authority until October 2011, is also Head of Finance for Durham County Council.

There were no related party transactions involving chief officers.

**Other Public Bodies**

Durham County Council administers the Durham County Council Pension Fund of which the Authority is a member.

Formal agreements are in place between the Authority and Durham County Council for the provision of legal services, financial services, technical services and occupational health provision. The agreements are signed by both parties and regularly reviewed by the Authority's Director of Corporate Services. The value of these agreements is £0.366m

The Authority obtains part of its income from precepts levied on the collection authorities in its area. During the year, transactions with related parties, excluding those disclosed elsewhere in the accounts, were as follows:

| | **Receipts** | |
|---|---|---|
| | **Precepts 2010/11** | **Precepts 2011/12** |
| | **£000** | **£000** |
| Durham County Council | 13,756 | 13,673 |
| Darlington Borough Council | 2,999 | 3,041 |
| | **16,755** | **16,714** |

At 31 March 2012, the Authority owes Durham County Council £0.636m relating to amounts due from Council Tax Payers.

In addition £0.464m is due to the Authority from Durham County Council relating to VAT claimed on the Authority's behalf.

At 31 March 2012, the Authority owes Darlington Borough Council £0.345m in respect of the Collection Fund and amounts due from Council Tax Payers.

**North East Fire Control Company**

The North East Fire Control Company Limited (NEFCC) was incorporated on 24 January 2007 as a private company limited by guarantee, with its principal activity being the operation of a fire control centre for the North East region. The members of the company are Cleveland Fire Authority, Northumberland County Council, Tyne and Wear Fire and Rescue Authority and County Durham and Darlington Fire and Rescue Authority. Cleveland Fire Authority acts as the lead authority on this project.

Following a government decision to terminate the national Fire Control Project in 2010, steps are being taken to wind up the NEFCC.

## 7 BALANCE SHEET

### 7.1 PROPERTY, PLANT AND EQUIPMENT

The following movements in fixed assets took place:

### 7.1a OPERATIONAL ASSETS

| | Property, Plant & Equipment | | | |
|---|---|---|---|---|
| | Vehicles, Plant & Equipment | Land & Buildings | Surplus Assets | Total |

| | £000 | £000 | £000 | £000 |
|---|---|---|---|---|
| **Cost or Valuation** | | | | |
| At 1 April 2011 | 11,997 | 24,571 | 350 | 36,918 |
| Additions | 1,039 | 243 | - | 1,282 |
| Derecognition - Disposals / Demolitions | -2,238 | - | - | -2,238 |
| Assets reclassified as held for sale | - | - | -350 | -350 |
| Revaluation increases recognised in the Surplus on the Provision of Services | - | 59 | - | 59 |
| Revaluation decreases recognised in the Surplus on the Provision of Services | - | - | - | - |
| Revaluation increases recognised in the Revaluation Reserve | - | - | - | - |
| Revaluation decreases recognised in the Revaluation Reserve | - | - | - | - |
| At 31 March 2012 | **10,798** | **24,873** | **-** | **35,671** |
| **Depreciation and Impairments** | | | | |
| At 1 April 2011 | -5,872 | -941 | - | -6,813 |
| Charge for 2011/12 | -921 | -770 | - | -1,691 |
| Derecognition - Disposals / Demolitions | 1,900 | - | - | 1,900 |
| Depreciation written out to the Revaluation Reserve | - | - | - | - |
| Impairment | - | - | - | - |
| Impairment losses recognised in the Surplus on the Provision of Services | - | - | - | - |
| Impairment losses recognised in the Revaluation Reserve | - | -51 | - | -51 |
| At 31 March 2012 | **-4,893** | **-1,762** | **-** | **-6,655** |
| **Balance Sheet amount at 31 March 2012** | **5,905** | **23,111** | **-** | **29,016** |
| **Balance Sheet amount at 01 April 2011** | **6,125*** | **23,630** | **350** | **30,105** |

There are no assets held on Finance Leases by the Authority at 31 March 2012.

Comparatives for 2010/11 are as follows:

| | **Property, Plant & Equipment** | | | |
|---|---|---|---|---|
| | **Vehicles, Plant & Equipment** | **Land & Buildings** | **Surplus Assets** | **Total** |
| | **£000** | **£000** | **£000** | **£000** |
| **Cost or Valuation** | | | | |
| At 1 April 2011 | 10,737 | 17,320 | - | 28,057 |
| Additions | 1,470 | 9.039 | - | 10,509 |
| Derecognition - Disposals / Demolitions | -693 | -901 | - | -1,594 |
| Assets reclassified as held for sale | 483 | -244 | 350 | 589 |
| Revaluation increases recognised in the Surplus on the Provision of | - | 230 | - | 230 |

| | | | | |
|---|---|---|---|---|
| Services | | | | |
| Revaluation decreases recognised in the Surplus on the Provision of Services | - | -603 | - | -603 |
| Revaluation increases recognised in the Revaluation Reserve | - | 44 | - | 44 |
| Revaluation decreases recognised in the Revaluation Reserve | - | -314 | - | -314 |
| At 31 March 2011 | **11,997** | **24,571** | **350** | **36,918** |
| **Depreciation and Impairments** | | | | |
| At 1 April 2010 | -5,620 | -176 | - | -5,796 |
| Charge for 2010/11 | -909 | -794 | - | -1,703 |
| Derecognition - Disposals / Demolitions | 657 | 901 | - | 1,558 |
| Depreciation written out to the Revaluation Reserve | - | 7 | - | 7 |
| Impairment | - | -8 | - | -8 |
| Impairment losses recognised in the Surplus on the Provision of Services | - | -466 | - | -466 |
| Impairment losses recognised in the Revaluation Reserve | - | -405 | - | -405 |
| At 31 March 2011 | **-5,872** | **-941** | **-** | **-6,813** |
| **Balance Sheet amount at 31 March 2011** | **6,125*** | **23,630** | **350** | **30,105** |
| **Balance Sheet amount at 01 April 2010** | **5,117** | **17,144** | **-** | **22,261** |

*£0.378m of the £6.125m relates to Finance Leases

All valuations of buildings are undertaken by or under the supervision of a fully qualified Chartered Surveyor, who is an employee of a related party, Durham County Council. Fixed asset revaluations are undertaken once every five years. The most recent interim review of Land and Buildings is effective from 1 April 2011. These values have been used to determine the 31 March 2012 valuations.

### 7.1b NON-OPERATIONAL ASSETS

| | **Non-Operational Assets** | |
|---|---|---|
| | **Assets Under Construction** | **Total** |
| | **£000** | **£000** |
| **Cost or valuation** | | |
| At 1 April 2011 | 54 | 54 |
| Additions | 482 | 482 |
| Disposals | - | - |
| Reclassifications | - | - |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | - | - |
| Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services | - | - |

| | | |
|---|---|---|
| At 31 March 2012 | **536** | **536** |
| **Depreciation and impairments** | | |
| At 1 April 2011 | - | - |
| Charge for 2011/12 | - | - |
| Disposals | - | - |
| Reclassifications | - | - |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | - | - |
| At 31 March 2012 | **-** | **-** |
| **Balance Sheet amount at 31 March 2012** | **536** | **536** |
| **Balance Sheet amount at 01 April 2011** | **54** | **54** |

Comparatives for 2010/11 are as follows:

| | Non-Operational Assets | |
|---|---|---|
| | **Assets Under Construction** | **Total** |
| | **£000** | **£000** |
| **Cost or valuation** | | |
| At 1 April 2010 | 648 | 648 |
| Additions | 54 | 54 |
| Disposals | - | - |
| Reclassifications | -589 | -589 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | - | - |
| Revaluation decreases recognised in the Surplus / Deficit on the Provision of Services | -59 | -59 |
| At 31 March 2011 | **54** | **54** |
| **Depreciation and impairments** | | |
| At 1 April 2010 | - | - |
| Charge for 2010/11 | - | - |
| Disposals | - | - |
| Reclassifications | - | - |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | - | - |
| At 31 March 2011 | **-** | **-** |
| **Balance Sheet amount at 31 March 2011** | **54** | **54** |
| **Balance Sheet amount at 01 April 2010** | **648** | **648** |

### 7.1c INTANGIBLE FIXED ASSETS

Intangible assets are assets that continue to provide an economic benefit to the Authority but which do not have physical form.

