

ANNEX 1

LANCASHIRE COMBINED FIRE AUTHORITY

STATEMENT OF ACCOUNTS 2008/09

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EXPLANATORY FOREWORD

The Lancashire Combined Fire Authority (CFA) was established as a free-standing body from 1 April 1998. It sets its own budget, and has its own Formula Spending Share (FSS). The Authority holds its own reserves and receives funding from the government through Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR). It also issues its own council tax demand, collected by local district and unitary authorities.

Contents of this Statement of Accounts

This Statement of Accounts covers the financial year ended on 31 March 2009 (referred to as 2008/09). It has been prepared in accordance with the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. The Statement contains:

Annual Governance Statement – Sets out the Authority's responsibilities with regard to the system of internal control and corporate governance.

Auditor's Report – The Auditor's report to the CFA on the accounts for 2008/09, which are set out in the sections shown below.

Statement of Responsibilities for the Statement of Accounts – Sets out the responsibilities of the Authority and the Treasurer with regards to the statement of accounts.

Statement of Accounting Policies – Sets out the basis for the figures in the accounts.

Income and Expenditure Account – Shows resources generated and consumed by the authority in the year

Statement of the Movement on the General Fund Balance – Shows the resources generated in year linked to the statutory requirement to raise council tax.

Statement of Total Recognised Gains and Losses – Shows how the movement in net worth in the Balance Sheet is identified to the Income and Expenditure Account deficit and to other unrealised gains and losses.

Balance Sheet – Shows the Authority's assets and liabilities as at 31 March 2009 and how these are funded (by reserves, borrowing, provisions and other balances).

Cash Flow Statement – Shows the inflows and outflows of cash arising from both revenue and capital transactions.

Fire Fighters Pension Fund Account – Shows the financial position of the new fire fighters pension fund account, showing whether the Authority owes, or is owed, money by the Government in order to balance the account, together with details of its net assets.

Review of the Year

2008/09 has been another busy year for the Authority. By combining prevention, protection and emergency response and targeting our resources the Authority has continued to achieve year on year reductions in the numbers of fire related incidents which now stand at record low levels.

We are continuing to reduce fire risk within Lancashire, expanding our Home Fire Safety Check programme, increasing the number of checks undertaken to 46,000, as well as continuing to deliver safety education packages to over 50,000 children.

We are active in a wide variety of local initiatives, delivered in partnership, which are making a real difference to people's lives, and the breadth of our service delivery and the scale of our engagement is now improving people's quality of life beyond the narrow field of fire safety. Our partnership work on the Wasted Lives Young Driver Education Programme has been awarded the Institute of Highways & Transportation North West Road Safety Campaign 2009.

We recognise the differing needs of the diverse communities we serve and have developed our services to match these, culminating in our operating at level 4 of the Local Government Equality Standard.

We have revised our working agreement with the Environment Agency and have enhanced our arrangements for protecting the environment, including the publication of a carbon management plan

The recent Lancashire Place Survey report for 2008/09 showed the Authority achieving the highest satisfaction rating of any public service, with 84% of service users either satisfied or very satisfied with their local Fire and Rescue Service.

In addition the Authority has been subject to several external assessments as part of the Fire and Rescue Service Performance framework. a Service Assessment, in which the Authority was identified as "performing well", a Direction of Travel Assessment, in which the Authority was identified as "improving well " and a Use of Resources Assessment, in which the Authority was identified as "performing well".

Financial Overview

The 2008/09 Revenue Budget

The Authority's spending is planned and controlled by an annual budget process, which leads to the setting of its budget requirement. Expenditure on the day to day running costs of the service is determined through the Revenue Budget and is recorded in the Income and Expenditure Account.

In setting its budget the Authority continued to balance the need to invest in service improvements, with the need to deliver efficiency savings and set a balanced affordable budget.

Investment in service improvements, in order to continue to drive down the incidence and impact of fire and other emergency incidents were offset by identified efficiency savings of £0.886m. The resultant draft budget requirement of £61.047m was further offset by utilising £0.770m of reserves, leaving a net revenue budget of £60.277m, an increase of 2.5% over the 2007/08 budget.

Government funding equated to £32.284m, an increase of just 1.0% over the allocation for 2007/08, and the minimum increase of any Authority. Furthermore, we lost £0.450m of previous specific Government grants relating to Home Fire Safety Checks and Fire Prevention Grant, in essence giving an overall reduction in government funding of £0.150m. This left a balance of £28.049m to be met from Council Tax, which equated to a Band D Council Tax of £60.16, an increase of 4.74%. Despite the poor grant settlement this was our lowest council tax increase since we became a precepting Authority.

The 2008/09 Revenue Outturn

After allowing for the transfer of £0.419m to earmarked reserves, the actual level of expenditure in 2008/09 was £57.823m. This represented a net surplus of £2.454m, with staffing costs being the major contributor to this position.

As stated above expenditure levels already allow for a net transfer to reserves of £0.419m, the most significant of which are as follows:

- £0.133m to earmarked reserves to offset future costs, particularly those associated with Regional Control Centre work for which the Government has provided specific grants. (This covers the staffing costs of the project team who are working through the convergence issues for the North West Region)
- £0.141m to cover future costs associated with the Authority's current PFI project
- £0.150m to Devolved Financial Management budgets, enabling budget holders to carry forward any surplus or deficit, from one financial year to the next, inline with prescribed limits, giving greater flexibility in managing budgets.

The actual level of efficiency savings achieved in the year £1.118m was in excess of our target of £0.990m.

Reserves and Balances

As a result of the position described above the general fund balance now stands at £8.394m. It should be noted that this fund balance forms a key element in the Authority's financial plans as it enables it to deal with any unforeseen circumstances that arise in year, as well as to provide flexibility in future budgeting, Whilst this exceeds the Treasurers recommended target level it is anticipated that the level of reserves will reduce in future years as they are used to offset anticipated cost pressures and anticipated low grant settlements. A draw down of £0.741m has already been identified to balance the 2009/10 budget.

The Authority also holds £4.684m of reserves earmarked for specific purposes, which will be used in future years.

Capital Expenditure

Expenditure on assets, which will benefit the service over a number of years, is dealt with in the Capital Programme, with the value of assets being added to the Fixed Assets in the Balance Sheet.

At 1 April 2008 the Authority had fixed assets valued at £78.140m.

The Authority set a capital programme for 2008/09 of £5.060m, after allowing for slippage from the preceding year and other in-year adjustments. Actual expenditure incurred totalled £1.295m, with the majority of the spend relating to the replacement of vehicles and ICT systems. The difference between budgeted and actual expenditure can be attributed to delays in some of the major schemes, most notably the replacement accommodation for the USAR team, which is tied into the progression of the PFI scheme.

The majority of the above capital expenditure is, in the long term, funded by borrowing, with the balance from capital grants and contributions from the revenue budget. However given the current economic uncertainty, the Authority has used cash surpluses to temporarily fund the programme, pending greater certainty returning to the market, at which point this will be replaced by approved borrowing.

Given the current economic situation, and in particular the impact of this on property values, a revaluation review was undertaken of all property which resulted in a reduction in value of £14.145m. After allowing for this and depreciation, the value of fixed assets at 31 March 2009 was £61.621m, a decrease of £16.519m from the previous year.

Private Finance Initiative (PFI)

The Authority signed a contract in May 2002 with PFF Lancashire Limited for the provision of two new fire stations in Morecambe and Hyndburn. This project is being funded under the Governments Private Finance Initiative.

The contract will run for 30 years, at the end of which all assets will transfer to the ownership of the Authority. The equity and debt funding is provided by Carden Croft and Company Limited and the Nationwide Building Society.

The two stations opened in April 2003, resulting in the Authority commencing payments under the contract. All costs are charged to the Fire Service revenue account and the buildings are not included within the value of fixed assets shown in the Authority's balance sheet. During the remaining life of the contract the Authority expects to make payments of an estimated £17.812m and receive Government subsidy of £11.557m. Since Government subsidy is fixed, and does not increase in line with inflationary pressures, the Authority has established a PFI Equalisation Reserve to smooth out charges to revenue over the life of the contract, which forms part of the Authority's earmarked reserves.

Balance Sheet

The Balance Sheet at 31 March 2009 shows a balance of total assets less current liabilities of £81.798m (2008: £96.372m); these are funded by £7.648m outstanding borrowing at 31 March 2009, £31.282m capital accounting reserves, £23.202m revaluation reserves and £19.666m other reserves and balances.

The Authority has adopted Financial Reporting Standard (FRS) 17, which requires employers to report the full cost of pension benefits as they are earned, regardless of whether they have been paid for. As such the obligation to pay pension benefits in the future is recognised as the Liability Related to Local Government and Firefighters Pension Schemes. As the Firefighters Pension Scheme is unfunded, i.e. there are no assets from which future liabilities will be paid, the Authority's overall pension liability of £401.820m is extremely large. However this net liability is offset by a notional Pension Reserve, in order that there is no impact on the overall level of Council Tax required.

Financial Plans

The 2009/10 budget was again extremely difficult to set given the levels of grant increases, just 0.5%, once again the lowest of any Authority, and the continuing need to offset investment (£0.509m) with further efficiency savings (£1.204m).

The Authority again had to utilise reserves, £0.741m, in order to set a balanced budget of £61.489m which resulted in our lowest ever increase in council tax, 3.74%, below the national Fire Authority average and the lowest of any Fire Authority which received such a low grant settlement.

The Authority continues to reinvest in its capital assets and set a capital program of £2.239m in 2009/10 and a total of £14.380m over the next 5 years. This program has been set within the prudential framework and a variety of indicators have been produced which indicate that the size and financing of the capital program is affordable, prudent and sustainable.

The Authority is currently updating its 2009/10-2011/12 Medium Term Financial Strategy, to take account of changing economic circumstances, such as anticipated reductions in government funding, changing inflationary pressures and the impact of fluctuations in exchange rates on contract prices. However, in line with the existing strategy it will identify the requirement to maintain the overall budget and council tax increases within acceptable limits, whilst continuing to improve service delivery. The main issues impacting on the achievement of this remain the low level of Government grant increases anticipated in future years, the budgets reliance on maintaining inflationary pressures below the Governments inflation targets, and in particular pay increases, and the on-going need to meet efficiency targets and utilise reserves over the medium term.

Looking longer term the Authority is involved in a joint bid, with Merseyside and Cumbria Fire Services, to provide additional fire stations as part of a new PFI project, four of which will be within Lancashire, with the project anticipating completion in 2013.

In addition, we are currently pursuing a Public Private Partnership in respect of our Training Centre with a view to any new arrangements being operated in 2010/11.

Accounting Changes

The accounts have been prepared in accordance with the revised requirements arising from the latest Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008.