The following shows the movement on intangible fixed assets during the year:

| | **£000** |
|---|---|
| **Original Cost** | 167 |
| Amortisations to 31 March 2011 | -43 |
| **Balance at 1 April 2011** | **124** |
| Expenditure in year | 96 |
| Amortisation during year | -55 |
| **Balance at 31 March 2012** | **165** |

Comparatives for 2010-11 are as follows:

| | £000 |
|---|---|
| **Original Cost** | 84 |
| Amortisations to 31 March 2010 | -26 |
| **Balance at 1 April 2010** | **58** |
| Expenditure in year | 83 |
| Amortisation during year | -17 |
| **Balance at 31 March 2011** | **124** |

### 7.2 SOURCES OF FUNDS TO MEET CAPITAL EXPENDITURE AND OTHER PLANS

Resources and borrowing estimated to arise in future years will be used to finance the Authority's approved three year capital programme which is subject to a rolling review.

### 7.3 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it.

The capital financing requirement represents that part of the value of fixed assets that is to be met from external borrowing and capital cash overdrawn.

The requirement has decreased by £0.513m from £10.717m to £10.204m as follows:

| | 2010/11 | 2011/12 |
|---|---|---|
| | **£000** | **£000** |
| **Opening Capital Financing Requirement** | **2,417** | **10,717** |
| **Capital Investment** | | |
| Property, Plant & Equipment | 9,698 | 1,282 |
| Non-Operational Assets | 54 | 483 |
| Intangible Assets | 83 | 96 |
| Donated Asset | 812 | - |
| Revenue Expenditure Funded from Capital Under Statute | 502 | 11 |
| **Sources of Finance** | | |
| Capital Receipts | -24 | - |
| Government Grants and Contributions | -2,084 | -1,871 |

| | | |
|---|---|---|
| Minimum Revenue Provision | -97 | -93 |
| Minimum Revenue Provision – PFI | -228 | -268 |
| Minimum Revenue Provision – Finance Lease | -147 | -153 |
| Direct Revenue Provision | -269 | - |
| **Closing Capital Financing Requirement** | **10,717** | **10,204** |
| | | |
| **Explanation of movements in the year** | | |
| Reduction in underlying need to borrow (supported by Government financial assistance) | -471 | -513 |
| Increase in underlying need to borrow (unsupported by Government financial assistance) | - | - |
| Assets acquired under PFI contracts | 8,771 | - |
| **Increase/decrease (-) in Capital Financing Requirement** | **-8,300** | **-513** |

## 7.4 CAPITAL COMMITMENTS

There are no capital contractual commitments as at 31 March 2012.

## 7.5 INFORMATION ON ASSETS HELD

Details concerning assets held by the Fire and Rescue Authority are shown below:

| Asset Type | Number as at 31 March 2011 | Number as at 31 March 2012 |
|---|---|---|
| Headquarters | 1 | 1 |
| Fire Stations | 16* | 16* |
| Vehicles | 134 | 114 |

* including one Fire Station declared surplus (Spennymoor)

## 7.6 ASSETS HELD FOR SALE

| | Non Current | |
|---|---|---|
| | 2010/11 | 2011/12 |
| | £000 | £000 |
| **Balance outstanding at start of year** | **-** | **-** |
| Assets newly classified as held for sale: | | |
| Property, Plant & Equipment | - | 350 |
| Revaluation Gains | - | 84 |
| **Balance outstanding at end of year** | **-** | **434** |

## 7.7 INVENTORIES

| | Transport | Stores | Total |
|---|---|---|---|
| | 2011/12 | 2011/12 | 2011/12 |

| | | | |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Balance outstanding at 1 April | 71 | 299 | 370 |
| Purchases | 26 | 742 | 768 |
| Recognised as an expenses in the year | -9 | -635 | -644 |
| Provision for obsolete stock | - | -76 | -76 |
| **Balance outstanding at 31 March** | **88** | **330** | **418** |

Comparatives for 2010/11 are as follows:

| | **Transport** | **Stores** | **Total** |
|---|---|---|---|
| | **2010/11** | **2010/11** | **2010/11** |
| | **£000** | **£000** | **£000** |
| Balance outstanding at 1 April | 61 | 276 | 337 |
| Purchases | 33 | 411 | 444 |
| Recognised as an expenses in the year | -23 | -388 | -411 |
| Provision for obsolete stock | - | - | - |
| **Balance outstanding at 31 March** | **71** | **299** | **370** |

### 7.8 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

### Financial Instruments Balances

The carrying amount of financial instruments is shown below:

| | **31 March 2011** | | **31 March 2012** | |
|---|---|---|---|---|
| | **Long-term £000** | **Current £000** | **Long-term £000** | **Current £000** |
| **Financial Liabilities at amortised cost** | | | | |
| PWLB Borrowing | 1,548 | 142 | 1,410 | 148 |
| Bank Overdraft | - | 1 | - | 195 |
| Trade Creditors | - | 819 | - | 619 |
| Other Creditors | - | 1,424 | - | 1,301 |
| Finance Leases | 287 | 153 | - | - |
| Private Finance Initiative | 8,275 | 268 | 7,984 | 291 |
| **Total Borrowing** | **10,110** | **2,807** | **9,394** | **2,554** |

| | | | | |
|---|---|---|---|---|
| **Loans and Receivables at amortised cost** | | | | |
| Short Term Deposits | - | 10,333 | - | 12,085 |
| Bank Deposits | | 26 | | 23 |
| Long Term Debtors | 1 | - | 1 | - |
| Trade Debtors | - | 221 | - | 398 |
| Other Debtors | - | 189 | - | 457 |
| **Total Investments** | **1** | **10,769** | **1** | **12,963** |

**Fair Value of Assets and Liabilities carried at Amortised Cost.**

| | 31 March 2011 | | 31 March 2012 | |
|---|---|---|---|---|
| | **Carrying Amount £000** | **Fair Value £000** | **Carrying Amount £000** | **Fair Value £000** |
| **Financial Assets** | | | | |
| Short Term Deposits | 10,333 | 10,333 | 12,085 | 12,085 |
| Bank Deposits | 26 | 26 | 23 | 23 |
| Long Term Debtors | 1 | 1 | 1 | 1 |
| Trade Debtors | 221 | 221 | 398 | 398 |
| Other Debtors | 189 | 189 | 457 | 457 |
| | **10,770** | **10,770** | **12,964** | **12,964** |
| **Financial Liabilities (current & long term)** | | | | |
| PWLB Borrowing | 1,690 | 1,849 | 1,558 | 1,833 |
| Bank Overdraft | 1 | 1 | 195 | 195 |
| Trade Creditors | 819 | 819 | 619 | 619 |
| Other Creditors | 1,424 | 1,424 | 1,301 | 1,301 |
| Finance Leases | 440 | 440 | - | - |
| Private Finance Initiative | 8,543 | 8,543 | 8,275 | 8,275 |
| | **12,917** | **13,076** | **11,948** | **12,223** |

Financial assets and liabilities represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the Public Works Loans Board (PWLB), premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the actual principal outstanding or the invoiced or billed amount.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

**Financial Instruments Gains and Losses**

The gains and losses recognised in the 2011/12 Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

| 2011/12 | Financial Liabilities measured at Amortised Cost | Financial Assets Loans and Receivables |
|---|---|---|

| | £000 | £000 |
|---|---|---|
| Interest expense | 823 | - |
| Interest income | - | -78 |
| Net gain(-)/loss for the year | **745** | |

Comparative figures as at 31 March 2011 are as follows:-

| **2010/11** | **Financial Liabilities measured at Amortised Cost** | **Financial Assets Loans and Receivables** |
|---|---|---|
| | **£000** | **£000** |
| Interest expense | 717 | - |
| Interest income | - | -78 |
| Net gain(-)/loss for the year | **639** | |

**Nature and Extent of Risks Arising from Financial Instruments**

The Authority’s activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority.
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates.

The Authority’s overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Authority to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice;
- By approving annually in advance prudential indicators for the following three years limiting:
  - The Authority’s overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Authority’s annual Council Tax setting budget. These items are reported with the annual Treasury Management Strategy that outlines the detailed approach to managing risk in relation to the Authority’s financial instrument exposure. Actual performance is also reported annually to Members.

The Treasurer is responsible for implementing the policies outlined above. The Authority maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

**(a) Credit Risk**

Credit risk arises from deposits with banks and financial institutions as well as credit exposures to the Authority's customers. Deposits are not made to banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. The Authority has a policy of not lending more than £3m in one institution. Customers are assessed on their financial position, past experience and other factors.

**(b) Liquidity Risk**

The Authority has a comprehensive cash flow management system which ensures cash is available as needed. As the Authority has ready access to borrowings from the PWLB, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The table in note 7.9 analyses the scheduled repayments of long term borrowings over time.

**(c) Market Risk**

The Authority has a number of strategies for managing interest rate risk. The Authority's policy is to aim to keep a maximum of 50% of its borrowing in variable rate loans. During periods of falling interest rates, fixed rate loans could be repaid early to limit exposure to losses. Any further reduction in interest rates would have a negligible impact on the interest earned on the Authority's investments.

## 7.9 DEFERRED LIABILITIES

The carrying amount of deferred liabilities is shown below:

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | **£000** | **£000** |
| Debt | 1,548 | 1,410 |
| Private Finance Initiative (PFI) | 8,275 | 7,984 |
| Finance Leases | 287 | - |
| | **10,110** | **9,394** |

**Deferred Liability – Debt**

The balance relates to long-term borrowings from the PWLB, further analysed as follows:

| | 31 March 2011 | 31 March 2012 |
|---|---|---|

| | £000 | £000 |
|---|---|---|
| Long-term Borrowings | | |
| Repayable within 1 – 2 years | 138 | 145 |
| Repayable within 2 – 5 years | 598 | 494 |
| Repayable within 5 – 10 years | 84 | 448 |
| Repayable over 10 years | 728 | 323 |
| | **1,548** | **1,410** |

### 7.10 FINANCE LEASES

The Authority used a number of vehicles financed under the terms of finance leases. During 2011/12, the Authority terminated the finance leases.

The minimum lease payments are made up of the following amounts:

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | £000 | £000 |
| Finance lease liabilities (Net Present Value of minimum lease payments) | | |
| Current | 153 | - |
| Non Current | 287 | - |
| Finance costs payable in future years | 41 | - |
| Minimum lease payments | **481** | **-** |

The minimum lease payments were payable over the following periods.

| | Minimum Lease Payments | | Finance Lease Liability | |
|---|---|---|---|---|
| | 31 March 2011 | 31 March 2012 | 31 March 2011 | 31 March 2012 |
| | £000 | £000 | £000 | £000 |
| Within one year | 169 | - | 153 | - |
| Later than one year and not later than five years | 297 | - | 273 | - |
| Later than five years | 15 | - | 14 | - |
| | **481** | **-** | **440** | **-** |

### 7.11 PRIVATE FINANCE INTIATIVE (PFI) SCHEME

Two new community fire stations, which are being financed by a Private Finance Initiative (PFI) Scheme, became operational during 2010/11. The stations at Bishop Auckland and Spennymoor became operational on 24 May 2010 and 1 June 2010 respectively.

The PFI contract is for the design, construction and finance of the stations and their maintenance for 25 years after commencement of operations. At the end of this period the contractor is required to transfer the buildings to the Authority in a good state of repair and at nil cost.

In return for providing the buildings the contractor receives monthly payments from the Authority and the Government provides a specific grant over the life of the scheme.

The Authority's balance sheet includes both assets and liabilities arising from the contract.

**The value of PFI assets at 31 March 2012**

The Fire Stations were initially valued on the basis of the capital expenditure provided for by the contractor in pricing the contract. Subsequently the stations were revalued on the basis of depreciated replacement cost as an estimate of fair value, and these values are included in the Authority's Balance Sheet. The new valuations are being depreciated on a straight line basis over 50 years.

Movements in the values in 2011/12 are summarised below:

| | **Bishop Auckland £000** | **Spennymoor £000** | **Total £000** |
|---|---|---|---|
| Initial value of assets financed by contractor | 4,638 | 4,133 | 8,771 |
| Less: Impairment upon revaluation | -507 | -2 | -509 |
| Less: Accumulated Depreciation | -70 | -69 | -139 |
| **Gross Book Value after impairment** | **4,061** | **4,062** | **8,123** |
| Less: 2011/12 Depreciation | -83 | -82 | -165 |
| **Net Book Value at 31 March 2012** | **3,978** | **3,980** | **7,958** |

Comparatives for 2010/11 are as follows:

| | **Bishop Auckland £000** | **Spennymoor £000** | **Total £000** |
|---|---|---|---|
| Initial value of assets financed by contractor | 4,638 | 4,133 | 8,771 |
| Less: Impairment upon revaluation | -507 | -2 | -509 |
| **Gross Book Value after impairment** | **4,131** | **4,131** | **8,262** |
| Less: 2010/11 Depreciation | -70 | -69 | -139 |
| **Net Book Value at 31 March 2011** | **4,061** | **4,062** | **8,123** |

**The value of liabilities at 31 March 2012**

The assets included in the balance sheet are offset by a liability equal to the initial value of the assets (the capital expenditure provided for by the contractor in pricing the contract). This liability is written down over the life of the contract by charging part of the annual payments to the contractor against the liability.

Movements in the values in 2011/12 are summarised below:

| | £000<br>2010/11 | £000<br>2011/12 |
|---|---|---|
| Liability outstanding at 1 April | 8,771 | 8,543 |
| Less: Value of liability written down | -228 | -268 |
| **Liability outstanding at 31 March** | **8,543** | **8,275** |

**Estimates of future payments due:**

| Period | Repayment Liability | Interest | Contingent Rent | Service Charges | Lifecycle Replacemen t |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| 2012/13 | 292 | 682 | 16 | 435 | - |
| 2013/14 to 2016/17 | 1,262 | 2,475 | 63 | 1,519 | 436 |
| 2017/18 to 2021/22 | 1,532 | 2,509 | -84 | 2,201 | 1,119 |
| 2022/23 to 2026/27 | 1,542 | 1,896 | -424 | 2,595 | 1,653 |
| 2027/28 to 2031/32 | 1,926 | 1,197 | -814 | 3,063 | 1,892 |
| 2032/33 to 2035/36 | 1,721 | 304 | -567 | 2,253 | 1,039 |
| **Total** | **8,275** | **9,063** | **-1,810** | **12,066** | **6,139** |

Contract payments are partially linked to inflation as measured by the RPI index. These estimates assume that after 2012/13 RPI increases at 2.5% a year for the remainder of the contract.

### 7.12 DEBTORS

These are sums of money due to the Authority but unpaid as at 31 March 2012. The Authority seeks to recover sums due to it as soon as possible and actively pursues outstanding accounts rendered upon debtors.

Debtors have been reviewed for impairment and the provision for doubtful debts reflects any uncertainty about amounts receivable.

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | £000 | £000 |
| **Amounts falling due within one year:** | | |
| **Debtors** | | |
| Government Departments | - | 282 |

| | | |
|---|---|---|
| Other Local Authorities | 240 | 467 |
| Other Debtors | 1,903 | 3,588 |
| **Payments in Advance** | - | 218 |
| **Provision for Doubtful Debts** | -3 | -26 |
| | **2,140** | **4,529** |
| **Amounts falling due after one year:** | 1 | 1 |
| | **2,141** | **4,530** |

## 7.13 CREDITORS

These are amounts owed by the Authority for works done, goods received or services rendered which have not been paid for as at 31 March 2012.

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | **£000** | **£000** |
| **Creditors** | | |
| Government Departments | 553 | 452 |
| Other Local Authorities | 996 | 1,239 |
| Other Creditors | 2,002 | 1,904 |
| **Receipts in Advance** | 475 | 329 |
| | **4,026** | **3,924** |
| **Short-term Borrowing** | 142 | 148 |
| | **4,168** | **4,072** |

The accrued interest relating to short term borrowing, included above, is £10,222 as at 31 March 2012 (£11,108 as at 31 March 2011).

## 7.14 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | **£000** | **£000** |
| Cash held by the Authority | 26 | 23 |
| Bank current accounts | -1 | -195 |
| Short term deposits with banks and building societies | 10,333 | 12,085 |
| **Total Cash and Cash Equivalents** | **10,358** | **11,913** |

During the year information is provided to the Authority regarding short term deposits. In accordance with the Authority's adopted Treasury Policy Statement, the Authority is informed of transactions made with UK clearing banks and major building societies.

The accrued interest relating to short term deposits included in the figure above amounts to £1,777 as at 31 March 2012 (£3,243 as at 31 March 2011).

### 7.15 PROVISIONS

**Insurance Provision**

An insurance provision has been established to meet the identified potential cost to the Authority of insurance policy excesses for claims of negligence from employees for personal injury sustained during the course of their employment, and from third parties for personal injury or damage to their property. This provision is based on the Insurance Company's estimates of outstanding claims and settlement of the claims is likely to be spread over a number of years.