The 2008 SORP contained few significant changes, the only applicable one being the change in valuation basis for pension scheme assets. For the 2008/09 accounts derivatives and investments within pension scheme assets are now required to be valued on a fair value basis. The effects of this change in policy has been calculated for the 2007/08 pension scheme assets, but as the adjustment required would be immaterial, the 2007/08 figures have not been restated and the change included in the 2008/09 transactions.

STATEMENT ON ANNUAL GOVERNANCE ARRANGEMENTS BY THE CHAIRMAN OF THE COMBINED FIRE AUTHORITY, THE TREASURER TO THE COMBINED FIRE AUTHORITY AND THE CHIEF FIRE OFFICER

STATEMENT

Scope of Responsibility

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

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

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at <http://www.lancsfire.gov.uk/KeyDocuments/corpgov.doc>

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

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place at the Authority for the year ended 31 March 2009 and up to the date of approval of the 2008/09 Statement of Accounts.

The Governance Framework

The Governance framework describes the key elements of the systems and processes that comprise the Authority's governance arrangements in accordance with the six principles of Corporate Governance included in our Code and include:-

- A Communication Strategy and the Consultation Strategy;
- The Risk Management Plan, which sets out the Authority's purpose, objectives, priorities and values, and includes action items relating to the objectives and relevant performance targets against which the Authority can be measured. The latest plan covers the period 2008/11;
- A comprehensive performance management framework, with the Performance Committee and Service Management Team receiving regular reports on performance against targets and any corrective action taken to address any variances. On an annual basis the Authority publishes an Annual Report and Action Plan, setting out its overall performance against key performance indicators and including summary financial information;
- The Combination Scheme Order, Standing Orders, Terms of Reference of individual Committees and Scheme of Delegation establish overall arrangements for policy setting and decision making and the delegation of powers to members and officers;
- Comprehensive Codes of Conduct for members and officers, that set out clear expectations for standards of behaviour;
- Clear management structures are in place, operating 6 Committees which all have decision making powers. At a service level the Executive Board, comprising the Chief Fire Officer and 5 Executive Directors, is supported by the Service Management Team;
- Standing Orders, Financial Regulations, the Scheme of Delegation and supporting procedure notes/manuals are regularly reviewed and updated;
- The Audit Committee operates in line with the core functions identified in CIPFAs *Audit Committees – Practical Guidance for Local Authorities*;
- Both the Monitoring Officer and Treasurer are involved in the Authority's decision making process, and ensure compliance with established policies, procedures, laws and regulations; All Authority reports are considered for human resource, financial and business risk implications in order to identify key issues;
- Well publicised arrangements for dealing with complaints and whistle-blowing, and for combating fraud and corruption;
- A Partnership Protocol which sets out arrangements for entering into partnerships;
- A Risk Management Strategy and framework which ensures that risks to the Service's objectives are identified and appropriately managed;
- Financial management arrangements, which are well established, ensuring the economical, effective and efficient use of resources, and which include regular reporting of financial performance to officers and members.

Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. In addition a review of the effectiveness of the system of internal audit for 2008/09 has been conducted in accordance with the requirements of the Accounts and Audit regulations.

A statement of assurance has been discussed and approved by the Executive Board as to the effectiveness of the governance arrangements for which it is responsible, including the system of internal control. The statement of assurance covers all the principles set out in the authority's Code of Corporate Governance. The statement of assurance reveals no areas of weakness in the authority's corporate governance arrangements; the arrangements are in all cases at least adequate and in the majority of areas good.

In maintaining and reviewing the effectiveness of the Authority's governance arrangements the following have been considered:-

- The Authority has overall responsibility for strategic direction and policy. To this end the Risk Management Planning process is used to identify, communicate and consult on the Authority's vision, purpose, objectives priorities and values;
- The Authority has continued to operate its existing Committee Structure aligning these to strategic objectives, within agreed Terms of Reference, as follows:-
 - The Audit Committee - To advise on the adequacy and effectiveness of the Authority's Internal and External Audit Service and risk management arrangements
 - The Standards Committee - To promote and maintain high standards of conduct by all members and co-opted members and officers of the Authority
 - The Resources Committee - To consider reports and make decisions relating to financial, human resources and property related issues
 - The Planning Committee - To consider reports and make decisions relating to all aspect of planning arrangements, including consultation and communication arrangements
 - The Performance Committee - To consider reports and make recommendations on all aspects of performance management, including the outcome of the national performance assessment framework for fire and rescue services
 - The Appeals Committee -To hear relevant appeals, grievances and complaints
- Member Champions have been appointed for the following three areas:-
 - Equality and Diversity
 - Environment
 - Older People
- The Executive Board is responsible for determining policy, monitoring performance and developing service plans in line with the Authority's overall strategic objectives and is assisted in this process by the Service Management Team. The planning methodology continues to develop the link between operational and financial planning and identify a clearer link between department plans, service objectives, financial requirements and risk management;
- The Authority has adopted a comprehensive set of values outlining what we expect of our employees and what the public can expect of us;

- The Authority has continued to develop its risk management arrangements, and in particular the role of the Risk Management Working Group;
- An appraisal system has been introduced for all staff, and incorporated within this is an analysis of training needs. In addition Members continue to undergo an annual review of training requirements;
- The Authority has outsourced its internal audit service to Lancashire County Council Audit Service, who complies with CIPFA's Code of Internal Audit Practice. The service is designed to give assurance that the Authority maintains adequate systems of internal control and to make recommendations on ways to enhance these where felt necessary, and as such the auditors are required to state whether the system of controls is "adequate" or "inadequate". Various reviews have been undertaken within the year and the auditors gave the opinion "*the overall internal control environment for 2008/09 is adequately designed and effectively operated. On the basis of our work during 2008/09 we are aware of no significant control weaknesses that require disclosure in the Annual Governance Statement*";
- The Audit Commission have continued to provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Governance Report continued to refer favourably to the systems of controls in place within the Authority "*We have not identified any weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware*". In addition the Use of Resources assessment reviewed internal controls and scored this section as "performing well " ;
- In 2007/08 the Authority was re-assessed under the Comprehensive Performance Assessment inspection regime, as part of the Performance Framework for Fire & Rescue Services. As a result of this re-assessment the Authority has been reclassified as 'good', and progress against the subsequent improvement plan has been regularly reported to the Authority throughout the year;
- In line with the Performance Framework for Fire & Rescue Services, the Authority has been subject to further inspections by the Audit Commission
 - a Service Assessment, in which the Authority was identified as "performing well"
 - a Direction of Travel Assessment, in which the Authority was identified as "improving well "
 - a Use of Resources Assessment, in which the Authority was identified as "performing well".
- Last years Annual Governance Statement identified several areas for improvement and these have all been actioned and reported to Committee, with the exception of the updating of the Procurement Strategy, which has been delayed pending the publication of the National Procurement Strategy.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

Whilst no significant governance issues were identified, the review has highlighted a number of areas for further improvement, including:

- The Procurement Strategy needs updating, in line with the revised National Strategy
- A comprehensive environmental strategy needs to be implemented
- The assessment and monitoring of significant partnerships needs to be further developed

- Complete the Staff survey exercise
- Review the current website provision within the Authority/Service and develop as appropriate
- The new system for recording training needs to be fully embedded within the service
- Implement the new audit framework in respect of operational assessments
- Benchmarking of activities and costs needs to be further developed
- Consultation arrangements in respect of financial issues need to be reviewed

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

Signed:

County Councillor R
Wilkinson, Chairman,
Lancashire Combined Fire
Authority
3 June 2009

P Holland,
Chief Fire Officer,
Lancashire Fire and Rescue
Service
3 June 2009

K Mattinson CPFA,
Treasurer, Lancashire
Combined Fire Authority
3 June 2009

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COMBINED FIRE AUTHORITY

Opinion on the financial statements

I have audited the accounting statements, the firefighters' pension fund accounting statements and related notes of Lancashire Combined Fire Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Balance Sheet, the Statement of the Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and firefighters' pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Lancashire Combined Fire Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the financial statements, including the firefighters' pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the accounting statements, the firefighters' pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008

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

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

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

Basis of audit opinion

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

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

Opinion

In my opinion the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and the firefighters' pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the firefighters' pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Clive Portman
District Auditor

Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton BL6 6QQ
30 September 2009

CONCLUSION ON ARRANGEMENTS FOR SECURING ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THE USE OF RESOURCES

Authority's Responsibilities

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

Auditor's Responsibilities

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for fire and rescue authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Lancashire Combined Fire Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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

Clive Portman
District Auditor

Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Horwich
Bolton BL6 6QQ
30 September 2009

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2009.

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
- Complied with the Code

The Treasurer has also:

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

K Mattinson CPFA
Treasurer to the Combined Fire Authority
30 June 2009

A Kay
Chair of Resources Committee
30 June 2009

STATEMENT OF ACCOUNTING POLICIES

1 General

The accounts of the Combined Fire Authority are prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008. This code has been prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA). They also comply with CIPFA's Best Value Accounting Code of Practice from 2008. The Authority constantly reviews the impact of statutory requirements on its policies to ensure that they are consistent with requirements.

2 Matching Concept

All income and expenditure has been treated on an accruals basis and has been included in the accounts on an actual or estimated basis in the period to which it relates.

3 Reserves

Under the Local Government Act 2003 Lancashire Combined Fire Authority became a precepting Authority and as such it has statutory powers to hold a suitable level of general reserves, plus specific earmarked reserves, details of which are shown in a note to the Balance Sheet.

4 Provisions

The Authority has the power to establish provisions for any liabilities of uncertain timing or amount that have been incurred. Details of the Authority's provisions are given in a note to the Balance Sheet.

5 Fixed Assets

Fixed assets are included in the Balance Sheet at the estimated current value of the asset. They comprise:

- Intangible assets – Assets that do not have a physical substance but can be separately identified and controlled by the Authority (for example, software licences/developed software). Spending on these assets is capitalised if the asset will bring benefit to the Authority for more than one financial year.
- Tangible assets - Tangible assets are assets that have a physical substance which are used continuously to provide services or for administrative purposes.

i) Recognition

All expenditure on the acquisition or enhancement of fixed assets is capitalised in the accounts on an accruals basis, in accordance with the relevant statute.

ii) Measurement

Assets are revalued every five years by a suitably qualified surveyor. During the year Lancashire Police Authority, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, carried out an impairment review due to the change in land valuations since the full valuation was carried out last year. All valuations were done on the basis of depreciated replacement cost, with the exception of two properties used as offices valued at existing use, and a plot of land which was valued on an open market value basis. Any expenditure since the revaluation has been added at cost.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. The Revaluation Reserve was created with effect from 31 March 2007 with a zero opening balance. Gains arising before 1 April 2007 have been consolidated into the Capital Adjustment Account.

iii) Impairment

The Combined Fire Authority's fixed assets are considered for impairment at the end of each year by appropriately qualified Property Consultants.

iv) Disposals

When an asset is disposed of the value of asset in the balance sheet is written-out off to the income and expenditure account as part of the gain or loss on disposal. Receipts from disposals are also credited to this, resulting in the netting off of receipts against the carrying value of the asset.

v) Depreciation

Depreciation is charged on those assets which have a finite useful life, in the year after acquisition:

- Intangible assets are assessed over their estimated useful life, 5 years.
- Land is assessed as having an infinite life, and therefore is not depreciated.
- Building assets are assessed for an appropriate property life by property professionals, in 10-year bands up to a maximum of 50 years.
- Equipment is depreciated over their estimated useful life, 10 years.
- Vehicles are depreciated over their estimated useful life, ranging from 6 to 15 years.