**Movement in the Provision**

| | 31 March 2011 | 31 March 2012 |
|---|---|---|
| | **£000** | **£000** |
| Balance at 1 April | 6 | 6 |
| Increase/decrease (-) during the year | - | -3 |
| Balance at 31 March | **6** | **3** |

### 7.16 RESERVES

The Authority keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practices, and others have been set up voluntarily to earmark resources for future spending plans.

The movement in reserves is set out in the following table:

| Reserve | Balance 1 April 2011 | Net Movement in Year | Balance 31 March 2012 | Purpose of Reserve | Further details of Movement |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | | |
| **Usable Reserves** | | | | | |
| General Fund | 3,000 | - | 3,000 | Resources available to meet future running costs | Movement in Reserves Statement |
| Earmarked Reserves | 6,889 | 3,926 | 10,815 | Detailed below | Note 7.17 to the accounts |
| Capital Grants Unapplied | 32 | 116 | 148 | Grants to be used to finance capital | Movement in Reserves |

| | | | | | |
|---|---|---|---|---|---|
| | | | | expenditure in future years | Statement |
| Capital Receipts Unapplied | - | 76 | 76 | Receipts from the sale of capital assets to be used to finance capital expenditure in future years | Movement in Reserves Statement |
| **Total Usable Reserves** | **9,921** | **4,118** | **14,039** | | |
| **Unusable Reserves** | | | | | |
| Revaluation Reserve | 2,290 | -97 | 2,193 | Gains on revaluation of fixed assets not yet realised through sales | Note 7.19 to the accounts |
| Capital Adjustment Account | 16,690 | 681 | 17,371 | Capital resources set aside to meet capital expenditure | Note 7.19 to the accounts |
| Collection Fund Adjustment Account | 12 | -44 | -32 | Share of Collection Fund Balance outstanding | Note 1 to the accounts |
| Pensions Reserve (IAS19) | -240,020 | -22,430 | -262,450 | Balancing account to allow inclusion of Pensions Liability in the Balance Sheet | Note 7.22 to the accounts |
| Short-term Accumulating Absences | -45 | 17 | -28 | Balancing account to allow inclusion of employees liability in the balance sheet | Note 1 to the accounts |
| **Total Unusable Reserves** | **-221,073** | **-21,873** | **-242,946** | | |
| **Total Reserves** | **-211,152** | **-17,755** | **-228,907** | | |

Comparatives for 2010/11 are as follows:

| Reserve | Balance 1 April 2010 | Net Movement in Year | Balance 31 March 2011 | Purpose of Reserve | Further details of Movement |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | | |
| **Usable Reserves** | | | | | |
| General Fund | 3,000 | - | 3,000 | Resources available to meet future running costs | Movement in Reserves Statement |
| Earmarked Reserves | 4,658 | 2,231 | 6,889 | Detailed below | Note 7.17 to the accounts |
| Capital Grants Unapplied | 443 | -411 | 32 | Grants to be used to finance capital | Movement in Reserves |

| | | | | | |
|---|---|---|---|---|---|
| | | | | expenditure in future years | Statement |
| **Total Usable Reserves** | **8,101** | **1,820** | **9,921** | | |
| **Unusable Reserves** | | | | | |
| Revaluation Reserve | 3,119 | -829 | 2,290 | Gains on revaluation of fixed assets not yet realised through sales | Note 7.19 to the accounts |
| Capital Adjustment Account | 16,843 | -153 | 16,690 | Capital resources set aside to meet capital expenditure | Note 7.19 to the accounts |
| Collection Fund Adjustment Account | 64 | -52 | 12 | Share of Collection Fund Balance outstanding | Note 1 to the accounts |
| Pensions Reserve (IAS19) | -261,907 | -21,887 | -240,020 | Balancing account to allow inclusion of Pensions Liability in the Balance Sheet | Note 7.22 to the accounts |
| Short-term Accumulating Absences | -52 | 7 | -45 | Balancing account to allow inclusion of employees liability in the balance sheet | Note 1 to the accounts |
| **Total Unusable Reserves** | **-241,933** | **-20,860** | **-221,073** | | |
| **Total Reserves** | **-233,832** | **-22,680** | **-211,152** | | |

### 7.17 MOVEMENT IN EARMARKED RESERVES

The following contributions have been made to / from (-) the earmarked reserves:

| | **01 April 2011** | **Increase / decrease (-) in year** | **31 March 2012** |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Pensions | 309 | 191 | 500 |
| Revenue Modernisation | 760 | 240 | 1,000 |
| Capital Modernisation | 5,406 | 1,392 | 6,798 |
| Community Safety | 414 | - | 414 |
| Insurance | - | 100 | 100 |
| New Dimensions | - | 103 | 103 |
| Replacement Mobilisation | - | 1,800 | 1,800 |

| | | | |
|---|---|---|---|
| System Resilience | - | 100 | 100 |
| Total | 6,889 | 3,926 | 10,815 |

Comparatives for 2010/11 are as follows:

| | 01 April 2010 | Increase / decrease (-) in year | 01 April 2011 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Pensions | 309 | - | 309 |
| Revenue Modernisation | 760 | - | 760 |
| Capital Modernisation | 3,175 | 2,231 | 5,406 |
| Community Safety | 414 | - | 414 |
| Insurance | - | - | - |
| New Dimensions | - | - | - |
| Replacement Mobilisation System | - | - | - |
| Resilience | - | - | - |
| Total | 4,658 | 2,231 | 6,889 |

### 7.18 EARMARKED RESERVES

Earmarked reserves at 31 March 2012 were as follows:

**Pensions Reserve**
To meet any unforeseen pension costs which may arise as a result of national changes to pension schemes.

**Revenue Modernisation Reserve**
To meet any one-off costs associated with service transformation.

**Capital Modernisation Reserve**
To fund capital expenditure in respect of the Estates Improvement Programme, thus avoiding the need to borrow in future years.

**Community Safety Reserve**
To enable specific community safety improvements to be undertaken.

**Insurance**
To meet any unexpected increase in the level of excesses paid on insurance claims.

**New Dimensions Reserve**
To meet the cost of training and maintaining competence in the operation of New Dimensions assets. The reserve is established from unspent grant, earmarked for Civil Resilience expenditure.

**Replacement Mobilisation System Reserve**
The balance of unspent grant, earmarked to fund the replacement mobilisation system.

**Resilience Reserve**

To fund continuity of service provision, following an unforeseen event.

### 7.19 REVALUATION RESERVE AND CAPITAL ADJUSTMENT ACCOUNT

The fundamental principle of capital accounting is that accounting for fixed assets is separated from accounting for their financing.
There are two reserves that help to manage this separation:

- The Revaluation Reserve – records unrealised revaluation gains arising (since 1 April 2007) from holding fixed assets.

- The Capital Adjustment Account – provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system.

These reserves are matched by fixed assets within the Balance Sheet and they are not resources available to the Authority.

#### (i) REVALUATION RESERVE

| | **2010/11** | **2011/12** |
|---|---|---|
| | **£000** | **£000** |
| Opening Balance at 1 April | **3,119** | **2,290** |
| Revaluation gains/losses | -675 | 32 |
| Excess of current cost depreciation | -154 | -129 |
| Balance written off on disposal of asset | - | - |
| Closing Balance at 31 March | **2,290** | **2,193** |

#### (ii) CAPITAL ADJUSTMENT ACCOUNT

| | 2010/11 | | 2011/12 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Opening Balance at 1 April** | | **-16,843** | | **-16,690** |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Charges for depreciation and impairment of non-current assets | 2,602 | | 1,630 | |
| Amortisation of intangible assets | 17 | | 55 | |
| Revenue expenditure funded from capital under statute | - | | - | |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 35 | | 136 | |
| | | 2,654 | | 1,821 |
| Adjusting amounts written out of the Revaluation Reserve | | -154 | | -129 |
| Net written out amount of the cost of non-current assets consumed in the year | | 2,500 | | 1,692 |
| Capital financing applied in the year | | | | |
| Use of Capital Receipts to finance new capital expenditure | -24 | | - | |
| Application of grants to capital financing from the Capital Grants Unapplied Account | -1,582 | | -1,860 | |
| Statutory provision for the financing for capital investment charged against the General Fund | -472 | | -513 | |
| Capital expenditure charged against the General Fund | -269 | | - | |
| | | -2,347 | | -2,373 |
| **Closing Balance at 31 March** | | **-16,690** | | **-17,371** |

## 7.20 GENERAL RESERVE

The net accumulated unapplied General Fund Revenue balance is £3m as at 31 March 2012 which equates to 10.05% of the 2011/12 Budget Requirement. This is in line with the Authority's policy on reserves which is to maintain broadly general reserves of between 7.5% and 10%, with a maximum general reserve of 15% of the Budget Requirement for the short to medium term.

### 7.21 AUTHORISATION OF ACCOUNTS FOR ISSUE/POST BALANCE SHEET EVENTS

The Statement of Accounts was authorised for issue by the Treasurer, John Hewitt, on 26th September 2012. This is the date up to which events after the Balance Sheet date have been considered. Following extensive negotiations with Fire Minister and Department for Communities and Local Government (DCLG), agreement has now been reached for County Durham and Darlington Fire and Rescue Authority to take over the lease of the former Regional Control Centre in Belmont, Durham. The conclusion of negotiations will now enable the Authority to progress with its plans to implement a new, state of the art 999 call handling and mobilising system, as well as relocating its HQ functions to the building.

### 7.22 INTERNATIONAL ACCOUNTING STANDARD 19 (IAS19) DEFINED BENEFIT PENSION SCHEMES

**Participation in Pension Schemes**

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

The Authority participates in the following pension schemes:

- The Local Government Pension Scheme for civilian employees, administered by Durham County Council - this is a funded defined benefit final salary 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 Firefighter's Pension Scheme for fire officers - this is an unfunded defined benefit final salary scheme administered by County Durham and Darlington Fire and Rescue Authority, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Firefighter's Pension Scheme Order 2006, if the amounts receivable by the pensions fund for the year are less than amounts payable, the Fire Authority must annually transfer an amount to meet the deficit to the pension fund. This cost is then met by Central Government. If, however, the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Fire Authority which then must repay the amount to Central Government.

**Transactions Relating to Post-employment Benefits**

The Authority recognises the costs of retirement benefits in the Net Cost of Services section of the Comprehensive Income and Expenditure Account 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 General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Account and the General Fund via the Movement in Reserves Statement during the year:

| | Local Government Pension Scheme | | Firefighter's Pension Scheme | |
|---|---|---|---|---|
| | 2010/11 | 2011/12 | 2010/11 | 2011/12 |
| | £000 | £000 | £000 | £000 |
| **Comprehensive Income and Expenditure Account** | | | | |
| Cost of Services: | | | | |
| Current service cost | 620 | 470 | 6,110 | 5,440 |
| Past service costs | -1,970 | 110 | -26,130 | 100 |
| Financing and Investment Income and Expenditure: | | | | |
| Interest cost | 980 | 960 | 13,520 | 13,280 |
| Expected return on scheme assets | -730 | -820 | - | - |
| Total Post Employment Benefit Charged to the Surplus/ Deficit on the Provision of Services | -1,100 | 720 | -6,500 | 18,820 |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | | | | |
| Actuarial gains/losses(-) on pension fund assets and liabilities and other pension adjustments | -927 | 1,962 | -9,573 | 4,309 |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | -2,027 | 2,682 | -16,073 | 23,129 |
| **Movement in Reserves Statement** | | | | |
| Reversal of net charges made to the Surplus/ Deficit for the Provision of Services for post-employment benefits in accordance with IAS19 | 1,100 | -720 | 6,500 | -18,820 |
| Actual amount charged against the General Fund Balance for pensions in the year: | | | | |
| Employer's contributions payable to the scheme | 573 | 482 | 2,774 | 2,498 |
| Benefits paid direct to beneficiaries | 10 | - | 420 | 400 |

The cumulative amount of actuarial losses to 31 March 2012 is £78.52m, made up as follows:

- Local Government Pension Scheme £5.49m
- Firefighter's Pension Scheme £73.03m

**Basis for Estimating Assets and Liabilities in relation to Post-employment Benefits**

Liabilities have been assessed on an actuarial basis using the projected unit credit method; an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Firefighter's Scheme and the County Council Fund liabilities have been assessed by independent actuaries; estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The pension increase assumption as at 31 March 2012 is based on the Consumer Price Index (CPI) expectation of inflation. This is a consequence of the Government's announcement that CPI is to be used for the indexation of public service pensions from April 2011.

Under IAS19, any obligation arising from long term employee benefits that depend upon length of service need to be recognised when service is rendered. As injury awards under the Firefighter's schemes are dependant on service, the liability expected to arise due to injury awards has been valued in respect of service prior to the valuation date. The liability arising from injury awards has been restated for previous years.

The principal assumptions used by the actuary have been:

| | **Local Government Funded Pension Scheme** | | **Local Government Unfunded Pension Scheme** | | **Firefighter's Pension Scheme** | |
|---|---|---|---|---|---|---|
| | **2010/11** | **2011/12** | **2010/11** | **2011/12** | **2010/11** | **2011/12** |
| ***Mortality assumptions:*** | | | | | | |
| Longevity at 65 for current pensioners: | | | | | | |
| Men | 21.9 | 22.0 | 21.9 | 22.0 | 23.4 | 23.4 |
| Women | 24.0 | 24.1 | 24.0 | 24.1 | 25.3 | 25.3 |
| Longevity at 65 for future pensioners: | | | | | | |
| Men | 23.7 | 23.8 | | | 26.3 | 26.5 |
| Women | 26.0 | 26.1 | | | 28.0 | 28.3 |
| Rate of Inflation: | | | | | | |
| RPI | 3.7 | 3.6 | 3.6 | 3.4 | 3.8 | 3.6 |
| CPI | 2.8 | 2.6 | 2.7 | 2.4 | 3.0 | 2.5 |
| Rate of increase in salaries | 5.2 | 5.1 | | | 5.3 | 4.7 |
| Rate of increase to pensions in payment | 2.8 | 2.6 | 2.7 | 2.4 | 3.0 | 2.5 |
| Rate of increase to deferred pensions | 2.8 | 2.6 | | | 3.0 | 2.5 |
| Rate for discounting scheme liabilities | 5.4 | 4.8 | 5.5 | 4.6 | 5.7 | 4.9 |
| Take-up of option to convert annual pension into retirement lump sum: | | | | | | |
| Pre April 2010 service | 60 | 60 | | | N/A | N/A |
| Post April 2010 service | 80 | 80 | | | N/A | N/A |

The Firefighter's Pension Scheme has no assets to cover its liabilities. The Authority employs a building block approach in determining the rate of return on the Local Government Pension Scheme's assets. Historical markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out below. The overall rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2012.
The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| | Long-term rate of return expected at 31/03/10 | Asset split at 31/03/10 | Long-term rate of return expected at 31/03/11 | Asset split at 31/03/11 | Long-term rate of return expected at 31/03/12 | Asset split at 31/03/12 |
|---|---|---|---|---|---|---|
| | % p.a | % | % p.a | % | % p.a | % |
| Equity investments | 8.0 | 57.1 | 8.4 | 55.9 | 8.1 | 45.8 |
| Property | 8.5 | 4.9 | 7.9 | 5.6 | 7.6 | 7.1 |
| Government Bonds | 4.5 | 25.4 | 4.4 | 25.4 | 3.1 | 34.4 |
| Corporate Bonds | 5.5 | 9.6 | 5.1 | 10.2 | 3.7 | 11.1 |
| Cash | 0.7 | 3.0 | 1.5 | 2.9 | 1.8 | 1.6 |
| **Total** | **6.7** | **100** | **6.8** | **100** | **5.8** | **100** |

**(i)Firefighter's Pension Schemes**

**Past Service Liabilities**

The past service liabilities for 2011/12 are:

| | 1992 Scheme | Injury Awards | 2006 Scheme | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Estimated liabilities in scheme | | | | |
| Active members (past service) | 91.73 | 10.62 | 5.26 | 107.61 |
| Deferred pensions | 3.33 | - | 0.07 | 3.40 |
| Pensions in Payment (injury awards) | - | 7.87 | - | 7.87 |
| Pensions in Payment (excluding injury) | 135.70 | - | - | 135.70 |
| Total | **230.76** | **18.49** | **5.33** | **254.58** |
| Net pensions deficit | 230.76 | 18.49 | 5.33 | 254.58 |

The comparative figures for 2010/11 are:

| | 1992 Scheme | Injury Awards | 2006 Scheme | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Estimated liabilities in scheme | | | | |
| Active members (past service) | 92.98 | 9.06 | 3.75 | 105.79 |
| Deferred pensions | 2.88 | - | 0.04 | 2.92 |
| Pensions in Payment (injury awards) | - | 7.24 | - | 7.24 |
| Pensions in Payment (excluding injury) | 118.40 | - | - | 118.40 |
| Total | **214.26** | **16.30** | **3.79** | **234.35** |
| Net pensions deficit | 214.26 | 16.30 | 3.79 | 234.35 |