The charges are based on the opening net book value of assets at the start of the financial year and the estimated useful life of the asset, and are calculated in such a way as to give an equal charge to the revenue account in each of the years the asset is used.

6 Charges to Revenue for Capital Assets

The Revenue Account is charged for the fixed assets used in the provision of the service, comprising depreciation, impairment and amortisation of intangible fixed assets, as appropriate.

The Authority is not required to raise council tax to cover these charges. However, the Authority is required to make an annual provision from its revenue account to contribute towards the reduction of its overall-borrowing requirement, a minimum of 4%. Depreciation, impairment and amortisation are therefore replaced by revenue provisions in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

The actual interest on borrowing and any principal repaid is debited to the revenue account.

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The

balance is then written down to the Income and Expenditure Account to offset depreciation charges made for the related assets, in line with the depreciation policy applied to them.

7 Transferred Debt

Assets used in the provision of the fire and rescue service in Lancashire were transferred from Lancashire County Council to the CFA on 1 April 1998, but the outstanding debt on the assets remained with the County Council. Any borrowing since April 1998 is held by the CFA.

8 Valuation of Stocks

The Authority holds stocks of fuel, general stores and uniforms and they are valued on the basis of average cost. This is not consistent with SSAP9, which requires stocks to be valued at the lower of cost or net realisable value. However, net realisable value would significantly understate the value to the Authority of the assets held, due to the specialised nature of many of the items in stock.

9 Capital Receipts

Capital receipts derived from the sale of fixed assets, above £10,000 in value, are used to finance capital investment.

10 Leases

The annual lease rental payments under operating leases are charged direct to the revenue account.

11 Pension Costs

The Authority has adopted fully the recommended accounting practice for pension costs as set out in Financial Reporting Standard (FRS) 17 and incorporated into the Statement of Recommended Practice on local authority accounting.

There are two separate schemes for the Authority's employees: one for Firefighters and one for administrative staff (the Local Government Scheme).

Firefighters' Scheme

Before the implementation of FRS17 all cash pension costs were charged to the revenue account in the year in which they were paid to pensioners and formed part of the net expenditure for the year. This approach, although complying with recommended practice, did not recognise the future pension liabilities to which the Authority had become committed during each year of account.

Under FRS17 the future costs of retirement benefits have to be recognised in the accounts at the point at which the Authority becomes committed to paying them (the point when the benefits have been earned by the employee), even if the actual payment of benefits will be many years in the future.

This obligation to pay pensions benefits in the future is recognised as a liability in the Authority's Balance Sheet. In the service costs part of the Revenue Account, transactions are recorded that indicate the change over the year in the pension liability. These are principally the future costs of pensions earned by Firefighters in service during the year. The transactions are not cash-based as in previous years, but are actuarially-calculated amounts that reflect more closely the true changes in the scheme's long-term liabilities.

Local Government Scheme

The same basic principles apply to the local government scheme with the difference being that, because this is a funded scheme (ie is backed by a portfolio of investments in equities, property etc), there are transactions recorded in the revenue account to reflect changes in the expected return on these assets. Like the transactions referred to above, these too, are actuarially-calculated figures.

On the Balance Sheet, the liability to pay future pensions is balanced, although at the moment not fully, by the fund's investment assets.

Cash Transactions

The above balances and transactions are included in the accounts to give a more informative picture of the pension schemes' positions but, in order that there is no impact on the level of council tax, the account is adjusted to bring it back to a cash basis i.e. the notional, actuarially-calculated figures are replaced by the actual cash transactions that have taken place.

In calculating the liability for 2008/09, the actuary used the 'approximate roll forward' basis to update the previous year's liability figure, rather than using an individual by individual approach. The rationale is that the progression of liabilities from one point in time to the next will broadly match the cash flows paid to and from the membership during the same period (before taking into account any changes in the actuarial assumptions). The method of calculating does not explicitly consider the membership individual by individual when calculating the liabilities, however a full individual by individual approach was carried out in 2004/05, giving an accurate starting point for the roll-forward calculations.

In valuing the pension scheme assets for 2008/09, the actuaries used fair value basis for both derivatives and investments, a slight change from the previous financial years valuation.

12 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. For all of the borrowings the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable plus accrued interest and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

13 Financial Assets

The Authority holds only one class of financial asset, these are it's cash investments which are classified as loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. For all of the investments that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable. The interest credited to the Income and Expenditure Account is the amount receivable for the year under the terms of the deposit agreement.

The value identified as at 31 March 2009 includes the impairment calculated for the sum invested in Landsbanki (see note 22).

14 PFI Equalisation Reserve

In 2003/04 the Authority established a PFI Equalisation Reserve for the purpose of smoothing out, within the revenue account, the annual net cost to the Authority of payments to PFF Ltd. These payments relate to the provision and maintenance by PFF Ltd of two new fire stations at Morecambe and Hyndburn, under the Government's Private Finance Initiative (PFI). An annual revenue contribution in lieu of interest will be made to the reserve. The reserve balance will be reviewed each year at which time the amount of any revenue contribution to or from the reserve will be determined.

INCOME & EXPENDITURE ACCOUNT

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

| Notes | Gross Expenditure £000 | 2008/09 Gross Income £000 | Net Expenditure £000 | 2007/08 Net Expenditure £000 |
|---|------------------------------|------------------------------------|----------------------------|---------------------------------------|
| Community Fire Safety | 9,796 | (1,122) | 8,674 | 8,447 |
| Firefighting and Rescue Operations | 51,540 | (1,945) | 49,595 | 53,142 |
| Emergency Planning | 56 | (9) | 47 | 66 |
| Corporate and Democratic Core | 751 | (7) | 744 | 709 |
| Non Distributed Costs | 179 | - | 179 | 207 |
| Net Cost of Services | 62,322 | (3,083) | 59,239 | 62,571 |
| Loss on disposal of fixed asset | | | 1 | - |
| 1 Deficit/(Surplus) on trading undertakings | | | 48 | (97) |
| 19 Interest payable and similar charges | | | 402 | 347 |
| 19 Interest and Investment Income | | | (1,180) | (1,000) |
| Pensions interest cost and expected return on pensions assets | | | 29,166 | 23,009 |
| Net Operating Expenditure | | | 87,676 | 84,830 |
| Precepts | | | (27,993) | (26,866) |
| Revenue Support Grant | | | (3,945) | (4,593) |
| Non-domestic rates redistribution | | | (28,339) | (27,371) |
| Deficit for the Year | | | 27,399 | 26,000 |

STATEMENT OF MOVEMENT ON THE GENERAL FUND

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

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

The General Fund balance compares the Authority's spend against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

| Notes | 2008/09 £000 | 2007/08 £000 |
|---|-----------------|-----------------|
| Deficit for the year on the Income and Expenditure Account | 27,399 | 26,000 |
| Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year | (29,853) | (26,127) |
| Decrease/(Increase) in General Fund Balance for the Year | (2,454) | (127) |
| General Fund Balance brought forward | (5,940) | (5,813) |
| General Fund balance carried forward | (8,394) | (5,940) |

**ANALYSIS OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE
GENERAL FUND BALANCE**

| Notes | 2008/09 £000s | 2007/08 £000s |
|--|------------------|------------------|
| Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | | |
| 11 | (3,814) | (4,037) |
| 22 | (65) | - |
| | - | 224 |
| | (46) | (42) |
| | (1) | - |
| | (42,171) | (36,375) |
| | (46,097) | (40,230) |
| Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year. | | |
| | 348 | 345 |
| | 449 | 181 |
| 33 | 15,028 | 10,904 |
| | 15,825 | 11,430 |
| Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year | | |
| 2 | - | 2,037 |
| 2 | 419 | 636 |
| | 419 | 2,673 |
| Net additional amount required to be credited to the General Fund balance for the year | | |
| | (29,853) | (26,127) |

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

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

| Notes | 2008/09 £000s | 2007/08 £000s |
|---|------------------|------------------|
| Net Deficit for the year | (27,399) | (26,000) |
| Revaluation of Fixed Assets | (13,858) | 42,624 |
| 33 Actuarial (gains) or losses on the pension fund | 105,446 | (25,745) |
| Total recognised (gains)/losses for the year | 64,189 | (9,122) |

BALANCE SHEET

| Notes | At 31 March 2009 | | At 31 March 2008 | |
|-------|---|-----------|------------------|-----------|
| | £000 | £000 | £000 | £000 |
| | Long Term Assets | | | |
| 11 | Intangible Assets | 473 | | 179 |
| 11 | Land and Buildings | 54,254 | | 70,542 |
| 11 | Vehicles, Plant, Furniture & Equipment | 6,814 | | 7,338 |
| 11 | Non Operational Assets | 80 | | 81 |
| 12 | Deferred Consideration | 1,107 | | 1,185 |
| 13 | Debtors Falling Due After More Than One Year | 960 | | 800 |
| | | 63,688 | | 80,125 |
| | Current Assets | | | |
| 14 | Stocks And Work In Progress | 332 | 222 | |
| 15 | Debtors | 3,892 | 1,915 | |
| 18 | Short-Term Investments | 18,825 | 19,170 | |
| 16 | Payments In Advance | 13 | 29 | |
| | Bank & Cash In Hand | 44 | 55 | |
| | | 23,106 | 21,391 | |
| | Current Liabilities | | | |
| 17 | Creditors | (4,431) | (4,530) | |
| 18 | Long-Term Loans payable within 1 year | (565) | (614) | |
| | | (4,996) | (5,144) | |
| | Net Current Assets | 18,110 | | 16,247 |
| | Total Assets Less Current Liabilities | 81,798 | | 96,372 |
| | Long Term Liabilities | | | |
| 33 | Liability Related To Local Government And Firefighters' Pension Schemes | (401,820) | | (480,123) |
| 18 | Borrowing: Long-Term Loans | (7,648) | | (8,203) |
| 23 | Borrowing: Pfi Contractor | (120) | | (125) |
| 24 | Provisions | (1,269) | | (1,169) |
| | Total Assets Less Liabilities | (329,059) | | (393,248) |
| | Financed By: | | | |
| 25 | Revenue Reserves | 13,078 | 10,205 | |
| 26 | Capital Funding Reserve | 4,326 | 4,326 | |
| 27 | Revaluation Reserve | 23,202 | 39,149 | |
| 28 | Capital Adjustment Account | 31,282 | 32,269 | |
| 22 | Financial Instruments Adjustment Account | (65) | - | |
| 33 | Pension Reserve | (401,820) | (480,123) | |
| 29 | Usable Capital Receipts Reserve | 938 | 926 | |
| | Total Net Worth | (329,059) | | (393,248) |

These Financial Statements replace the unaudited financial statements authorised at the meeting of Resources Committee on 30 June 2009.

This Statement of Accounts is that upon which the Auditor should enter his certificate and opinion. It presents fairly the financial position of the Authority at 31 March 2009 and its income and expenditure for the year then ended.

K Mattinson CPFA
Treasurer to the Combined Fire Authority
30 September 2009

Councillor A Kay
Chair of the Resources Committee
30 June 2009

CASH FLOW STATEMENT

The cash flow statement summarises the Inflows (receipts) and Outflows (payments) of cash arising with third parties for revenue and capital purposes. Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand. The statement acts as a link between the revenue account and the balance sheet by reflecting actual cash movements.

| Notes | 2008/09 | | 2007/08 | |
|---------------------------------------|---|--------|-------------|------------|
| | £000 | £000 | £000 | £000 |
| <u>Revenue Activities</u> | | | | |
| <i>Cash Outflows</i> | | | | |
| | 48,576 | | 49,778 | |
| | 12,680 | 61,256 | 11,384 | 61,162 |
| <i>Cash Inflows</i> | | | | |
| | 27,993 | | 26,866 | |
| | 3,945 | | 4,593 | |
| | 28,339 | | 27,371 | |
| | 1,858 | 62,135 | 7,912 | 66,742 |
| 38 | Net cash inflow | | 879 | 5,580 |
| <u>Servicing of Finance</u> | | | | |
| <i>Cash Outflows</i> | | | | |
| | 398 | | 247 | |
| <i>Cash Inflows</i> | | | | |
| | 1,166 | | 1,000 | |
| | Net cash inflow | | 768 | 753 |
| <u>Capital Activities</u> | | | | |
| <i>Capital Outflows</i> | | | | |
| | 1,402 | | 1,141 | |
| <i>Cash Inflows</i> | | | | |
| | - | | 224 | |
| | 12 | | - | |
| | Net cash (outflow) | | (1,390) | (917) |
| <u>Management of Liquid Resources</u> | | | | |
| 39 | (Increase)/Decrease in short term deposits | | 345 | (6,665) |
| | Net cash (outflow)/Inflow before financing | | 602 | (1,249) |
| <u>Financing</u> | | | | |
| <i>Cash Outflows</i> | | | | |
| 40 | Repayment of amounts borrowed | | 613 | 563 |
| <i>Cash Inflows</i> | | | | |
| | New Loans raised | | - | 2,000 |
| | Cash Inflow | | (613) | 1,437 |
| | Increase/(Decrease) in cash and cash equivalents | | (11) | 188 |
| Represented by: | | | | |
| 39 | Increase/(Decrease) in bank, cash and cash liabilities | | (11) | 188 |

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Trading Activities

The Authority operates a Training Centre to primarily provide training for Lancashire Fire and Rescue Service uniformed staff, but in addition provides training to a number of external organisations. A trading account has been prepared for the Training Centre and the surplus/deficit on trading for the last two years is summarised as follows:

| | 2008/09 | | 2007/08 | |
|-----------------|------------------|-----------------|------------------|-----------------|
| | Turnover £000 | Deficit £000 | Turnover £000 | Surplus £000 |
| Training Centre | 4,218 | 48 | 4,334 | 97 |

2 Contributions to/(from) Reserves

Contributions made to/(from) reserves in the year were as follows:

| | 2008/09 £000 | 2007/08 £000 |
|-------------------------------|-----------------|-----------------|
| Devolved Financial Management | 135 | 271 |
| Other Earmarked Reserves | 284 | 365 |
| Revenue Reserves | 419 | 636 |
| Capital Funding/Financing | - | 2,037 |
| Total Reserves | 419 | 2,673 |

3 Expenditure on Publicity

There is a statutory requirement (under section 5 of the Local Government Act 1986) for an authority to maintain a record of publicity expenditure. This definition is wide ranging, covering most communication with the public, including recruitment advertising. Publicity expenditure incurred is set out below:

| | 2008/09 £000 | 2007/08 £000 |
|-----------------------------|-----------------|-----------------|
| Recruitment advertising | 137 | 96 |
| Other publicity expenditure | 35 | 38 |
| | 172 | 134 |

4 Employees Emoluments

Details of the Authority's employees, out of an estimated 1,502 full-time equivalent, who have received pay and benefits of more than £50,000 are:

| | 2008/09 | 2007/08 |
|---------------------|-----------|-----------|
| | No. | No. |
| £120,000 - £129,999 | 1 | 1 |
| £110,000 - £119,999 | 1 | - |
| £100,000 - £109,999 | 2 | 2 |
| £90,000 - £99,999 | - | 1 |
| £80,000 - £89,999 | 2 | - |
| £70,000 - £79,999 | - | 2 |
| £60,000 - £69,999 | 1 | 1 |
| £50,000 - £59,999 | 9 | 11 |
| | <u>16</u> | <u>18</u> |

5 Agency Arrangements

The Fire Authority acts as an agent for other Fire Authorities in the neighbouring areas under the provision of sections 13 and 16 of the Fire Services Act 2004. In many instances such assistance is provided on a 'knock-for-knock' basis. However where there is significant disparity between the assistance provided and received by an Authority, then charges may be made on an agreed basis. The Lancashire CFA has made payments to other Fire Authorities as follows:

| | 2008/09 | 2007/08 |
|--------------------|-----------|-----------|
| | £000 | £000 |
| Greater Manchester | 25 | 35 |
| Merseyside | 3 | 2 |
| | <u>28</u> | <u>37</u> |

6 Operating Leases

During the year the Authority continued to finance some assets and equipment from existing operating leases. Charges to the Revenue Account in respect of these were £181,017 (2007/08: £188,400)

As at 31 March 2009 the Authority had a commitment to meet the following rental charges for operating leases:

| | 2008/09 | 2007/08 |
|--------------------------------------|------------|------------|
| | £000 | £000 |
| Leases expiring within one year | 52 | 178 |
| Leases expiring in two to five years | 176 | 170 |
| Leases expiring in over five years | 36 | 73 |
| | <u>264</u> | <u>421</u> |

7 Fire Authority Costs

In 2008/09 Fire Authority costs amounted to £0.449m, analysed as follows:

| | 2008/09 | 2007/08 |
|--------------------------------|------------|------------|
| | £000 | £000 |
| Members allowances/expenses | 141 | 112 |
| Statutory officers | 159 | 177 |
| Statutory reports/publications | 21 | 18 |
| Subscriptions | 13 | 13 |
| Others | 115 | 83 |
| | <u>449</u> | <u>403</u> |

8 Related Parties Transactions

In accordance with FRS 8, the Financial Statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Authority may have been affected by the existence of related parties and by material transactions with them.

Related parties under FRS 8 include:

- Central Government
- Other Local Authorities
- Subsidiary and associated companies
- Joint ventures and joint venture partners
- Members and Chief Officers

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the authority or to be controlled or influenced by the authority. Disclosure of these transactions allows readers to assess the extent to which the council might 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.

Central Government

Central government has effective control over the general operations of the authority – it is responsible for providing the statutory framework within which the authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties. Details of transactions with government departments are set out in the Cash Flow Statement.

Other Public Bodies

Material transactions with other public bodies are shown elsewhere in the accounts.

Members

Members of the authority have direct control over the authority's financial and operating policies. As required under Section 81 of the Local Government Act 2000, members' outside interests are recorded in a formal register and the Code of Conduct operated by the Authority requires members to declare any related interests they have, and to take no part in meetings or decisions on issues concerning those related interests.

In addition, a survey of the related party interests of members and their immediate family members was carried out in preparing the Statement of Accounts. This survey showed that members have outside interests in bodies that have transactions with the Authority, such as:

- roles as members of Lancashire County Council, the district and unitary authorities;
- roles with voluntary organisations;

In none of these cases is there evidence either of control of one party by the other, or of any related material transaction which would require disclosure in this note.

Officers

During 2008/09 none of the Chief Officers of the Authority declared any material related party transactions or related interests.

9 Local Authority (Goods and Services) Act 1970

The Authority provides several services to other public bodies, mainly other Fire Authorities. Income received from this work in 2008/09 amounts to £1.266m (£2.297m 2007/08). The Authority purchases services from other public bodies. Expenditure incurred in respect of these services in 2008/09 amounts to £3.733m (£3.670m 2007/08).

10 External Auditors Fees

In 2008/09, the Fire Authority paid a total of £0.070m to its external auditors, the Audit Commission, analysed as follows:

| | 2008/09 | 2007/08 |
|------------|---------|---------|
| | £000 | £000 |
| Audit fees | 69 | 61 |
| Other | 1 | - |
| | <hr/> | <hr/> |
| | 70 | 61 |
| | <hr/> | <hr/> |

11 Fixed Assets

Details on policies can be seen in Accounting Policy Note 5.

Movements during the Year

The table below summarises the movements in fixed assets during the year. Land and buildings, vehicles, plant, furniture and equipment are all disclosed at their net current value. All additions (i.e. new expenditure) are shown at cost.

Movements in fixed assets analysed into their different categories are:

| | Balance at 1 April 2008 | Disposals | Expenditure | Impairment | Depreciation | Balance at 31 March 2009 |
|--|-------------------------------|-------------|--------------|-----------------|----------------|--------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Intangible Assets | 179 | - | 381 | (32) | (55) | 473 |
| Land and Buildings | 70,542 | - | 414 | (14,149) | (2,553) | 54,254 |
| Vehicles, Plant, Furniture and Equipment | 7,338 | (14) | 500 | - | (1,010) | 6,814 |
| Non Operational Assets | 81 | - | - | (2) | 1 | 80 |
| | <u>78,140</u> | <u>(14)</u> | <u>1,295</u> | <u>(14,183)</u> | <u>(3,617)</u> | <u>61,621</u> |

Historic Cost/Revalued Amount

| | 2008/09 | 2007/08 |
|--|---------------|---------------|
| | £000 | £000 |
| Intangible Assets | 538 | 189 |
| Land and Buildings | 59,581 | 73,315 |
| Vehicles, Plant, Furniture and Equipment | 13,681 | 13,348 |
| Non Operational Assets | 80 | 82 |
| | <u>73,880</u> | <u>86,934</u> |

Cumulative Depreciation

| | 2008/09 | 2007/08 |
|--|---------------|--------------|
| | £000 | £000 |
| Intangible Assets | 65 | 10 |
| Land and Buildings | 5,327 | 2,774 |
| Vehicles, Plant, Furniture and Equipment | 6,867 | 6,010 |
| Non Operational Assets | 0 | 1 |
| | <u>12,259</u> | <u>8,795</u> |

On 31 March 2009 the Authority undertook a revaluation review in respect of all its land and buildings, due to the current economic situation, which resulted in a reduction in value of £14.145m. The depreciation charge for 2008/09 was based on property values as at 1 April 2008.