The comparative figures for 2009/10 are:

| | 1992 | Injury | 2006 | Total |
|---|---|---|---|---|

| | Scheme | Awards | Scheme | |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Estimated liabilities in scheme | | | | |
| Active members (past service) | 105.65 | 10.98 | 2.93 | 119.56 |
| Deferred pensions | 2.85 | - | 0.01 | 2.86 |
| Pensions in Payment (injury awards) | - | 7.98 | - | 7.98 |
| Pensions in Payment (excluding injury) | 123.22 | - | - | 123.22 |
| Total | **231.72** | **18.96** | **2.94** | **253.62** |
| Net pensions deficit | 231.72 | 18.96 | 2.94 | 253.62 |

**Analysis of Movement in Gross Scheme Liabilities**

| | **Firefighters' Pension Fund** | | | |
|---|---|---|---|---|
| | **1992 Scheme** | **Injury Awards** | **2006 Scheme** | **Total** |
| | **£m** | **£m** | **£m** | **£m** |
| **Net deficit at the start of current year** | **214.26** | **16.30** | **3.79** | **234.35** |
| **Movement in the year:** | | | | |
| Current service cost (net of employee contributions) | 3.96 | 0.43 | 1.05 | 5.44 |
| Cost covered by employee contributions | 1.05 | - | 0.26 | 1.31 |
| Past service cost | 0.10 | - | - | 0.10 |
| Interest on pension liabilities | 12.10 | 0.93 | 0.25 | 13.28 |
| Total benefits paid | -9.15 | -0.40 | - | -9.55 |
| Curtailment and settlements | - | - | - | - |
| Actuarial gain (-)/loss | 8.44 | 1.23 | -0.02 | 9.65 |
| **Net deficit at the end of year** | **230.76** | **18.49** | **5.33** | **254.58** |

The comparative figures for 2010/11 are:

| | **1992 Scheme** | **Injury Awards** | **2006 Scheme** | **Total** |
|---|---|---|---|---|

| | £m | £m | £m | £m |
|---|---|---|---|---|
| **Net deficit at the start of current year** | **231.72** | **18.96** | **2.94** | **253.62** |
| **Movement in the year:** | | | | |
| Current service cost (net of employee contributions) | 4.50 | 0.58 | 1.03 | 6.11 |
| Cost covered by employee contributions | 1.13 | - | 0.24 | 1.37 |
| Past service cost | -23.73 | -2.06 | -0.34 | -26.13 |
| Interest on pension liabilities | 12.32 | 1.01 | 0.19 | 13.52 |
| Total benefits paid | -7.88 | -0.42 | - | -8.30 |
| Curtailment and settlements | - | - | - | - |
| Actuarial gain (-)/loss | -3.80 | -1.77 | -0.27 | -5.84 |
| **Net deficit at the end of year** | **214.26** | **16.30** | **3.79** | **234.35** |

**Analysis of Movement in Scheme Assets**

| | 1992 Scheme | Injury Awards | 2006 Scheme | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Opening fair value of asset** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Movement in the year:** | | | | |
| Expected return on assets | - | - | - | - |
| Actuarial gain (-) / loss on assets | -6.01 | - | 0.60 | -5.41 |
| Contributions by employer | -2.09 | -0.40 | -0.34 | -2.83 |
| Contributions by participants | -1.05 | - | -0.26 | -1.31 |
| Net benefits paid out | 9.15 | 0.40 | - | 9.55 |
| **Closing fair value of assets** | **0.00** | **0.00** | **0.00** | **0.00** |

The comparative figures for 2010/11 are:

| | 1992 Scheme | Injury Awards | 2006 Scheme | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Opening fair value of asset** | **0.00** | **0.00** | **0.00** | **0.00** |
| **Movement in the year:** | | | | |
| Expected return on assets | - | - | - | - |
| Actuarial gain (-) / loss on assets | -4.56 | - | 0.56 | -4.00 |
| Contributions by employer | -2.19 | -0.42 | -0.32 | -2.93 |
| Contributions by participants | -1.13 | - | -0.24 | -1.37 |
| Net benefits paid out | 7.88 | 0.42 | - | 8.30 |
| **Closing fair value of assets** | **0.00** | **0.00** | **0.00** | **0.00** |

**Analysis of Movement in Net Obligations**

| | 1992 Scheme | Injury Awards | 2006 Scheme | Total |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| **Net deficit at the start of current year** | **214.26** | **16.30** | **3.79** | **234.35** |
| **Movement in the year:** | | | | |
| Current service cost (net of employee contributions) | 3.96 | 0.43 | 1.05 | 5.44 |
| Contributions by employer | -2.09 | -0.40 | -0.34 | -2.83 |
| Contributions by participants | - | - | - | - |
| Past service cost | 0.10 | - | - | 0.10 |
| Interest on pension liabilities | 12.10 | 0.93 | 0.25 | 13.28 |
| Expected return on assets | - | - | - | - |
| Actuarial gain (-) / loss | 2.43 | 1.23 | 0.58 | 4.24 |
| **Net deficit at the end of year** | **230.76** | **18.49** | **5.33** | **254.58** |

The comparative figures for 2010/11 are:

| | 1992 Scheme | Injury Awards | 2006 Scheme | Total |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| **Net deficit at the start of current year** | **231.72** | **18.96** | **2.94** | **253.62** |
| **Movement in the year:** | | | | |
| Current service cost (net of employee contributions) | 4.50 | 0.58 | 1.03 | 6.11 |
| Contributions by employer | -2.19 | -0.42 | -0.32 | -2.93 |
| Contributions by participants | - | - | - | - |
| Past service cost | -23.73 | -2.06 | -0.34 | -26.13 |
| Interest on pension liabilities | 12.32 | 1.01 | 0.19 | 13.52 |
| Expected return on assets | - | - | - | - |
| Actuarial gain (-) / loss | -8.36 | -1.77 | 0.29 | -9.84 |
| **Net deficit at the end of year** | **214.26** | **16.30** | **3.79** | **234.35** |

**(ii) Durham County Council Pension Fund**

**Analysis of Movement in Gross Scheme Liabilities**

| | Funded | Unfunded | Total |
|---|---|---|---|

| | £m | £m | £m |
|---|---|---|---|
| **Opening Present Value of Liabilities** | **17.54** | **0.06** | **17.60** |
| **Movement in the year:** | | | |
| Contributions by participants | 0.18 | - | 0.18 |
| Current service cost (net of employee contributions) | 0.47 | - | 0.47 |
| Past service cost | 0.11 | - | 0.11 |
| Curtailment and settlements | - | - | - |
| Interest on pension liabilities | 0.96 | - | 0.96 |
| Actuarial gain (-) / loss | 1.73 | -0.01 | 1.72 |
| Net Benefits paid | -0.44 | - | -0.44 |
| **Closing present value of liabilities** | **20.55** | **0.05** | **20.60** |

The comparative figures for 2010/11 are:

| | Funded | Unfunded | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Opening Present Value of Liabilities** | **19.18** | **0.07** | **19.25** |
| **Movement in the year:** | | | |
| Contributions by participants | 0.22 | - | 0.22 |
| Current service cost (net of employee contributions) | 0.62 | - | 0.62 |
| Past service cost | -1.97 | - | -1.97 |
| Curtailment and settlements | - | - | - |
| Interest on pension liabilities | 0.98 | - | 0.98 |
| Actuarial gain (-) / loss | -0.93 | - | -0.93 |
| Net Benefits paid | -0.56 | -0.01 | -0.57 |
| **Closing present value of liabilities** | **17.54** | **0.06** | **17.60** |

**Analysis of Movement in Scheme Assets**

Reconciliation of fair value of the scheme assets:

| | Local Government Pension Scheme | | |
|---|---|---|---|
| | Funded | Unfunded | Total |
| | £m | £m | £m |
| **Opening fair value** | **11.93** | **-** | **11.93** |
| Expected rate of return | 0.82 | - | 0.82 |
| Actuarial gains (-) / losses | -0.35 | - | -0.35 |
| Employer contributions | 0.59 | - | 0.59 |
| Contributions by scheme participants | 0.18 | - | 0.18 |
| Benefits paid | -0.44 | - | -0.44 |
| **Closing fair value** | **12.73** | **-** | **12.73** |

The comparative figures for 2010/11 are:

| | Local Government Pension Scheme | | |
|---|---|---|---|
| | Funded | Unfunded | Total |
| | £m | £m | £m |

| | | | |
|---|---|---|---|
| **Opening fair value** | **10.97** | **-** | **10.97** |
| Expected rate of return | 0.73 | - | 0.73 |
| Actuarial gains (-) / losses | -0.07 | - | -0.07 |
| Employer contributions | 0.64 | 0.01 | 0.65 |
| Contributions by scheme participants | 0.22 | - | 0.22 |
| Benefits paid | -0.56 | -0.01 | -0.57 |
| **Closing fair value** | **11.93** | **0.00** | **11.93** |

The actual return on scheme assets in the year was a gain of £0.47m (2010/11: £0.66m gain).