Capital Expenditure

Total capital expenditure in 2008/09 amounted to £1.295m (2007/08: £0.827m). This was financed as follows:

| | 2008/09 | 2007/08 |
|----------------------------------|--------------|------------|
| | £000 | £000 |
| Financed by borrowing | 846 | 422 |
| Revenue contributions to capital | 449 | 181 |
| Grant | - | 224 |
| | <u>1,295</u> | <u>827</u> |

Details of Assets Held

The number of main assets held by the Authority are shown below:

| | 2008/09 | 2007/08 |
|---|---------|---------|
| Headquarters | 1 | 1 |
| Fire Stations (including Area Headquarters) | 39 | 39 |
| Training School | 1 | 1 |
| Fire houses | 2 | 2 |

12 Deferred Consideration

Deferred consideration relates to the value of the land transferred to the contractor on the Morecambe and Hyndburn Fire Stations PFI scheme at nil value. This amount will be written-off over the period of the contract to the Service Revenue Account, to compensate for the lower charge received from the contractor as a result of the land transfer. These assets are revalued each financial year.

13 Debtors Falling Due After More Than One Year

| | 2008/09 | 2007/08 |
|-------------------------|---------|---------|
| | £000 | £000 |
| Other long-term debtors | 960 | 800 |

Other long-term debtors represents the residual interest held by the Authority in the fire stations at Morecambe and Hyndburn, built as part of a PFI scheme. This will increase over the period of the contract to equate to the value of the assets which will transfer to the Authority when the contract ends. These assets are revalued each financial year.

14 Stocks

Stocks held at 31 March are principally general stores, uniforms and fuels. Valuation bases are as follows:

| Stock Type | Basis | 2008/09 £000 | 2007/08 £000 |
|-------------------|--------------|-----------------|-----------------|
| Fuel | Average Cost | 20 | 18 |
| Stores & Uniforms | Average Cost | 312 | 204 |
| | | <u>332</u> | <u>222</u> |

15 Debtors

| | 2008/09 £000 | 2007/08 £000 |
|--|-----------------|-----------------|
| The major items included in debtors are: | | |
| Trade debtors | 671 | 690 |
| VAT | 315 | 121 |
| Other debtors | 2,906 | 1,104 |
| | <u>3,892</u> | <u>1,915</u> |

16 Payments in Advance

Payments in advance represent cash payments made by the Authority on or before 31 March which are chargeable to the Revenue Account in the following financial year.

| | 2008/09 £000 | 2007/08 £000 |
|-------|-----------------|-----------------|
| Other | 13 | 29 |
| | <u>13</u> | <u>29</u> |

17 Creditors

| | 2008/09 £000 | 2007/08 £000 |
|--|-----------------|-----------------|
| Creditors for supplies of goods and services | 2,577 | 2,171 |
| Leasing charges | 17 | 17 |
| PAYE/NI | 934 | 942 |
| Receipts in advance | 125 | 148 |
| Other creditors | 778 | 1,252 |
| | <u>4,431</u> | <u>4,530</u> |

18 Borrowing and Investments

The table below analyses the borrowings and investments on the balance sheet and shows the bases on which they have been valued.

| Balance Sheet Items | Long-term | | Short-term | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | 31 March 2009 £000 | 31 March 2008 £000 | 31 March 2009 £000 | 31 March 2008 £000 |
| Borrowings at amortised cost | 7,648 | 8,203 | 565 | 614 |
| Total borrowing | 7,648 | 8,203 | 565 | 614 |
| Investments at amortised cost – cash deposits | - | - | 18,825 | 19,170 |
| Total investments | - | - | 18,825 | 19,170 |

The borrowings at amortised cost are loans from the Public Works Loan Board. The terms of these loans are such that the amortised cost of the loans at 31 March 2009 is calculated as their nominal value plus interest accrued up to the balance sheet date.

Cash investments are balances placed in the Country Council's General County Fund and lent on from there to external deposit takers. Interest on these balances is paid to the Authority on 30 March so interest was accrued and the investments have an amortised cost at 31 March 2009 equal to their nominal value. In addition, interest has been accrued in relation to the investment in Landsbanki (see note 22).

Without the addition of accrued interest, the actual Public Works Loan Board debt outstanding at 31 March 2009 is £8.109 million and it is due for repayment as shown in the following table:

| | 2008/09 £000 | 2007/08 £000 |
|--------------------------|-----------------|-----------------|
| Within one year | 558 | 608 |
| Within two to five years | 1,537 | 2,095 |
| Within six to ten years | 1,160 | 830 |
| Over 10 years | 4,854 | 5,184 |
| | 8,109 | 8,717 |

19 Gains and Losses on Financial Instruments

The gains and losses during 2008/09 on financial instruments, i.e. the borrowings and investments detailed in note 18, which have been recognised in the Income and Expenditure Account are as shown in this table.

| | Financial Liabilities | Financial Assets |
|----------------------------------|-----------------------|------------------|
| | Borrowings | Investments |
| | £000 | £000 |
| Interest charged to I&E Account | 402 | - |
| Total interest payable | 402 | - |
| Interest credited to I&E Account | - | (1,180) |
| Total interest receivable | - | (1,180) |
| Totals | 402 | (1,180) |

20 Fair Value of Financial Liabilities and Assets

Our borrowings and investments are shown on the face of the balance sheet at their amortised cost. These are financial instruments without any complications in their structure and their amortised cost is the same as their nominal value plus accrued interest where appropriate.

However, accounting regulations require that the fair value of these borrowings and investments be disclosed. Where financial instruments can be traded in a viable market, fair value is the same as market value.

The following table shows the fair values of our loans and investments where relevant.

| Balance Sheet Items | 31 March 2009 | | 31 March 2008 | |
|---|----------------|------------|----------------|------------|
| | Amortised Cost | Fair Value | Amortised Cost | Fair Value |
| | £000 | £000 | £000 | £000 |
| Loans from the Public Works Loan Board | 8,213 | 8,961 | 8,817 | 9,001 |
| Cash deposits invested and classed as loans and receivables | 18,825 | 18,825 | 19,170 | 19,170 |

The fair value of our PWLB loans is the amount that would have been payable had those loans been repaid to the PWLB on the balance sheet date rather than on their contracted future maturity date. This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.

Where the duration of a financial instrument is less than one year, its fair value may be deemed to be the same as its nominal value. All our deposits in the County Council's General County Fund may be recalled at any time without notice so the fair value of our investments is the same as their nominal value.

21 Exposure to Risk in Financial Instruments

There is some risk attached to our holdings of and transactions in financial instruments. The following sections show how we quantify, where possible, and control our exposure to the three main elements of financial risk. These are credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the possibility that a counterparty, i.e. an entity in which we have placed a cash investment, or a trade debtor will be unable to honour its debt to us. Because our investments are all in the County Council's General County Fund, the credit risk we run is an indirect one. The County Council lends out our balances as part of an overall total that includes the County Council's own money and that of other organisations as well. We therefore accept a share of the overall credit risk that is proportional to our share of the total on deposit in the County Council's name.

Control of the overall credit risk by the County Council is based on an assessment by commercial credit rating organisations of the financial standing of potential counterparties. On the basis of these assessments, and with the help of treasury management advisers, the County Council maintains a list of institutions with which it may place investments that are highly enough rated to warrant inclusion on the list. Each potential counterparty is placed in one of three categories which determine the maximum amount to be invested in it and the maximum period of the investment. The limits for the three categories are as follows;

| Counterparties | Maximum Amount | Maximum Period |
|----------------|----------------|----------------|
| Category 1 | £50 million | 3 years |
| Category 2 | £30 million | 6 months |
| Category 3 | £10 million | 3 months |

In addition there is an overall maximum level of longer term investments. Currently no more than £80 million in total may be invested for more than one year, and no more than £50 million may be invested for an initial period to maturity of two years or more.

Over the past year, our share of the total invested by the County Council has been on average 3.88% (2008: 3.54%). This implies a share of the maximum credit risk for individual counterparties in each of the above categories of £1.9 million, £1.2 million and £0.4 million respectively.

From time to time the Authority may make investments in its own name and the equivalent limits on such investments, agreed in the Treasury Management Strategy, for the three categories of counterparties above are £2 million, £1 million and £1 million respectively.

In the context of credit risk, trade debtors are treated as financial instruments.

Trade debtor credit risk

The Authority does not generally allow credit for customers, such that £0.405m of the £0.737m balance is past due date for payment. On a prudent basis the Authority has created a provision for bad debts to cover any potential loss arising from this, which currently stands at £0.553m and which is considered sufficient for this purpose.

The past due amount can be analysed by age as follows:

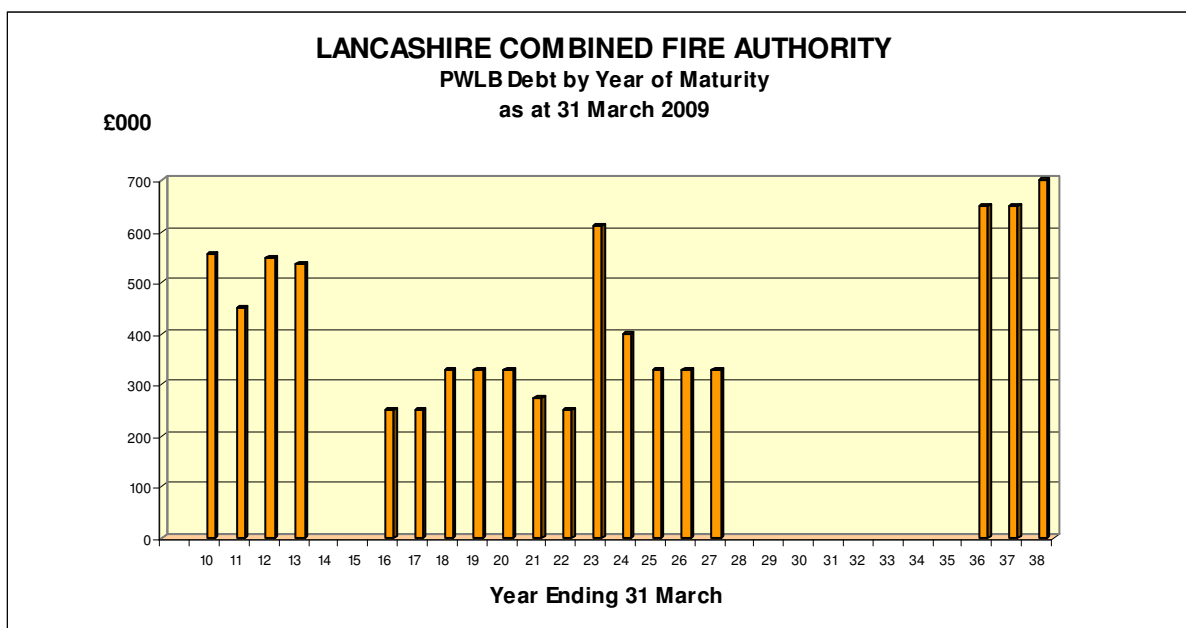
| | 2008/09 £000 | 2007/08 £000 |
|----------------|-----------------|-----------------|
| 0 to 30 days | 332 | 460 |
| 31 to 60 days | 300 | 189 |
| 61 to 90 days | 41 | 37 |
| 91 to 180 days | 5 | 4 |
| Over 180 days | 59 | 87 |
| | <u>737</u> | <u>777</u> |

Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations. We must manage our financial liabilities and assets in such a way as to mitigate this risk.

In managing our financial liabilities, we seek to achieve a maturity pattern of our borrowings which will ensure that there are no heavy concentrations of maturities in any one year. In fact, the risk is more of a price risk than a liquidity risk as we can always secure replacement loans from the PWLB but would not want to replace too large a proportion of our loans at a time of high interest rates.

The maturity profile of our debt is shown in the table below. This illustrates the spread of maturities into the future and how we have avoided the need for too much debt to be replaced in any one year.



With our financial assets, because they are recallable at any time, there is no associated liquidity risk.

Market risk

The market risk to which we are exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

We hold fixed rate financial liabilities and variable rate financial assets.

The fixed rate financial liabilities are long-term loans from the PWLB and the effect of changes in market interest rates is to change the fair value of the liabilities reported in the notes to the balance sheet. Had PWLB rates at the balance sheet date been 1% higher, the fair value of our debt would have been £0.750m lower than that disclosed in the table in note 18. Conversely, had rates at the year-end been 1% lower, the fair value of the debt would have been £0.850m higher. These changes have no effect on any part of the revenue account nor on the actual balance sheet carrying value. Fair values represent the amount due if debt is repaid before its maturity date. When the loans finally mature, they will be repayable at their nominal values.

Our financial assets are the cash deposits in the County Council's General Fund. Interest received on them is linked to the market rates at which the County Council invests the balances on our behalf. The average amount invested over the last year was £20.824 million and, with no change in that level of balances, a 1% increase in the market rate of interest, if sustained over the whole year would give rise to additional interest earned of £208,244 and a 1% fall would give a reduction of the same amount.

22 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account reflects the amount of impairment relating to the investment of £410,000 held as part of Lancashire County Council's £10m investment in Icelandic bank Landsbanki, of £0.078m, less the impairment of interest receivable on this investment, £0.013m.

All monies with this institution are currently subject to the administration process. The amounts and timing of payments to depositors such as the Authority will be determined by the administrators.

Based on the latest information available the Authority considers it appropriate to consider an impairment adjustment for these deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments, it is likely that further adjustments will be made to the accounts in future years.

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100% can be achieved, and the Authority has taken a mid point position and assumed recovery at 95% by 2012. The Authority has therefore decided to recognise an impairment.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts;
- The impact of exchange rate fluctuations on the value of the assets recovered by the resolution committee and on the settlement of the Authority's claim, which may be denominated wholly or partly in currencies other than sterling;

- Settlement of the terms of a 'bond' which allows creditors of old Landsbanki to enjoy rights in New Landsbanki;
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

23 PFI Scheme

The Authority signed a contract in May 2002 with a Private Sector Partner (PSP), a consortium known as PFF Lancashire Limited, under the Government's Private Finance Initiative, for two replacement fire stations at Morecambe and Hyndburn.

Under the contract the Authority pays an annual unitary charge to the PSP for service accommodation over the life of the 30-year contract, commencing in 2003/04. In addition, the Authority receives Government Grant to offset some of these costs.

Payments under the PFI contract for 2008/09 amounted to £0.607m, with £0.482m of Government subsidy. Future payments required under the PFI contract at 31 March 2009 are estimated at £17.812m, of which it is anticipated that £11.557m will be financed from Government subsidy. The table below shows the expected timing of future transactions:

| | 1-2 Years £000 | 3-5 Years £000 | 6-10 Years £000 | Over 10 Years £000 | Total £000 |
|--------------------|----------------------|----------------------|-----------------------|--------------------------|---------------|
| PFI payments | 1,236 | 1,921 | 3,401 | 11,254 | 17,812 |
| Government subsidy | 965 | 1,447 | 2,412 | 6,733 | 11,557 |

Under the contract PFF Lancashire Ltd made a contribution of £0.150m towards the development costs, which is repaid through the annual unitary charge on the life of the 30-year contract commencing in 2005/06. In accordance with recommended accounting practice, the reimbursement has been classed as a loan and the liability reflected as such in the Authority's accounts. At 31 March 2009 the outstanding loan was £0.120m.

24 Provisions

The Authority has the power to establish provisions for any liabilities of uncertain timing or amount that have been incurred.

The Authority has established an Insurance Liabilities Provision to meet liabilities, the precise cost of which is uncertain but which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits.

The balance set aside, together with the movement on the provision, is shown below:

| | Balance at 1 April 2008 £000 | Contribution to the provision £000 | Expenditure met from the provision £000 | Balance at 31 March 2009 £000 |
|---------------------|------------------------------------|---|--|--|
| Insurance provision | 1,169 | 228 | (128) | 1,269 |

25 Revenue Reserves

| | 2008/09 | Movement | 2007/08 |
|--------------------------|---------------|--------------|---------------|
| | £000 | £000 | £000 |
| General Fund | 8,394 | 2,454 | 5,940 |
| DFM Schemes | 774 | 135 | 639 |
| Other Earmarked Reserves | 2,873 | 143 | 2,730 |
| PFI Equalisation | 1,037 | 141 | 896 |
| | <u>13,078</u> | <u>2,873</u> | <u>10,205</u> |

General Fund

This reserve has been created to cover uncertainties in future years' budgets.

Devolved Financial Management (DFM)

This reserve is used to enable budget holders to carry forward any surplus or deficit, from one financial year to the next, in line with prescribed limits. This gives greater flexibility in managing budgets, thereby optimising the use of available financial resources and facilitating better value for money.

Other Earmarked Reserves

This reserve covers monies set aside for specific purposes, such as the self-insured loss liability on insurance policies, future costs associated with the current PFI bid, monies from the Department for Communities and Local Government for various initiatives such as New Dimensions.

PFI Equalisation

In 2003/04 the Authority established a PFI Equalisation Reserve to smooth out, within the Revenue Account, the annual net cost to the Authority of payments to PFF Lancashire Ltd. These payments relate to the provision and maintenance by PFF Lancashire Ltd of two new fire stations at Morecambe and Hyndburn. This project qualifies for Government subsidy under the Government's Private Finance Initiative (PFI).

In 2008/09 a contribution of £0.141m was made from revenue into the reserve. This contribution was made up of unused budget provision relating to the scheme, deficit of grant over contract provision and additional contributions from revenue required to achieve a smoothing effect. The revenue contribution into reserve is reviewed annually and takes account of inflation levels and interest rate movements.

26 Capital Funding Reserves

| 2008/09 | 2007/08 |
|---------|---------|
| £000 | £000 |
| 4,326 | 4,326 |

This reserve was created using revenue underspends from this and previous years, in order to fund future capital expenditure. During the year none of the funds have been utilised to fund capital expenditure.

27 Revaluation Reserve

| | 2008/09 | 2007/08 |
|---------------------|---------|---------|
| | £000 | £000 |
| Revaluation Reserve | 23,202 | 39,149 |

This account holds unrealised revaluation gains, or losses, from holding fixed assets, as such any revaluations that have taken place since 1 April 2007 are reflected in this reserve. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.

28 Capital Adjustment Account

| | 2008/09 | 2007/08 |
|----------------------------|---------|---------|
| | £000 | £000 |
| Capital Adjustment Account | 31,282 | 32,269 |

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.

29 Usable Capital Receipts Reserve

This item represents receipts from the sale of capital assets. Under legislation these monies can be used for capital purposes only.

The statement below summarises the capital receipts for the year and the extent to which they have been used:

| | 2008/09 | 2007/08 |
|--------------------------------------|------------|------------|
| | £000 | £000 |
| Balance at 1 April 2008 | 926 | 926 |
| Add: Received in year | 12 | - |
| Less: Applied to Capital Expenditure | - | - |
| Balance at 31 March 2009 | <u>938</u> | <u>926</u> |

30 Future Commitments Under Contracts for Capital Expenditure

Capital projects often take several years to complete, which means that the Authority is committed to capital expenditure in following years arising from contracts entered into at the Balance Sheet date, but on which all or part of the capital work has yet to be undertaken. The estimated capital expenditure committed at 31 March 2009 is £0.834m.

31 Contingent Asset

Last year the Authority reported that it was reviewing the level of pensions paid to fire-fighters who retired due to a service injury. To date the review has identified several underpayments, which were rectified immediately and the costs of which are included in the accounts. The review also identified several overpayments. Although the review is currently on-going, and we have not yet concluded negotiations with individuals in respect of the repayment of these sums, we have provided for our estimated future recovery associated with this, in addition to monies already received in the accounts for the current financial year.

32 Contingent Liability

Under the Part-Time Workers (prevention of less favourable treatment) Regulations 2000 it is possible that at some time in the future the Authority may face claims from Retained Firefighters concerning employment terms and eligibility to be part of the Firefighters' Pension Scheme. The Authority is aware of this issue but as it is subject to legal consideration at a national level, (the employment tribunal has partly found in favour of the Retained Firefighters but has stayed the remedy hearing to allow the national employers and the unions involved to negotiate an equitable outcome) as such the financial implications of this remain unknown, no provision has been made for this in the accounts.

The 2004 NJC pay implementation agreement set out a timetable for the completion and implementation of pay and grading reviews. As at 31 March 2009, this exercise was still ongoing, hence the Authority has made no provision for this in the accounts, as the effect cannot be quantified. This exercise will have been completed and accounted for in full during financial year ended 31 March 2010.

There is an outstanding claim for Employers Liability damages which has not been fully included within the Insurance Provision, relating to a former employee who left employment in 1971. It is currently unclear whether this potential liability is the responsibility of the Authority, or another body, nor has liability been proven. As a result of these factors, a £50,000 provision has been set aside, but the contingent liability could be a much greater sum of money.

33 Net Liability Related to Local Government and Firefighters' Pensions Schemes

During the year the Authority made contributions to the cost of pensions for all employees (except for those who chose not to be members of the scheme) as required by statute.