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

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

**Analysis of Movement in Net Obligations**

| | **Funded** | **Unfunded** | **Total** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **Net deficit at the beginning of year** | **5.61** | **0.06** | **5.67** |
| **Movement in the year:** | | | |
| Contributions towards funded liabilities | -0.59 | - | -0.59 |
| Current service cost (net of employee contributions) | 0.47 | - | 0.47 |
| Past service cost | 0.11 | - | 0.11 |
| Curtailment and settlements | - | - | - |
| Expected return on pension fund assets | -0.82 | - | -0.82 |
| Interest on pension liabilities | 0.96 | - | 0.96 |
| Actuarial gain (-) / loss | 2.08 | -0.01 | 2.07 |
| **Net Deficit at the end of year** | **7.82** | **0.05** | **7.87** |

The comparative figures for 2010/11 are:

| | **Funded** | **Unfunded** | **Total** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| **Net deficit at the beginning of year** | **8.21** | **0.07** | **8.28** |

| | | | |
|---|---|---|---|
| **Movement in the year:** | | | |
| Contributions towards funded liabilities | -0.64 | - | -0.64 |
| Unfunded benefit payment | - | -0.01 | -0.01 |
| Current service cost (net of employee contributions) | 0.62 | - | 0.62 |
| Past service cost | -1.97 | - | -1.97 |
| Curtailment and settlements | - | - | - |
| Expected return on pension fund assets | -0.73 | - | -0.73 |
| Interest on pension liabilities | 0.98 | - | 0.98 |
| Actuarial gain (-) / loss | -0.86 | - | -0.86 |
| **Net Deficit at the end of year** | **5.61** | **0.06** | **5.67** |

**Scheme History for the Firefighter Pension Schemes and the Local Government Pension Scheme**

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **Present value of liabilities:** | | | | | |
| Local Government Pension Scheme | 11.78 | 13.53 | 19.25 | 17.60 | 20.60 |
| Firefighter’s Pension Scheme | 181.87 | 178.29 | 253.62 | 234.35 | 254.58 |
| **Total Present Value of Liabilities** | **193.65** | **191.82** | **272.87** | **251.95** | **275.18** |
| Local Government Pension Scheme | 8.60 | 7.84 | 10.97 | 11.93 | 12.73 |
| Firefighter’s Pension Scheme | - | - | - | - | - |
| **Total Fair Value of Assets** | **8.60** | **7.84** | **10.97** | **11.93** | **12.73** |
| **Surplus/ deficit (-) in the scheme:** | | | | | |
| Local Government Pension Scheme | -3.18 | -5.69 | -8.28 | -5.67 | -7.87 |
| Firefighter’s Pension Scheme | -181.87 | -178.29 | -253.62 | -234.35 | -254.58 |
| **Total Deficit** | **-185.05** | **-183.98** | **-261.90** | **-240.02** | **-262.45** |

**Employer Contributions**

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2013 are £0.51m. Expected contributions to the Firefighter’s Pension Scheme in the year to 31 March 2013 are £2.37m.

**History of Experience Gains and Losses**

The actuarial gains/ losses identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories:

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|---|
| **Total actuarial gain (-) / loss:** | £m | £m | £m | £m | £m |
| Local Government Pension Scheme | -0.54 | 2.51 | 2.27 | -0.86 | 2.07 |
| Firefighter's Pension Scheme | -41.37 | -19.50 | 66.08 | -9.84 | 4.24 |
| **Difference between the expected and actual return on assets [gain (-)/ loss]:** | | | | | |
| Local Government Pension Scheme | 0.84 | 1.66 | -2.38 | 0.07 | 0.35 |
| Percentage of assets | 9.7% | 21.17% | -21.70% | 0.6% | 2.75% |
| **Experience gains (-) and losses on liabilities:** | | | | | |
| Local Government Pension Scheme | 0.79 | -0.01 | -0.05 | -0.61 | 0.04 |
| Percentage of the liability | 6.70% | -0.07% | -0.26% | -3.50% | 0.19% |
| Firefighter's Pension Scheme | -5.92 | -0.99 | -8.9 | -2.49 | -1.84 |
| Percentage of the liability | -3.30% | -0.56% | -3.51% | -1.10% | -0.72% |

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £262.45m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £228.907m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains unaffected:

- 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 fire pensions when the pensions are actually paid.

### 7.23 CONTINGENT ASSETS & CONTINGENT LIABILITIES

There are no Contingent Assets and Contingent Liabilities as at 31 March 2012.

## 8 CASH FLOW STATEMENT

### 8.1 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| 2010/11 | | 2011/12 |
|---|---|---|

| £000 | | £000 |
|---|---|---|
| 18,809 | Employee costs | 17,962 |
| -16,755 | Council Tax Receipts | -16,714 |
| -1,842 | Revenue Support Grant | -3,105 |
| -12,687 | Redistributed NNDR | -10,044 |
| -57 | Interest receivable | -78 |
| 86 | Interest payable in respect of borrowing | 80 |
| 609 | Interest payable in respect of PFI | 704 |
| 22 | Interest payable in respect of finance leases | 16 |

**8.2 INVESTING ACTIVITIES**

| 2010/11 | | 2011/12 |
|---|---|---|
| £000 | | £000 |
| 1,133 | Purchase of property, plant and equipment, investment property and intangible assets | 1,742 |
| -23 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | -77 |
| -788 | Other receipts from investing activities | -1,955 |
| 322 | | -290 |

**8.3 FINANCING ACTIVITIES**

| 2010/11 | | 2011/12 |
|---|---|---|
| £000 | | £000 |
| 228 | Cash payments for the reductions of outstanding liabilities relating to on-balance sheet PFI contract | 268 |
| 147 | Cash payments for the reductions of outstanding liabilities relating to finance leases | 153 |
| 125 | Repayment of short and long term borrowing | 131 |
| 500 | | 552 |

**8.4 NET INCREASE IN CASH AND CASH EQUIVALENTS**

Under IFRS, cash and cash equivalents include the Authority's cash in hand, bank overdrafts and short term investments. The movement in cash and cash equivalents was as follows:

| | 2010/11 | 2011/12 | Increase/ Decrease in year |
|---|---|---|---|
| | £000 | £000 | £000 |
| Cash | 25 | -172 | -197 |
| Cash Equivalents | 10,333 | 12,085 | 1,752 |
| | **10,358** | **11,913** | **1,555** |

**FIRE PENSION FUND ACCOUNT**

The Firefighter's Pension Scheme for fire officers is an unfunded defined benefit final salary scheme administered by County Durham and Darlington Fire and Rescue Authority, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Under the Firefighter's Pension Scheme (Amendment) (England) Order 2006, if the amounts receivable by the pensions fund for the year are less than amounts payable, the Fire Authority must annually transfer an amount to meet the deficit to the pension fund. This cost is then met by Central Government. If, however, the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Fire Authority which then must repay the amount to Central Government.

There are no investment assets relating to the Fire Pension Fund.

The transactions of the Fire Pension Fund, together with a Net Assets Statement, are as follows:

**Fire Pension Fund Account**

**Dealings with members, employers and others directly involved in the scheme**

| | 2010/11 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| **Contributions receivable** | | |
| Fire Authority contributions in relation to pensionable pay | -2,503 | -2,371 |
| Firefighter's contributions | -1,372 | -1,310 |
| **Transfers in from other schemes** | -12 | -97 |
| **Ill health capital contributions** | -39 | -56 |
| **Benefits payable** | | |
| Pensions | 6,276 | 6,601 |
| Commutation and lump sum retirement benefits | 1,621 | 2,554 |
| **Transfers out to other schemes** | 2 | - |
| **Net amount payable for the year** | 3,973 | 5,321 |
| Top-up grant payable by the Government | -3,973 | -5,321 |
| **Year end balance** | - | - |

**Net Assets Statement**

| | 2010/11 | 2011/12 |
|---|---|---|
| | £000 | £000 |
| **Net current assets and liabilities** | | |
| Amount due to (-) / from the Authority's General Fund | -884 | -2,222 |
| Amount due to (-) / from Central Government | 884 | 2,222 |
| **Total** | - | - |

### 1. Basis of Preparation

The pension fund accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

The financial statements do not take account of liabilities to pay pensions and other benefits which fall due after the end of the financial year.