The Authority participates in two pension schemes:

- i) Uniformed Firefighters are covered by an unfunded, defined benefit scheme, meaning that there are no investment assets built up to meet the pensions liabilities and that cash has to be generated by the Authority to meet actual pensions payments as they fall due.
- ii) Other staff pensions are provided from the Lancashire County Pension Fund. This is a funded scheme, meaning that the Authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with the investment assets.

Transactions Relating to Retirement Benefits

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the total charge we are required to make against council tax is based on the cash payments we have actually made in the year and to achieve this the real costs of retirement benefits have to be reversed out of the Revenue Account after Net Operating Expenditure.

The following transactions have been made in the Revenue Account during the year:

| | Local Government Pension Scheme | | Uniformed Firefighters' Pension Scheme | |
|--|---------------------------------|-----------------|--|-----------------|
| | 2008/09 £000 | 2007/08 £000 | 2008/09 £000 | 2007/08 £000 |
| Net Cost of Services: | | | | |
| Current service cost | 1,085 | 901 | 12,601 | 12,191 |
| Past service cost | 93 | 274 | - | - |
| | <u>1,178</u> | <u>1,175</u> | <u>12,601</u> | <u>12,191</u> |
| Net Operating Expenditure: | | | | |
| Interest cost | 1,755 | 1,273 | 28,731 | 22,921 |
| Expected return on assets | (1,320) | (1,185) | - | - |
| | <u>435</u> | <u>88</u> | <u>28,731</u> | <u>22,921</u> |
| Amounts to be met from Government Grants & Local Taxation: | | | | |
| Contribution from Pensions Reserve | (610) | (338) | (26,533) | (25,133) |
| Actual amount charged against council tax for pensions in the year: | | | | |
| Employers' contributions payable to the scheme | (1,003) | (925) | - | - |
| Retirement benefits payable to pensioners | - | - | (14,799) | (9,979) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Current service cost – the increase in the Authority's liability to pay pension benefits in the future which is expected to arise as a result of employee service in the current period.

Past service cost – the increase in the Authority's liability to pay pension benefits in the future expected to arise from decisions taken in the current year to introduce improvements to benefits earned in prior periods.

Interest cost – the expected increase in the present value of the pension scheme liabilities that arises because benefits are one year closer to being paid.

Expected Return on Assets – the average rate of return expected on the investment assets held by the pension scheme.

Employers' contributions – the payments made into the pension scheme by the Authority during the year in respect of current employees.

Retirement benefits payable to pensioners – the net payments made in respect of the Firefighter pension scheme. Note, the fund also received a top up grant of £6.943m in addition to these, which can be seen in the Firefighters Pension Fund Account on page 49.

Contribution to/ (from) Pensions Reserve – the net change in the pension liability recognised within the Revenue Account. This is not the total net amount by which the future liability to pay pension benefits has increased or decreased during the current period as it excludes the change in the liability arising from any actuarial gain or loss which is recognised in the Statement of Total Recognised Gains and Losses and not in the Revenue Account.

The contribution to/from the Pension Reserve represents the adjustment needed to bring the Revenue Account back to a cash basis.

A full set of audited accounts for the LCPF, together with information relating to membership, actuarial and investment policy and investment performance, are published in the 'Lancashire County Pension Fund Annual Report', available from the administering authority, Lancashire County Council, on request.

Assets and Liabilities in Relation to Retirement Benefits

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

| | Local Government Pension Scheme | | Uniformed Firefighters' Pension Scheme | | Total | |
|-------------------------------------|---------------------------------|---------------|--|---------------|---------------|---------------|
| | 31 March 2009 | 31 March 2008 | 31 March 2009 | 31 March 2008 | 31 March 2009 | 31 March 2008 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Estimated liabilities in the scheme | 24,093 | 28,366 | 394,199 | 471,714 | 418,292 | 500,080 |
| Estimated assets in the scheme | 16,472 | 19,957 | - | - | 16,472 | 19,957 |
| Net Liability | 7,621 | 8,409 | 394,199 | 471,714 | 401,820 | 480,123 |

The liabilities show the underlying commitments that the Authority has in the long-term to pay retirement benefits. The total liability, of both schemes, of £401.820m has an impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative net worth of £320.068m (£382.858m in 2007/08). However, statutory arrangements for funding the liability mean that the financial position of the Authority remains healthy:

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

Basis of Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis, using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels etc. Both the Firefighters' Scheme and the Local Government Fund liabilities have been assessed by Mercer Resource Consulting Ltd, an independent firm of actuaries. Estimates are based on 'roll forward approach' which updates last years full valuation taking account of any significant changes since this.

The main assumptions used in their calculations have been:

| | 31 March 2009 | 31 March 2008 |
|---|---------------|---------------|
| Rate of inflation | 3.30% | 3.60% |
| Rate of increase in salaries | 5.10% | 5.35% |
| Rate of increase in pensions | 3.30% | 3.60% |
| Rate for discounting scheme liabilities | 7.10% | 6.10% |

The Firefighters' Pension Scheme has no assets to cover its liabilities. Assets in the Local Government Pension Fund are valued at fair value, principally market value for investments,

and consist of the following categories, by proportion of the total assets held by the Fund. An indication of the long-term return on each category of assets is also provided.

| | Assets at 31 March 2009 | Long-term Return | Assets at 31 March 2008 | Long-term Return |
|--------------------|-------------------------------|---------------------|-------------------------------|---------------------|
| | % | % | % | % |
| Equity investments | 61.2 | 7.50 | 62.2 | 7.50 |
| Government Bonds | 7.8 | 4.00 | 7.1 | 4.60 |
| Other Bonds | 12.3 | 6.00 | 15.0 | 6.10 |
| Property | 7.4 | 6.50 | 6.0 | 6.50 |
| Cash/Liquidity | 4.9 | 0.50 | 3.3 | 5.25 |
| Other | 6.4 | 7.50 | 6.4 | 7.50 |
| | <u>100.0</u> | | <u>100.0</u> | |

Actuarial Gains and Losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2008/09 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2009:

Local Government Pensions Scheme (LGPS):

| | 2008/09 | | 2007/08 | | 2006/07 | | 2005/06 | | 2004/05 | |
|---|--------------|------------|----------------|------------|--------------|------------|--------------|------------|----------------|-------------|
| | £000 | % | £000 | % | £000 | % | £000 | % | £000 | % |
| Differences between the expected and actual return on assets | (5,522) | 33.5 | (1,452) | 7.3 | (120) | 0.7 | 2,277 | 13.6 | 517 | 3.9 |
| Differences between actuarial assumptions about liabilities and actual experience | 6,920 | 28.7 | 268 | 0.9 | - | - | (780) | 3.4 | (665) | 3.5 |
| Changes in the demographic and financial assumptions used to estimate liabilities | - | - | (1,332) | 4.7 | 1,317 | 5.7 | (2,001) | 8.7 | (3,839) | 18.9 |
| | <u>1,398</u> | <u>5.8</u> | <u>(2,516)</u> | <u>8.9</u> | <u>1,197</u> | <u>5.1</u> | <u>(504)</u> | <u>2.2</u> | <u>(3,987)</u> | <u>19.7</u> |

Fire Pension Scheme:

| | 2008/09 | | 2007/08 | | 2006/07 | | 2005/06 | | 2004/05 | |
|---|---------|--------|----------|-------|---------|-----|----------|-----|----------|-------|
| | £000 | % | £000 | % | £000 | % | £000 | % | £000 | % |
| Differences between actuarial assumptions about liabilities and actual experience | 104,048 | (26.4) | 5,854 | (1.2) | - | - | - | - | 13,016 | (3.5) |
| Changes in the demographic and financial assumptions used to estimate liabilities | - | - | (29,083) | 6.2 | 24,427 | 5.8 | (32,225) | 7.6 | (64,833) | 17.6 |
| | 104,048 | (26.4) | (23,229) | 4.9 | 24,427 | 5.8 | (32,225) | 7.6 | (51,817) | 14.1 |

Total of LGPS and Fire Pension Schemes:

| | | | | | | | | | | |
|--|---------|--------|----------|-----|--------|-----|----------|-----|----------|------|
| | 105,446 | (25.2) | (25,745) | 5.1 | 25,624 | 6.0 | (32,729) | 7.6 | (55,804) | 14.9 |
|--|---------|--------|----------|-----|--------|-----|----------|-----|----------|------|

Estimated contributions expected to be paid into each scheme during the next financial year:

| | Local Government Pension Scheme | Uniformed Firefighters' Pension Scheme | Total |
|-------------------------|---------------------------------|--|--------|
| | £000 | £000 | £000 |
| Estimated contributions | 1,008 | 13,790 | 14,798 |

34 Euro

The European Union's single currency, the Euro, was launched on 1 January 1999 and is now established as a major world currency. Although the UK did not join the first wave of participants in the currency, the Government has taken a positive approach to the UK's eventual entry. At this stage, the introduction of the Euro has had no direct effect on the Authority's treasury activities, as borrowing and lending in currencies other than sterling is not currently permitted.

35 Post Balance Sheet Events

As at the date the Treasurer signed the accounts, 30 September 2009, there were no post balance sheet events to report.

36 North West Fire and Rescue Regional Management Board

The Fire and Rescue National Framework 2008-2011 sets out the Government's priorities and objectives for the Fire and Rescue Services. It is a strategic plan which outlines the expectations to be delivered by both Fire and Rescue Authorities and Regional Management Boards. The framework sets out the balance that is believed to be needed for delivery at local, national and regional level. The statutory authority for the Framework is provided by the Fire and Rescue Services Act 2004.

The intention from the creation of Regional Management Boards is to increase efficiency, effectiveness and enhanced resilience for all fire authorities by delivering shared services and reducing duplication of effort. In particular, RMBs are expected to deliver:

1. Resilience to emergencies, especially potential chemical, biological, radiological or nuclear attack
2. Specialist or common services where appropriate:
 - Fire investigation
 - Procurement
 - Training
 - Personnel Management and Human Resources Management
3. Regional Control Rooms

The five fire authorities in the North West (Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside) formed a joint committee (The North West Fire and Rescue Management Board) in February 2004. The committee is comprised of councillors from the five constituent authorities.

The region has conducted significant work in 2008/09 by working collaboratively.

Significant work has also taken place in 2008/09 in support of the national FiReControl Project. This project is sponsored by the Department for Communities and Local Government (CLG) and is a national project replacing 42 Control Rooms across England and Wales which will provide an integrated and modern network of nine Regional Control Centres (RCCs). They will be able to receive calls and mobilise resources across the country. The North West RCC will be located at Warrington, Cheshire. Funding to support this project at a regional level has been provided to the North West Fire and Rescue Management Board in the form of New Burdens grant from CLG.

The Statement of Accounts of the Board for the year ended 31st March 2009 are available from Mr Ged Murphy, Treasurer to the Board, Greater Manchester Fire and Rescue Authority, 146 Bolton Road, Swinton, Manchester, M27 8US: Tel 0161 608 4001, and on the Authority's website www.manchesterfire.gov.uk

37 Local Authority Controlled Company – NW FiReControl Ltd

NW FiReControl Limited is a company limited by guarantee which was incorporated in July 2007 and was established to operate a Regional Control Centre with the responsibility for Fire and Rescue Service mobilisation for the North West region.

The company has five members, the Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside Fire & Rescue Authorities (FRAs). The liability of each member in the event of the company being wound up is limited and shall not exceed £1.

Each member of the company has the right to appoint 2 directors, who are Councillors appointed to their respective FRAs. All directors have equal voting rights.

The member FRAs will not be expected to pay for the provision of services by the company until such time as their control room 'cuts over' to the Regional Control Centre. The current timetable for cutover is:

- Greater Manchester – February 2011
- Merseyside – June 2011

- Cumbria – August 2011
- Cheshire – August 2011
- Lancashire – August 2011

Until cutover takes place, all expenditure incurred by the company is being funded by a section 31 grant from the Department for Communities and Local Government. The grant is paid to Greater Manchester Fire & Rescue Authority as lead authority for the North West region and released to the company as required.

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the SORP), the Authority has considered any requirement for the preparation of Group Accounts as a result of its relationship with NW FiReControl Limited.

It has been determined that the company will be accounted for as a joint venture for Group Accounts purposes within the accounts of the Authority. This has been determined by following guidance in the SORP.

However on the basis of materiality it has been determined that Group Accounts are not required for the financial year 2008/09 having considered both qualitative and quantitative factors, including the following:

- The Authority does not depend on the company for continued provision of statutory services at present and activities provided by the control function remain within the individual Fire Authorities until the cutover into the Regional Control Centre.
- The company is not yet trading and is not expected to do so until February 2011 at the earliest.
- The Authority's share of the gross administrative expenses of the company in the financial year 2008/09 (20% of £810,000) is not material in the context of the Authority's gross expenditure.
- The Authority is not expected to make any contribution to the company until it commences using the company's services.
- The entire cost of running the company is covered by section 31 grant from the Department for Communities and Local Government.
- The liability of the Authority is limited to a maximum of £1.

The position regarding Group Accounts will be reviewed for the 2009/10 financial year as the Regional Control project moves closer towards cutover and the increased level of turnover will be assessed in that period.

38 Reconciliation from net deficit on the Income and Expenditure account to the revenue activities net cash flow shown in the Cash Flow Statement.

Under the Statement of Recommended Practice (SORP), the Authority is required to account on the basis of accruals, which involves a number of non-cash transactions. This statement reflects the necessary adjustments arising from non-cash transactions to indicate the real cash movement in-year

| | 2008/09 | | 2007/08 | |
|---|---------|---------|---------|-------|
| | £000 | £000 | £000 | £000 |
| Surplus/(Deficit) on Income & Expenditure A/C | | 2,454 | | 127 |
| Adjustment for capital and capital financing charged to Revenue | 79 | | (265) | |
| Net contribution to reserves and provisions | 408 | | 3,037 | |
| FRS17 Pensions adjustments | | 2,941 | | 2,899 |
| Adjustments for accruals etc. | | | | |
| Debtors | (1,977) | | 1,650 | |
| Revenue Creditors | 32 | | 643 | |
| Stocks | (110) | | 184 | |
| Receipts in advance | (24) | | 148 | |
| Payments in advance | 17 | | 56 | |
| | | (2,062) | | 2,681 |
| TOTAL REVENUE ACTIVITIES: | | | | |
| Receipts greater than payments | | 879 | | 5,580 |

39 Movement in Cash and Cash Equivalents

| | As at 31/3/2009 £000 | As at 31/3/2008 £000 | Movement £000 |
|---|----------------------------|----------------------------|------------------|
| Cash, bank outstanding and cash liabilities | 44 | 55 | (11) |
| Short-term investments | 18,825 | 19,170 | (345) |
| | 18,869 | 19,225 | (356) |

40 Movement in Capital Financing

| | As at 31/3/2008 £000 | Loans Raised £000 | Repayment of loans £000 | As at 31/3/2009 £000 |
|---------------------|----------------------------|-------------------------|-------------------------------|----------------------------|
| Long Term Loans | 8,716 | - | (608) | 8,108 |
| PFI Contractor Loan | 125 | - | (5) | 120 |
| | 8,841 | - | (613) | 8,228 |

FIREFIGHTERS' PENSION FUND ACCOUNT AND NET ASSETS STATEMENT

| Fund Account | 1992 Scheme £000 | 2006 Scheme £000 | 2008/09 Total £000 | 2007/08 Total £000 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Income to the fund | | | | |
| Contributions receivable: | | | | |
| - from employer | | | | |
| - normal contributions | (5,548) | (292) | (5,840) | (5,911) |
| - other contributions | (346) | - | (346) | (285) |
| - from members | (2,888) | (216) | (3,104) | (3,114) |
| Transfers in: | | | | |
| - individual transfers from other schemes | (19) | (37) | (56) | (489) |
| Total Income to the Fund | (8,801) | (545) | (9,346) | (9,799) |
| Spending by the fund | | | | |
| Benefits payable: | | | | |
| - Pension payments | 11,174 | - | 11,174 | 10,388 |
| - Commutations of pensions and lump-sum retirement benefits | 5,871 | 2 | 5,873 | 2,475 |
| Transfers out: | | | | |
| - individual transfers out to other schemes | - | 16 | 16 | 43 |
| Total Spending by the fund | 17,045 | 18 | 17,063 | 12,906 |
| Net amount receivable for the year before top up grant receivable from central government | 8,244 | (527) | 7,717 | 3,107 |
| Top up grant receivable from central government | (8,244) | 527 | (7,717) | (3,107) |
| Net amount receivable for the year | - | - | - | - |
| Net Assets Statement | | | 2008/09 £000 | 2007/08 £000 |
| Net current assets and liabilities: | | | | |
| - pensions top up grant receivable from central government | | | (3,244) | (991) |
| - other current assets and liabilities (other than liabilities and other than benefits in the future) | | | 3,244 | 991 |
| Net current assets at the end of the year | | | - | - |

Firefighters Pension Fund Notes

The firefighters pension schemes are unfunded defined benefits schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet the actual pension payments as they fall due. The Authority makes employers contributions into the schemes and the balance of funding required after pensions payments are made is received from central government.

The above statement shows the financial position of the new fire fighters pension fund account, showing that as at 31 March 2009 the Authority is owed £3.244m by the CLG in order to balance the account.

The note has been prepared in line with general accounting policies set out earlier, and in particular policy note 11.

Contribution Rates

Under the firefighters pension regulations the contribution rates for the 2006 scheme were 19.5% of pensionable pay (11% employers and 8.5% employees) and the contribution rates for the 1992 scheme were 32.3% of pensionable pay (21.3% employers and 11% employees). Ill health contributions, for firefighters who retired due to ill health in 2006/07, 2007/08 and 2008/09, were also paid into the pension fund.

Benefits Paid

Pensions are paid to retired officers, their survivors and others who are eligible for benefits under new and existing pension schemes.

Communities and Local Government (CLG) Grant

There are no investment assets and the fund is balanced to zero each year by receipt of a top up grant from the CLG, if contributions are insufficient to meet the cost of pension payments, or by paying over any surplus grant.

Future Liabilities

The firefighters pension fund financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

Revised Commutation Factors

In May 2008 the authority was informed by the CLG of revised commutation factors in calculating pensions and lump sums. This revised calculation was backdated to anyone who retired after 30th September 2007. This backdating was completed and paid in 2008.

The Authority has now been informed that the revised calculation is to be applied to anyone who retired after 22nd August 2006. As a result, we have accrued for an additional £0.774m of commutation payments, for which we will receive additional top up grant from the CLG.

GLOSSARY OF TERMS

Accrual

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the Balance Sheet date.

Agency Services

Services for which one Authority is responsible, but which are actually provided by another Authority (the agent). The costs of provision are reimbursed by the responsible Authority to the agent Authority.

Amortised cost

Amortised cost is a valuation basis for financial instruments that, in the case of this Authority's assets and liabilities, is equal to their nominal value plus any interest accrued to the balance sheet date.

Budget

A statement which reflects the Authority's policies in financial terms and which quantifies its plans for spending over a specified period. The Revenue Budget (ie spending other than capital expenditure) is normally finalised and approved in January prior to the commencement of the financial year.

Capital Expenditure

Payments made for the acquisition or provision of assets which will be of relatively long-term value to the Authority eg land, buildings and equipment. Also referred to as capital spending, capital outlay, or capital payments. The resulting capital assets are referred to as "fixed assets".

Capital Receipts

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, ie to repay existing loan debt, or to finance new capital expenditure in proportions determined by the Government. Any receipts which have not yet been utilised as described are referred to as "capital receipts unapplied".

Creditors

Amounts owed by the Authority for work done, goods received, or services rendered but for which payment had not been made at the date of the Balance Sheet.

Debtors

Sums of money due to the Authority in the relevant financial year but not received at the Balance Sheet date.

Fair Value

Fair value is a valuation basis for financial instruments that represents the amount at which the instruments could be exchanged in an open market transaction. If no market for a specific instrument exists, fair value can be estimated by a technique that is based on a comparison of the interest rate on the instrument with interest rates on similar instruments that are available in financial markets.

Financial Instrument

A financial liability or asset such as a borrowing or an investment.

Financial Year

The period of twelve months for which the accounts are comprised. For Fire Authorities the financial year (or accounting period as it is also known) commences on 1 April and finishes on the 31 March of the following year.

Financing Charges

Annual charges to the Authority's Revenue Account to cover the interest on and the repayment of, loans raised for capital expenditure. Annual lease rental payments are also included.

Formula Spending Share (FSS)

The amount deemed appropriate by Central Government for the Authority to spend in order to provide a standard level of service.

Premiums and Discounts

Premiums are payable and discounts receivable when loans are repaid to the Public Works Loan Board (PWLB) in advance of their contracted maturity date. The premium or discount is calculated with reference to the interest rate on the loan being repaid and the interest rate for similar new loans on the repayment date.

Public Works Loan Board (PWLB)

A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Revenue Account

An account which records an authority's day to day expenditure and income on items such as salaries and wages, running costs of services and the financing charges in respect of capital expenditure.

Revenue Contribution to Capital Outlay

The financing of capital expenditure by a direct contribution from revenue account, rather than by means of loan or other forms of finance.

Revenue Expenditure

The day-to-day expenditure of the Authority, which is charged to the Revenue Account, comprising mainly salaries and wages, running costs, and financing charges.