### 2. Accounting Policies

The principal accounting policies are as follows:

**Contributions**

Contributions represent the total amount receivable from the Authority and pensionable employees. The contributions are made at rates determined by the Government Actuaries Department. The employer's contributions are set at a nationally applied rate of 21.3% of pensionable pay for the 1992 Firefighter's Pension Scheme and 11.0% for the 2006 Firefighter's Pension Scheme. The employee's contributions are set at 11.0% and 8.5% respectively.

The Authority is also required to make payments into the Pension Fund in respect of ill-health retirements when they are granted.

**Benefits**

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

**Transfer Values**

Transfer values are those sums paid payable by or receivable from, other pension schemes for individuals only and relate to periods of previous pensionable employment. Transfers are accounted for on a receipts and payments basis.

**Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money happens to be received or paid.

**Actuarial Gains and Losses**

For a defined benefit 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.

**Actuarial Valuation**

A valuation by an actuary on behalf of a pension fund of assets held, estimate of the present value of benefits to be paid and estimate of required future contributions.

**Amortisation**

The measure of the wearing out, consumption, or other reduction in the useful economic life of an intangible fixed asset, whether arising from use, effluxion of time or obsolescence through technical or other changes.

**Audit Commission**

An independent body established under the Local Government Finance Act 1982. It is the responsibility of the Audit Commission to appoint external auditors to the Authority.

**Budget**

The Authority's plans and policies expressed in financial terms.

**Capital Adjustment Account**

A capital reserve that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

**Capital Charge**

A charge to the revenue account to reflect the cost of fixed assets used.

**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 Grant**

Grant from Central Government used to finance capital schemes.

**Capital Receipts**

Proceeds from the sale of capital assets.

**Cash**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

**Cash Equivalents**

Cash equivalents are investments that mature within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principal accountancy body dealing with local authority finance.

**Collection Fund**

A fund administered by Durham County Council and Darlington Borough Council in which individuals' Council Tax payments are paid. The Authority raises precepts on the funds to finance part of net revenue expenditure.

**Collection Fund Adjustment Account**

The account through which to implement the accruals basis for recording the precept without affecting the bottom line for taxpayers.

**Component Accounting**

Component accounting requires that where an asset has several components, which can be physically separated from the principal asset and which have significantly different useful lives, these should be recognised separately and should be depreciated based on their respective useful lives. Component accounting aims to improve depreciation accounting and improve the measurement of operating results.

**Contingency**

The sum of money set aside to meet unforeseen expenditure or liability.

**Contingent Liabilities**

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

**Contingent Assets**

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

**Council Tax**

The local tax levied on householders, based on the relative market values of property, which helps to fund local services.

**Creditors**

Persons or bodies to whom sums are owed by the Authority.

**Current Assets**

Items that can be readily converted into cash.

**Current Liabilities**

Items that are due immediately or in the short-term.

**Debtors**

Persons or bodies who owe sums to the Authority.

**Deferred Liabilities**

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time.

**Depreciation**

The measure of 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 technical or other changes.

**Earmarked Reserves**

These represent monies set aside that can only be used for a specific purpose.

**Employee Benefits**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include salary, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense in the year in which the employee renders service to the Authority. An accrual is made for the cost of the benefit earned by an employee but not taken before the year end. The accrual is charged to the surplus or deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement.

**Financial Instruments**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Financial Regulations**

A written code of procedures approved by the Authority intended to provide a framework for proper financial management.

**Fixed Assets**

Tangible and intangible assets that yield benefits to the authority and the services it provides for a period of more than one year.

**GAD - The Government Actuaries Department**

They provide estimates of the liabilities of the Firefighter’s Pension Scheme.

**Government Grants**

Assistance by Government in the form of cash in return for past or future compliance with certain conditions relating to the activities of the authority.

**Impairment**

A reduction in the value of an asset from the balance sheet value occurring as a result of a change in the condition and consumption of the asset or as a result of market conditions.

**Interest Income**

The money earned from the investment of surplus cash.

**International Financial Reporting Standards (IFRS)**

The Authority’s financial statements have been prepared in accordance with the following statutory accounting standards adopted by the International Accounting Standards Board (IASB):

- International Financial Reporting Standards (IFRS)
- International Accounting Standards (IAS)
- Interpretations of the International Financial Reporting Interpretations Committee (IFRIC)
- Interpretations of the Standing Interpretations Committee (SIC)

**Leasing**

A method of financing capital expenditure where a rental charge for an asset is paid for a specific period. There are two main types of lease: 'finance leases' which transfer substantially all the risks and rewards of ownership to the lessee, and other leases, which are known as 'operating leases'. With finance leases, assets acquired are included within the fixed assets in the balance sheet at the market value of the asset involved; monies owing to the lessor are included within deferred liabilities on the balance sheet. With an operating lease an annual rent is charged to the relevant service revenue account.

**Minimum Revenue Provision**

The minimum amount which must be charged in year for the repayment of debt.

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

The business rate in the pound is the same for all non-domestic ratepayers and is set annually by the government. Income from business rates goes into a Central Government pool that is then distributed to authorities according to resident population.

**Net Book Value**

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

**Net Current Replacement Cost**

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

**Non-Operational Assets**

Fixed assets not directly occupied, used or consumed in the delivery of services. These are assets under construction and surplus assets held for disposal.

**Operational Assets**

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

**Outturn**

The actual amount spent in the financial year.

**Payments in Advance**

These represent payments prior to 31st March for supplies and services received after 1st April.

**Precept Income**

The Authority obtains part of its income from precepts levied on its billing authorities (Durham County Council and Darlington Borough Council). Precepts, based on the Council Tax base of each council, are levied on a collection fund, administered separately by each council.

**Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services where the responsibility for making available the assets needed to provide the services passes to the PFI contractor. Where the Authority controls the services that are provided under a PFI scheme, and ownership of the assets will pass to the Authority at the end of the contract, for no additional charge, the Authority carries the assets used under the contract on its Balance Sheet as part of Property, Plant and Equipment. The original recognition of these assets at fair value is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

**Provisions**

Sums set aside to meet any liabilities or losses which are likely or certain to be incurred, but uncertain as to the amounts or dates on which they will arise.

**Receipts in Advance**

These represent income received prior to 31st March for supplies and services provided after 1st April.

**Reserves**

Sums set aside for purposes falling outside the definition of a ‘provision’. There are two categories of reserves - see ‘Usable Reserves’ and ‘Unusable Reserves’ for further definition.

**Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

**Revaluation Reserve**

Capital reserve to hold unrealised revaluation gains arising (since 1 April 2007) from holding fixed assets.

**Revenue Contributions to Capital**

Contribution from revenue to finance capital expenditure, thus reducing the requirement to borrow.

**Revenue Expenditure and Income**

Expenditure and income arising from the day to day operation of the Authority’s service.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**

Any grants receivable, including capital, that are applied to REFCUS will be accounted for as revenue grants in the Comprehensive Income and Expenditure Statement. Income is posted to the line that the qualifying expenditure is charged to.

**Revenue Support Grant (RSG)**

General government grant to assist in financing the overall net cost of services.

**Running Expenses**

All expenses other than those relating to employees and the financing costs of capital expenditure (capital financing costs and revenue contributions). Running expenses include expenditure on maintenance of buildings, consumable supplies, transport etc.

**Service Reporting Code of Practice (SerCoP)**

Replacing the previous Best Value Accounting Code of Practice, SerCoP provides a consistent and comparable calculation of the total costs of services.

**Termination Benefits**

Amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Net Cost of Service in the Comprehensive Income and Expenditure Statement.

**UK GAAP – Generally Accepted Accounting Standards**

As IFRS is primarily drafted for the commercial sector and therefore does not address all accounting issues relevant to local government in the UK, the Code prescribes a hierarchy of alternative standards on which the accounting treatment and disclosures should be based where appropriate. The hierarchy comprises:

- Financial Reporting Standards (FRS)
- Statements of Standard Accounting Practice (SSAP)
- Pronouncements of the Urgent Issues Task Force (UITF)

**Unusable reserves**

Reserves the Authority is not able to use to provide services e.g. reserves that hold unrealised gains and losses, e.g. the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold.

**Usable reserves**

Reserves that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, e.g. Capital Modernisation Reserve.